ARES CAPITAL CORP
Form SC 13G/A
February 14, 2008

OMB APPROVAL	
OMB Number:	3235-0145
Expires:	February 28, 2009
Estimated average burden	
Hours per response.......10.4	

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 3)*

Ares Capital Corp

(Name of Issuer)

Common

(Title of Class Securities)

04010L103

(CUSIP Number)

December 31, 2007

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

|X| Rule 13d-1(b)

|_| Rule 13d-1(c)

|_| Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosure provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a current valid OMB control number.

SEC 1745 (3-06) Page 1 of 10 pages

CUSIP No. 04010L103

1. Name of Reporting Persons.

Osterweis Capital Management, Inc.

2. Check the Appropriate Box if a Member of a Group (See Instructions)

(a) |X|

(b)

3. SEC Use Only

4. Citizenship or Place of Organization California

Number of Shares Beneficially Owned by Each Reporting Person With:	5. Sole Voting Power	568,582
	6. Shared Voting Power	
	7. Sole Dispositive Power	568,582
	8. Shared Dispositive Power	

9. Aggregate Amount Beneficially Owned by Each Reporting Person 568,582

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) n

11. Percent of Class Represented by Amount in Row (9) 0.78%

12. Type of Reporting Person (See Instructions)

IA

CUSIP No. 04010L103

1. Name of Reporting Persons.

Osterweis Capital Management, LLC

2. Check the Appropriate Box if a Member of a Group (See Instructions)

(a) |X|

(b)

3. SEC Use Only

4. Citizenship or Place of Organization California

Number of

5. Sole Voting Power 1,287,713

Shares Beneficially Owned by Each Reporting Person With:	6. Shared Voting Power ....
	7. Sole Dispositive Power 1,287,713
	8. Shared Dispositive Power

9. Aggregate Amount Beneficially Owned by Each Reporting Person 1,287,713

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) n

11. Percent of Class Represented by Amount in Row (9) 1.77%

12. Type of Reporting Person (See Instructions)

IA

SEC 1745 (3-06) Page 3 of 10 pages

CUSIP No. 04010L103

1. Name of Reporting Persons.

John S. Osterweis

2. Check the Appropriate Box if a Member of a Group (See Instructions)

(a) |X|

(b)

3. SEC Use Only

4. Citizenship or Place of Organization United States

Number of Shares Beneficially Owned by Each Reporting Person With:	5. Sole Voting Power	1,856,295
	6. Shared Voting Power	
	7. Sole Dispositive Power	1,856,295
	8. Shared Dispositive Power	

9. Aggregate Amount Beneficially Owned by Each Reporting Person 1,856,295

10. Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) n

11. Percent of Class Represented by Amount in Row (9) 2.55%

12. Type of Reporting Person (See Instructions)

HC, IN

Item 1.

(a) Name of Issuer

Ares Capital Corp

(b) Address of Issuer's Principal Executive Offices

280 Park Avenue 22nd Floor
New York, NY 10017

Item 2.

(a) Name of Person Filing

(i) Osterweis Capital Management, Inc.

(ii) Osterweis Capital Management, LLC

(iii) John S. Osterweis

(b) Address of Principal Business office or, if None, Residence

(i) One Maritime Plaza, Suite 800, San Francisco, CA 94111

(ii) One Maritime Plaza, Suite 800, San Francisco, CA 94111

(iii) One Maritime Plaza, Suite 800, San Francisco, CA 94111

(c) Citizenship

(i) CA Corporation

(ii) CA Limited Liability Corporation

(iii) U.S. Citizen

(d) Title of Class Securities

Common

(e) CUSIP Number

04010L103

Item 3. If this statement is filed pursuant to Sections 240.13d-1(b), or 240.13d-2(b) or (c), check whether the person filing is a:

(a) |_| Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
(b) |_| Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
(c) |_| Insurance company as defined in section 3(a)(19) of the Act

(15 U.S.C. 78c).
(d) |_| Investment company registered under section 8 of the Investment Company Act (15 U.S.C. 80a-8).
(e) |X| An investment adviser in accordance with Section 240.13d-1(b)(1)(ii)(E).
(f) |_| An employee benefit plan or endowment fund in accordance with Section 240.13d-1(b)(ii)(F).
(g) |X| A parent holding company or control person in accordance with Section 240.13d-1(b)(1)(ii)(G).
(h) |_| A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813).
(i) |_| A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3).
(j) |X| Group in accordance with Section 240.13d-1(b)(ii)(J).

Item 4. Ownership

Common Stock:

(a) Amount Beneficially Owned: 1,856,295

(b) Percent of Class: 2.55%

(c) Number of shares as to which the joint filers have:

(i) sole power to vote or to direct the vote: 1,856,295

(ii) shared power to vote or to direct the vote:

(iii) sole power to dispose or to direct the disposition of: 1,856,295

(iv) shared power to dispose of or to direct the disposition of:

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class securities, check the following |X|.

Item 6. Ownership of More than Five Percent on Behalf of Another Person. n/a

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.
See Exhibit C

Page 7 of 10

Item 8. Identification and Classification of Members of the Group.
See Exhibit A

Item 9. Notice of Dissolution of Group.

n/a

Item 10. Certification:

(a) The following certification shall be included if the statement is filed pursuant to Section 240.13d-1(b):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 13, 2008

/s/ John S. Osterweis

Signature
By: John S. Osterweis, President of
Osterweis Capital Management, Inc.

/s/ John S. Osterweis

Signature
By: John S. Osterweis, President of
Osterweis Capital Management, LLC

/s/ John S. Osterweis

Signature
By: John S. Osterweis, Control Person of
Osterweis Capital Management, Inc. and
Osterweis Capital Management, LLC

EXHIBIT A

Identification and Classification of Members of the Group

Pursuant to Rule 13d-1(b)(ii)(J) and Rule 13d-1(k)(1) under the Securities and Exchange Act of 1934, the members of the group making this joint filing are identified and classified as follows:

Name	Classification
Osterweis Capital Management Inc.	Investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E)
Osterweis Capital Management LLC	Investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E)
John S. Osterweis	Parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G)

EXHIBIT B

Joint Filing Agreement Pursuant to Rule 13d-1

This agreement is made pursuant to Rule 13d-1(b)(ii)(J) and Rule 13d-1(k)(1) under the Securities and Exchange Act of 1934 (the "Act") by and among the parties listed below, each referred to herein as a "Joint Filer." The Joint Filers agree that a statement of beneficial ownership as required by Sections 13(g) or 13(d) of the Act and the Rules thereunder may be filed on each of their behalf on Schedule 13G or Schedule 13D, as appropriate, and that said joint filing may thereafter be amended by further joint filings. The Joint Filers state that they each satisfy the requirements for making a joint filing under Rule 13d-1.

Date: February 13, 2008

/s/ John S. Osterweis

Signature
By: John S. Osterweis, President of
Osterweis Capital Management, Inc.

/s/ John S. Osterweis

Signature
By: John S. Osterweis, President of
Osterweis Capital Management, LLC

/s/ John S. Osterweis

Signature
By: John S. Osterweis, Control Person of
Osterweis Capital Management, Inc. and
Osterweis Capital Management, LLC

EXHIBIT C

Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person

Identity	Classification
Osterweis Capital Management Inc.	Investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E)
Osterweis Capital Management LLC	Investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E)

AP VALIGN="bottom"> 84.60 81.00 38.07 12/20/2035

Porto Estrela

ALIANQA Hydroelectric 30.00% 112.00 61.80 33.60 18.54 7/10/2032

Candonga

ALIANQA Hydroelectric 22.50% 5/25/2035

Baguari

BAGUARI ENERGIA Hydroelectric 34.00% 140.00 84.70 47.60 28.80 8/15/2041

Cachoeirao

Hidreletrica Cachoeirao SHP 49.00% 27.00 16.37 13.23 8.02 7/25/2030

Pipoca

Hidreletrica Pipoca SHP 49.00% 20.00 11.90 9.80 5.83 9/10/2031

SHPs

Light Energia SHP 48.86% 855.14 620.70 417.82 303.27

Paracambi (Light)

Lightger SHP 24.92% 25.00 19.53 6.23 4.87 2/16/2031

SHPs

Renova Energia SHP 44.62% 41.80 24.40 18.65 10.89

SHPs

Brasil PCH SHP 22.76% 291.00 192.68 66.22 43.85

Belo Monte

Norte Hydroelectric 12.91% 5,121.99 4,571.00 661.04 589.93 26/08/2045

Retiro Baixo

Retiro Baixo Hydroelectric 49.90% 82.00 36.60 40.92 18.26 8/25/2041

Santo Antonio

SAE Hydroelectric 18.13% 3,568.30 2,424.00 646.90 439.45 6/12/2046

Total

14,828.02 10,475.61 5,710.06 3,418.79

273

Table of Contents

Rap (Permitted Annual Revenue Transmission) 2017/2018 cycle

Annual Permitted Revenue (RAP)	RAP	% Cemig	Cemig Consolidado
Cemig GT	**709,016,589**	**100.00%**	**709,016,589**
Cemig GT	687,018,817	100.00%	687,018,817
Cemig Itajuba	21,997,772	100.00%	21,997,772
Centroeste	**17,399,265**	**51.00%**	**8,873,625**
Taesa	**2,328,434,417**	**21.68%**	**504,804,582**
Transleste	12,241,196	30.00%	2,653,891
Transudeste	7,334,302	29.00%	1,590,077
Transirape	9,771,428	29.50%	2,118,446
ETEO	88,077,706	100.00%	19,095,247
ETAU	24,216,647	52.58%	5,250,169
NOVATRANS	517,164,423	100.00%	112,121,247
TSN	427,855,624	100.00%	92,759,099
GTESA	9,361,375	100.00%	2,029,546
PATESA	25,008,641	100.00%	5,421,873
Munirah	36,484,440	100.00%	7,909,826
Brasnorte	10,062,251	38.66%	2,181,496
São Gotardo	5,203,930	100.00%	1,128,212
NTE	153,424,301	100.00%	33,262,388
STE	81,598,032	100.00%	17,690,453
ATE I	149,036,948	100.00%	32,311,210
ATE II	230,277,807	100.00%	49,924,229
ATE II	116,301,579	100.00%	25,214,182
EATE	177,139,821	49.98%	38,403,913
STC	17,592,992	39.99%	3,814,161
Lumitrans	10,651,737	39.99%	2,309,297
ENTE	112,564,897	49.99%	24,404,070
ERTE	25,266,463	49.99%	5,477,769
ETEP	28,183,293	49.98%	6,110,138
ECTE	9,074,626	19.09%	1,967,379
EBTE	34,269,232	74.49%	7,429,570
ESDE	6,548,398	49.98%	1,419,693
ETSE	3,722,327	19.09%	807,000
Light	**8,941,679**	**48.86%**	**1,938,556**
RAP TOTAL CEMIG			**1,224,633,352**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

274

Table of Contents

Table Cemig D

Quarter	Captive Consumers	CEMIG D Market (GWh) TUSD ENERGY1	T.E.D2	GW TUSD PICK3
1Q16	6,408	4,053	10,460	29
2Q16	6,711	4,497	11,208	29
3Q16	6,365	4,424	10,788	29
4Q16	6,402	4,409	10,811	30
1Q17	6,249	4,274	10,523	30
2Q17	6,314	4,287	10,601	31
3Q17	6,232	4,586	10,817	31
4Q18	6,221	4,591	10,813	31
1Q18	6,201	4,637	10,838	31

1 Refers to the quantity of electricity for calculation of the regulatory charges charged to free consumer clients (Portion A)

2 Total electricity distributed

3 Sum of the demand on which the TUSD is invoiced, according to demand contracted (Portion B).

Operating Revenues	1Q18	1Q17	Change%
Sales to end consumers	3,835	4,179	(8)
TUSD	380	468	(19)
CVA and Other financial components in tariff adjustment	441	(303)	
Construction revenue	170	181	(6)
Others	360	277	30
Subtotal	**5,186**	**4,802**	**8**
Deductions	(2,203)	(2,034)	8
Net Revenues	**2,984**	**2,768**	**8**

Operating Expenses	1Q18	1Q17	Change%
Personnel/Administrators/Councillors	226	254	(11)
Employee Participation	14	14	3
Forluz Post-Retirement Employee Benefits	55	65	(15)
Materials	13	8	55
Contracted Services	199	173	15
Purchased Energy	1,485	1,379	8
Depreciation and Amortization	145	130	12
Operating Provisions	85	137	(38)
Charges for Use of Basic Transmission Network	371	162	128

Cost from Operation	170	181	(6)
Other Expenses	47	69	(31)
Total	**2,809**	**2,571**	**9**

Statement of Results	1Q18	1Q17	Change%
Net Revenue	2,984	2,768	8
Operating Expenses	2,809	2,571	9
EBIT	**174**	**197**	**(12)**
EBITDA	**319**	**327**	**(2)**
Financial Result	(71)	(113)	(38)
Provision for Income Taxes, Social Cont &	(38)	(35)	10
Net Income	**66**	**49**	**34**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

275

Table of Contents

Table Cemig GT

Operating Revenues	**1Q18**	**1Q17**	**Change%**
Sales to end consumers	886	930	(5)
Supply	644	640	1
Revenues from Trans. Network	144	127	13
Gain on monetary updating of Concession Grant Fee	82	80	3
Construction revenue	1	3	(64)
Transactions in the CCEE	122	220	(45)
Transmission indemnity revenue	50	66	(24)
Generation indemnity revenue	17		
Others	13	10	30
Subtotal	**1,959**	**2,076**	**(6)**
Deductions	(397)	(402)	(1)
Net Revenues	**1,562**	**1,674**	**(7)**

Operating Expenses	**1Q18**	**1Q17**	**Change%**
Personnel/Administrators/Councillors	80	91	(13)
Employees and managers profit shares	5	4	3
Forluz Post-Retirement Employee Benefits	18	20	(11)
Materials	2	3	(20)
Contracted Services	27	27	1
Depreciation and Amortization	37	41	(11)
Operating Reserves	9	56	(84)
Charges for Use of Basic Transmission Network	70	82	(15)
Purchased Energy	795	734	8
Construction Cost	1	3	(64)
Other Expenses	13	20	(35)
Total	**1,055**	**1,081**	**(2)**

Statement of Results	**1Q18**	**1Q17**	**Change%**
Net Revenue	1,562	1,674	(7)
Operating Expenses	1,055	1,081	(2)
EBIT	**507**	**594**	**(15)**
Equity equivalence results	(31)	(25)	(24)
EBITDA	**512**	**610**	**(16)**
Financial Result	(105)	(295)	(64)
Provision for Income Taxes, Social Cont & Deferred Income Tax	(124)	(88)	40
Net Income	**247**	**185**	**34**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

276

Table of Contents

Table Cemig

Energy Sales (Consolidated)(GWh)	**1Q18**	**1Q17**	**Change%**
Residential	2,593	2,537	2
Industrial	4,028	4,253	(5)
Commercial	2,043	1,912	**7**
Rural	766	798	(4)
Others	879	860	2
Subtotal	**10,309**	**10,361**	**(1)**
Own Consumption	12	9	**31**
Supply	2,633	2,894	(**9**)
TOTAL	**12,954**	**13,264**	**(2)**

Energy Sales	**1Q18**	**1Q17**	**Change%**
Residential	1,918	1,991	(4)
Industrial	1,106	1,182	(6)
Commercial	1,069	1,140	(6)
Rural	343	368	(7)
Others	380	405	(6)
Electricity sold to final consumers	**4,815**	**5,087**	**(5)**
Unbilled Supply, Net	(119)	227	
Supply	701	458	53
TOTAL	**5,398**	**5,772**	**(6)**

Operating Revenues	**1Q18**	**1Q17**	**Change%**
Sales to end consumers	4,733	5,123	(8)
TUSD	374	463	(19)
Supply	665	649	2
Transactions in the CCEE	134	227	(41)
CVA and Other financial components in tariff adjustment	441	(303)	
Gain on monetary updating of Concession Grant Fee	82	80	3
Revenues from Trans. Network	101	93	9
Construction revenue	178	201	(11)
Gas supply	428	411	4
Transmission Indemnity Revenue	50	66	(24)
Generation Indemnity Revenue	17		
Others	446	349	28

Subtotal	**7,649**	**7,357**	**4**
Deductions	(2,714)	(2,544)	7
Net Revenues	**4,935**	**4,813**	**3**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

Table of Contents

Operating Expenses	**1Q18**	**1Q17**	**Change%**
Personnel/Administrators/Councillors	332	381	(13)
Employee Participation	20	19	4
Forluz Post-Retirement Employee Benefits	83	95	(12)
Materials	15	11	36
Contracted Services	236	209	13
Purchased Energy	2,264	2,093	8
Depreciation and Amortization	213	201	6
Operating Provisions	133	209	(36)
Charges for Use of Basic Transmission Network	393	206	90
Gas bought for resale	263	223	18
Cost from Operation	181	201	(10)
Other Expenses	66	97	(31)
TOTAL	**4,198**	**3,944**	**6**

Financial Result Breakdown	**1Q18**	**1Q17**	**Change%**
Financial revenues	**242**	**180**	**34**
Revenue from cash investments	24	65	(63)
Arrears penalty payments on electricity bills	76	73	4
Exchange rate	3	8	(70)
Monetary updating	12	18	(34)
Monetary updating CVA	98		
Taxes applied to Financial Revenue	(9)	(11)	(20)
Other	39	27	48
Financial expenses	**(400)**	**(572)**	**(30)**
Costs of loans and financings	(287)	(446)	(36)
Exchange rate	(19)		
Monetary updating loans and financings	(39)	(43)	(11)
Monetary updating paid concessions	(1)		
Charges and monetary updating on Post-employment obligations	(18)	(19)	(7)
Other	(36)	(63)	(44)
Financial revenue (expenses)	**(158)**	**(392)**	**(60)**

Statement of Results	**1Q18**	**1Q17**	**Change%**
Net Revenue	4,935	4,813	3
Operating Expenses	4,198	3,944	6
EBIT	**737**	**869**	**(15)**
Equity gain in subsidiaries	57	30	(92)
Depreciation and Amortization	213	201	(6)

EBITDA	**1,007**	**1,101**	**(8)**
Financial Result	(158)	(392)	60
Income Tax	(172)	(163)	(5)
Net Income	**465**	**343**	**35**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

Cash Flow Statement	**1Q18**	**1Q17**	**Change%**
Cash at beginning of period	**1,030**	**995**	**4**
Cash generated by operations	**(373)**	**528**	**(171)**
Net profit	465	343	36
Current and deferred income tax and Social Contribution tax	172	163	5
Depreciation and amortization	213	201	6
Passthrough from CDE	(441)	303	
Equity gain (loss) in subsidiaries	(57)	(30)	(92)
Provisions (reversals) for operational losses	133	209	(36)
Dividends received from equity holdings	36		
Interest paid on loans and financings	(345)	(478)	(28)
Consumers and traders	262	(423)	(162)
Suppliers	(719)	(325)	121
Others	(91)	564	116
Financing activities	**(613)**	**(517)**	**(19)**
Payments of loans and financings	(722)	(517)	40
Capital Increase	110		
Investment activity	**378**	**(164)**	**(331)**
Securities Financial Investment	649	192	237
Acquisition of ownership interest and future capital commitments	(82)	(162)	(49)
Fixed and Intangible assets	(188)	(194)	(3)
Cash at end of period	**422**	**842**	**(50)**
Total Cash	**871**	**2,118**	

BALANCE SHEETS (CONSOLIDATED) ASSETS	**03/31/2018**	**12/31/2017**
CURRENT	**6,913**	**8,537**
Cash and cash equivalents	422	1,030
Securities	439	1,058
Consumers and traders	3,400	3,885
Financial assets of the concession	1,020	848
Tax offsetable	159	174
Income tax and Social Contribution tax recoverable	289	340
Dividends receivable	69	77
Linked funds	108	
Inventories	35	38
Passthrough from CDE (Energy Development Account)	77	77
Other credits	895	904
NON-CURRENT	**33,724**	**33,702**
Securities	10	30
Consumers and traders	252	255

Tax offsetable	229	231
Income tax and Social Contribution tax recoverable	15	21
Deferred income tax and Social Contribution tax	1,939	1,871
Escrow deposits in legal actions	2,360	2,336
Other credits	776	644
Financial assets of the concession	6,429	6,605
Investments	7,821	7,792
PP&E	2,726	2,762
Intangible assets	11,168	11,156
TOTAL ASSETS	**40,637**	**42,240**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

Table of Contents

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS EQUITY	03/31/2018	12/31/2017
CURRENT	**7,548**	**8,662**
Suppliers	1,623	2,343
Regulatory charges	426	513
Profit shares	28	9
Taxes	632	705
Income tax and Social Contribution tax	46	115
Interest on Equity, and divdends, payable	428	428
Loans and financings	2,588	2,371
Payroll and related charges	187	207
Post-retirement liabilities	242	232
Other obligations	806	1,233
Provsions for losses on investments	542	507
NON-CURRENT	**18,349**	**19,247**
Regulatory charges	267	250
Loans and financings	11,111	12,027
Taxes	29	28
Income tax and Social Contribution tax	724	735
Provsions	688	678
Post-retirement liabilities	3,974	3,954
Provsions for losses on investments	312	308
Other obligations	1,245	1,267
STOCKHOLDERS EQUITY	**14,735**	**14,326**
Share capital	6,294	6,294
Capital reserves	1,925	1,925
Profit reserves	6,019	5,729
Adjustments to Stockholders equity	(827)	(837)
Advance against Future Capital Increase	1,325	1,215
NON- CONTROLLING STOCKHOLDERS EQUITY	**4**	**4**
TOTAL LIABILITIES	**40,637**	**42,240**

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

This text is a translation, provided for information only. The original text in Portuguese is the legally valid version.

280

Table of Contents

PRESENTATION OF 2017 RESULTS

281

CONTENTS

Table of Contents

283

Table of Contents

REPORT OF MANAGEMENT FOR 2017

Dear Shareholders,

Companhia Energética de Minas Gerais (Cemig or the Company) submits for your consideration the Report of Management, the Financial Statement, the Opinion of the Audit Board and the Report of the Company s external auditors on the business year ended December 31, 2017, together with the statement of the executive officers who have reviewed the financial statement and the related report of the external auditors.

MESSAGE FROM MANAGEMENT

In our message to you last year, we highlighted the challenges and difficulties of the macroeconomic environment, and that Cemig, in particular, had to deal with an energy market that was still retracted, and with financial costs for rolling over of our debt that were still very high as a result of the higher risk perception in relation to Brazil.

With 2017 now completed, we believe we have good news for our Shareholders, and for the public, of the important progress achieved in the year.

Starting with management of debt: We previously had approximately R$ 8.7 billion of debt maturing in 2017 and 2018. After more than 20 years absent from the international financial market, we raised funds outside Brazil, through Cemig GT, of US$ 1 billion (R$ 3.2 billion) in bonds, maturing in 2024. Also, we carried out a re-profiling of our debt, for a total amount of R$ 3.4 billion. Together these two initiatives have balanced our cash flow, extended average debt maturities, and improved our credit quality.

Additionally, to improve our liquidity and reduce debt in 2017 we announced our disinvestment program, with priority for disposal of the assets that were most liquid, or which would bring us limited return in the short term, or which are not strategic. In spite of the difficulties and complexities inherent in the process of disposal, we are confident that the actions we have taken will produce positive results in 2018, which will enable us to reduce the Company s leverage more accentuatedly, and faster.

We continue our quest for improvement of operational efficiency. We implemented a new voluntary dismissal program, which was joined in 2017 by 1,151 employees. We feel confident that this will have positive effects in the coming years in reduction of the Company s operational expenses. Also important is the reduction of default, as a result of our actions during the year. These initiatives are added to others that contribute to the effort for reduction of the Company s operational costs, which are already showing results.

Our net income was R$ 1 billion, or 200.00% more than in 2016 (R$ 334 million). Our cash flow, measured as Ebitda, was 39.65% higher in 2017, at R$ 3,492 million, than in 2016 (R$ 2,638 million). We are firmly confident that the improvement in our profitability and cash flow represent a trend for the coming years, as a result of our actions in the present.

In this context of improvement of our profitability, a highlight is the tariff review for Cemig D (Distribution), to be concluded in May 2018, with the inclusion of remuneration of the investments that we have made since 2013 in the concession, of more than R$ 5 billion. This, associated with the reduction of our commercial losses and operational costs, points to a significant increase in the cash flow of Cemig D as from 2018, marking a new chapter in the history of this subsidiary.

We also do not forget the quality of service to our clients. We maintain our continuous process of improvement of our quality indicators, as measured by duration and average time of outages (the *DEC* and *FEC* indicators), in accordance with the requirements of regulation, which have been improving over recent years.

In the transmission business, the decision on rules for indemnity of the assets, in the previous year, has ensured we have a stable flow of cash for the coming years, making it possible to approve a multi-annual program of investments for Cemig GT, of R$ 1.1 billion, which will make addition of new revenues from these investments possible, in the future.

284

Table of Contents

In our generation business, a highlight is the indemnity of more than R$ 1 billion now agreed for the basic plans of the *São Simão* and *Miranda* plants. We are in discussion with the federal government on the criteria for measurement of this indemnity in the quest for a fair indemnity for the investments made by the Company.

As well as all the action we have taken (above) to add value for Cemig, the macroeconomic expectation for 2018 higher GDP growth and lower interest rates has a positive effect for the Company, translating into lower default, lower financial costs of debt, and improvement in the energy market.

We continue to be recognized for the sustainability and social responsibility that are ever-present in our operations. We were once again included in the São Paulo Stock Exchange Corporate Sustainability Index, and in the Dow Jones Sustainability Index, in which we have been included since its creation in 1999. We are signatories of the UN Global Compact; and we have leading positions in several international and Brazilian sustainability ratings all of these indices representing recognition of the value of our shares from the point of view of sustainability.

Concluding, we are optimistic for the future: that with our management capacity, and the competence and commitment of our employees, we will build a positive story for Cemig over the coming years, with appropriate and sustainable return on investments, rewarding the trust placed in us by our Shareholders in dozens of countries, on all the continents.

We would like to express our thanks for the commitment and talent of our employees, which with the support of our Shareholders and other stakeholders help to uphold the recognition of Cemig as: *Brazil s Best Energy*.

BRIEF HISTORY OF CEMIG

Companhia Energética de Minas Gerais (**Cemig**) is a company with mixed public- and private-sector ownership, controlled by the government of the Brazilian state of Minas Gerais. Its shares and ADRs and are traded on the exchanges of São Paulo, New York and Madrid (Latibex). Market valuation at the end of 2017 was approximately R$ 8.5 billion. For the period 2017 18, Cemig has been included (for the 18th year running) in the Dow Jones Sustainability World Index (the DJSI World) reflecting its established position as one of the world s most sustainable companies. Cemig continues to be the only energy company in Latin America that has been included in the *DJSI World* since that index was created, in 1999.

Cemig operates in generation, transmission, sale and distribution of energy, energy solutions, technological solutions, telecommunications, data center services and natural gas distribution. The Cemig Group comprises: the holding company (Cemig), its wholly-owned subsidiaries Cemig Geração e Transmissão S.A. (Cemig GT) and Cemig Distribuição S.A. (Cemig D), and comprises a total of 175 companies, 15 consortia and 2 FIPs (Equity Investment Funds) with assets and businesses in numerous states of Brazil.

Cemig monitors and supervises management and activities of the subsidiaries and affiliates, through active participation in their governance bodies, always applying the criteria of good governance and supporting the efforts for them to achieve the aims of their business plans.

Main indicators:

Indicator	**2017**	**2016**
Revenue (R$ 000)	21,711	18,773
Ebitda (R$ 000)	3,492	2,638
Profit (R$ 000)	1,002	335
Earnings per share, R$ PN (preferred) shares	0.84	0.35
Dividends and Interest on Equity proposed (R$ 000)	501	583
Number of customers billed	8,347	8,260
Number of employees	5,864	7,119
Market valuation (R$ 000)	8,455	9,773

285

Table of Contents

Our mission, vision and values

Mission:

To operate in the energy sector with

profitability, quality and social responsibility.

Vision:

To consolidate Cemig s position, over the course of this decade,

as the largest group in the Brazilian energy sector by market value,

with a presence in the natural gas market, and as a global leader in sustainability,

admired by its clients and recognized for its solidity and performance .

Values:

Integrity, ethics, wealth, social responsibility,

enthusiasm for the work, and entrepreneurial spirit .

Cemig s Ethical Principles and Code of Professional Conduct

To provide a background of discipline for defining working behavior and decisions, Cemig has, since 2004, adopted its *Statement of Ethical Principles and Code of Professional Conduct,* which is available on the internet at http://www.cemig.com.br. This brings together eleven principles setting out the ethical conduct and values that are incorporated in our culture.

Area of operation

As the map below shows, Cemig operates in various regions of Brazil, with the greatest concentration in the Southeast.

Table of Contents

OUR BUSINESSES

Generation

Including its subsidiaries, jointly-controlled entities and affiliated companies, Cemig had 117 plants in operation, with installed capacity of 5.7 GW, on December 31, 2017. On January 1, 2018, the *Jaguara* and *Miranda* hydroelectric plants ceased to be part of Cemig s operations.

Cemig plants

Generating plant	**Installed capacity (MW)**
Emborcação	1,192
Nova Ponte	510
Irapé	399
Aimorés	149
Santo Antônio Plant	647
Belo Monte	576
Light total	376
Wind plants	207
Thermal plants	131
Other	860
Lot D	
Três Marias Hydroelectric Plant	396
Salto Grande Hydroelectric Plant	102
Itutinga Hydroelectric Plant	52
Camargos Hydroelectric Plant	46
Piau Small Hydroelectric Plant	18
Gafanhoto Small Hydroelectric Plant	14
Peti Small Hydroelectric Plant	9.4
Dona Rita Small Hydroelectric Plant	2.4
Tronqueiras Small Hydroelectric Plant	8.5
Joasal Small Hydroelectric Plant	8.4
Martins Small Hydroelectric Plant	7.7
Cajuru Small Hydroelectric Plant	7.2
Paciência Small Hydroelectric Plant	4.1
Marmelos Small Hydroelectric Plant	4
	5,727

Transmission

In 2017, the generation and transmission subsidiary, Cemig GT, operated and maintained 38 substations and 4,927km of transmission lines, operating at 230kV, 345kV and 500kV, as part of Brazil s national grid system. It also accesses six substations of other transmission companies, where it operates and maintains transmission assets.

Cemig GT operates and maintains transmission assets of 11 other companies, with whom it has service, operation and maintenance, contracts, in 15 substations (of which four are not substations of Cemig GT), and 360 km of transmission lines.

287

Table of Contents

On April 20, 2017 the Board of Directors approved the new cycle of investment in improvements to and strengthening of the transmission assets for the period 2017-25, with total planned investment of R$ 1,158 million.

In the annual revenue adjustment, in July 2017, Cemig GT s Permitted Annual revenue (RAP) was increased by 212.3%, from R$ 333.87 million to R$ 709.01 million, due to the addition, to the total value of the RAP base, of the assets that had not been indemnified in January 2013.

Distribution

We are Brazil s largest energy distribution group, with a leading role in Minas Gerais and Rio de Janeiro, through our distribution company **Cemig D** and the jointly-controlled entity Light S.A. (**Light**), serving more than 11 million customers.

Cemig Distribuição

Cemig D is the largest distribution company in Latin America, with 529,873km of distribution networks (107,099km in urban areas and 405,473km in rural areas), and 17,301 km of distribution lines, with 8,347 million customers invoiced in 2017.

Cemig D has one of the highest indices of customers benefited by the Brazilian Social Tariff. Of the total of 6,689,365 residential customers invoiced in December 2017, 10%, or 667,629, are low-income customers.

Changes in Cemig D s sub-transmission and distribution line in the last five years:

Trading in energy

The companies of the Cemig group are the leaders in serving Brazil s Free Market.

Cemig s leadership in service to large Free Clients is reflected in a volume of sales equivalent to 22% of the entire Free Market.

We have expanded our area of activity to other states, while consolidating our position by adding new clients in the states where we already work, of which the principal ones are Minas Gerais, São Paulo and Rio Grande do Sul. At present we have clients in 15 states.

Cemig s position in serving clients referred to as special clients has increased each year, at an average of 12% p.a. over the last four years. Currently we have a 15% share of the market for incentive-bearing energy supply.

Table of Contents

CONSOLIDATED RESULTS

(Figures in R$ 000 unless otherwise indicated)

Net income for the period

Cemig reports net income of R$ 1,001 million for 2017, compared to net income of R$ 334 million in 2016 a year-on-year increase of 199.70% from 2016. The following pages describe the main variations between the two periods in revenues, costs, expenses and financial items.

Ebitda (earnings before interest, tax, depreciation and amortization)

Cemig s Ebitda was 37.98% higher in 2017 than 2016:

Ebitda R$ 000	2017	2016	Change,%
Net income for the year	1,001	334	199.70
+ Income tax and Social Contribution tax	644	33	1,851.52
+ Finance income (expenses)	997	1,437	(30.62)
+ Depreciation and amortization	850	834	1.92
= EBITDA	**3,492**	**2,638**	**32.41**

Ebitda is a non-accounting measure prepared by the Company, reconciled with its financial statement in accordance with the specifications in CVM Circular SNC/SEP 01/2007 and CVM Instruction 527 of October 4, 2012. It comprises: net income adjusted for the effects of net finance income (expenses), depreciation, amortization and income tax and the Social Contribution. 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 income or operational income, nor as an indicator of operational performance or cash flow, nor to measure liquidity nor the capacity for payment of debt.

Table of Contents

The Ebitda 32.41% higher reflects numerous factors described below. In line with the higher Ebitda, Ebitda margin was higher, at 16.09%, in 2017, than in 2016 (14.05%).

The main variations in elements of the result are as follows:

Revenue from supply of energy

Total revenue from supply of energy in 2017 was R$ 23,701 million, 1.16% higher than in 2016 (R$ 23,430 million).

Final customers

Total revenue from energy sold to final customers, excluding Cemig s own consumption, in 2017 was R$ 20,438 million, or 0.10% less than the figure for 2016 of R$ 20,458 million.

The main factors in this revenue were:

Higher revenues from the Tariff Flag components of customer bills: R$ 454 million in 2017, compared to R$ 360 million in 2016. This reflects the low level of reservoirs, activating the Yellow Flag and Red Flag additional tariff rates, leading to higher revenue in 2017.

The volume of energy sold in 2017 was 1.36% lower than in 2016.

The Annual Tariff Adjustment for Cemig D effective May 28, 2016 (full effect in 2017), with average (upward) effect on consumer tariffs of 3.78%.

The Annual Tariff Adjustment for Cemig D effective May 28, 2017, with an average negative effect on consumer tariffs of 10.66%.

Cemig s energy market

The total for sales in Cemig s consolidated energy market comprises sales to:

(I) Captive customers in Cemig s concession area in the State of Minas Gerais;

(II) Free Customers 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 energy 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 Energy Wholesale Exchange (*Câmara de Comercialização de Energia Elétrica*, or CCEE) eliminating transactions between companies of the Cemig Group.

Table of Contents

This table shows consumption itemized by type of consumer:

	MWh (1)		
	2017	**2016**	**Change,%**
Residential	10,008,423	9,915,807	0.93
Industrial	17,760,807	19,494,391	(8.89)
Commercial, Services and Others	7,507,310	6,572,980	14.21
Rural	3,651,472	3,574,724	2.15
Public authorities	865,803	885,748	(2.25)
Public lighting	1,366,938	1,350,405	1.22
Public services	1,301,135	1,252,043	3.92
Subtotal	**42,461,888**	**43,046,098**	**(1.36)**
Own consumption	37,477	37,140	0.91
	42,499,365	**43,083,238**	**(1.36)**
Wholesale supply to other concession holders (1)	12,777,405	12,508,453	2.15
Total	**55,276,770**	**55,591,691**	**(0.57)**

(1) Data not reviewed by external auditors.
(2) Includes Regulated Market Energy Sale Contracts (CCEARs) and bilateral contracts with other agents.
One highlight factor is energy sold to the *industrial* consumer segment 8.89% lower, mainly due to migration of captive customers to the Free Market, and to a lesser extent due to the effects of lower economic activity in 2017, directly affecting energy consumption by this segment of the market.

As a counterpart to this was growth in other sectors:

The volume of energy sold to the *commercial* segment was 14.21% higher year-on-year, mainly reflecting new clients added to the portfolio of Cemig GT.

Volume sold to *rural* customers was 2.15% higher YoY, mainly due to more irrigation and farming activity, and growth in the number of customers.

The volume sold to *public service* customers was 3.92% higher, due to incorporation by Cemig D of new consumer units and higher consumption by captive customers medium and higher voltage due to use for water treatment and distribution.

Revenue from Use of Distribution Systems (the TUSD charge)

This is revenue from charging Free Customers the Tariff for use of the distribution system (*Tarifa de Uso do Sistema de Distribuição*, or TUSD) on the volume of energy distributed. This was R$ 1,611 million in 2017, or 5.56% less than in 2016 (R$ 1,705 million).

The main factors affecting revenue from use of the network in 2017 were:

Reduction of 0.52% in the tariff for Free Customers, in the annual tariff adjustment of May 28, 2016.

Volume of energy distributed by Cemig D was 10.92% higher, mainly due to resumption of production by the Ferro-alloys sector.

Reduction of approximately 40% in the TUSD which took place in the 2017 Annual Tariff Adjustment, applied as from May 28, 2017.

291

Table of Contents

CVA and *Other financial components* in tariff adjustment

In its financial statement the Company recognized the difference between actual non-manageable costs, in which the CDE, and purchased energy, are strong components, and the costs that were estimated and used as the basis for decision on Cemig D s tariffs. This balance becomes the amounts that will be passed through to Cemig s tariffs at the next tariff adjustment. In 2017 this represented a gain, in revenue, of R$ 988 million, whereas in 2016 it represented a negative item in revenue, of R$ 1,455 million. The difference mainly reflects higher costs of power supply acquired in auctions in 2017 (in 2016 there was a reduction in these costs), in relation to the figures for costs used as the basis for tariffs this generated a financial asset for the Company, which also represents the amount to be restituted to customers in the next tariff adjustment.

There are more details in Note 15.

Transmission indemnity revenue

The transition indemnity revenue, in Cemig GT, was R$ 373 million in 2017, compared to R$ 751 million in 2016. In the previous year, 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.

We highlight the amount of R$ 149 million recorded in 2017, 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 15 *Concession financial assets.*

Generation Indemnity Revenue

In 2017 the Company recognized revenue of R$ 272 million for the adjustment to the balance not yet amortized of the concessions for the *São Simão* and *Miranda* Hydroelectric Plants, as per Ministerial Order 291/17. There are more details in Note 4.

Revenue from transactions in the Wholesale Power Exchange (CCEE)

Revenue from energy sales on the CCEE (*Câmara de Comercialização de Energia Elétrica*) was R$ 860 million in 2017, compared to R$ 161 million in 2016 an increase of 435.02%. The change mainly reflects:

- the spot price (*Preço de Liquidação de Diferenças*, or PLD) being 244.28% higher year-on-year, at R$ 324.17/MWh in 2017, compared to R$ 91.16/MWh in 2016; and
- the higher quantity of energy available for settlement in the wholesale market in 2017.

Revenue from supply of gas

Cemig reported revenue from supply of gas totaling R$ 1,759 million in 2017, compared to R$ 1,444 million in 2016 an increase of 21.81%. This basically reflects volume of gas sold 23.72% higher YoY (1,319,242m³ in 2017, vs. 1,066,351m³ in 2016).

Construction revenue

Distribution infrastructure construction revenues totaled R$ 1,119 million in 2017, which compares with R$ 1,193 million in 2016, a reduction of 6.20%. This revenue is fully offset by Construction costs, of the same amount, and corresponds to the made by capex investments by the subsidiaries in the year in concession assets.

Other operating revenues

The items in Other operating revenues of the Company and its subsidiaries comprise: Transmission concession revenue; Adjustment to expectation of cash flow from indemnifiable financial assets of the distribution concession; Gain on financial updating of the Concession Grant Fee; and Other operating revenues. Their total in 2017 was R$ 2,180 million, or 6.86% more than in 2017 (R$ 2,040 million). The composition of Other operational revenues is given in Note 26.

Table of Contents

Sector / Regulatory charges reported as Deductions from revenue

Taxes and charges applied to operational revenue in 2017 were R$ 11,151 million, or 6.23% more than in 2016 (R$ 10,497 million).

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 2017 were R$ 1,822 million, compared to R$ 2,074 million in 2016.

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 arising from the Tariff Flag system were higher, at R$ 454 million, in 2017, compared to R$ 360 million in 2016, due to the low levels in the reservoirs water storage levels which activated the Yellow Flag and Red Flag tariffs,leading to higher charges to the consumer.

Operational costs and expenses (excluding Financial revenue/expenses)

Operational costs and expenses totaled R$ 18,817 million in 2017, or 18.32% more than in 2016 (R$ 15,903 million). See more on the breakdown of Operational costs and expenses in Note 27.

The following paragraphs comment on the main variations:

Personnel expenses

The expense on personnel was R$ 1,627 million in 2017, 0.99% less than in 2016 (R$ 1,643 million). This arises mainly from the following factors:

- Salary increases, from November 2016 under the Collective Agreement (with full effect in 2016), of 8.50%.
- Recognition of expenses on the voluntary retirement plan, of R$ 214 million in 2017 and R$ 93 million in 2016.
- Salary increase of 1.83% under the Collective Work Agreement, as from November 2017.

Tending to reduce the recurrent expense, however, the average number of employees in 2017, at 6,447, was 14.31% lower that in 2016 (7,524).

Energy purchased for resale

The expense on energy purchased for resale in 2017 was R$ 10,920 million, which compares to R$ 8,273 million in 2016 an increase of 32.00%. The main factors are:

Expense on power supply acquired at auction 40.00% higher in 2017, at R$ 3,556 million, compared to R$ 2,540 million in 2016. This is mainly due to activation of the thermoelectric generation plants in 2017, due to the low level of water in the reservoirs of the hydroelectric plants of the system, with consequent increase in expense on fuel for the thermal plants.

The expense on energy from Itaipu Binacional was 8.65% higher, at R$ 1,243 million in 2017, compared to R$ 1,144 million in 2016. The change basically reflects the increased tariff which was US$ 25.78/kW-month in 2016, and US$ 28.73/kW-month as from January 2017.

Purchases of supply in the spot market 97.50% higher in 2017, at R$ 1,498 million, compared to R$ 761 million in 2016. This basically reflects the higher average spot price (*Preço de liquidação por diferenças*, or PLD), which was (R$ 324.17/MWh in 2017, vs. R$ 94.16/MWh in 2017).

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. There are more details in Note 27.

Charges for use of the transmission network

Charges for use of the transmission network totaled R$ 1,174 million in 2017, compared to R$ 947 million in 2016, an increase of 23.97%.

This expense is payable by energy 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 provisions totaled R$ 854 million in 2017, compared to R$ 704 million in 2016. Importantly, estimated losses for doubtful receivables were lower, at R$ 248 million in 2017, compared to R$ 382 million in 2016. We also highlight the higher provisions for employment-law cases: provisions of R$ 206 million made in 2017, compared to R$ 120 million in 2016. 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; claims for equal payment for allegedly unlawful outsourcing; and subsidiary/joint liability. There is more information in Note 24.

Construction cost

Construction costs in 2017 totaled R$ 1,119 million, or 6.20% less than in 2016 (R$ 1,193 million). This cost is entirely offset by Construction revenue, of the same amount, and corresponds to the investment by the subsidiaries in concession assets in the period.

Gas bought for resale

In 2017 the subsidiary Gasmig reported an expense of R$ 1,071 million on acquisition of gas. This was 22.06% higher than the comparable expense of R$ 877 million in 2016. This mainly reflects a volume of gas bought for resale 23.11% higher (at 1,309,459m^3 in 2017, compared to 1,063,677m^3 in 2016), partially offset by lower charges under the new agreement between Gasmig and Petrobras, which reduced the daily gas offtake obligation.

Post-retirement obligations

The impact of the post-retirement liabilities of the Company and its subsidiaries on operational income was a reversal of expense, totaling R$ 229 million in 2017, which compares to an expense of R$ 345 million in 2016.

This is due to changes in the life insurance policy, which resulted in the capital insured for retirees of 20%, every 5 years, as from age 60, reaching a minimum of 20%. This represents a reduction of R$ 619 million in post-employment obligations at December 31, 2017, with counterpart in the income and loss account. There are more details in Note 23.

Adjustment for impairment of investments

In 2016 the Company posted an impairment of R$ 763 million related to the investments in Renova. For more information please see Note 16.

Equity in earnings of unconsolidated investees

The equity method gain from investees in 2017 was negative, a loss of R$ 252 million, which compares to a loss of R$ 302 million in 2016. This reflects better equity gain from Light in 2017, which contributed a gain of R$ 35 million in the year, compared to a loss of R$ 121 million in 2016. Further details are in Note 16.

294

Table of Contents

Net finance income (expenses)

Cemig posted net finance expenses in 2017 of R$ 997 million, compared to net financial expenses of R$ 1,437 million in 2016. The main factors are:

Costs and charges on loans and financings 20.91% lower, at R$ 1,467 million in 2017, compared to R$ 1,860 million in 2016. This was due mainly to the increase of debt indexed to the CDI Rate, and the lower value of the CDI rate, indexor for the debt: the CDI rate was 9.93% in 2017, compared to 14.06% in 2016.

The result of foreing exchange variations in the year was lower: A net expense of R$ 53 million in 2017, compared to a new gain of R$ 26 million in 2016. This basically arises from an expense of R$ 57 million in Cemig GT in 2017 resulting from raising of funds indexed to the US dollar (Eurobonds);

Expense on monetary updating of loans and financing 55.62% lower, at R$ 109 million in 2017, compared to R$ 245 million in 2016 due to the much lower IPCA inflation index in the year (2.95% in 2017, vs. 6.29% in 2016).

Higher revenue from monetary variation on the CVA balances and *Other financial components* of tariffs: R$ 42 million in 2017, vs. R$ 204 million in 2016 the 2016 figure contained an effect from ratification of the CVA amount by Aneel, in May 2016.

Lower revenue from short-term financial investments: R$ 205 million in 2017, 35.34% less than in 2016 (R$ 317 million). This basically reflects the lower CDI rate in the year (9.93% in 2017, vs. 14.06% in 2016).

Higher monetary updating of tied funds: R$ 191 million in 2017, compared to R$ 46 million in 2016. In 2017 the Company recognized a revenue item of R$ 82 million, for reversal of the provision for the lawsuit challenging the constitutionality of *inclusion* of ICMS tax (payable or already paid) *within* the amount of revenue on which the Pasep and Cofins taxes are charged.

There was an expense of R$ 46 million in 2017, for monetary adjustment on the pre-sale of power supply under contract to bring forward power supply sales during the year.

For the breakdown of Financial Revenues and Expenses please see Note 28.

Income and Social Contribution taxes

In 2017, the Company s expense on income tax and the Social Contribution tax totaled R$ 644 million, on pre-tax income of R$ 1,654 million, an effective rate of 37.80%. In 2016, the Company s expense on income tax and the

Social Contribution tax totaled R$ 33 million, on pre-tax income of R$ 368 million, an effective rate of 8.97%. There is a reconciliation of these effective rates with the nominal tax rates in Note 10c.

Liquidity and capital resources

Our business is capital-intensive. Historically, we have a need for capital to finance the construction of new generation facilities and expansion and modernization of the existing generation, transmission and distribution facilities.

Our liquidity requirements are also affected by our dividend policy. We finance our liquidity and capital needs principally with cash generated by operations and, on a lesser scale, with funds from financing.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2017 totaled R$ 1,030 million, compared to R$ 995 million on December 31, 2016. No cash nor cash equivalents were held in any other currency than the Real. The main components of this variation:

Table of Contents

Cash flow from operations

The totals of net cash generated by operational activities in 2017 and 2016 were, respectively, R$ 580 million and R$ 1,213 million. The lower net cash from operational activities in 2017 than 2016 mainly reflects the lower net income, after adjustment for non-cash items, which was R$ 2,861 million in 2017, vs. R$ 5,477 million in 2016.

The lower cash flow from operational activities in 2017 than in 2016 was mainly due to higher cash outflow in 2017 to cover portion A non-manageable costs, due to the higher expense of energy due to the lower hydroelectric reservoir levels, resulting in the need to store water in the system, and activate thermoelectric plants, resulting in a higher price for power.

Cash used in investment activities

The Company used net cash of R$ 386 million in investment activities in 2017, compared to net cash of R$ 614 million used in investment activities in 2016. In 2017 the total invested in securities was positive R$ 4 million, compared to redemptions of R$ 1,401 million in 2016. In 2017 financing activities consumed R$ 254 million, compared to R$ 1,455 million in 2016.

Cash flow in financing activities

In 2017 financing activities consumed R$ 159 million. This comprised: amortization of financings, R$ 4,131 million; cost of rollover of debt, R$11 million; and payment of R$ 540 million in dividends and Interest on Equity; partially offset by incoming funds from financings of R$ 3,308 million, and capital of R$ 1,215 million subscribed by Shareholders against the future capital increase.

In 2016 financing activities resulted in a net outflow of R$ 529 million, comprising: R$ 5,592 million paid in amortization of financings; R$ 675 million paid in dividends and Interest on Equity; and inflow from financings of R$ 5,737 million.

Funding and debt management policy

In 2016, Cemig was successful in maintaining its total debt unchanged, even with increase in the debt of Cemig GT (to finance the Concession Grant Fee for the Lot D generation plant); and in 2017 reduced the total debt showing the Company s capacity for management of cash to meet its commitments and service its debt.

Company	2013	2014	2015	2016	2017
Cemig GT	4,092,806	7,036,700	7,739,072	8,633,671	8,320,163
Cemig D	5,247,919	6,048,250	7,020,042	6,198,251	5,682,691
Consolidated	9,457,364	13,508,738	15,166,537	15,179,280	14,397,697

Cemig held firmly to its intention of lengthening its debt profile maturities were previously strongly concentrated in the short term, reflecting the difficulty of access to longer-term sources of funding. But a joint effort to sell assets and reduce debt servicing in the short term made a fundamental contribution to balancing cash flow and maximizing value of Cemig s assets. The Company announced its intention to the market, in 2017, of disinvesting assets that were not part of its core business, or which were not yet generating cash as dividends, or which had necessary liquidity for an immediate sale. This intention was the consequence of its commitment to deleverage.

For lengthening of its debt, Cemig GT made preparations, over the year, to access the international debt market with a Eurobond issue, which was placed with a seven-year maturity for a total of US$1 billion. It was priced, on November 30, 2017, with a coupon of 9.25% p.a. The funds were primarily used for payment of short-term debt, especially those in the local capital markets. This initiative helped reduce the exposure of local institutional investors to the risk of the Company, opening the way for future local issues. To protect against foreign exchange variation, concomitantly with the receipt of proceeds on December 5, 2017 Cemig GT made a hedge transaction for the total amount, including the interest, through a combination of interest rate swap and call spread on the principal (i.e. in which Cemig GT accepts that the protection is up to an agreed price level).

296

Table of Contents

Complementing the effect of re-profiling of the debt with the Eurobond issue, Cemig GT and Cemig D, during the year, completed a constructive negotiation with their principal creditor banks, to replace debt becoming due in 2017 by new debt with amortization programmed over 36 monthly installments, starting in January 2019 in the case of Cemig GT, and starting in 2019 for Cemig D. At the end of December both companies completed the re-profiling of their debts: Cemig D made a debenture issue for R$ 1,575 million, and negotiated amendments to its bank credit transactions (for a total of R$ 500 million with Banco do Brasil, and R$ 625 million with CEF); and Cemig GT negotiated a new transaction for R$ 741 million with Banco do Brasil thus comprising a total of approximately R$ 3.4 billion. The re-profiling of the debt of Cemig D had a cost of 146.5% of the variation arising from the CDI rate, and for Cemig GT, 140% of the CDI. All the debts have asset guarantees, and obligations for early amortization in the event of sale of assets of Cemig GT and/or the Company.

To further support the Company s liquidity at the end of the year, Cemig made a capital increase for R$ 1.3 billion.

Both the Eurobonds and the domestic transactions debentures, and the amendments to the loan agreement that comprise the re-profiling of debt, have financial covenants that limit the capacity of Cemig, Cemig D and Cemig GT to contract debt. The Company is confident that with continuing disinvestment, and the consequent reduction in leverage, and with operational efficiency, these financial covenants will be complied with.

The details of funding raised, including costs and maturities, are given in Note 20.

With the joint effect of the balance of some R$ 3.2 billion raised in the international market with the Eurobond issue, and the re-profiling of a total of R$ 3.4 billion in debt, Cemig has rebalanced its cash flow, more than doubled the average tenor of its debt, and improved its credit quality.

The Company s debt on December 31, 2017 totaled R$ 14,398 million, with average tenor of 4.1 years. There are more details in Note 21 to the Financial Statement.

This chart shows the present amortization timetable:

Debt amortization timetable

Position at December 2017 R$ million

297

Table of Contents

The composition of the Company s debt is a reflection of the sources of funding available to its subsidiaries through instruments referenced to the local interest rate, and also its intention to avoid exposure to debt in foreign currency (Cemig GT s Eurobond issue was protected by a foreign exchange hedge).

Main indexors of debt at December 31, 2017

In 2017, the rating agencies adjusted their ratings for Cemig, Cemig D and Cemig GT, based on their perceptions of the progress of the disinvestment plan and the re-profiling of debt. Issues such as the significant concentration of maturities at the end of 2017, the reduction in demand for energy due to the recession in Brazil, and termination of some generation concessions were indicated as reasons for certain downgrades. At the same time, Cemig s diversified and significant base of assets and investments, as a way of diluting business risk, as well as its still solid position in the market, were seen as factors mitigating risk.

Standard&Poor s: In April, S&P applied a global scale rating of B for the three companies, and in August adjusted that from BB+ to BBB.

Fitch ratings: In May, on the Brazilian scale, as well as maintaining the BBB (bra) rating for Cemig, Cemig GT and Cemig D, Fitch for the first time applied a global scale rating (B+) to the three companies. However, in November it downgraded its Brazilian ratings for the three companies from BBB (bra) to BB (bra), and its global rating from B+ to B-.

Moody s, in June, downgraded the rating of the three companies from Baa1.br to Ba1.br on the Brazilian scale, and from B1 to B2 on the global scale. In October it once again downgraded the three companies from Ba1.br to B2.br on the Brazilian scale, and from B2 to B3 on the global scale.

The Company expects to see improvement in the ratings in 2018, as a result of the successful actions taken in 2017 to improve the debt profile.

298

Table of Contents

THE REGULATORY ENVIRONMENT

Energy generation

In spite of Cemig s efforts to preserve the concessions of the *São Simão, Jaguara, Miranda* and *Volta Grande* plants, concessions for them were auctioned, at Generation Auction No. 1 of 2017.

For the transition of the assets from Cemig to the new concession holders, Cemig managed the Volta Grande plant in assisted operation mode until November 30, and the Jaguara and Miranda plants until December 28, 2017. It will continue to operate the São Simão plant until May 9, 2018.

The annual adjustment of the generation revenue for the plants that were auctioned in Aneel Auction 12/2015 is done in a similar manner to the adjustment for transmission, using IPCA inflation as the adjustment indexor.

Brazil s hydrological situation

In 2017 the hydrology in the river basins that support Cemig s energy system was the worst in five years, at 76% of the previous historic average. The situation was especially adverse in the Northeast, with the worst year in history at 29% of the average. The low flows were reflected in a 22.81% storage level in the reservoirs of the energy system, 6% below the level for September 2014. In this scenario of low water storage and low flows, prices over the year were high, with the spot price closing 2017 at R$ 324.17/MWh. Another factor affected by the situation of the system was the GSF, which expresses hydroelectric generation as a percentage of the seasonalized offtake guarantees of the plant. In 2017 the average for the GSF ratio in the system was 0.81, which meant that the hydroelectric agents had 19% of their output requirement exposed to spot prices. Over the year there were moments when the GSF fell as low as 0.6 its lowest level ever.

Cemig GT, foreseeing these effects in 2017, made plans by reserving power to cover this exposure to hydrological risk (GSF), thus reducing the effects of the adverse hydrology in the year. For the *Irapé* and *Queimado* plants, the risk was renegotiated in the year. At the same time, Cemig D s expenses on hydrology risk (which are passed through to the consumer) rose considerably, reaching R$ 1.518 billion. Although these costs are recovered through tariffs, the delay for the reimbursement represented a pressure on cash flow in 2017.

Energy distribution

Annual Tariff Adjustment Cemig D

Cemig D s tariff adjustment is made in May of each year, and every five years (under the concession contract), there is a Tariff Review, also in May. The aim of the tariff adjustment is to pass on the non-manageable costs in full, and to provide monetary updating of the manageable costs which are established in the Tariff Review. Manageable costs are adjusted by the IPCA inflation index, less a deduction factor known as the X Factor, intended to capture productivity improvement, under a methodology using the price-cap regulatory model.

Effective from May 28, 2017 to May 7, 2018, Aneel approved a *reduction* of Cemig D s rates, by 10.66%, for this period.

The reduction for residential customers was 5.67%. For industrial and service sector customers, receiving at medium and high voltage, the average increase was 21.04%. For those served at low voltage, there was an average reduction of 5.82%.

Of the amount charged to the consumer on the invoice, 21.3% remains with Cemig D, to remunerate the investment, cover depreciation and pay the concession holder s running costs. This amount is referred to as Portion B . The remaining 78.7% is passed to other agents, covering (a) the cost of energy purchased for resale, sector charges and transmission charges (referred to as Portion A), and (b) state and federal taxes.

299

Table of Contents

In the 774 municipalities of Minas Gerais State where Cemig distribute electric power, more than 689,000 customers are rural customers, and approximately 724,000 are classified as low-income customers. These customers benefit from a subsidy, enabling them to pay less than cost for the energy they consume. For low-income customers with consumption up to 30kWh/month, the benefit results in a discount of 65%. For consumption between 31kWh and 100kWh per month, the discount is 40%; and for the range between 101 and 220kWh per month, the discount is 10%.

Management of billing

Cemig s implementation of simultaneous reading and printing of energy bills has achieved significant results: 7.5 million clients already receive the benefit of instant simultaneous delivery of energy bills. That figure completes the target of this project, which was developed and put in place between June 2012 and December 2017.

Simultaneous reading and printing has a direct effect in customer satisfaction as was shown in the results of the sub-item Energy bill in the 2017 Perceived Satisfaction and Quality Index, where this category achieved a mark of 92.9% satisfaction.

Implementation of simultaneous meter reading and printing of energy bills: A total of 140,000 clients had registered to receive their energy bill by email, an increase of 65% from the end of 2016. This is an important initiative in sustainability, and also has a direct effect on clients satisfaction, providing a sentiment of contributing to preservation of the environment.

Management of default and revenue collection

Cemig has been using various communication and collection tools to reduce default which has risen due to the adverse situation in the economy. Measures used include contact by telephone, email, collection requests by text and by letter, negative posting on credit registers, collection through the courts and, principally, disconnection of supply.

As well as these various collection tools, in 2017 Cemig launched a campaign offering special conditions for negotiation and re-negotiation for low-voltage customers, hospitals and public authorities.

The Company s effort reduced the estimated loss on doubtful receivables from R$ 382 million at the end of 2016 to R$ 248 million at the end of 2017 a respectable 35.08% reduction.

With more intense action on these fronts in 2018, Cemig is confident that the default indices will be further reduced in 2018.

Table of Contents

Energy transmission

Because it acts in a regulated market, Cemig GT s revenue from the transmission assets is set by Aneel. The amount of this revenue is updated in three ways: by a Periodic Review, an Extraordinary Review or the Annual Adjustment. Similarly to the distribution company, Cemig GT works with the regulatory body seeking recognition of its costs, in the processes of review, adjustment and ratification of the RAPs for new assets.

The annual adjustment of transmission revenue takes place on July 1 of each year, except when there is a Periodic Tariff Review. This process aims to adjust the approved RAP for inflation, and add a component of new RAP for improvements that have started commercial operation in the tariff cycle in question (July of the previous year to June of the year of the adjustment), and calculate the Adjustment Amount. The methodology adopted is Revenue-Cap.

In July 2017, the RAP of Cemig GT (under contract 006/97) was adjusted upward by 131.3%, as a result of: the application of the IPCA inflation index to the previous approved revenue level; recognition of new strengthening and improvement of assets; and addition, in accordance with MME Ministerial Order 120/2016, of the cost of capital that had not been included after the renewal of the concession at the beginning of 2013. Excluding the effect of the adjustment for cost of capital, the increase would have been 6.5%.

Cemig GT also has the concession for one substation won by tender, the Itajubá substation its adjustment takes place in July, with updating by the IGP-M inflation index.

For Cemig Itajubá (Contract 079/2000), the adjustment to the RAP was 41.2% negative. Under that concession contract, RAP remains at the same level for the first 15 years, and is reduced by half in the remaining 15 years. Since by the time of this adjustment all the assets had reached a useful life of 15 years (some of them had already reached their 15-year useful life in the previous cycle), the total RAP underwent a reduction of close to 50%.

The Revenue ratified and approved for the 2017/18 period of the two concessions totals R$ 709 million, of which R$ 371 million is the cost of capital that was not previously included.

Transmission RAP of Cemig GT, R$ mn

301

Table of Contents

RELATIONSHIP WITH OUR CLIENTS

Quality of retail supply

The charts below show the changes in Cemig s continuity indicators (*DEC* Consumer Unit Average Outage Time; and *FEC* Consumer Unit Average Outage Frequency). They show the continuous improvement in these indicators in recent years, meeting the standards set by Aneel, and demonstrating that the investment in actions to improve quality of supply, described above, are on the right path.

Service policy

To provide quality service, and to facilitate access for customers, Cemig makes available a mix of customer service channels available in various means of communication, both in-person and by telephone or online.

Cemig is present in all the 774 municipalities of its concession area. The in-person customer service is given by the *Cemig Fácil* service network, operating in 145 Branches and 633 Service Posts. In 2017, a total of 8.8 million customer contacts were made through this channel.

Telephone service is provided through the *Fale com a Cemig* (*Talk to Cemig*) facility. This includes a specific number for the hearing-challenged. This channel also handles service to customers via social media (Facebook, Twitter) and email. The number of contacts reported in 2017 was 11.1 million.

The *Cemig Torpedo* text messaging service enables the consumer to request service for outages, to consult the balance payable, and even to advise the company of meter readings by text message. A total of 2.1 million messages were received in 2017.

For the online channels, we highlight the *Cemig Atende* (*Cemig Serves*) app, for smartphones and tablets on Android or IOS or Windows Phone platforms which recorded 5.2 million contacts. The total number of contacts through self-serve machines (totems) was 1.2 million.

Through Cemig s website, and its services app via Facebook and Telegram, the client can ask for the services most in demand, such as: second copy of energy bill, consultation on balance outstanding, change of due date, registering for receipt of energy bills by e-mail, etc. Cemig s *Online Branch* had more than 8.9 million contacts in 2017.

Table of Contents

In total, this means that Cemig dealt with more than 37.4 million client service contacts in 2017, through its various channels:

Consumer satisfaction

In 2017, Cemig was a finalist in the IASC consumer satisfaction awards in the category *Southeast Region*, *more than 400,000 consumer units*. Its score of 65.75 was 2.67% higher than in 2016, higher than the average for all Brazilian concession holders (63.16) and the average for its category (Southeast, over 400,000 customers), which scored 63.14.

With this result Cemig was third-placed among the 10 largest energy distributors in the Southeast, rising 11 positions in the IASC Brazil-wide ranking, which researched 68 distributors taking part in this Aneel survey in 2017.

Cemig s improvement in a context of market retraction in the Southeast in the year indicates the assertiveness of its actions to improve this indicator.

IASC consumer satisfaction indicator

Cemig was also voted among the three best distributors with over 500,000 customers in the Southeast, in the *Perceived Quality Satisfaction Index* (ISQP), a surveyed by Abradee of residential customers.

Cemig increased its score by 9.1 points (13%), from 70.1 in 2016 to 79.2 in 2017. The improvement in ISQP was matched by the *Consumer Approval Index* (IAC), up 18.7 points from 2016, and the *General Satisfaction Index* (ISG) an increase of 23.3 points from 2016.

303

INVESTMENTS

Investments in generation:

The principal investments in 2017 were injections of capital into (i) the investee Guanhães, for construction of small hydroelectric plants, and (ii) the Belo Monte hydroelectric plant, which was at the final phase of construction and needed a smaller input of capital than in the past. The total was R$ 233 million.

Renova Energia S.A. (**Renova**)

Renova Energia S.A. (Renova), founded in 2001, focuses on renewable power sources wind plants, small hydroelectric plants and solar plants.

In the last two years Renova has had a challenging financial situation and based its strategy on three main points: focus on execution of the projects under construction; adaptation of the capital structure; and revision of the business plan, Cemig now directly owns 36.23% of the share capital of Renova, plus a further 6.8% indirectly, through Light.

As part of the process of restructuring, assets were sold in 2017, as follows:

- The Alto Sertão II Wind Complex, with installed capacity of 386 MW and average offtake guarantee of 181.6 MW, to AES Tietê Energia S.A.

- 19,535,004 shares in TerraForm Global were sold to Brookfield Asset Management, Inc. for US$ 4.75/share.

- The Umburanas I and II generation projects, with average offtake guarantee of 226 MW, was sold to Engie Brasil Energia.

Investments in transmission

Cemig GT s multi-year investment plan was approved in 2017, for a total of R$ 1,140 million, over the period 2017 to 2025.

Investments in distribution

In distribution, several actions are under way to ensure regulatory compliance, Cemig D has also prepared its Plan for Results, and presented this document to Aneel. Under this plan, it undertakes to improve its public energy distribution service, especially in terms of compliance with the sector s regulations. The plan has five main components:

304

Cemig D: The Distribution Development Plan (PDD)

Investments in the energy system

In the tariff cycle 2013-17 Cemig D s investment in the energy system was in the order of R$ 5.1 billion. The total invested in 2017 was R$ 983 million, of which R$ 261 million was invested in high voltage distribution systems, R$ 707 million in the medium and low voltage distribution systems, and R$ 15 million in other projects.

For high-voltage supply, 29 substations were built and/or expanded; and 3,728km of medium-voltage distribution lines, and 320 km of high-voltage distribution lines, were built.

Investments in natural gas

Companhia de Gás de Minas Gerais (**Gasmig**) is the exclusive distributor of piped natural gas in Minas Gerais, by grant of concession. It serves the industrial, residential and commercial markets and the thermal energy generation industry, providing compressed natural gas (CNG), liquefied natural gas (LNG) and vehicle natural gas (VNG).

In 2017 Gasmig invested R$ 54.8 million in infrastructure; R$ 23.5 million in expansion of the natural gas distribution network in the State of Minas Gerais; R$ 22.7 million in operation and maintenance of gas pipeline; R$ 7.1 million in Telecoms/IT and Infrastructure; R$ 944 thousands in environmental management; and R$ 493 thousands in Vehicle Natural Gas and acquisition of assets.

In 2017, the result of this engagement was that its client base rose significantly, to 31,355. In 2012 the number of establishments served were a little over 300, mainly industrial companies and distributors of vehicle natural gas. This increase of some 31,000 users is basically all in the urban market (homes and shops). In 2017 almost 16,000 units were connected to the natural gas distribution network.

THE DISINVESTMENT PROGRAM

With the worsening in the economic situation, Cemig has put in place a process of sale of assets, begun in 2016, which culminated with publication, on June 1, 2017, of its Disinvestment Program, which aims to restore financial balance through accelerated reduction of net debt.

The company s criteria for choice of priorities in the Disinvestment Program were:

a) assets with the highest liquidity;

b) assets that are not expected to provide returns in the short term; and

c) assets that are not strategic and/or in which Cemig has smaller holdings.

Since the processes of sale are subject to legislative, stockholding and regulatory restraints, a portfolio has been selected that meets the needs for deleverage based on expectation of a success rate of at least 50% by the first half of 2018.

The following transactions for disposal of assets were completed in 2017.

Assets	**Acquirer**	**Closing date**	**Amount, R$ mn**
Shares in Terraform Global	Brookfield Asset Management	Jul, 3, 2017	352
Alto Sertão II Complex,	AES Tietê	Aug, 03, 2017	600
the Umburanas wind farm complex,	Engie Brasil Energia S,A,	Nov, 24, 2017	17
Units in Taesa	B3 Market	Nov, 24, 2017	717
Transmineiras (Transleste, Transudeste, Transirapé)	Taesa	Nov, 30, 2017	80

The Company continues to focus on implementation of its disinvestment program in 2018 through disposals of equity interests, for proceeds that will help reduce its leverage.

305

THE CAPITAL MARKET AND DIVIDENDS

Cemig s shares were first listed, on the stock exchange of Minas Gerais State, on October 14, 1960. Since 1972 they have been traded on the São Paulo stock exchange under the tickers CMIG3 for the ON (common) shares, and CMIG4 for the preferred shares (PN), Cemig has been listed at Corporate Governance Level 1 on the São Paulo stock exchange since October 2001. Since 1993, ADRs for Cemig shares have traded on the New York stock exchange (tickers CIG and CIG/C) at Level 2, since 2001; and Cemig shares have traded on the Madrid stock exchange (as XCMIG) since 2002.

Stockholding structure

This chart shows the stockholding structure of Cemig on December 31, 2017, with share capital of R$ 6,294 billion:

Share prices

The closing prices of Cemig s securities in São Paulo (B3), New York (NYSE) and Madrid (Latibex) in 2016 and 2017 were as follows:

Security	Symbols	Currency	Close of 2016	Close of 2017
Cemig PN	CMIG4	R$	7.28	6.87
Cemig ON	CMIG3	R$	7.70	6.41
ADR PN	CIG	US$	2.22	2.06
ADR ON	CIG,C	US$	2.53	1.85
Cemig PN (Latibex)	XCMIG	Euros	2.25	1.78

Total trading volume in the preferred shares, CMIG4, in 2017 was R$ 17.02 billion, with daily average volume of approximately R$ 69.17 million. The total volume is 26% higher than in 2016, making Cemig s preferred (PN) shares one of the most traded on the Sao Paulo stock exchange, thus offering investors an enhanced degree of security and liquidity.

The average daily volume of trading in the preferred shares on the NYSE in 2017 was US$ 11.78 million, with total volume of US$ 2.96 billion underlining Cemig s position as a global investment option.

Table of Contents

On the São Paulo exchange, Cemig was the energy sector company with the second highest trading volume. And on the NYSE, Cemig s ADRs were the most traded of all ADRs of the Brazilian energy sector in 2017.

	CMIG4	CMIG3	CIG	CIG,C	IBOV	DJIA	IEE
2017	**-5.6%**	**-16.7%**	**-7.1%**	**-26.8%**	**26.9%**	**25.1%**	**10.0%**

Market capitalization is calculated as the totality of the company s shares at market price on the closing day of each year.

DIVIDEND POLICY

In its by-laws Cemig assumes the undertaking to distribute, every year, a minimum dividend of 50% of the net income for the previous year. Additionally, extraordinary dividends can be distributed each two years, or more frequently, if cash availability permits.

PROPOSAL FOR ALLOCATION OF NET INCOME

The Board of Directors decided to propose to the Annual General Meeting to be held on April 30, 2018 that the profit for 2017, of R$ 1,001 million, and the balance of Retained earnings, of R$ 28 million should be allocated as follows:

R$ 486 million: for payment of the mandatory minimum dividend to holders of preferred shares whose names are in the Company s Nominal Share Registry on the date of the AGM.

R$ 14 million: for payment of the mandatory minimum dividend to holders of common shares whose names are in the Company s Nominal Share Registry on the date of the AGM.

R$ 528 million to be held in Equity in the Retained earnings reserve, to provide funding for the Company s consolidated investments planned for 2017, in accordance with a capital budget.

R$ 1 million to be held in Equity in the Tax incentives reserve, for tax incentives gained in 2017 as a result of investment in the region of Sudene.

Table of Contents

CORPORATE GOVERNANCE

The Company s Board of Directors has 15 sitting members, and an equal number of substitute members, appointed by the Shareholders. The by-laws specify that the periods of office of all board members run concurrently and are for two years, and that a member may be reelected at the end of a period of office. In 2017, 36 meetings of the Board of Directors were held, to decide on a range of matters such as, among others, strategic and budgetary planning, investment projects and acquisitions.

The Board of Directors also has six Board Support Committees. Their purpose is to ensure objectivity, consistency and quality in the decision process, providing in-depth analysis of the matters within their specialization, and issuing suggestions for decisions or actions, and opinions, to the Board.

The Company s Audit Board is appointed permanently (optionally, Brazilian companies may call an Audit Board into existence only occasionally if they wish). It has five members; and in the form constituted, it meets the requirements for exemption from creation of an Audit Committee under the US Securities Act and the Sarbanes-Oxley Law. The Audit Board held 16 meetings in 2017.

RELATIONSHIP WITH EXTERNAL AUDITORS

The Company s policies in contracting of services of external auditors aim to avoid conflict of interest and loss of independence or objectivity, and are based on the principles that preserve the independence of the auditor. To avoid subjectivity in definition of the principles of independence in the services provided by the external auditors, procedures have been established for approval of the contracting of these services, expressly defining: (i) services that have been previously authorized; (ii) services that are subject to prior approval by the Audit Board/Audit Committee; and (iii) services that are prohibited.

Complying with the requirement of the CVM, a turnover system of external auditors is adopted, with a frequency of five years. In 2017, we changed auditors. In the 2016 business year our auditors were Deloitte Touche Tohmatsu Auditores Independentes, who continued until the end of the audit of the interim financial statement at March 31, 2017, which were filed with the CVM on May 15, 2017. As from the interim financial statement of June 2017 our auditors are Deloitte Touche Tohmatsu, who are also responsible for the audit of our financial statement at December 31, 2017. The services provided by the Company s external auditors have been as follows:

Service	**2017 R$ 000**	**As % of audit fees**	**2016 R$ 000**	**As % of audit fees**
Auditing services				
Auditing of Financial Statement	3,654	100	1,570	100.00
Additional services:				
Review of tax accounting and quarterly provisions for income tax and Social Contribution tax	156	4.27	82	5.22
Comfort letter for issuance of debt instrument	845	23.13		
Overall total	**4,655**	**127.39**	**1,652**	**105.22**

The additional services were contracted jointly with the external auditing services and refer, basically, to review of tax procedures adopted by the Company, and to preparation of a comfort letter for issuance of a debt instrument. These do not represent any type of consultation, tax planning or conflict of interest.

It should be noted that any additional services to be provided by the external auditors, including that mentioned above, are subject to mandatory prior approval by the Executive Board and Board of Directors, taking account of any conflict of interest, loss of independence or objectivity of the auditors, in accordance with the terms specified in the Sarbanes-Oxley Law and CVM Instruction 381/2003.

308

Table of Contents

AUDITING AND MANAGEMENT OF RISKS

In 2017 the areas responsible for Cemig s Corporate Risk Management and Compliance were both reorganized. Together with the area responsible for Strategic Planning they are now both subordinated to the *Strategy, Risks and Compliance Planning Management Unit*, which is directly linked to the Office of the CEO.

This unit coordinates the *Corporate Risks Monitoring Committee*, and is responsible for: development and implementation of policies and procedures to maintain the level of the Company s exposure to risks within a planned limit; to work continuously for compliance with laws and regulations and ethical conduct of our professionals; and to coordinate and support the corporate activities of compliance and risk management, bringing these processes to a new, higher level.

A highlight in 2017 was the approval by the Board of Directors of the *Corporate Risks Management Policy*, and the Company s *risk matrix*, which covers all the businesses of the holding company, distribution, generation, transmission and trading.

Anti-fraud Policy

In 2017 Cemig revised its *Anti-fraud Policy*, which clearly states the prohibition on donations of any type, direct or indirect, of money or with monetary, or goods or services, including in the form of publicity or advertising, that have any political objective to favor any political party or its members, whether active or not. This Policy applies to Cemig, and its wholly-owned and other subsidiaries, and is in line with the Elections Law Federal Law 9,504 of 1997.

Cemig also has a *Whistleblowers Channel* , an Ombudsman, and an Ethics Committee. They deal with recording and treatment of any irregularities or ethical dilemmas affecting its operations. All reports are assessed, and when concluded they are made available to the accusing parties.

The Whistleblowers Channel preserves anonymity for those providing information, and also enables situations thought to involve discrimination to be reported.

309

Table of Contents

TECHNOLOGICAL MANAGEMENT AND INNOVATION

Historically, constant investment in innovation, technology and efficiency, and the Company s pioneering vocation, have been determining factors in Cemig achieving its positioning in the market.

Energy alternatives

In Cemig s view, the term Alternatives for Energy covers the whole energy chain, including transport, transformation, technological pathways, supply and storage, energy efficiency and final use of energy. Cemig believes that because they are all interconnected factors in the energy matrix, alternatives for energy are interlinked, as shown here

the impacts being essentially positive or having positive intentions, as indicated by the possibilities shown.

Reduction of fossil fuels, together with the reduction of greenhouse gases.

Minimization of the load on primary sources and natural resources, with direct consequences for climate change arising from greenhouse gases.

Development of more sustainable technologies.

Creation of new energy configurations.

Local and regional development.

Creation of scientific, technical and technological competencies, with direct impacts including training, education, and qualification, scientific publications, and development of industry chains, with consequences for industrial production and patents.

Table of Contents

The Research and Development program

The Cemig Group currently invests approximately R$ 40 million in Research and Development Projects. For each project the intention is to enable the complete chain of an invention to develop knowledge, and transform good ideas, successful lab experiments and quality in mathematical models into practical results that will improve the performance of organizations, and people s lives.

In the last 3 years Cemig D has invested more than R$ 63 million in research and development projects, on a range of subjects.

The Energy Efficiency Program

Through its Energy Efficiency Program, Cemig has been running projects to orient the population on optimum use of energy since the 1980s.

The legislation regulated by Aneel currently requires distributors to invest 0.4% of their net operational revenue in energy efficiency projects.

* Amounts made available through the Public Call for Projects.

311

Table of Contents

SOCIAL RESPONSIBILITY

Cemig bases its relations with communities near its project sites on actions guided by a sense of joint responsibility and by stimulus for local economic and social development.

In all its interactions Cemig takes care to respect and listen to those who are affected by any of its activities or have any direct contact with the Company.

The following are some of the highlights of 2017:

In the *Sponsorship Program*, donations in favor of the institutions are raised from third parties (Sponsors), by additions to their energy bills which are then 100% passed on to the institution s bank account. The total raised for registered institutions in 2017 was R$ 60.83 million in donations.

The *AI6%* Program: This program encourages employees and retirees of Cemig to use a program for paying 6% of their income tax liability to a registered charity, in favor of the Infancy and Adolescents Funds (*Fundos da Infância e da Adolescência*, or FIA).

The *AI6%* Campaign*:* The campaign for 2017/2018 involved participation of 1,758 employees, who voluntarily allocated R$ 1.12 million to benefit approximately 25,000 children and adolescents in vulnerable situations, served by 184 institutions. Cemig also allocated part of its income tax liability to the same FIAs, totaling R$ 0.9 million. Thus, a total of R$ 2.04 million was donated to entities spread out over 95 counties/municipalities in the Company s area of operation.

The *Energia Inteligente* program expresses Cemig s concern to serve clients with quality, and to orient them as to the correct and rational use of energy. Investment in this program in 2017 was over R$ 69 million, and resulted in savings of 24,931 MWh/year, and reduction of peak demand by 9,507 kW in the residential, rural, and commercial and services sector.

The *Fields of Light II* program is in the process of installing electric lighting on 250 amateur football fields and 50 multi-sport courts, to provide improved quality of life and social empowerment to poorer communities by enabling them to practice sport, leisure and culture, especially at night.

The planned investment of R$ 15 million is to be used for illumination, acquisition of materials and execution of works. Of the planned total of 300 fields/courts to be illuminated, 100 have been completed and 90 are in progress. A total of R$ 6 million was invested in 2017.

Projects in culture, sport and health

Optimization of resources the same principle that governs sustainability was the challenge for Cemig s cultural, sport and health projects in 2017.

Not only was the country in a macroeconomic crisis, but Cemig also was in an adverse period, with loss of the concessions for four important generation plants to foreign investors.

Health

Cemig took part in two Health Ministry projects jointly with the government of the state, through the National Oncology Support program (*Pronon*), benefiting two entities in the state: The *Mário Penna Hospital* and the *São Francisco de Assis Hospital Foundation*, both projects that aim to expand care, diagnosis and treatment for cancer patients.

312

Table of Contents

Sport

In 2017, the Company invested a total of R$ 3.3 million in 28 projects throughout the state.

For the community, sports programs generate benefits in terms of social empowerment and citizenship, especially for children and teenagers, by encouraging sports and generating opportunities for young people to become athletes.

For Cemig, these projects enhance its image as a company committed to the development of healthy habits, wellbeing and development of local communities.

Culture

Sponsorships in culture reached a total of 250 projects in 2017, almost twice the number for 2016, with investment of R$ 34 million. This was only made possible by the advent of state culture tenders, based on renunciation of state value added tax (ICMS) accounting for some R$ 17 million of the total invested. The tenders were promoted by the Minas Gerais State Culture Department, which ensured alignment with public policies, and assertiveness in choice and implementation of the projects.

Value added

The Value Added Statement (*Demonstração do Valor Adicionado*, or DVA) is an indicator of the Company s generation of wealth, and its importance for society in general: the added value created in 2017 was R$ 15,050 million, which compares to R$ 14,754 million in 2016.

Human resources

Cemig believes that its human capital is a fundamental element for fulfillment of its commitment to economic, social and environmental sustainability. With this focus, it adopts best practices in the labor market in its management of people.

Table of Contents

Number of employees

In view of the reality imposed by the present conditions of regulations in the energy sector, Cemig is working towards more efficiency and greater alignment with the sector benchmarks. In 2017 Cemig s total headcount was significantly reduced, due to the PDVP 2017 Voluntary Retirement Program, which continues the policy of assisting retirement for those who have the qualifications. In the last five years the total number of Cemig s employees has been reduced from 7,922 in 2013 to 5,864 in 2017:

314

Table of Contents

Health, Hygiene and Safety in the workplace

As a result of the various measures and programs put in place relating to questions of health, hygiene and safety in the workplace, Cemig s accident indicators have fallen significantly in the last 11 years. In 2017, Cemig s indicator of Frequency of Accidents with Time off Work (*Taxa de Frequência de Acidentes com Afastamento*, or TFA) for the workforce was 1.47 accidents per million hours worked, 18% less than in 2016, and 26.5% lower than the target of 2.00, set by the Company.

This reduction is due to the better results obtained with outsourced workers, for whom the TFA was 17.88% lower in 2017 than in 2016.

UniverCemig

UniverCemig is responsible for training and development of Cemig employees. It builds educational solutions, gives the internal training, contracts training units and courses external to the company and in other countries, and manages postgraduate and language courses. It also offers courses of training to other companies, mainly contractors that are suppliers of the distribution operation.

In 2017 UniverCemig carried out 209,926 person-hours of training for Cemig s own employees: a total of 10,788 participations, and 35.52 hours of training per employee. For employees of other companies, the total of participations was 3,260, for 91,658 person-hours of training. The total invested in training and development was R$ 3,726 on average for each of Cemig s own employees, a total of R$ 21.85 million.

Table of Contents

Environment

In 2017, Cemig invested approximately R$ 37.5 million for environment purposes. As mentioned in the *Environmental Strategy* section, the Environmental Adaptation Committee periodically reviews the prioritization and allocation of these resources.

Water resources

Cemig has a unit dedicated to management of water resources. Its planning includes operational measures in the company s hydroelectric plants to calculate the optimal generation of each plant, ensuring the optimum use of water for generation, without impacting the other uses of the same river basin.

Cemig regularly monitors a network comprising the main river basins in the state of Minas Gerais, with operations in 42 reservoirs and more than 180 stations collecting physical, chemical and biological data.

316

Table of Contents

Dam safety

The process to ensure safety of the dam operated and maintained by Cemig uses a methodology based on and supported by the best Brazilian and international practices, at all stages of the process.

It includes field inspection procedures, collection and analysis of instrumentation data, preparation and updating of dam safety plans, planning and monitoring of maintenance services, analysis of results and classification of structures. Frequency of safety inspections and the monitoring routine is based on classification of the structures.

In 2017 Cemig focused on closer approximation between the Company and the external public that might be involved in emergency situations. Eight external plans were delivered to 13 municipalities/counties in 2017. Another 92 municipalities/counties will be involved in the stage of officialization of the process of emergency communication, over the years 2018 and 2019.

Management of waste

Reverse logistics and final disposal of waste are the responsibility of an area that has been certified by Level 1 of the Environmental Management System (SGA Level 1), which receives waste that has been duly identified, separated and packed by the areas that generated it.

In 2017, approximately 39,600 tons of industrial waste were allocated for environmentally appropriate disposal: 99.1% of this waste was disposed of or recycled, 0.2% was regenerated or decontaminated, and 0.7% was co-processed, incinerated or sent to industrial landfill.

Programs for fish populations

Cemig s program for the study and care of fish populations, *Peixe Vivo* (*Fish Alive*) has three components: conservation and handling programs, for adoption of best practices for conservation of fish population; research and development, which expands scientific knowledge on fish and provides inputs for more efficient conservation strategies; relationship with the community publication of the program s activity and results to the general public, seeking to involve them in the construction of strategic planning.

In 2017 approximately R$ 4 million was invested in projects and activities for preservation of fish populations, including expenditure on research projects, maintenance of fish culture stations, environmental education, and events centered on relationship with the community.

In 2017 a total of 260,000 fingerlings weighing approximately 7 tons, were produced and introduced into waterways in 25 fish stocking events, with the participation of 210 people from local communities, in 16 counties.

Since the program was created, its activities, developed in partnership with research institutions, have reduced fish deaths by 71%, which has also resulted in lower environmental fines arising from accidents and interruption of operations.

Climate change and greenhouse gas emissions

Cemig s activity in relation to climate change is aligned with its business strategy, and was formulated in 2012 in a commitment entitled *Ten Initiatives for the Climate*, which set out the Company s lines of action.

Cemig s generation plant has a low level of GHG emissions, because it is primarily hydroelectric but as such it is subject to the consequences of climate change. As a result, it invests in improvement of its climate forecasting systems, and improvement of the infrastructure of its plants, transmission lines and distribution networks, to deal with the consequences of this type of event, and also in improvement of the forecasting of availability of water for its hydroelectric plants.

It is also important to point out that since 2007 Cemig has responded to the annual questionnaire of the *Carbon Disclosure Project* (CDP) an international non-profit organization that encourages sustainable economies. In 2017 the CDP listed Cemig among the leading companies in management of climate change issues in Latin America under its Climate Change Program, for the quality of the information it discloses to investors and the global market.

Cemig was also included, placed 25th, in the *Top 100 Green Utilities* ranking by the US consultancy *Energy Intelligence*. This is a ranking of the 100 energy companies, worldwide, with the lowest greenhouse gas (CO_2) emission rates, and the highest installed generation capacity using renewable sources.

The details on Cemig s initiatives relating to climate change can be found on the Company s website.

Environmental licensing

The environmental licensing activity keeps registration of the Company s enterprises up to date ensuring that all the studies and reports undertaken are properly analyzed, and all the rules issued by the competent bodies and under the legislation are complied with, Cemig GT now has 77% of its projects duly licensed, and 23% in the process of obtaining of the related environmental licenses, Cemig D now has 68.66% of its facilities duly licensed, and 31.4% in the process of licensing.

Table of Contents

RECOGNITION AWARDS

Cemig s efforts in 2017 led to awards recognizing the excellence of its activities by various sectors of society. We highlight the following:

The Transparency Trophy

Cemig was recognized for the 13th year running in this award given for transparency publication of financial statement an annual event held by the Brazilian Association of Finance, Management and Accounting Executives (Anefac), the Accounting, Actuarial and Financial Research Institute (Fipecafi), and Serasa Experian, which assess the companies they believe have the most transparent financial statement in Brazil. This is seen as a traditional seal of approval by these three respected institutions of the market. The Trophy has accompanied the development of financial statement since it was created, encouraging excellence in reporting by Brazilian entrepreneurs.

The Dow Jones Sustainability World Index

The DJSI World was launched in 1999 as the first-ever indicator of financial performance of the leading companies in sustainability worldwide. The companies in this index, which is based on New York listing, are classified as those most capable of creating value for Shareholders in the long term, through management of the risks associated with environmental and social factors as well as economic factors, Cemig is in this index for the 18th year running, and is the only energy company in the Americas included in it.

The São Paulo Stock Exchange ISE Corporate Sustainability Index

Cemig was included, for the 13th year running, in this list of companies that are committed to sustainability, distinguishing themselves in quality, level of commitment to sustainable development, equity, transparency and accountability, and nature of their products, as well as entrepreneurial performance in the economic, financial, social, environmental and climate-change dimensions.

Carbon Disclosure Project CDP

The CDP selected Cemig for the quality of information that it publishes to investors and the global market, CDP Latin America is an international nonprofit which encourages sustainable economies. Annually, thousands of companies present climate information to the organization, and the best results indicate a high level of transparency and disclosure of information related to the subject providing investors with consistent content on management of climate change.

319

Table of Contents

CDP Water

For the first time, Cemig was awarded a ranking of worldwide leadership, level (A) in the CDP Water Program, in 2017, for its practices related to management of water resources. In the Brazilian energy sector, Cemig was the company that scored highest. CDP Latin America is an international non-profit organization which provides a single worldwide system for companies and cities to manage and share vital information about the environment.

Top 100 Green Utilities

Cemig was once again in this ranking, published by the US consultancy company *Energy Intelligence*. This is a list of the 100 energy companies worldwide with the lowest rates of greenhouse gas emissions (CO_2) and highest installed capacities of generation from renewable sources. According to the research, 98% of Cemig s generation capacity comes from clean sources, preserving its 8th position in generation capacity from renewable sources. In terms of greenhouse gases emitted per MWh generated, Cemig was in 5th position, three positions up from the previous year, and the best placed of all energy generation companies in Brazil.

The B3/BNDES ICO2 Carbon Efficient Index

Cemig has been included for the seventh year running in this index of shares that act efficiently in relation to greenhouse gas emissions.

FINAL REMARKS

Cemig s management is grateful to its majority stockholder, the State of Minas Gerais, for the trust and support constantly shown throughout the year.

Cemig also thanks the other federal, state and municipal authorities, the communities served by the Company, the shareholders, other investors and, above all, its own highly qualified group of employees for their dedication.

320

Table of Contents

CONSOLIDATED SOCIAL STATEMENT

1) - Basis of calculations	**2017 Amount (R$ 000)**			**2016 Amount (R$ 000)**		
Net revenue (NR)			21,711,690			18,772,656
Operational income (OP)			2,642,407			1,805,118
Gross payroll (GP)			1,627,026			1,643,253
2) Internal social indicators	**Amount R$ 000**	**% of GP**	**% of NR**	**Amount R$ 000**	**% of GP**	**% of NR**
Food	90,990	5.59	0.42	97,341	5.92	0.52
Mandatory charges/costs on payroll	318,975	19.60	1.47	342,269	20.83	1.82
Private pension plan	85,178	5.24	0.39	96,994	5.90	0.52
Health	52,590	3.23	0.24	56,615	3.45	0.30
Safety and medicine in the workplace	24,870	1.53	0.11	26,119	1.59	0.14
Education	87	0.01	0.00	187	0.01	0.00
Training and professional development	21,847	1.34	0.10	23,589	1.44	0.13
Provision of or assistance for day-care centers	3,272	0.20	0.02	3,034	0.18	0.02
Profit sharing	8,281	0.51	0.04	26,480	1.61	0.14
Others	15,270	0.94	0.07	14,541	0.88	0.08
Internal social indicators Total	621,360	38.19	2.86	687,170	41.82	3.66
3) External social indicators	**Amount R$ 000**	**% of OP**	**% of NR**	**Amount R$ 000**	**% of OP**	**% of NR**
Education	1,176	0.04	0.01	2,300	0.10	0.01
Culture	16,369	0.62	0.08	10,985	0.46	0.06
	416	0.02	0.00			
Sport	3,313	0.13	0.02	1,222	0.05	0.01
Other donations/subsidies / ASIN project / Sport	2,063	0.08	0.01	2,131	0.09	0.01
Total contributions to society	**23,337**	**0.88**	**0.11**	**16,638**	**0.70**	**0.09**
Taxes (excluding mandatory charges on payroll)	9,920,165	375.42	45.69	10,053,044	423.59	53.55
External social indicators Total	**9,943,502**	**376.30**	**45.80**	**10,069,682**	**424.29**	**53.64**
4) Environmental indicators	**Amount R$ 000**	**% of OP**	**% of NR**	**Amount R$ 000**	**% of OP**	**% of NR**
Related to the company s operations	38,311	1.45	0.18	52,116	2.20	0.28
					2.20	

Investments in external programs/projects						
Total investment in the environment	**38,311**	**1.45**	**0.18**	**52,116**	**2.20**	**0.28**
As to setting of annual targets to minimize toxic waste and consumption in general during operations, and increase efficacy of use of natural resources, the company:	(X) has no targets ( ) meets 0 50% of targets		( ) meets 51 75% of targets ( ) meets 76 100% of targets	(X) has no targets ( ) meets 0 50% of targets		( ) meets 51 75% of targets ( ) meets 76 100% of targets
5) Workforce indicators	**2017**			**2016**		
Number of employees at end of period			5,864			7,119
Number of hirings during period			27			77
Number of outsourced employees			333			269
Number of interns			227			277
Employees levels of schooling						
- University and university extension			1,352			1,553
- Secondary			4,371			5,513
- Primary			141			53
Number of employees over 45 years old			3,027			3,779
Number of women employed			752			939
% of supervisory positions held by women			39,66%			36,09
Number of African-Brazilian employees			290			340
% of supervisory positions held by African-Brazilians			3,68%			1,17
Number of employees with disabilities			74			192

321

Table of Contents

6) Corporate citizenship		**2016**			**Targets for 2017**	
Ratio of highest to lowest compensation			26,44			26,44
Total number of work accidents to employees			225			225
Who selects the company s social and environmental projects?	( ) senior management	(X) senior management and line managers	( ) all the employees	( ) senior management	(X) senior management and line managers	( ) all the employees
Who decides the company s work environment health and safety standards?	( ) senior management and line managers	(X) all employees	( ) All + Accident Prevention Committee	( ) senior management and line managers	(X) all employees	( ) All + Accident Prevention Committee
In relation to labor union freedom, the right to collective bargaining and/or internal employee representation, the company	( ) doesn t get involved	(X) follows the ILO guidelines	( ) encourages and follows the ILO	( ) will not get involved	(x) will follow ILO guidelines	( ) will encourage and follow ILO
The company pension plan covers:	( ) senior management	( ) senior management and line managers	(X) all employees	( ) senior management	( ) senior management and line managers	(X) all employees
The profit-sharing program covers:	( ) senior management	( ) senior management and line managers	(X) all employees	( ) senior management	( ) senior management and line managers	(X) all employees
In selecting suppliers, the company s standards of ethics and social and environmental responsibility:	( ) are not considered	( ) are suggested	(X) are required	( ) will not be considered	( ) will be suggested	(X) will be required
As to employees participation in voluntary work programs, the company:	( ) doesn t get involved	( ) supports	(X) organizes and encourages	( ) will not get involved	( ) will support	(X) will organize and encourage
Total number of consumer complaints and criticisms:	In the company ND	Via Procon ND	In the courts ND	In the company ND	Via Procon ND	In the courts ND
% of complaints and criticisms met or solved:	In the company ND %	Via Procon ND %	In the courts ND %	In the company ND %	Via Procon ND %	In the courts ND %
Total added value distributable (R$ 000)	In 2017: 15,049,884			In 2016: 14,780,152		

Distribution of added value (DVA)	71,77% government	6,65% Shareholders	68,02% government	3,95% Shareholders
	8,40% employees	13,11% others	9,00% employees	18,49% others

7) Other information	**2017**	**2016**
Investments in environmental issues	R$ 37,5 million	R$ 52,1 million
Monitoring of reservoir water quality	42 reservoirs; 180 physical, chemical and biological data collection stations	42 reservoirs; 180 physical, chemical and biological data collection stations
Non-reusable wastes and materials	39,600 tons	45,800 tons
Mineral oil regenerated by the Company	36,1 tons	322,8 tons
Revenue from sales of waste	R$10,9 million	R$11,1 million

322

Table of Contents

MEMBERS OF BOARDS

BOARD OF DIRECTORS

SITTING MEMBERS	SUBSTITUTE MEMBERS
José Afonso Bicalho Beltrão da Silva	Geber Soares de Oliveira
Bernardo Afonso Salomão de Alvarenga	Agostinho Faria Cardoso
Antônio Dirceu Araújo Xavier	Luiz Guilherme Piva
Arcângelo Eustáquio Torres Queiroz	Franklin Moreira Gonçalves
Helvécio Miranda Magalhães Júnior	Wieland Silberschneider
Marco Antonio de Rezende Teixeira	Antônio Carlos de Andrada Tovar
Marco Antonio Soares da Cunha Castello Branco	Ricardo Wagner Righi de Toledo
Nelson José Hubner Moreira	Otávio Silva Camargo
Marcelo Gasparino da Silva	Aloísio Macário Ferreira de Souza
José Pais Rangel	José João Abdalla Filho
Patricia Gracindo Marques de Assis Bentes	(Position vacant)
Carlos Eduardo Lessa Brandão	(Position vacant)
Daniel Alves Ferreira	Manoel Eduardo Lima Lopes
Arlindo Magno de Oliveira	Paulo Sérgio Machado Ribeiro
Hermes Jorge Chipp	Alexandre Silva Macedo

AUDIT BOARD

SITTING MEMBERS	SUBSTITUTE MEMBERS
Arthur Maia Amaral	Marco Antônio Badaró Bianchini
Edson Moura Soares	Marcos Túlio de Melo
Camila Nunes da Cunha Pereira Paulino	Flávia Cristina Mendonça Faria Da Pieve
Manuel Jeremias Leite Caldas	Ronaldo Dias
(Position vacant)	Rodrigo de Mesquita Pereira

THE EXECUTIVE BOARD

NAME	POSITION
Bernardo Afonso Salomão de Alvarenga	Chief Executive Officer
Bernardo Afonso Salomão de Alvarenga	Deputy CEO (interim)
Ronaldo Gomes de Abreu	Director without portfolio
Maurício Fernandes Leonardo Júnior	Chief Finance and Investor Relations Officer
Franklin Moreira Gonçalves	Chief Generation and Transmission Officer
José de Araújo Lins Neto	Chief Corporate Management Officer
Luciano de Araújo Ferraz	Chief Counsel
Thiago de Azevedo Camargo;	Chief Institutional Relations and Communication Officer
Daniel Faria Costa	Chief Business Development Officer
Maura Galuppo Botelho Martins	Chief Officer for Human Relations and Resources

Dimas Costa	Chief Trading Officer

INVESTOR RELATIONS

Investor Relations Department

Telephones: (+55-31) 3506-5024 - 3506-5028
Fax: (+55-31) 3506-5025 - 3506-5026

Online
Site: www.cemig.com.br
E-mail: ri@cemig.com.br

323

Table of Contents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2017 AND 2016

ASSETS

R$ 000

		Consolidated		Holding company	
	Note	2017	2016	2017	2016
CURRENT					
Cash and cash equivalents	6	1,030,257	995,132	38,672	69,352
Securities	7	1,058,384	1,014,188	63,960	133,359
Customers and traders; Concession holders (Power transport)	8	3,885,392	3,425,018		
Concession financial assets	15	847,877	730,488		
Recoverable taxes	9	173,790	236,284	43	
Income tax and Social Contribution taxes recoverable	10a	339,574	589,519	19,722	78,174
Dividends receivable		76,893	11,386	603,049	673,239
Restricted cash	11	106,227	367,474	87,872	366,568
Inventories		38,134	49,473	10	12
Advances to suppliers	29	116,050	1,059		
Accounts Receivable from the State of Minas Gerais	12	235,018		235,018	
Reimbursement of tariff subsidies	14	73,345	63,751		
Low-income subsidy		26,660	36,261		
Credits owed by Eletrobras RGR	22		48,379		
Credits owed by Eletrobras CDE		4,216	90,065		
Subsidies for tariffs		103,746	102,262		
Other		421,740	524,731	10,473	20,435
TOTAL, CURRENT		**8,537,303**	**8,285,470**	**1,058,819**	**1,341,139**
NON-CURRENT					
Securities	7	29,753	31,040	1,737	5,959
Advances to suppliers	29	6,870	229,053		
Customers and traders; Concession holders (Power transport)	8	255,328	146,367		
Recoverable taxes	9	230,678	178,288	1,810	1,816
Income and Social Contribution taxes recoverable	10a	20,617	112,060	20,617	112,060
Deferred income tax and Social Contribution tax	10b	1,871,228	1,797,453	756,739	789,318
Escrow deposits in litigation	13	2,335,632	1,886,879	277,791	499,868
Derivative financial instruments Swaps	30	8,649			
Other		628,444	1,050,155	34,978	37,743

Concession Financial Assets	15	6,604,624	4,971,244		
Investments	16	7,792,225	8,753,088	13,692,183	12,627,857
Property, plant and equipment	17	2,762,310	3,775,076	1,810	2,201
Intangible assets	18	11,155,928	10,819,680	2,458	1,852
TOTAL, NON-CURRENT		**33,702,286**	**33,750,383**	**14,790,123**	**14,078,674**
TOTAL ASSETS		**42,239,589**	**42,035,853**	**15,848,942**	**15,419,813**

The Notes are an integral part of the Financial Statement.

324

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2017 AND 2016

LIABILITIES

R$ 000

		Consolidated		Holding company	
	Note	**2017**	**2016**	**2017**	**2016**
Suppliers	19	2,342,757	1,939,593	4,667	20,936
Regulatory charges	22	512,673	380,586		
Employees and managers profit shares		9,089	17,814	348	899
Taxes	20a	704,572	793,587	5,841	83,634
Income and Social Contribution taxes	20b	115,296	26,866		
Interest on Equity, and Dividends, payable	25	427,832	466,987	425,838	466,689
Loans, financings and debentures	21	2,370,551	4,836,923		
Payroll and related charges		207,091	224,741	11,072	9,970
Post-retirement obligation	23	231,894	198,867	12,974	11,143
Concessions payable		2,987	2,977		
Concession Financial liabilities	15	414,800	481,835		
Derivative financial instruments Options	30	507,232	1,149,881	507,232	1,149,881
Advances from clients	8	232,762	181,200		
Derivative financial instruments Swaps	30	12,595			
Other obligations		570,153	745,603	6,218	6,293
TOTAL, CURRENT		**8,662,284**	**11,447,460**	**974,190**	**1,749,445**
NON-CURRENT					
Regulatory charges	22	249,817	454,625		
Loans, financings and debentures	21	12,027,146	10,342,357		
Taxes	20a	28,199	723,922		
Deferred income tax and Social Contribution tax	10b	734,689	582,206		
Provisions	24	678,113	815,017	63,194	309,995
Post-retirement obligation	23	3,954,287	4,042,544	446,523	386,321
Concessions payable		18,240	19,026		
Concession Financial liabilities	15		323,140		
Pasep and Cofins taxes to be reimbursed to customers		1,087,230			
Derivative financial instruments Options	30	307,792	191,587		
Derivative financial instruments Swaps	30	28,515			
Other obligations		133,141	159,598	39,049	43,771
TOTAL, NON-CURRENT		**19,247,169**	**17,654,022**	**548,766**	**740,087**

TOTAL LIABILITIES		**27,909,453**	**29,101,482**	**1,522,956**	**2,489,532**
EQUITY	25				
Share capital		6,294,208	6,294,208	6,294,208	6,294,208
Capital reserves		1,924,503	1,924,503	1,924,503	1,924,503
Profit reserves		5,728,574	5,199,855	5,728,574	5,199,855
Equity valuation adjustments		(836,522)	(488,285)	(836,522)	(488,285)
Subscription of Shares, to be Capitalized		1,215,223		1,215,223	
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**14,325,986**	**12,930,281**	**14,325,986**	**12,930,281**
NON-CONTROLLING INTERESTS		**4,150**	**4,090**		
EQUITY		**14,330,136**	**12,934,371**	**14,325,986**	**12,930,281**
TOTAL LIABILITIES AND EQUITY		**42,239,589**	**42,035,853**	**15,848,942**	**15,419,813**

The Notes are an integral part of the Financial Statement.

325

Table of Contents

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of Brazilian Reais R$ 000 except Net earnings per share)

		Consolidated		Holding company	
	Note	2017	2016	2017	2016
NET REVENUE	**26**	**21,711,690**	**18,772,656**	**325**	**665**
OPERATING COSTS					
COST OF ENERGY AND GAS	**27**				
Energy purchased for resale		(10,919,476)	(8,272,911)		
Charges for use of the national grid		(1,173,923)	(947,479)		
Gas bought for resale		(1,070,623)	(877,118)		
		(13,164,022)	(10,097,508)		
OTHER COSTS	**27**				
Personnel and managers		(1,270,188)	(1,348,203)		
Materials		(72,815)	(41,308)		
Outsourced services		(759,036)	(719,947)		
Depreciation and amortization		(787,129)	(802,049)		
Operating provisions, net		(225,504)	(171,225)		
Infrastructure construction cost		(1,118,749)	(1,193,140)		
Other		(89,677)	(55,450)		
		(4,323,098)	(4,331,322)		
TOTAL COST		**(17,487,120)**	**(14,428,830)**		
GROSS PROFIT		**4,224,570**	**4,343,826**	**325**	**665**
OPERATING EXPENSES	**27**				
Selling expenses		(248,280)	(382,368)		
General and administrative expenses		(763,121)	(666,577)	(51,544)	(67,447)
Operating provisions		(353,282)	(5,212)	(238,791)	83,190
Other operating revenues (expenses)		34,760	(420,016)	185,367	131,989
		(1,329,923)	(1,474,173)	(104,968)	147,732
Share of (loss) profit, net, of associates and joint ventures	**16**	(252,240)	(301,844)	896,002	218,347
Impairment of loss on Investments	**16**		(762,691)		
Income before finance income (expenses) and taxes		**2,642,407**	**1,805,118**	**791,359**	**366,744**
Finance income	**28**	803,713	1,041,304	114,375	72,930
Finance expenses	**28**	(1,800,264)	(2,478,495)	235,541	(18,184)

Income before income tax and social contribution tax		**1,645,856**	**367,927**	**1,141,275**	**421,490**
Current income tax and Social Contribution tax	**10c**	(446,348)	(173,833)	(85,710)	(76,103)
Deferred income tax and Social Contribution tax	**10c**	(197,912)	140,660	(54,611)	(11,053)
NET INCOME FOR THE YEAR		**1,001,596**	**334,754**	**1,000,954**	**334,334**
Total of NET INCOME for the year attributed to:					
Equity holders of the parent		1,000,954	334,334	1,000,954	334,334
Non-controlling Interests		642	420		
		1,001,596	**334,754**	**1,000,954**	**334,334**
Basic net earnings per preferred share	**25**	**0.84**	**0.35**	**0.84**	**0.35**
Basic earnings per common share	**25**	**0.37**	**0.10**	**0.37**	**0.10**
Diluted net earnings per preferred share	**25**	**0.84**	**0.32**	**0.84**	**0.32**
Diluted net earnings per common share	**25**	**0.37**	**0.07**	**0.37**	**0.07**

326

Table of Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

R$ 000

	Consolidated		Holding company	
	2017	**2016**	**2017**	**2016**
NET INCOME FOR THE YEAR	**1,001,596**	**334,754**	**1,000,954**	**334,334**
OTHER COMPREHENSIVE INCOME				
Items not to be reclassified to profit or loss in subsequent periods				
Adjustment of actuarial liabilities restatement of obligations of defined benefit plans, net of taxes	(260,480)	(514,998)	(42,769)	(43,192)
Equity gain (loss) on other comprehensive income in subsidiary and jointly-controlled entity, net of tax	(2,802)	3,966	(220,513)	(467,840)
	(263,282)	(511,032)	(263,282)	(511,032)
Items to be reclassified to the Profit and loss account in subsequent periods				
Equity gain on other comprehensive income, in subsidiary and jointly-controlled entity, relating to fair value of financial asset available for sale, net of tax	(38,134)	(2,802)	(38,134)	(2,812)
Conversion adjustment on transactions outside Brazil		(10)		
Reclassification of ranslation adjustments to the Income statement arising from sale of Transchile		(39,447)		(39,447)
	(38,134)	(42,259)	(38,134)	(42,259)
COMPREHENSIVE INCOME FOR THE PERIOD	**700,180**	**(218,537)**	**699,538**	**(218,957)**
Total of comprehensive income attributed to:				
Equity holders of the parent	699,538	(218,957)	699,538	(218,957)
Non-controlling Interests	642	420		
	700,180	**(218,537)**	**699,538**	**(218,957)**

The Notes are an integral part of the Financial Statement.

Table of Contents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

R$ 000 except where otherwise stated

	Share capital	Subscription of shares, to be capitalized	Capital reserves	Profit reserves	Equity valuation adjustments	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling Interests	Total o Equity
ANCES ON CEMBER 31, 2016	**6,294,208**		**1,924,503**	**5,199,855**	**(488,285)**		**12,930,281**	**4,090**	**12,934,3**
ncome for the year						1,000,954	1,000,954	642	1,001,5
er comprehensive me									
easurement of gations of the ned benefit plans, net xes					(260,480)		(260,480)		(260,4
ty gain (loss) on r comprehensive me in subsidiary and ly-controlled entity					(40,936)		(40,936)		(40,9
l comprehensive me for the period					**(301,416)**	**1,000,954**	**699,538**	**642**	**700,1**
cription of shares, to apitalized		1,215,223					1,215,223		1,215,2
er changes in ity:									
tional dividends osed, controlling interests								(582)	(5
dends under the aws (R$ 0.51 per e)						(500,477)	(500,477)		(500,4
stitution of reserves									
incentives reserve				712		(712)			
ropriation of retain ngs to profit ves				528,007		(528,007)			

ization of reserves									
ization of deemed of PP&E					(46,821)	28,242	(18,579)		(18,5
ANCES ON CEMBER 31, 2017	**6,294,208**	**1,215,223**	**1,924,503**	**5,728,574**	**(836,522)**		**14,325,986**	**4,150**	**14,330,1**
TRIBUTABLE TO UITY HOLDERS THE PARENT	**6,294,208**	**1,215,223**	**1,924,503**	**5,728,574**	**(836,522)**		**14,325,986**	**4,150**	**14,330,1**
N-CONTROLLING ERESTS	**6,294,208**	**1,215,223**	**1,924,503**	**5,728,574**	**(836,522)**		**14,325,986**	**4,150**	**14,330,1**

The Notes are an integral part of the Financial Statement.

328

Table of Contents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

R$ 000 except where otherwise stated

	Share capital	Capital reserves	Profit reserves	Equity valuation adjustments	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling Interests	Total of Equity
BALANCES ON DECEMBER 31, 2015	**6,294,208**	**1,924,503**	**4,662,723**	**102,264**		**12,983,698**	**3,978**	**12,987,676**
Net Income for the year					334,334	334,334	420	334,754
Other comprehensive income								
Remeasurement of obligations of the defined benefit plans, net of taxes				(514,998)		(514,998)		(514,998)
Equity gain (loss) on Other comprehensive income in subsidiary and jointly-controlled entity				(38,283)		(38,283)		(38,283)
Conversion adjustment on transactions outside Brazil				(10)		(10)		(10)
Total comprehensive income for the period				**(553,291)**	**334,334**	**(218,957)**	**420**	**(218,537)**
Other changes in Equity:								
Additional dividends proposed, non-controlling interests							(10)	(10)
Reserve for mandatory dividends not distributed			622,530			622,530		622,530
Dividends under the by-laws (R$ 0.16 per share)			126,996		(203,986)	(76,990)	(298)	(77,288)

Interest on Equity (R$ 0.30 per share)			(380,000)			(380,000)		(380,000)
Constitution of reserves								
Tax incentives reserve			7,068		(7,068)			
Appropriation of retain earnings to profit reserves			160,538		(160,538)			
Realization of reserves								
Realization of deemed cost of PP&E				(37,258)	37,258			
BALANCES ON DECEMBER 31, 2016	**6,294,208**	**1,924,503**	**5,199,855**	**(488,285)**		**12,930,281**	**4,090**	**12,934,371**
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT							**4,090**	**4,090**
NON-CONTROLLING INTERESTS	**6,294,208**	**1,924,503**	**5,199,855**	**(488,285)**		**12,930,281**		**12,934,371**

The Notes are an integral part of the Financial Statement.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

R$ 000

		Consolidated		**Holding company**	
	Note	**2017**	**2016**	**2017**	**2016**
CASH FLOW FROM OPERATIONS					
Net Income for the year		1,001,596	334,754	1,000,954	334,334
Adjustments to reconcile net income to net cash flows:					
Income tax and Social Contribution tax		644,260	33,173	140,321	87,156
Depreciation and amortization	27	849,768	834,291	488	520
Loss on write off of residual value of unrecoverable Concession Financial Assets, PP&E and Intangible assets		48,299	109,199	2	10,698
Gain on sale of investments		(197,233)	(314,659)	(197,233)	(314,659)
Adjustment for losses on investments	16		762,691		
Generation Indemnity Revenue	15	(271,607)			
Adjustment to BRR for transmission assets	15	(74,627)			
Share of loss (profit) of associates and joint ventures	16	252,240	301,844	(896,002)	(218,347)
Interest and monetary variation		801,883	741,314	(47,971)	(37,385)
Appropriation of transaction costs	21	66,856	68,401		
Gain in accounts receivable from the MG State Govt. AFAC	12	(239,445)		(239,445)	
Operating provisions	27	853,668	703,979	238,791	66,570
Derivative financial instruments - Swap		32,462			
CVA (*Portion A items Compensation*) Account and *Other financial components* in tariff adjustments	26	(988,260)	1,455,057		
Tax Amnesty Program (PRCT)	20	282,876			
Post-retirement obligation	23	(163,273)	447,155	12,697	41,944
		2,899,463	**5,477,199**	**12,602**	**(29,169)**
(Increase) / decrease in assets					
Customers and Traders		(817,615)	(55,585)		
Accounts Receivable from the State of Minas Gerais	12	46,291		46,291	
CVA and *Other financial components* in tariff adjustments	15	585,527	341,244		
Funding from Energy Development Account (CDE)		(9,594)	7,944		
Recoverable taxes		10,104	18,609	(37)	9,575

Income and Social Contribution taxes recoverable		(62,470)	(61,524)	(24,651)	37,063
Escrow deposits in litigation		(4,061)	(27,814)	(13,338)	(8,727)
Dividends received from equity holdings		354,388	682,549	834,984	1,055,007
Concession Financial assets		398,220	(1,940,907)		
Advances to suppliers		(116,045)	(119,583)		
Gas drawing rights		537,113	(192,682)		
Others		120,820	103,589	12,725	4,303
		1,042,678	**(1,244,160)**	**855,974**	**1,097,221**
Increase (reduction) in liabilities					
Suppliers		403,164	38,440	(16,269)	12,171
Taxes		(248,478)	37,685	13,124	30,511
Income tax and Social Contribution tax payable		13,623	24,466		(19,939)
Payroll and related charges		(17,650)	4,168	1,102	(412)
Regulatory charges		(72,721)	91,815		
Advances from clients		51,562			
Post-retirement obligation	23	(282,492)	(239,241)	(15,465)	(13,115)
Derivative financial instruments Options	30	(830,217)	(149,760)	(830,217)	(149,760)
Others		(356,186)	(168,865)	(6,930)	(29,857)
		(1,339,395)	(361,292)	(854,655)	(170,401)
Cash from operations		**2,602,746**	**3,871,747**	**13,921**	**897,651**
Interest paid on loans and financings		(1,796,874)	(2,369,244)		
Income tax and Social Contribution tax paid		(226,297)	(289,120)		(56,164)
NET CASH FROM OPERATIONS		**579,575**	**1,213,383**	**13,921**	**841,487**

330

Table of Contents

	Rating	Consolidated 2017	Consolidated 2016	Holding company 2017	Holding company 2016
INVESTING ACTIVITIES					
Securities Cash investments		(3,876)	1,400,556	73,621	(9,653)
Restricted cash		261,247	(367,312)	278,696	(366,435)
Investments					
Investments acquisition of equity interest	15b	(38,195)		(185,358)	
Disposal of investments		766,045	948,880	766,045	948,880
Cash contribution in Investees		(254,307)	(1,454,949)	(1,650,795)	(926,578)
In Property, plant and equipment	17	(83,066)	(119,843)		(444)
In Intangible assets		(1,033,935)	(1,020,864)	(705)	(34)
NET CASH USED IN INVESTING ACTIVITIES		(386,087)	(613,532)	(718,496)	(354,264)
FINANCING ACTIVITIES					
Subscription of shares, to be capitalized	25	1,215,223		1,215,223	
Proceeds from Loans, financings and debentures		3,308,428	5,736,776		
Borrowing costs	21	(10,971)			
Payment of loans, financings and debentures	21	(4,131,411)	(5,591,531)		
Interest on capital and dividends paid		(539,632)	(674,596)	(541,328)	(674,355)
NET CASH(USED IN) FROM FINANCING ACTIVITIES		(158,363)	(529,351)	673,895	(674,355)
Net increase in cash and cash equivalents		**35,125**	**70,500**	**(30,680)**	**(187,132)**
Cash and cash equivalents at the beginning of the year	6	995,132	924,632	69,352	256,484
Cash and cash equivalents at the end of the year	6	1,030,257	995,132	38,672	69,352

The Notes are an integral part of the Financial Statement.

331

Table of Contents

STATEMENT OF ADDED VALUE

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

R$ 000

	Consolidated		Holding company	
	2017	**2016**	**2017**	**2016**
REVENUES				
Sales of energy, gas and services	30,779,384	27,017,968	358	733
Distribution construction revenue	1,093,921	1,139,316		
Transmission construction revenue	24,827	53,824		
Gain on financial updating of the Concession Grant Fee	316,880	299,537		
Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession	2,659	7,582		
Transmission indemnity revenue	373,217	751,101		
Generation indemnity revenue	271,607			
Investments in PP&E	36,334	79,358		
Other revenues	17,106	21,574		
Estimated loss on doubtful receivables	(248,280)	(382,368)		
	32,667,655	**28,987,892**	**358**	**733**
INPUTS ACQUIRED FROM THIRD				

PARTIES								
Energy purchased for resale	(11,972,360)		(9,094,921)					
Charges for use of national grid	(1,308,928)		(1,054,333)					
Outsourced services	(1,386,258)		(1,309,061)		(18,221)		(31,263)	
Gas bought for resale	(1,070,623)		(877,118)					
Materials	(665,700)		(669,278)		(365)		(89)	
Other operational costs	(915,607)		(411,292)		(37,864)		211,319	
	(17,319,476)		**(13,416,003)**		**(56,450)**		**179,967**	
GROSS VALUE ADDED	**15,348,179**		**15,571,889**		**(56,092)**		**180,700**	
RETENTIONS								
Depreciation and amortization	(849,768)		(834,291)		(488)		(520)	
NET ADDED VALUE PRODUCED BY THE COMPANY	**14,498,411**		**14,737,598**		**(56,580)**		**180,180**	
ADDED VALUE RECEIVED BY TRANSFER								
Equity method gains in non-consolidated investees	(252,240)		(301,844)		896,002		218,347	
Financial revenues	803,713		1,080,751		114,375		112,377	
Adjustment for reduction in value of investments			(762,691)					
ADDED VALUE TO BE DISTRIBUTED	**15,049,884**		**14,753,814**		**953,797**		**510,904**	
DISTRIBUTION OF ADDED VALUE								
		%		%		%		%
Employees	**1,274,097**	**8.47**	**1,872,310**	**12.69**	**40,134**	**4.21**	**65,130**	**12.75**
Direct remuneration	1,068,094	7.10	1,177,430	7.98	20,420	2.14	18,951	3.71
Post-employment obligations and Other benefits	(73,500)	(0.49)	512,272	3.47	11,475	1.20	38,892	7.61
FGTS fund	65,932	0.44	89,689	0.61	1,679	0.18	1,964	0.38
	213,571	1.42	92,919	0.63	6,560	0.69	5,323	1.05

Employee retirement program								
Taxes	**10,800,655**	**71.77**	**9,813,465**	**66.51**	**143,704**	**15.07**	**90,873**	**17.79**
Federal	4,938,320	32.81	4,587,671	31.09	142,798	14.97	90,555	17.72
State	5,849,795	38.87	5,214,089	35.34	752	0.08	95	0.02
Municipal	12,540	0.08	11,705	0.08	154	0.02	223	0.05
Remuneration of external capital	**1,973,536**	**13.11**	**2,733,285**	**18.53**	**(230,995)**	**(24.22)**	**20,567**	**4.03**
Interest	1,864,489	12.39	2,616,066	17.74	(235,541)	(24.70)	18,184	3.56
Rentals	109,047	0.72	117,219	0.79	4,546	0.48	2,383	0.47
Remuneration of own capital	**1,001,596**	**6.65**	**334,754**	**2.27**	**1,000,954**	**104.94**	**334,334**	**65.44**
Dividends	500,477	3.33	203,986	1.38	**500,477**	52.47	203,986	39.93
Retained earnings	500,477	3.33	130,348	0.89	500,477	52.47	130,348	25.51
Non-controlling shareholders interest in Retained earnings	642		420					
	15,049,884	**100.00**	**14,753,814**	**100.00**	**953,797**	**100.00**	**510,904**	**100.00**

The Notes are an integral part of the Financial Statement.

332

NOTES TO THE FINANCIAL STATEMENT

AT DECEMBER 31, 2017 AND 2016

(In thousands of Brazilian Reais R$ 000 except where otherwise indicated)

1. OPERATING CONTEXT
b) 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 São Paulo Stock Exchange) (B3) at Corporate Governance Level 1; through ADRs 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 infrastructure used in the for generation, transformation, transmission, distribution and sale of energy, and also activities in the various fields of energy, for the purpose of commercial operation.

As of December 31, 2017 Cemig s consolidated current liabilities exceeded consolidated current assets by R$ 124,981. As of December 31, 2017, its aggregate totals of loans, financings and debentures were: R$ 2,370,551, short-term; and R$ 12,027,146, long-term. The Company had positive operational cash flows of R$ 579,575 in 2017 and R$ 1,213,383 in 2016.

Current assets of the parent company exceeded current liabilities by R$ 84,629. 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 parent company (holding company) has reported positive operational cash flow of R$ 13,921 in 2017, and R$ 841,487 in 2016.

As part of the Company indebtness management, in 2017 the subsidiary Cemig GT raised funding outside Brazil, in Eurobonds, of US$ 1 billion (R$3.2 billion) with maturity in 2024. Further, reprofiling of debt in the amount of R$ 3.4 billion was completed, comprising R$ 2.7 billion of the subsidiary Cemig D, and R$ 0.7 billion of the subsidiary Cemig GT. Together these two initiatives have balanced the Company s cash flows, extended average debt maturities, and improved credit quality.

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

Cemig Geração e Transmissão S.A. (Cemig GT or Cemig Geração e Transmissão) is the Parent Company s wholly-owned subsidiary operating in generation and transmission. It shares are listed in Brazil, but are not actively 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 interest in the following subsidiaries, jointly-controlled entities, and affiliates:

Subsidiaries, jointly-controlled entities and affiliates, of Cemig GT:

Hidrelétrica Cachoeirão S.A. (Cachoeirão) (Jointly controlled): Production and sale of energy 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. (Central Eólica Praias de Parajuru) (Jointly controlled): Production and sale of energy from a wind farm at Beberibe, in the State of Ceará, Northern Brazil.

Central Eólica Praias do Morgado S.A. (Central Eólica Praias de Morgado) (Jointly controlled): Production and sale of energy from a wind farm at Acaraú in Ceará, Northern Brazil.

Central Eólica Volta do Rio S.A. (Central Eólica Volta do Rio) (Jointly controlled): Production and sale of energy from a wind farm also at Acaraú, in the State of Ceará, Northern Brazil.

333

Table of Contents

Hidroelétrica Pipoca S.A. (Pipoca) (Jointly controlled): Independent production of energy, through construction and commercial operation of the *Pipoca* Small Hydro Plant, on the Manhuaçu River, in the counties of Caratinga and Ipanema, in the State of Minas Gerais.

Madeira Energia S.A. (Madeira) (Jointly controlled): Construction and commercial operation of the Santo Antônio hydroelectric plant, owned by its subsidiary **Santo Antônio Energia S.A.**, in the basin of the Madeira River, in the State of Rondônia.

Lightger S.A. (Lightger) (Jointly controlled): Independent power production through building and commercial operation of the *Paracambi* Small Hydro Plant, 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 entity): Listed company operating in development, construction and operation of plants generating power from renewable sources wind power, small hydro plants (SHPs), solar energy, trading of energy, and related activities.

Retiro Baixo Energética S.A. (RBE) (Jointly-controlled entity): 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.

Aliança Norte Energia Participações S.A. (Aliança Norte) (Jointly-controlled): This is a special-purpose company (SPC) created by Cemig GT (49.9% ownership) and Vale S.A. (50.1%), 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.

Amazônia Energia Participações S.A. (Amazônia Energia) (Jointly-controlled): This is a special-purpose company created by Cemig GT (74.50% ownership) and Light (25.50%), for acquisition of an interest of 9.77% 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.

Aliança Geração de Energia S.A. (Aliança) (Jointly-controlled): Unlisted corporation created by **Cemig GT** and **Vale S.A.** to become a platform for consolidation of generation assets held by the two parties in generation consortia, and investments in future generation projects. The two parties subscribed their shares in the company by transfer of their interests in the following generation assets: *Porto Estrela, Igarapava, Funil, Capim Branco I and II, Aimorés* and *Candonga*. With these assets the company has installed hydroelectric generation capacity in operation of 1,158 MW (physical offtake guarantee 652 MW average), and other generation projects. **Vale** and **Cemig GT** respectively hold 55% and 45% of the total capital.

Cemig Geração Três Marias S.A.: A corporation wholly owned by Cemig GT. Objects are production and sale of energy as public service concession holder, by commercial operation of the *Três Marias* Hydroelectric Plant, and sale and trading of energy in the Free Market. This subsidiary has installed capacity of 396 MW, and guaranteed offtake level of 239 MW average.

Cemig Geração Salto Grande S.A.: A corporation wholly owned by Cemig GT. Objects are production and sale of energy as public service concession holder, by commercial operation of the *Salto Grande* Hydroelectric Plant, and sale and trading of energy in the Free Market. This subsidiary has installed capacity of 102 MW, and guaranteed offtake level of 75 MW average.

Cemig Geração Camargos S.A.: A corporation wholly owned by Cemig GT. Objects are production and sale of energy as public service concession holder, by commercial operation of the *Camargos* Hydroelectric Plant, and sale and trading of energy in the Free Market. This subsidiary has installed capacity of 46 MW, and guaranteed offtake level of 21 MW average.

Cemig Geração Itutinga S.A.: A corporation wholly owned by Cemig GT. Objects are production and sale of energy as public service concession holder, by commercial operation of the *Itutinga* Hydroelectric Plant, and sale and trading of energy in the Free Market. This subsidiary has installed capacity of 52 MW, and guaranteed offtake level of 28 MW average.

Table of Contents

Cemig Geração Leste S.A.: Corporation wholly owned by Cemig GT. Its objects are production and sale of energy as public concession holder, by operation of the *Dona Rita, Sinceridade, Neblina, Ervália, Tronqueiras* and *Peti* Small Hydroelectric Plants, and trading in energy in the Free Market. Aggregate installed generation capacity of these plants is 35.16 MW; average offtake guarantee is 18.64 MW.

Cemig Geração Oeste S.A.: A corporation wholly owned by Cemig GT. Objects are production and sale of energy as public service concession holder, by commercial operation of the *Gafanhoto, Cajuru* and *Martins* Small Hydroelectric Plants, and sale and trading of energy in the Free Market. It has aggregate installed capacity of 28.90 MW, and aggregate offtake guarantee of 11.21 MW average.

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

Usina Hidrelétrica Itaocara S.A. (UHE Itaocara): The UHE Itaocara consortium is a jointly-controlled corporation. The Itaocara Consortium, formed by Cemig GT and Itaocara Energia (of the **Light** group), is responsible for the construction of the Itaocara I Hydroelectric Plant.

Subsidiaries and jointly-controlled entities of Cemig GT at development stage:

Guanhães Energia S.A. (Guanhães Energia) (Jointly controlled): Production and sale of energy through building and commercial operation of the following Small Hydro Plants: *Dores de Guanhães, Senhora do Porto* and *Jacaré*, in the county of Dores de Guanhães; and *Fortuna II*, in the county of Virginópolis all in Minas Gerais. Start of commercial generation is scheduled for May 2018.

Cemig Baguari Energia S.A. (Cemig Baguari) (Subsidiary): Production and sale of energy as an independent power producer in future projects.

Cemig Distribuição S.A. (Cemig D or **Cemig Distribution)** (Subsidiary): Wholly-owned subsidiary, Its shares are listed in Brazil but are not actively traded; distributes energy 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 energy 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 energy services, including generation, transmission, trading or distribution, and other related services.

Axxiom Soluções Tecnológicas S.A. (**Axxiom**) (Jointly controlled): Unlisted company, providing technology and systems solutions for operational management of public service concession holders, including companies in energy, gas, water, sewerage, and other utilities. Jointly owned by **Light** (51%) and **Cemig** (49%).

Amazônia Energia Participações S.A. (**Amazônia Energia**) (Jointly controlled): Described in the list of equity interests of **Cemig GT** above.

Renova Energia S.A. (**Renova Energia**) (Jointly controlled): Described in the list of equity interests of **Cemig GT** above.

Sá Carvalho S.A. (**Sá Carvalho**) (Subsidiary): Production and sale of energy, as a public energy 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**) (Jointly controlled): 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. (**Cemig Telecom** previously named *Empresa de Infovias* S.A.)(Subsidiary): Provision and commercial operation of a specialized telecommunications service through an integrated multi-service network comprising fiber and coaxial cables and electronic and associated equipment. CemigTelecom owns 19.6% of **Ativas Data Center** (**Ativas**) (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.

335

Table of Contents

Efficientia S.A. (Efficientia) (Subsidiary): Provides energy 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. (Horizontes) (Subsidiary): Production and sale of energy, 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. (previously named Central Termelétrica de Cogeração S.A.) (Subsidiary): Production and sale of energy as an independent power producer, in future projects.

Rosal Energia S.A. (Rosal) (Subsidiary): Production and sale of energy, as a public energy 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. (Subsidiary): Production and sale of energy as an independent power producer, in future projects.

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

UTE Barreiro S.A. (Barreiro) (Subsidiary): Production and sale of thermally generated energy, 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. (Cemig Trading) (Subsidiary): Sale and intermediation of business transactions related to energy.

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

Rio Minas Energia Participações   (RME) (Jointly controlled): Non-operational holding company of which the primary activity is management of its direct holding in **Light**.

Luce Empreendimentos e Participações (LEPSA) (Subsidiary): Non-operational holding company of which the primary activity is management of its direct holding in **Light**.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil through the Accounting Pronouncements Committee (CPC) and its technical interpretations (ICPCs) and orientations (OCPCs), which are approved by the Brazilian Securities Commission (CVM).

The Company has opted to present its individual and consolidated financial statements as a single group, since there is no difference between the values for Shareholders equity and net income, between the individual and consolidated financial statements.

The Company also takes into account the orientations provided by Technical Orientation OCPC07 in preparation of its financial statement. Material information in the financial statement is being disclosed, which is used by Management in its administration of the Company.

On March 28, 2018, the Company s Board of Directors authorized filing of the Financial Statement for the year ended December 31, 2017.

336

Table of Contents

2.2 Bases of measurement

The consolidated financial statements have been prepared based on a historical cost basis, except in the case of certain financial instruments which are measured at fair value when this is required by the rules in effect, as detailed in Note 31.

2.3 Functional currency and currency of presentation

The individual and consolidated financial statements are presented in Reais, which is the functional currency of the Company and its subsidiaries. The information is expressed in thousands of Reais (R$ 000), except when otherwise indicated.

Transactions in foreign currency, that is to say, all those that were not made in the functional currency of the Company and its subsidiaries, have been converted to the functional currency at the exchange rate of the date on which the transactions were made. Balances of monetary assets and liabilities in foreign currency are were translated to the functional currency of the Company and its subsidiaries at the exchange rates at the reporting date of the financial statement. Foreign exchange gains and losses resulting from translating assets and liabilities are recognized as financial revenues and expenses in the consolidated statement of income

2.4 Use of estimates and judgments

Preparation of the individual and consolidated financial statements 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 periodically reviewed, using as a reference to both historic experience, and any significant change in scenarios that could affect Company s financial position 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.

The principal estimates and judgments that have a signficant effect in the amounts recognized in financial statement are as follows:

- Adjustments for loss on doubtful accounts see Note 8.
- Deferred income and social contribution taxes see Note 10.
- Financial assets and liabilities of the concession see Note 15.

Investments see Note 16.

Property, plant and equipment see Note 17.

Intangible assets see Note 18.

Depreciation see Note 17.

Useful lives of assets see Note 18.

Employee post-retirement obligation See Note 23.

Provisions See Note 24.

Energy supply unbilled see Note 26.

Financial Instruments see Note 30.

Measurement at fair value Note 31.

The settlement of the transactions involving those estimates may result in amounts that are significantly difference from those recorded in the financial statement due to the uncertainty inherent to the estimation process. The Company and its subsidiaries review their estimates at least annually.

2.5 Standards issued that were effective on January 1, 2017

The following rules and changes of rules came into effect during 2017:

- Amendments to IAS 12/CPC 32 *Recognition of deferred tax assets for non-realized losses*.

- *Disclosure Initiative* (Amendments to IAS 7) Alters IAS 7/CPC 03 (R2) *Statement of cash flows*, to clarify that entities to provide disclosures that enable users of financial statement to evaluate changes in liabilities arising from financing activities.

The application of these amendments had no significant impact on the disclosures or the amounts recognized in the consolidated financial statements of the Company.

2.6 Standards issued but not yet effective on December 31, 2017

Effective starting from January 1, 2018:

Amendments to IFRS 10/CPC 36 (R3) and IAS 28/CPC 18 (R2) *Sale or contribution of assets between an investor and its associate or joint venture*: These deal with situations that involve sale or contribution of assets between an investor and its associate or joint venture.

The Company does not expect significant impact on its financial statement as a result of adoption of these amendments.

- IFRS 9/CPC 48 *Financial instruments*

This establishes that all financial activities recognized that are within the scope of IAS 39 (equivalent to CPC 38) should subsequently be measured at amortized cost or fair value, reflecting the business model in which the assets are administered, and their cash flow characteristics.

The Company and its subsidiaries made an a assessment of the potential effects of adoption IFRS 9/CPC 48 and do not expect significant impacts on their financial statement, except as to the impairment of accounts receivable from clients.

Classification and measurement

The Company and its subsidiaries expect to continue measuring at fair value all those financial assets that are currently measured at fair value. For the financial assets classified in accordance with CPC 38/IAS 39 as loans and receivables (the objective of the business model of which in accordance with CPC 48/IFRS 9 is to raise contractual cash flows, representing only payments of principal and interest) the Company and its subsidiaries have concluded that these financial instruments comply with the criteria for measurement and classification under the amortized cost. For this reason, no change in the method of measurement of these instruments is expected.

Impairment

The new pronouncement also establishes that in relation to the impairments of financial assets, the model of expectation of loss on the credit should no longer be one of losses incurred, but a prospective model of losses of expected credit, based on probabilities.

Based on the new pronouncement, provisions for expected losses will be measured based on the losses expected in the next 12 months, as a function of the potential default events, or losses of credit expected for the whole life of a financial instrument, if the credit risk has significantly increased since its initial recognition. The Company and its subsidiaries have adopted, in their analyses, a simplified approach, considering that the balances of their accounts receivable from clients do not have a significant finance component, and have calculated the expectation of loss considering the historic average of non-collection over the total billed in each month (based on the last 12 months of billing), segregated by type of consumer and projected for the next 12 months, taking into account the aging receivables, including those not yet due. The estimated loss for the past due balances of clients who renegotiated their debt has been calculated based on the maturity date of the original invoice, with the new terms negotiated not being taken into account. For the balances that are more than 12 months past due, expectation of total loss was assumed.

Table of Contents

The Company and its subsidiaries estimate that adoption of the pronouncement will have an impact, mainly, on the expected losses from their doubtful accounts. The estimated effects at January 1, 2018 arising from of IFRS 9, resulted in an increase in the provision for doubtful accounts and a corresponding effect in Equity, as follows:

R$ 000	**Jan. 1, 2018**
Customers and Traders; Transport of energy	195,396
	195,396

IFRS 15/ CPC 47 *Revenue from contracts with customers*

IFRS 15 (CPC 47 *Revenue from contracts with customers*) was issued in May 2014, and amended in April 2016, and establishes a five-step model for accounting of revenues arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount which reflects the consideration to which an entity expects to be entitled in exchange for transfering goods or services to a customer. This new pronouncement will supersede all current requirements for recognition of revenue under the CPCs/IFRS. Additionally, CPC 47/IFRS 15 establishes requirements for more detailed presentation and disclosure than the standards currently in effect.

Either a full retrospective application or a modified restrospective application is required for annual periods starting January 1, 2018. The Company and its subsidiaries plan to adopt the new standard on the date of its coming into effect based on the modified backdated application, with the effects accounted from January 1, 2018.

The Company and its subsidiaries performed a assessment application of the five steps for recognition and measurement of the revenue, as required by CPC 47/IFRS 15:

6. Identify the contracts signed with its customers;

7. Identify the performance obligations in each type of contract;

8. Determine the price of each type of transaction;

9. Allocate the price and obligations contained in the contract; and

10. Recognize the revenue when (or to the extent that) the entity satisfies each obligation of the contract.

The Company and its subsidiaries expect that there will not be material impact in the adoption of the new standard, except for reclassification of the penalties for performance indicators, from operating expenses to an account reducing revenue for availability of the energy network. Below is a detailed analysis of Revenues from contracts with customers:

a) Revenues from supply of energy, and Revenue from use of the network Captive customers

Revenues from sale of energy are recorded based on the energy delivered and the tariffs specified in the terms of the contract or in effect in the market. Revenues from retail supply of energy to final customers are recorded when the delivery has taken place. The billing is carried out monthly. Unbilled retail supply of energy, from the period between the last billing and the end of each month, is estimated based on the consumption from the previous month and is accrued for at the end of the month. The differences between the estimated amounts accrued and the acrrued revenues are recorded in the following month. Historically, these have not been significant.

Under CPC 47/IFRS 15, The Company and its subsidiaries have to recognize the revenue from a contract with a customer when the expectation of receipt is probable, taking into account the client s intention to pay. If the expectation is non-receipt, the Company and its subsidiaries are required to assess whether the related revenue will be presented net of estimated losses.

Cemig D is subject to a penalty if certain power supply continuity indicators are not met. These penalties include an obligation to reimburse clients through a discount on energy bills.

Table of Contents

Based on the provisions of the new standard, which states that revenue must be recorded net of any discount, reductions, restitutions, credits, price concessions, incentives, performance bonuses, penalties or other similar items, these reimbursements will be presented as a reduction of revenue from supply of energy, and no longer as operating expense.

Currently, these reimbursements are accounted as an operating expense and, under the new standard, they will begin to be recorded as a reduction of revenue for availability of the energy network. The Company and its subsidiaries have assessed that the amount to be reclassified is R$ 41,425 for the year ended December 31, 2017 (R$ 48,458 for the year ended December 31, 2016).

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

A significant proportion of the large industrial customers in the concession areas of Cemig D are now Free Customers energy is sold to them by the Cemig group s generation and transmission company, Cemig GT, as well as by other generators. Thus, the charges for the use of the distribution network (TUSD) of these Free customers are charged separately from the posting under this line. The charge occurs as a function of the client s power level demand, which is linked to consumption, and the fair value of the consideration is calculated according to the tariff for use of the system, which is set by Aneel.

c) Supply of gas

Revenues from the supply of gas are determined based on the volume sold and the tariffs specified in the contractual terms or terms in force in the market, and the billing is made monthly.

d) Other operating revenues

Provision of service:

We believe that the provision of service is connected to the supply of energy stipulated in the contract and the obligation of performance is the energy supplied.

Sharing of infrastructure:

Sharing of infrastructure means the joint use, by agents of the energy, telecoms or oil sectors, of facilities built to serve as a base for the provision of public services, generating shared employment of posts, towers, ducts/pipelines, urban subsoil, conduits and administrative easements.

Fixing at the point of use is the performance obligation, which is charged monthly in accordance with utilization.

e) Other revenues

The Other revenues of the Company and its subsidiaries are mainly related to the Portion A Costs Variation Offsetting Account (CVA account), energy transactions in the CCEE, transmission revenue, construction revenue, revenue from indemnity and revenue from telecommunications. The Company and its subsidiaries believe that the application of the new standard will not have a significant impact in the revenue recognition of these revenue sources.

f) Requirements for presentation and disclosure

The disclosure requirements of the new standard represent a change from the current practice, and will increase the volume of disclosures required in the consolidated financial statements of the Company and its subsidiaries. Many of the disclosure requirements are new, therefore, the Company and its subsidiaries expect that the disclosures will be expanded, even if the quantitative impact of the adoption of the new standard is not significant.

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

IFRS 16/CPC 06 (R2) *Leases* With this new rule, lessees will have to recognize the liability for future payment and a right of use of the leased asset for practically all lease contracts, including those currently classified as operating lease contracts.

The Company and its subsidiaries are currently evaluating the effects of the application of this new standar to the amounts and disclosure presented in their financial statement.

340

2.7 Summary of significant policies

The accounting policies described in detail below have been applied consistently to all the periods presented in these individual and 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

Derivative financial instruments (put options): The options to sell units in FIP Melbourne and FIP Malbec (the SAAG Put) and the options to sell shares in RME (the Parati Put) have been measured at fair value using the Black-Scholes-Merton (BSM) model. The Company and its subsidiary Cemig GT have 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 statement for the 2017 business year.

Derivative financial instruments (swap transactions): Cemig GT maintains derivative hedge instruments to mitigate its exposure to the risk of changes in exchange rates. 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 for in the Statement of income.

Share capital: The rights to minimum dividends which preferred shares are entitled to are described in Note 25 to the consolidated 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 subject to Law 12,783 (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 statement. The Company and its subsidiaries 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 grantor for the services of construction or improvement provided.

Loans and receivables: Loans and receivables include: cash equivalents, credits payable by customers and traders, and concession holders (transport of energy), tied funds, escrow deposits, concession financial assets, amounts receivable from related parties, and *CVA* credits and *Other financial components* in tariff adjustments. The Company and its subsidiaries 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 grantor for the services of construction or improvement provided.

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

b) Customers and traders; Concession holders (power transport); and Traders transactions in Free Energy

Accounts receivable from Customers, Traders, and concession holders (for transport of power) are initially recorded at the value of the energy supplied and measured at amortized cost.

The allowance for doubtful receivables, for low and medium voltage customers, is based on estimates by Management, in an amount sufficient to cover probable losses. The principal criteria set by the Company and its subsidiaries are: For customers with significant balances, the receivable balance is analyzed in light of the historical information, negotiations in progress, and provided guarantees. (ii) For other customers, the following are fully provisioned: Receivables from residential constumers that are more than 90 days past due; receivables from commercial customers that are more than 180 days past due; and receivables that are more than 360 days past due from other customers.

341

Table of Contents

For large customers an individual analysis is made in relation to each customer, including the actions in progress aiming to collect the outstanding balances.

c) Investments

The Company has investments in affiliated companies, subsidiaries and jointly-controlled entities. Control is obtained when the Company has the power to control the financial and operational policies of an entity to receive benefits from its activities. These investments are accounted for under the equity method in the individual and consolidated financial statements (in the latter case, with the exception of the subsidiary), and are, initially, recognized at fair value.

The Company s investments balance include the intangible assets representing the right to commercial operation of the regulated activity identified in the process of allocation of the price for acquisition of the jointly- controlled entities, net of any accumulated impairment.

d) Concession assets

Distribution activity: The portion of the concession assets that will be totally amortized during the concession period is recorded as an intangible asset and is completely amortized during the concession agreement period, as provided for in ICPC 01 (R1)/IFRIC 12 *Concession contracts*.

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 energy distribution activity, which are taken into consideration by the regulator during the process of tariff review.

Cemig D measures the portion of the value of the assets which will not be fully amortized by the end of the concession, 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.

Cemig D has measured the portion 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, equivalent to its fair value, having as a reference the amounts homologated by Aneel for the Asset Base for Remuneration in the processes of tariff review.

The book value of assets substituted is written down, with counterpart in the Profit and loss account, and taken into consideration by the regulator in the next tariff review cycle.

Transmission activity: Costs related to the construction of the infrastructure are posted in the Profit and loss account when they take place, and an item of Construction revenue is recorded based on the stage of completion of the work, including the taxes applicable to the revenue, and any profit margin.

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-grantor, for the new transmission concessions Cemig GT records a financial asset, during the period of construction of lines, for the transmission revenue to be received during the whole period of the concession, at fair value, as specified ICPC 01 (R1) / IFRIC 12 *Concession contracts*.

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 income statement and the portion relating to the construction revenue, originally recognized at the time of the formation of the assets, is used to write down the financial asset.

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.

342

Table of Contents

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 grantor, having already been written down on December 31, 2012, and an item in Accounts receivable having been posted corresponding to the estimated indemnity to be received in the period of eight years. The remaining portion will be received through the RAP.

Gas distribution activity: The portion of the concession assets 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.

Gasmig measures 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 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 Value, having as a reference the amounts homologated by Aneel for the Remuneration Base of Assets in the processes of tariff review. The book value of assets substituted is written down, with counterpart in the Profit and loss account, and taken into consideration by the regulator in the next tariff review cycle.

e) Intangible assets

Intangible assets comprise, mainly, the assets relating to the concession contract for services, described above, and software. They are measured at total acquisition cost, less expenses of amortization.

f) Property, plant and equipment

The goods in Property, plant and equipment are valued at the cost incurred on the date of their acquisition or formation, including deemed cost, and capitalized financial costs, less accumulated depreciation.

Depreciation is calculated on the balance of property, plant and equipment in service and investments in consortia, on a straight-line basis, using the rates that reflect the estimated useful life of the assets, for the assets related to the energy activity, limited in certain situations to the period of the concession contracts to which they refer. The main rates are shown in Note 17.

Gains and losses resulting from write off of a fixed asset are measured as the difference between the net value obtained from the sale and the asset s book value, and are recognized in the consolidated statement of income at the moment of writing down of the asset.

g) Impairment

In assessing impairment of financial assets, the Company uses historic trends of the probability of default, timing of recovery and the amounts of loss incurred, adjusted to reflect 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 historic trends.

Additionally, management review, annually, net book value of the non-financial assets, for the purpose of assessing events or changes in the economic, operational or technological circumstances that could indicate impairment. When such evidence is identified and when the book value exceeds the recoverable value, a provision is made for impairment, adjusting the net book value to the recoverable value. In this case, the recoverable value of an asset or a given cash generating unit is defined as being the greater of the value in use or the net value for sale.

On December 31, 2017 no indications were observed that the Company s material assets were posted at a value higher than their net recoverable value.

343

Table of Contents

h) Employees benefits

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 finance income (expenses), because they represent interest and monetary updating. The other expenses on the pension fund were recorded as operating expenses.

The actuarial gains and losses arising from adjustment based on experience and on changes in actuarial assumptions are recognized in Other comprehensive income.

Short-term benefits to employees: Employees profit sharing specified in the Company s by-laws are provisioned in accordance with the collective agreement established with the employee union and recorded in Employees and managers profit sharing in the consolidated statement of income.

i) Income tax and Social Contribution tax

Current

Advances, or amounts subject to offsetting, are posted in current or non-current assets, in accordance with the expected date of their realization up to the close of the current business year, in which case taxes duly calculated offset against the advances made.

Deferred

Deferred tax liabilities are recognized for all the inter-temporal tax differences. Deferred tax assets are recognized for all the temporary differences deductible to the extent that it is probable that future taxable profit will be available for the temporary differences to be offset.

Deferred income tax and Social Contribution tax assets are reviewed at reporting date, and are reduced to the extent that their realization is no longer probable.

j) Operating revenue

In general, for the business of The Company and its subsidiaries in the energy, 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.

Revenues from sale of energy are recorded based on the energy delivered and the tariffs specified in the terms of the contract or in effect in the market. Revenues from retail supply of energy to final customers are recorded when the delivery has taken place. The billing is carried out monthly. Unbilled retail supply of energy, from the period between the last billing and the end of each month, is estimated based on the contractual amounts. The differences between the estimated amounts accrued and the accrued revenues realized are recorded in the following month. Historically, these have not been significant.

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

For the transmission concessions, 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 Profit and loss account each month.

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 Profit and Loss account when the costs effectively incurred are different from those incorporated into the energy distribution tariff. For more details, see Note 15.

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 operating revenue, together with the other revenues related to the Company s end-activity of Cemig D.

k) Finance income and expenses

Finance income are principally interest income on funds invested, fee income for consumer payments made late, monetary updating of the Concession financial assets, and interest income on other financial assets. Interest income is recognized in the Profit and loss account using the effective interest method.

Finance 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 consolidated 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 Concession Financial assets, Intangible assets, and Property, plant and equipment.

345

Table of Contents

3. PRINCIPLES OF CONSOLIDATION

The dates of the financial statement of the subsidiaries and jointly-controlled entities used for the purposes of calculation of consolidation and share of (loss) profit of associates and joint ventures coincide with those of the Company. Accounting practices are applied uniformly in line with those used by the holding company.

The following companies are considered to be subsidiaries and are included in the consolidated financial statements:

Subsidiary	Form of valuation	2017 Direct interest, %	2016 Direct interest, %
Cemig Geração e Transmissão	Consolidation	100.00	100.00
Cemig Distribuição	Consolidation	100.00	100.00
Gasmig	Consolidation	99.57	99.57
CemigTelecom	Consolidation	100.00	100.00
Rosal Energia	Consolidation	100.00	100.00
Sá Carvalho	Consolidation	100.00	100.00
Horizontes Energia	Consolidation	100.00	100.00
Usina Térmica Ipatinga	Consolidation	100.00	100.00
Cemig PCH	Consolidation	100.00	100.00
Cemig Trading	Consolidation	100.00	100.00
Efficientia	Consolidation	100.00	100.00
Cemig Comercializadora de Energia Incentivada	Consolidation	100.00	100.00
UTE Barreiro	Consolidation	100.00	100.00
Empresa de Serviços e Comercialização de Energia Elétrica	Consolidation	100.00	100.00

a) Subsidiaries and jointly-controlled entities

The financial statement 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 proportional interest in assets, liabilities, and profits (losses) of consortium operations is recorded in the subsidiary that holds that interest, since these investments are considered to be joint operations in accordance with the requirements of IFRS 11.

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.

346

Table of Contents

4. CONCESSIONS AND AUTHORIZATIONS

Cemig and its subsidies hold the following concessions or authorizations:

	Company holding concession or authorization	Concession or authorization contract	Expiration date
POWER GENERATION			
Hydroelectric plants			
Emborcação	Cemig GT	07/1997	07/2025
Nova Ponte (1)	Cemig GT	07/1997	07/2025
Santa Luzia (1)	Cemig GT	07/1997	02/2026
Sá Carvalho (1)	Sá Carvalho	01/2004	12/2024
Rosal (1)	Rosal Energia	01/1997	05/2032
Machado Mineiro (1)	Horizontes Energia	Resolution 331/2002	07/2025
Salto Voltão (1)			10/2030
Salto Paraopeba (1)			10/2030
Salto do Passo Velho (1)			10/2030
PCH Pai Joaquim (1)	Cemig PCH	Authorizing Resolution 377/2005	04/2032
Irapé (1)	Cemig GT	14/2000	02/2035
Queimado (Consortium) (1)	Cemig GT	06/1997	01/2033
Salto Morais (1)	Cemig GT	02/2013	07/2020
Rio de Pedras (1)	Cemig GT	02/2013	09/2024
Luiz Dias (1)	Cemig GT	02/2013	08/2025
Poço Fundo (1)	Cemig GT	02/2013	08/2025
São Bernardo (1)	Cemig GT	02/2013	08/2025
Xicão (1)	Cemig GT	02/2013	08/2025
Três Marias (2)	Cemig Geração Três Marias S.A.	08/2016	01/2046
Salto Grande (2)	Cemig Geração Salto Grande	09/2016	01/2046
Itutinga (2)	Cemig Geração Itutinga	10/2016	01/2046
Camargos (2)	Cemig Geração Camargos	11/2016	01/2046
Coronel Domiciano, Joasal, Marmelos, Paciência e Piau (2)	Cemig Geração Sul	12/2016 and 13/2016	01/2046
Dona Rita, Ervália, Neblina, Peti, Sinceridade and Tronqueiras (2)	Cemig Geração Leste	14/2016 and 15/2016	01/2046
Cajurú, Gafanhoto and Martins (2)	Cemig Geração Oeste S.A.	16/2016	01/2046
Thermal plants			
Igarapé (1)	Cemig GT	07/1997	08/2024

POWER TRANSMISSION			
National grid (3)	Cemig GT	006/1997	07/2015
Itajubá Substation (3)	Cemig GT	79/2000	10/2030
ENERGY DISTRIBUTION (4)	Cemig D	002/1997 003/1997 004/1997 005/1997	12/2045
GAS DISTRIBUTION (4)	Gasmig	State Law 11,021/1993	01/2053

(1) Generation concession contracts that are not within the scope of ICPC 01 / IFRC 12, whose infrastructure assets are registered as PP&E since the concession grantor does not have control over whom the services are provided to, the power being sold mainly in the Free Market (ACL).

(2) Generation concession contracts, the revenue from the concession grant fees of which are within the scope of ICPC 01 / IFRIC 12, and which are classified as concession financial assets.

(3) Transmission concession contracts within the scope of ICPC 01 / IFRIC 12, within the financial asset model: The recognition of the revenue and costs of work are related to the formation of the financial asset through the expenditure incurred. The indemnifiable financial asset is identified when the infrastructure is built and is finalized and included as remuneration for the services of implementation of the infrastructure.

(4) Concession contracts that are within the scope of ICPC 01 / IFRIC 12 and whose concession infrastructure assets are recorded in accordance with the model of separation between intangible assets and financial assets.

347

Generation concessions

In the generation business, The Company and its subsidiaries sell energy:

(1) through auctions, to distributors to meet the demands of their captive markets; and

(2) to Free Customers in the Free Market (*Ambiente de Contratação Livre*, or ACL).

In the Free Market, energy is traded by the generation concession holders, small hydro plants (PCHs, or SHPs), self-producers, traders, and importers of energy.

Free Customers 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.

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 energy to supply the re-entry of Free Customers into the Regulated Market. The state-controlled generators can sell energy to Free Customers but, unlike the private generators they are obliged to do so through an auction process.

Concessions of the *Jaguara, São Simão, Miranda* and *Volta Grande* hydroelectric plants

Under Concession Contract 007/1997 the concessions of the *Jaguara, São Simão, Miranda* and *Volta Grande* hydroelectric plants, operated by the subsidiary Cemig GT, had expiration dates in August 2013, January 2015, December 2016 and February 2017, respectively.

Believing that it had the right to renewal of the concessions of the Jaguara, São Simão and Miranda plants, based on the original terms of the Concession Contract, Cemig GT filed administrative and court proceedings requiring their extension for the related renewal periods. 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 12,783/13.

As part of the court decision, in March 2017 the interim judgments that had maintained Cemig GT in possession and operation of the concession of the Jaguara and Miranda plants on the basis of the original Concession Contract 007/1997 were revoked. Cemig GT remained in control of the asset, and recognized the sales revenue from energy, and the operational costs, of these plants up to the date of the revocation of those interim judgments. From that date onward, the subsidiary 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 these plants in accordance with the regime of quotas specified by Law 12,783/13. As ordered by Mining and Energy Ministry Order 432/2015, the São Simão plant was being operated under the Quotas Regime since September 2015.

In spite of the fact that there were court proceedings still pending, involving the São Simão, Jaguara and Miranda plants, on September 27, 2017 the federal government auctioned the concessions for the São Simão, Jaguara, Miranda and Volta Grande plants. The latter had a concession contract expiry in February 2017. Together, these plants, previously belonging to Cemig GT, have total generation capacity of 2,922 MW, and the sale was made for a total of R$ 12,130,784. The parties that won these concessions are not related to Cemig.

The new concession contracts were signed on November 10, 2017, and on this date extension of the periods of Assisted Operation was formalized, maintaining Cemig GT as the party responsible for provision of energy generation service from the plants up to the following dates:

Volta Grande plant:	Until November 30, 2017
Jaguara and Miranda plants:	Until December 28, 2017
São Simão plant:	Until May 9, 2018

348

The Annual Generation Revenue (*Receita Anual de Geração*, or RAG) of these plants was recognized, in the amount of R$ 461,638, in 2017 (R$ 319,265 in 2016).

As of 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 Selic rate for federal securities, with updating revenues being recognized in the year, in the amount of R$ 271,607 (more details in Notes 15 and 26). On December 31, 2017, these updated indemnities were in the amount of R$ 1,084,346, and are recorded in Concession financial assets.

Cemig GT is discussing, with the Mining and Energy Ministry, the criteria used for deciding the amounts referred to in Ministerial Order 291/17, and also the date of payment, since that Order establishes that the payment of the indemnity must be made, by the federal government, on or before December 31, 2018, provided that there is budget and financial availability.

As of December 31, 2017, investments made after the Jaguara, São Simão and Miranda plants came into operation, in the amounts of R$ 174,203, R$ 2,920 and R$ 22,546, respectively, are classified in Concession financial assets, and the decision on the final amounts to be indemnified is in a process of discussion with Aneel. Management of Cemig GT does not expect losses in realization of these amounts.

Power 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 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 energy over long distances, in Brazil, is provided by the National Grid, a network of transmission lines and substations operating at a voltage of 230kV or higher, referred to technically as the Basic Grid (*Rede Básica*).

Any agent of the energy sector that produces or consumes energy has the right to use the Basic 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 transmission concessions, the portion of the asset that will not be amortized during the concession is recorded as a financial asset, since there is an unconditional right to receive cash or other financial assets directly from the grantor at the end of the concession agreement period.

Onerous concessions

In obtaining the concessions for construction of certain generation projects, Cemig GT 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:

Project	Percentage interest	Nominal value in 2017	Present value in 2017	Amortization period		Updating index
Irapé	100.00	32,574	13,966	03/2006	02/2035	IGP-M
Queimado (Consortium)	82.50	8,198	3,844	01/2004	12/2032	IGP-M
Salto Morais Small Hydro Plant	100.00	77	73	06/2013	07/2020	IPCA
Rio de Pedras Small Hydro Plant	100.00	588	499	06/2013	09/2024	IPCA
Various Small Hydro Plants (*)	100.00	3,237	2,692	06/2013	08/2025	IPCA

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

The concessions to be paid to the concession grantor 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 grantor in 2017, the present value and the nominal value of the portions to be paid in the forthcoming period of 12 months, are as follows:

Project	Percentage interest	Amounts paid in 2017	Present value of amounts to be paid in 12 months	Nominal value of amounts to be paid in 12 months
Irapé	100.00	1,905	1,792	1,901
Queimado (Consortium)	82.50	544	515	547
Salto Morais Small Hydro Plant	100.00	30	29	30
Rio de Pedras Small Hydro Plant	100.00	87	85	87
Various Small Hydro Plants (*)	100.00	422	412	422

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

The rates used for discounting Cemig GT s 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.

Power distribution concessions

Cemig D has the concession from Aneel for commercial operation of the activity of distribution 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 energy system.

Cemig D 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.

Table of Contents

Each year Cemig D 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 Cemig D s control to be passed through to clients for example the cost of energy 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 Cemig D 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 Cemig D s customers.

Cemig D 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 Cemig D requests an annual tariff adjustment, it becomes necessary to prove the financial impact on operations resulting from these events.

Under the distribution concession contracts, Cemig D is authorized to charge customers a tariff consisting of two components: (i) One part relating to costs of energy 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 the distribution concessions

On December 21, 2015, Cemig D signed, with the Mining and Energy Ministry, the Fifth Amendment to its concession contracts, extending its energy 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 occur on May 28 of each year, starting in 2016; for this repositioning the rules specified in the previous concession contract were to be applied. For the subsequent tariff adjustments the rules set for 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 (DECi and FECi) for two consecutive years, or for three in any five years, until the regulatory parameters are restored.

- Requirement for injections of capital from Company s equity holder 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.

The criteria of efficiency in economic and financial management are as follows:

Operational cash generation ( ) QRR[1] ( ) interest on the debt[2] ^{3} 0;

Ebitda[3] ^{3} 0 (by end of 2017, then maintained in 2018, 2019 and 2020);

[Ebitda ( ) QRR] ^{3} 0 (by end-2018, maintained in 2019 and 2020);

351

Table of Contents

{Net debt[4] / [Ebitda ( ) QRR]} £ 1 / (80% of the Selic rate) (by the end of 2019); and,

{Net debt / [Ebitda ( ) QRR]} £ 1 / (111% of the Selic rate) (by the end of 2020).

1. QRR Quota of regulatory reintegration = regulatory depreciation expense.
2. Net debt x 111% of the Selic rate.
3. Calculated according to the method defined by Aneel, contained in distribution concession contract.
4. Gross debt, less financial assets.

The criteria for efficiency in economic and financial management of Cemig D were met in the year ended December 31, 2017.

Gas distribution concessions

The concessions for distribution of natural gas are given by Brazilian states. 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 to the subsidiary Gasmig an Official Letter, SEDE/GAB/Nº303/2014 stating the timetable set for the first Tariff Review cycle. The decision process is still in progress; the latest estimated date for its completion is the beginning of the second half of 2017. These reviews occur every five years, to evaluate the changes in the costs of Gasmig, 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 was thus extended from January 10, 2023 to January 10, 2053.

5. OPERATING SEGMENTS

The operating segments of the Company and its subsidiaries reflect their management and their organizational structure, and structure for monitoring of results. They are aligned with the regulatory framework of the Brazilian energy industry, which has different legislations for the sectors of generation, distribution and transmission of electric power.

The Company also operates in the markets of gas and telecommunications, through its subsidiaries Gasmig and Cemig Telecom (see Note 1), and other businesses with less impact on the results of 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 energy sector, there is no segmentation by geographical area.

352

Table of Contents

These tables show the operating revenues, costs and expenses for 2017 and 2016 in consolidated form:

INFORMATION BY SEGMENT ON DECEMBER 31, 2017 R$ 000

	GENERATION	ENERGY TRANSMISSION	DISTRIBUTION	TELECOMS	GAS	OTHER	ELIMINATIONS	TOTAL
GMENT ASSETS	**14,365,635**	**3,954,921**	**20,021,054**	**347,344**	**2,000,287**	**1,582,372**	**(32,024)**	**42,239,5**
VESTMENT IN FILIATES AND NTLY-CONTROLLED TITIES	4,723,336	1,122,046	1,917,527			29,316		7,792,2
DITIONS TO THE GMENT	**307,794**		**1,082,877**	**46,687**	**56,619**	**778**		**1,494,7**
DITIONS TO ANCIAL ASSETS		**174,082**	**145,283**					**319,3**
T REVENUE	**7,190,105**	**776,960**	**12,312,331**	**127,291**	**1,481,990**	**111,272**	**(288,259)**	**21,711,6**
ST OF ENERGY D GAS								
rgy purchased for resale	(4,209,271)		(6,782,988)			(8)	72,791	(10,919,4
rges for use of the onal grid	(352,455)		(1,002,452)				180,984	(1,173,9
bought for resale					(1,070,623)			(1,070,6
erational costs, total	**(4,561,726)**		**(7,785,440)**		**(1,070,623)**	**(8)**	**253,775**	**(13,164,0**
ERATING COSTS D EXPENSES								
sonnel	(281,120)	(106,285)	(1,123,026)	(20,249)	(55,434)	(40,912)		(1,627,0
ployees and managers fit sharing	(1,278)	(59)	(2,657)	(380)		(266)		(4,6
t-retirement obligations	39,235	19,316	179,589			(9,480)		228,6
erials	(11,097)	(3,595)	(43,267)	(255)	(1,962)	(400)	20	(60,5
materials and inputs for luction of energy	(10,371)							(10,3
sourced services	(126,805)	(31,471)	(784,654)	(28,146)	(16,640)	(16,815)	30,574	(973,9
reciation amortization	(176,177)		(566,578)	(35,136)	(71,348)	(529)		(849,7
rating provisions ersals)	(139,285)	(10,076)	(468,857)	(1,105)	(1,975)	(232,370)		(853,6
struction costs		(24,827)	(1,044,682)		(49,240)			(1,118,7
er operating expenses, net	(117,052)	(10,712)	(408,392)	(23,201)	(14,963)	187,484	3,890	(382,9
al cost of operation	**(823,950)**	**(167,709)**	**(4,262,524)**	**(108,472)**	**(211,562)**	**(113,288)**	**34,484**	**(5,653,0**
ERATING COSTS D EXPENSES	**(5,385,676)**	**(167,709)**	**(12,047,964)**	**(108,472)**	**(1,282,185)**	**(113,296)**	**288,259**	**(18,817,0**

ERATING INCOME FORE	**1,804,429**	**609,251**	**264,367**	**18,819**	**199,805**	**(2,024)**	**2,894,6**
UITY GAINS OSSES) AND ANCIAL REVENUE PENSES)							
re of (loss) profit ssociates and joint tures, net	(519,024)	234,533	41,648	(2,295)		(7,102)	(252,2
ance income	225,856	8,968	397,277	3,059	48,400	120,153	803,7
ance expenses	(1,161,112)	(3,443)	(815,025)	(13,635)	(42,657)	235,608	(1,800,2
COME BEFORE COME TAX D SOCIAL NTRIBUTION TAXES	**350,149**	**849,309**	**(111,733)**	**5,948**	**205,548**	**346,635**	**1,645,8**
ome and Social tribution taxes	(256,648)	(188,831)	30,711	(3,274)	(71,533)	(154,685)	(644,2
T INCOME (LOSS) R THE YEAR	**93,501**	**660,478**	**(81,022)**	**2,674**	**134,015**	**191,950**	**1,001,5**
ity holders he parent	**93,501**	**660,478**	**(81,022)**	**2,674**	**133,373**	**191,950**	**1,000,9**
n-controlling interests					**642**		**6**
	93,501	**660,478**	**(81,022)**	**2,674**	**134,015**	**191,950**	**1,001,5**

353

Table of Contents

INFORMATION BY SEGMENT ON DECEMBER 31, 2016 R$ 000

	GENERATION	ENERGY TRANSMISSION	DISTRIBUTION	TELECOMS	GAS	OTHER	ELIMINATIONS	TOTAL
GMENT ASSETS	**14,414,449**	**4,267,418**	**18,165,610**	**337,745**	**2,737,182**	**2,388,972**	**(275,523)**	**42,035,8**
DITIONS TO THE GMENT	**909,459**		**1,464,313**	**162,014**	**51,806**			**2,587,5**
DITIONS TO ANCIAL ASSETS	**2,216,888**	**53,823**						**2,270,7**
VESTMENTS IN BSIDIARIES AND NTLY-CONTROLLED TITIES	**5,291,892**	**1,669,849**	**1,754,342**	**17,741**		**19,264**		**8,753,0**
T REVENUE	**5,874,926**	**1,112,853**	**10,596,503**	**125,170**	**1,180,537**	**116,210**	**(233,543)**	**18,772,6**
ST OF ENERGY AND S								
rgy purchased for resale	(3,071,153)		(5,260,411)			(3)	58,656	(8,272,9
rges for use of the onal grid	(320,917)	(336)	(759,929)				133,703	(947,4
bought for resale					(877,118)			(877,1
erating costs, total	**(3,392,070)**	**(336)**	**(6,020,340)**		**(877,118)**	**(3)**	**192,359**	**(10,097,5**
ERATING COSTS AND PENSES								
sonnel	(271,462)	(111,070)	(1,146,685)	(22,811)	(46,666)	(44,559)		(1,643,2
ployees and managers fit sharing	(585)	(208)	(9,790)	(640)		3,896		(7,3
t-retirement obligations	(54,387)	(22,647)	(230,630)			(36,895)		(344,5
erials	(11,248)	(2,845)	(41,820)	(94)	(1,858)	(122)	32	(57,9
sourced services	(129,250)	(30,354)	(673,823)	(22,997)	(15,987)	(31,881)	36,922	(867,3
reciation and amortization	(201,871)		(524,584)	(37,742)	(54,308)	(15,786)		(834,2
rating provisions ersals)	(88,144)	(9,973)	(544,090)	(4,373)		(66,571)		(713,1
struction costs		(53,824)	(1,101,966)		(37,350)			(1,193,1
er operating expenses, net	(57,492)	(12,950)	(394,628)	10,740	(7,755)	313,406	4,230	(144,4
al cost of operation	**(814,439)**	**(243,871)**	**(4,668,016)**	**(77,917)**	**(163,924)**	**121,488**	**41,184**	**(5,805,4**
ERATING COSTS AND PENSES	**(4,206,509)**	**(244,207)**	**(10,688,356)**	**(77,917)**	**(1,041,042)**	**121,485**	**233,543**	**(15,903,0**
ERATING INCOME FORE UITY GAINS (LOSSES) D FINANCIAL	**1,668,417**	**868,646**	**(91,853)**	**47,253**	**139,495**	**237,695**		**2,869,6**

VENUE (EXPENSES)							
re of (loss) profit of ociates and joint ventures,	(447,714)	362,286	(180,464)	(31,424)		(4,528)	(301,8
ustment for loss of value nvestments	(762,691)						(762,6
value result of corporate saction							
ance income	190,338	6,659	742,972	3,999	14,987	82,349	1,041,3
ance expenses	(1,320,422)	(3,773)	(1,077,899)	(9,066)	(49,112)	(18,223)	(2,478,4
COME BEFORE COME TAX AND CIAL CONTRIBUTION XES	**(672,072)**	**1,233,818**	**(607,244)**	**10,762**	**105,370**	**297,293**	**367,9**
ome and Social tribution taxes	(24,269)	4,760	102,829	(5,929)	(7,680)	(102,884)	(33,1
T INCOME (LOSS) R THE YEAR	**(696,341)**	**1,238,578**	**(504,415)**	**4,833**	**97,690**	**194,409**	**334,7**
ity holders of the parent	**(696,341)**	**1,238,578**	**(504,415)**	**4,833**	**97,270**	**194,409**	**334,3**
n-controlling interests					**420**		**4**
	(696,341)	**1,238,578**	**(504,415)**	**4,833**	**97,690**	**194,409**	**334,7**

354

Table of Contents

6. CASH AND CASH EQUIVALENTS

R$ 000	Consolidated 2017	Consolidated 2016	Holding company 2017	Holding company 2016
Bank accounts	113,495	101,419	4,645	4,414
Cash investments				
Bank certificates of deposit (CDBs) (1)	685,826	523,673	20,799	17,098
Overnight (2)	226,629	370,040	13,228	47,840
Others	4,307			
	916,762	893,713	34,027	64,938
	1,030,257	**995,132**	**38,672**	**69,352**

(3) *Bank Certificates of Deposit* (*Certificados de Depósito Bancário*, or CBDs), are remunerated at a percentage, which has varied from 50% to 106%, in 2017 (75% to 106.5% in 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). For these CDBs, the Company has repo transactions which state, on 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.

(4) *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 6.89%, in 2017 (13.64% in 2016). Their purpose is to settle the Company s short-term obligations, or be used in the purchase of other assets with better remuneration to replenish the portfolio.

7. SECURITIES

R$ 000	Consolidated 2017	Consolidated 2016	Holding company 2017	Holding company 2016
Cash investments				
Current				
Bank certificates of deposit (CDBs) (1)	2,652	46,011	144	4,238
Financial Notes (LFs) Banks (2)	303,355	728,293	17,706	94,156
Treasury Financial Notes (LFTs) (3)	739,945	192,995	43,189	24,951

Debentures (4)	10,663	45,289	2,142	9,403
Others	1,769	1,600	779	611
	1,058,384	**1,014,188**	**63,960**	**133,359**
Non-current				
Financial Notes Banks		14,134		1,820
Debentures	29,753	16,906	1,737	4,139
	29,753	**31,040**	**1,737**	**5,959**
	1,088,137	**1,045,228**	**65,697**	**139,318**

(5) *Bank Certificates of Deposit* (CBDs) are remunerated at a percentage of the CDI Rate (Interbank Rate for Interbank Certificates of Deposit) published by the Custody and Settlement Chamber (*Câmara de Custódia e Liquidação*, or Cetip). This percentage has varied from 100.25% to 105.25% in 2017 (98.5% to 111% in 2016).

(6) *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 102.01% and 112% of the CDI rate on December 31, 2017 (104.25% to 112.7% at December 31, 2016).

(7) *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.

(8) *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 from 104.25% to 161.54% of the CDI rate in 2017 (104.25% to 113% in 2016).

Note 30 gives a classification of these securities. Cash investments in securities of related parties are shown in Note 29.

355

Table of Contents

8. CUSTOMERS, TRADERS, CONCESSION HOLDERS (POWER TRANSPORT)

	Consolidated				
R$ 000	**Balances not yet due**	**Up to 90 days past due**	**More than 90 days past due**	**2017**	**2016**
Billed supply	1,309,536	698,220	680,866	2,688,622	2,568,823
Unbilled supply	993,699			993,699	919,531
Other concession holders wholesale supply	8,740	20,879	(3,977)	25,642	80,397
Other concession holders wholesale supply, **unbilled**	283,061			283,061	342,584
CCEE (Wholesale Trading Exchange)	254,603	118,702	7,845	381,150	1,432
Concession Holders power transport	75,430	4,846	78,918	159,194	124,213
Concession Holders power transport, **unbilled**	177,308			177,308	194,510
( ) Provision for doubtful receivables			(567,956)	(567,956)	(660,105)
	3,102,377	**842,647**	**195,696**	**4,140,720**	**3,571,385**
Current assets				**3,885,392**	**3,425,018**
Non-current assets				**255,328**	**146,367**

Note 30 presents the Company s exposure to credit risk related to customers and traders.

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:

R$ 000	**2017**	**2016**
Residential	160,482	244,964
Industrial	178,058	132,586
Commercial, services and others	117,438	152,297
Rural	17,334	23,764
Public authorities	11,984	9,672
Public lighting	4,740	5,392
Public services	10,187	15,408
Charges for use of the network (TUSD)	67,733	67,733
Others		8,289
	567,956	**660,105**

Changes in the allowance for doubtful receivables from 2016 to 2017 were as follows:

	R$ 000
Balance at December 31, 2015	**625,445**
Net new provisions	382,368
Write-offs	(347,708)
Balance at December 31, 2016	**660,105**
Net new provisions	248,280
Write-offs	(340,429)
Balance at December 31, 2017	**567,956**

356

Advances from clients

Cemig GT received advance payments against sale of energy from certain clients. The balances of the obligation relating to power not yet delivered are as follows:

	Consolidated R$ 000
Balance at December 31, 2016	**181,200**
Addition	324,606
Supply completed	(317,557)
Monetary updating	44,513
Balance at December 31, 2017	**232,762**

The advances will be updated, until the moment of actual delivery of the power supply by Cemig GT, in the following terms:

	2017				
Counterparty	**Specified period for billing**	**Index for updating of prepaid amounts**	**MWh deliverable**	**Balance at 2017 R$ 000**	**Balance at 2016 R$ 000**
BTG Pactual	Jan. 2018	1.57% p.m.	137,461	17,287	181,200
BTG Pactual	Jan. 2018	1.2% p.m.	171,864	25,633	
Deal Comercializadora	Jan. 2018	1.2% p.m.	5,208	772	
White Martins Gases Industriais Ltda.	Feb. 2018 to Mar. 2019	124% of CDI	333,887	147,066	
White Martins Gases Industriais Ltda. (1)	Feb. 2018 to Jul. 2019	124% of CDI		42,004	
				232,762	**181,200**

(1) Contracts signed with Cemig D, relating to the billing of Contract for Use of the Distribution System (CUSD), containing the components: transport, losses and charges.

Revenue from advances on sales of power supply is recognized only in the Profit and loss account when the supply is actually delivered.

357

Table of Contents

9. RECOVERABLE TAXES

R$ 000	Consolidated 2017	2016	Holding company 2017	2016
Current				
ICMS (VAT)	71,430	155,306		
PIS and Pasep	12,130	12,480	6	
Cofins	56,023	57,634	37	
Others	34,207	10,864		
	173,790	**236,284**	**43**	
Non-current				
ICMS (VAT)	224,752	170,551		
PIS and Pasep	569	914	2	4
Cofins	3,131	4,597	12	16
Others	2,226	2,226	1,796	1,796
	230,678	**178,288**	**1,810**	**1,816**
	404,468	**414,572**	**1,853**	**1,816**

The ICMS (VAT) credits that are reported in Non-current assets arise from acquisitions of property, plant and equipment, and intangible assets, and can be offset against taxes payable in 48 months.

Credits of PIS, Pasep and Cofins generated by new acquisitions of machinery and equipment are offset immediately, in accordance with Law 11,774/08. The transfer to non-current was made in accordance with management s best estimate of the amounts which will likely be realized up to December 2018.

10. INCOME AND SOCIAL CONTRIBUTION TAXES

b) 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 2017	2016	Holding company 2017	2016

Current				
Income tax	223,539	436,167	19,124	78,174
Social contribution tax	116,035	153,352	598	
	339,574	**589,519**	**19,722**	**78,174**
Non-current				
Income tax	6,685	98,132	6,685	98,132
Social contribution tax	13,932	13,928	13,932	13,928
	20,617	**112,060**	**20,617**	**112,060**
	360,191	**701,579**	**43,339**	**190,234**

358

Table of Contents

c) Deferred income tax and Social Contribution tax

The Company and its subsidiaries have tax credits for income tax and the Social Contribution tax, arising from balances of tax losses, negative base for the Social Contribution tax, and temporary differences, at the rates of 25% (for Income tax) and 9% (for the Social Contribution tax), as follows:

	Consolidated		Holding company	
R$ 000	**2017**	**2016**	**2017**	**2016**
Deferred tax assets				
Tax loss carryforwards	523,595	290,272	165,235	202,797
Provisions	1,092,557	1,027,279	527,166	547,277
Post-retirement obligations	1,179,257	1,175,074	144,176	121,973
Estimated provision for doubtful receivables	207,415	228,801	7,775	7,192
Taxes with suspended liability	14,093	201,711		
Paid concession	8,227	8,262		
Adjustment to fair value: Swap/loss	12,923			
Others	14,212	22,096		190
Total	**3,052,279**	**2,953,495**	**844,352**	**879,429**
Deferred tax liabilities				
Funding cost	(31,115)	(44,835)		
Deemed cost	(275,543)	(268,009)		
Cost of acquisition of equity interests	(463,573)	(481,488)	(87,613)	(90,111)
Borrowing costs capitalized	(165,582)	(148,559)		
Taxes on revenues not redeemed Presumed Profit accounting method	(785)	(1,549)		
Transmission assets: Indemnity gain	(937,485)	(516,985)		
Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession		(270,553)		
Others	(41,657)	(6,270)		
Total	**(1,915,740)**	**(1,738,248)**	**(87,613)**	**(90,111)**
Total, net	**1,136,539**	**1,215,247**	**756,739**	**789,318**
Total assets	**1,871,228**	**1,797,453**	**756,739**	**789,318**
Total liabilities	**(734,689)**	**(582,206)**		

The changes in deferred income and Social Contribution taxes were as follows:

R$ 000	Consolidated	Holding company
(2) Balance at December 31, 2015	**809,232**	**778,120**
(3) Effects allocated to Profit and loss account	140,660	(11,053)
(4) Effects allocated to Statement of comprehensive income	265,283	22,251
(5) Variations in deferred tax assets and liabilities	72	
(6) Balance at December 31, 2016	**1,215,247**	**789,318**
(7) Effects allocated to Profit and loss account	(197,912)	(54,611)
(8) Effects allocated to Statement of comprehensive income	132,781	22,032
(9) Variations in deferred tax assets and liabilities	(13,577)	
Balance at December 31, 2017	**1,136,539**	**756,739**

At its meeting on March 28, 2018, the Board of Directors approved a technical study prepared by the Finance Department, on the forecasts for the Company s future taxable profits. This study was also submitted to examination by the Fiscal Council on March 28, 2018.

359

Table of Contents

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 the benefits of these items. The utilization of tax loss and negative tax-balance carryforwards is limited to 30% of the tax net income in each business year.

According to the individual estimates of the Company and its subsidiaries, the future taxable profits enable the Deferred tax asset existing on December 31, 2017 to be realized, as follows:

R$ 000	**Consolidated**	**Holding company**
(10)2018	420,670	121,429
(11)2019	477,281	134,576
(12)2020	476,326	139,320
(13)2021	452,182	123,948
(14)2022	465,267	141,602
(15)2023 2025	493,027	143,682
(16)2026 2027	267,526	39,795
	3,052,279	**844,352**

d) 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:

	Consolidated		**Holding company**	
R$ 000	**2017**	**2016**	**2017**	**2016**
Profit before income and Social Contribution taxes	**1,645,856**	**367,927**	**1,141,275**	**421,490**
Income tax and Social Contribution tax nominal expense	(559,591)	(125,095)	(388,034)	(143,307)
Tax effects applicable to:				
Gain (loss) in subsidiaries by equity method (net of effects of Interest on Equity)	(128,769)	(132,192)	279,329	(88,332)
Interest on Equity		129,200		129,200
Gain on dilution of an equity interest	7,686			
Deduction Intangible assets of concession amortized capital gain Taesa		20,233		20,233
Non-deductible contributions and donations	(6,118)	(3,867)	(592)	(684)
Tax incentives	10,534	2,831	2,028	2,345
Provision for voluntary retirement program	242		242	

Tax credits not recognized		4,523		
Difference between Presumed Profit and Real Profit	80,750	126,304		
Non-deductible penalties	(13,559)	(15,775)	(11)	(19)
Excess reactive power and demand	(2,030)	(12,369)		
Write-down of part of estimated losses for doubtful debtors		(21,581)		
Others	(33,405)	(5,385)	(33,283)	(6,592)
Income tax and Social Contribution effective gain (expense)	**(644,260)**	**(33,173)**	**(140,321)**	**(87,156)**
Current tax	(446,348)	(173,833)	(85,710)	(76,103)
Deferred tax	(197,912)	140,660	(54,611)	(11,053)
	(644,260)	**(33,173)**	**(140,321)**	**(87,156)**
Effective rate	**(37.80%)**	**(9.02%)**	**(12.12%)**	**(20.68%)**

11. RESTRICTED CASH

The total recorded as Restricted cash, R$ 106,227 in the Consolidated accounts and R$ 87,872 in the Holding company accounts, refers mainly to the amount deposited with a financial institution, in accordance with the shareholders agreement of jointly controlled RME, as a guarantee for settlement of the options to sell an interest in that company.

360

Table of Contents

12. ACCOUNTS RECEIVABLE FROM THE STATE OF MINAS GERAIS

As disclosed in Note 24, during 2017 the Company s management held negotiations with the government of the State of Minas Gerais, and obtained the approvals requested by its governance bodies to sign a Debt Recognition Agreement with Minas Gerais State, through its Tax Office. In the agreement, signed on October 25, 2017, the State undertook to return to the Company the total amount deposited, after monetary updating by the IGP-M index, in relation to the administrative dispute on the criterion to be used for updating of the amounts passed through by the State government as an advance for future capital increase in the previous year.

The Debt Recognition Undertaking signed between the parties specifies return by Minas Gerais State of R$ 281,309, of which R$ 239,445 relates to the historical amount of the deposit, and R$ 41,864 relates to its monetary updating to December 31, 2017, paid in 12 consecutive monthly installments, each updated by the IGP M index up to the date of actual payment, the first becoming on November 10, 2017. Further, Clause 3 of the Undertaking states 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. Up to December 31, 2017, a total of R$ 46,291 had been received, and a balance receivable of R$ 235,018 remained.

13. ESCROW DEPOSITS

These deposits are mainly for legal actions relating to labor and tax obligations contingencies.

The most important escrow deposits refer to tax disputes, mainly on the Pasep and Cofins taxes in actions seeking exclude the ICMS (VAT) tax amount from the total taxable amount on which the Pasep and Cofins taxes are charged.

	Consolidated		Holding company	
R$ 000	**2017**	**2016**	**2017**	**2016**
Labor claims	**303,699**	**259,415**	**35,270**	**31,231**
Tax contingencies				
Income tax on Interest on Equity	26,861	24,130	244	510
Pasep and Cofins taxes (1)	1,337,086	746,340		
ICMS (VAT) credits on PP&E		36,657		
Donations and legacy tax (ITCD)	48,981	45,620	48,541	45,181
Urban property tax (IPTU)	79,505	80,345	68,675	65,694
Finsocial tax	37,170	37,399	37,170	37,399
Income and Social Contr. Tax on indemnity for employees Anuênio benefit	267,432	255,127	12,853	12,262
Others	116,585	59,247	31,252	28,702
	1,913,620	**1,284,865**	**198,735**	**189,748**
Others				

Monetary updating on AFAC	Minas Gerais state government (3)		239,445		239,445
Regulatory		60,243	60,227	29,589	27,374
Third party		16,094	13,484	5,811	6,015
Consumer relations		6,204	5,598	1,561	1,548
Court embargo		14,358	7,877	5,515	3,118
Others		21,414	15,968	1,310	1,389
		118,313	**342,599**	**43,786**	**278,889**
		2,335,632	**1,886,879**	**277,791**	**499,868**

(1) The escrow deposits relating to Pasep and Cofins taxes refer to the case challenging the constitutionality of inclusion of the ICMS (VAT), which *has been* charged, *within* the amount on which the Pasep and Cofins taxes are calculated. See more details in Note 20.

(2) See more details in Note 24 *Provisions* under the section relating to the *Anuênio* .

(3) Administrative deposit in the 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 for Future Capital Increase (*Adiantamento contra Futuro Aumento de Capital*, or AFAC). For more details please see Notes 12 and 24.

361

Table of Contents

14. REIMBURSEMENT OF TARIFF SUBSIDIES

Subsidies were given on tariffs charged to users of distribution services, to be reimbursed to distributors by payments of funds from the Energy Development Account (CDE).

In 2017, the amount appropriated as incoming subsidies was R$ 841,767 (R$ 791,609 in 2016). Of the amount provisioned, Cemig D has R$ 73,345 receivable (R$ 63,751 in 2016), this is recognized in Current assets.

15. CONCESSION FINANCIAL ASSETS AND LIABILITIES

Consolidated R$ 000	**2017**	**2016**
Assets related to infrastructure (1)		
Distribution concessions	369,762	216,107
Transmission concessions (1.2)	547,800	482,281
Indemnity receivable Transmission (1.1)	1,928,038	1,805,230
Indemnity receivable Generation (1.3)	1,900,757	546,624
Concession grant fee Generation concessions (1.4)	2,337,135	2,253,765
	7,083,492	**5,304,007**
CVA (Portion A Compensation) Account and *Other Financial Components* in tariff adjustments (2)	369,010	397,725
Total	**7,452,502**	**5,701,732**
Current assets	**847,877**	**730,488**
Non-current assets	**6,604,625**	**4,971,244**

Financial liabilities of the concession consolidated R$ 000	**2017**	**2016**
CVA (Portion A Compensation) Account and *Other Financial Components* in tariff adjustments (2)	414,800	804,975
Current liabilities	**414,800**	**481,835**
Non-current liabilities		**323,140**

The changes in Concession financial assets related to infrastructure are as follows:

R$ 000	**Transmission**	**Generation**	**Distribution**	**Consolidated**
Balances at December 31, 2015	**1,501,441**	**546,424**	**135,983**	**2,183,848**
Additions	53,823	534		54,357

Addition Grant Fee Plants		2,216,353		2,216,353
Disposals	(2,943)	(334)	(349)	(3,626)
Amounts received	(15,482)	(314,321)		(329,803)
Transfers between PP&E, Financial assets and Intangible Assets	(429)		72,891	72,462
Updating of the Concession Grant Fee		351,733		351,733
Adjustment of expectation of cash flow from the Concession financial assets			7,582	7,582
Monetary updating	751,101			751,101
Balances at December 31, 2016	**2,287,511**	**2,800,389**	**216,107**	**5,304,007**
Additions	24,827			24,827
Transfers of indemnity plants not renewed		1,082,526		1,082,526
Amounts received	(264,164)	(233,511)		(497,675)
Transfers between PP&E, Financial assets and Intangible assets	1,830		145,283	147,113
Monetary updating	223,962	316,881		540,843
Adjustment of expectation of cash flow from the Concession financial assets	54,358		8,587	62,945
Disposals	(1,741)		(215)	(1,956)
Adjustment of BRR of Transmission Assets (Note 26)	149,255			149,255
Adjustment on indemnities of plants not renewed (Ministerial Order 291) including financial updating		271,607		271,607
Balances at December 31, 2017	**2,475,838**	**4,237,892**	**369,762**	**7,083,492**

362

3) Assets related to infrastructure

The energy distribution and transmission 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 grantor, during the period and at the end of the concessions, as specified in the regulations of the energy sector and in the concession contracts signed by Cemig and its subsidiaries with the related concession grantors.

1.4) Transmission Indemnity receivable

Cemig GT s transmission concession contracts are within the criteria for application of Technical Interpretation ICPC 01 (IFRIC 12), which deals with accounting of concession contracts, and refer to invested infrastructure that will be the subject of indemnity by the Concession grantor during and at the end of their concession periods, as laid down in the regulations for the energy sector, and in the concession contract.

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 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 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).

On August 16, 2016 Aneel, by its Dispatch 2,181, 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. This was recorded as a financial asset, with specific maturity and interest rate, in accordance with its characteristics.

The amount of indemnity to be received, updated to December 31, 2017, in the amount of R$ 1,928,038, corresponds to the following credits:

Portions of remuneration and depreciation not paid since the extensions of concessions

The portions of remuneration and depreciation not paid since the extensions of the concessions, up to the tariff process of 2017, in the amount of R$ 992,802, are to be updated by the IPCA (Expanded National Consumer Price) inflation index, and remunerated at the weighted average cost of capital of the transmission industry as defined by Aneel in the methodologies for periodic tariff review of revenues of concession holders, to be paid over a period of eight years, in the form of reimbursement through the RAP (for more details see Note 26(g)).

Indemnity of transmission assets injunction awarded to industrial customers

On April 10, 2017, an interim court remedy was granted to the Brazilian Large Free Customers 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 Silicio 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 energy sector who accepted the terms of Law 12,783/2013.

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 at cost of capital included since the date of extension of the concessions   this amounts to R$ 316,138 at December 31, 2017.

363

Complying with the court decision, Aneel, in its Technical Note 183/201-SGT/ANEEL of June 22, 2017, presented the new calculation, excluding the amounts that refer to the cost of own capital. Cemig GT believes that this is a provisional decision, and that its right to receive the amount referring to the assets of the basic national grid system (*Rede Básica Sistema Elétrico*, or RBSE) is guaranteed by law, so that no adjustment to the amount posted at December 31, 2017 is necessary.

Adjustment of BRR of the Transmission Assets Aneel Technical Note 183/2017

In the tariff review processes of Cemig GT, ratified on June 23, 2009 (with effects since July 1, 2005) and on June 8, 2010 (with effects backdated to July 1, 2009), the benefit of addition of certain conducting cables, which have been the subject of an application by Cemig GT, was not included in the tariff calculation. Cemig GT applied for inclusion of these assets in the Remuneration Assets Base and, consequently, for reconsidering the amounts not included 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 in the Remuneration Assets Base 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 in 12 months, via RAP. At December 31, 2017, the amount receivable was R$ 74,627.

Remaining balance to be received through RAP

The remaining balance, of R$ 544,471, was incorporated into the regulatory remuneration base of assets, and is being recovered via RAP.

Cemig GT expects to receive in full the credits receivable in relation to the indemnity for the transmission assets, whose changes are as follows:

	R$ 000
Regulatory Remuneration Base (BRR) Dispatch 2,181 of 2016	1,177,488
Amount of the indemnity received	(285,438)
Net value of the assets for purposes of indemnity	**892,050**
Updating per MME Order 120/16 IPCA index / Cost of own capital Jan. 2013 to Dec. 2016	913,180
Balance at December 31, 2016	**1,805,230**
Adjustment of the BRR of Transmission Assets Aneel Technical Note 183/2017	149,255
Updating per MME Order 120/16 IPCA index / Cost of own capital Jan. 2013 to June 2017	120,600
Monetary updating	103,362
Amounts received	(250,409)
Total at December 31, 2017	**1,928,038**

1.5) Transmission Assets remunerated by tariff

For new assets related to 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*, 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 since the date of start of commercial operation. At December 31, 2017, the amount receivable by the subsidiary Cemig GT is R$ 547,800.

364

Table of Contents

1.6) Generation Indemnity receivable

Plants operated under the Quotas regime as from January 1, 2016

As from August 2013, there were expiry dates of the concessions for various plants operated by Cemig GT under Concession Contract 007/1997. As from the termination of the concession, Cemig GT held the right to indemnity of the assets not yet amortized, as specified in that concession contract. The accounting balances corresponding to these assets, including the deemed cost, are recognized as financial assets. Their total at December 31, 2017 was R$ 816,411 (R$ 546,624 on December 31, 2016).

Generation plant	Concession expiration date	Installed capacity (MW)	Net balance of assets based on historic cost R$ 000	Net balance of assets based on deemed cost R$ 000
Lot D:				
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
Others:				
Volta Grande Hydroelectric Plant	Feb. 2017	380	25,621	70,118
Miranda Hydroelectric Plant	Dec. 2016	408	26,710	22,546
Jaguara Hydroelectric Plant	Aug. 2013	424	40,452	174,203
São Simão Hydroelectric Plant	Jan. 2015	1,710	2,258	2,920
		3,601.70	**204,041**	**816,411**

As specified in Aneel Normative Resolution 615/2014, the valuation report of indemnity for the plants, previously operated by Cemig GT, that were included in Lot D and for the *Volta Grande* plant have been delivered to Aneel. The Company and its subsidiaries do not expect losses on realization of these assets.

On December 31, 2017, investments made after the *Jaguara, São Simão* and *Miranda* plants came into operation, in the amounts of R$ 174,203, R$ 2,920 and R$ 22,546 respectively, are classified as Concession financial assets, and the decision on the final amounts to be indemnified is in a process of discussion with Aneel. Management of the Company and its subsidiaries do not expect losses in realization of these amounts.

365

Table of Contents

Miranda *and* São Simão *plants*

The amounts of the basic project of the plants were transferred to the account Indemnities receivable, and updated in monetary terms in accordance with Mining and Energy Ministry Order 291, of August 3, 2017, as shown below (R$ 000):

Plant	Concession termination date	Net balance of assets on 2017 based on historical cost, R$ 000	Net balance of assets on 2017 based on deemed cost, R$ 000	Net balance of assets of basic plan, based on Deemed Cost at December 31, 2017 (A)	Adjustment (1) (B)	Amounts based on MME Order 291 (A)+(B)	Monetary updating (C)	Net balance of assets of basic project, at 2017 (A)+(B)+(C)
Miranda	Dec. 2016	750,844	632,541	609,995	174,157	784,152	25,373	809,525
São Simão	Jan. 2015	62,746	205,664	202,744	40,855	243,599	31,222	274,821
		813,590	**838,205**	**812,739**	**215,012**	**1,027,751**	**56,595**	**1,084,346**

(1) Adjustment of the non-amortized balance of the concessions of the São Simão and Miranda plant, as per MME Order 291/17, which together with updating of R$ 56,595 corresponds to a total adjustment of R$ 271,607.
Further details are in Note 4.

1.3) Concession grant fee Generation concessions
In June 2016, the 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 entities (SPEs), wholly-owned subsidiaries of Cemig GT, as follows (R$ 000):

SPE	Plants R$ 000	Balance at 2016	Monetary updating	Amounts received	Balance at 2017
Cemig Geração Três Marias S.A.	Três Marias	1,283,197	172,402	(125,465)	1,330,134
Cemig Geração Salto Grande S.A.	Salto Grande	402,639	54,322	(39,568)	417,393
Cemig Geração Itutinga S.A.	Itutinga	149,904	22,512	(16,822)	155,594
	Camargos	112,447	16,786	(12,523)	116,710

Cemig Geração Camargos S.A.					
Cemig Geração Sul S.A.	Coronel Domiciano, Joasal, Marmelos, Paciência, Piau	146,553	23,237	(17,620)	152,170
Cemig Geração Leste S.A.	Dona Rita, Ervália, Neblina, Peti, Sinceridade, Tronqueiras	99,315	17,198	(13,380)	103,133
Cemig Geração Oeste S.A.	Cajurú, Gafanhoto, Martins	59,710	10,424	(8,133)	62,001
Total		**2,253,765**	**316,881**	**(233,511)**	**2,337,135**

SPE	**Plants R$ 000**	**Balances transferred on May 31, 2015**	**Monetary updating**	**Amounts received**	**Balance at 2016**
Cemig Geração Três Marias S.A.	Três Marias	1,260,400	191,681	(168,884)	1,283,197
Cemig Geração Salto Grande S.A.	Salto Grande	395,523	60,377	(53,261)	402,639
Cemig Geração Itutinga S.A.	Itutinga	147,662	24,886	(22,644)	149,904
Cemig Geração Camargos S.A.	Camargos	110,746	18,558	(16,857)	112,447
Cemig Geração Sul S.A.	Coronel Domiciano, Joasal, Marmelos, Paciência, Piau	144,603	25,668	(23,718)	146,553
Cemig Geração Leste S.A.	Dona Rita, Ervália, Neblina, Peti, Sinceridade. Tronqueiras	98,301	19,024	(18,010)	99,315
Cemig Geração Oeste S.A.	Cajurú, Gafanhoto, Martins	59,118	11,539	(10,947)	59,710
Total		**2,216,353**	**351,733**	**(314,321)**	**2,253,765**

366

Table of Contents

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 updated 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 the energy produced by these plants was sold in the Regulated Market and 30% in the Free Market.

4) Account for compensation of variation of portion A items (CVA) and Other financial comand 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 grantor in the total of the indemnity. The balances on (i) the CVA (*Compensation for Variation of Portion A items*) Account, (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 Company s non-manageable costs and the payments actually made.

The variations are 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 financial statement the balances of each line are presented at net value, in assets or liabilities, in accordance with the tariff adjustments approved or to be approved:

	2017			2016		
Balance sheet R$ 000	**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**
Assets	**381,588**	**2,330,978**	**2,712,566**	**1,443,964**	**924,914**	**2,368,878**
Current assets	381,588	1,379,162	1,760,750	1,443,964	547,241	1,991,205
Non-current assets		951,816	951,816		377,673	377,673
Liabilities	**(796,388)**	**(1,961,968)**	**(2,758,356)**	**(1,046,239)**	**(1,729,889)**	**(2,776,128)**
Current liabilities	(796,388)	(1,220,637)	(2,017,025)	(1,046,239)	(1,029,076)	(2,075,315)
Non-current liabilities		(741,331)	(741,331)		(700,813)	(700,813)
Total current, net	(414,800)	158,525	(256,275)	397,725	(481,835)	(84,110)

Total non-current, net		210,485	210,485		(323,140)	(323,140)
Total, net	**(414,800)**	**369,010**	**(45,790)**	**397,725**	**(804,975)**	**(407,250)**

367

Table of Contents

	2017			2016		
Financial components R$ '000	**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**
Items of Portion A						
Energy Development Account (CDE) quota	(154,234)	(89,414)	(243,648)	202,801	(244,840)	(42,039)
Tariff for use of transmission facilities of grid participants	9,058	23,448	32,506	1,923	8,103	10,026
Tariff for transport of Itaipu supply	2,332	1,306	3,638	5,254	3,926	9,180
Alternative power source program (Proinfa)	(5,148)	1,513	(3,635)	13,080	4,247	17,327
ESS/EER System Service/Energy Charges (1)	(40,105)	(586,413)	(626,518)	(54,989)	(189,063)	(244,052)
Energy bought for resale (2)	(90,616)	1,326,263	1,235,647	422,852	(78,922)	343,930
Other financial components						
Overcontracting of supply	8,357	(211,337)	(202,980)	(104,671)	(55,834)	(160,505)
Neutrality of Portion A	(30,581)	74,076	43,495	78,254	(76,367)	1,887
Other financial items	(111,825)		(111,825)	(166,779)	(162,614)	(329,393)
Tariff Flag balances (3)		(134,008)	(134,008)		(13,611)	(13,611)
Excess demand and reactive power (4)	(2,038)	(36,424)	(38,462)			
TOTAL	**(414,800)**	**369,010**	**(45,790)**	**397,725**	**(804,975)**	**(407,250)**

(1) Due to the great increase in the costs of hydrology risk, as from July 2017, Aneel changed the rules for pass-through of the excess on the Energy Reserve Account (*Conta de Energia de Reserva*, or Coner), to relieve the cash pressure of the distributors. Cemig D received approximately R$ 254,000 from Coner, not included in the tariff coverage, directly impacting the CVA amount of the ESS/EER to be returned to the consumer.

(2) Due to unfavorable hydrology condition since July 2017, there has been less hydroelectric generation and as a result 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 (Regulated Market) contracts with thermal plants, and higher hydrology 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 hydrology 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 December 31, 2017.

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

(4) Under 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.

368

Table of Contents

Changes in balances of financial assets and liabilities:

	R$ 000
Balance on December 31, 2015	**1,349,656**
( ) Net constitution of financial liabilities	(858,003)
( ) Amortization	(597,054)
( ) Payments from the Flag Tariff Centralizing Account	(341,244)
( ) Transfer (1)	(164,957)
(+) Updating Selic rate (2)	204,352
Balance at December 31, 2016	**(407,250)**
( ) Net constitution of financial assets	810,634
( ) Amortization	177,626
( ) Payments from the Flag Tariff Centralizing Account	(585,527)
(+) Updating Selic rate (2)	(41,273)
Balance on December 31, 2017	**(45,790)**

(1) The financial component constituted to be passed through to the tariff at the next tariff adjustment, arising from court decisions (injunctions/provisional remedy) in court 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, as per a Dispatch issued by Aneel in 2016.

(2) Include a complementary amount relating to homologation of the CVA by Aneel which took place in May 2016.

Payments from the Flag Tariff 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 are 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 difference between the realized amounts of costs of thermal generation and the exposure to short term market prices, and the amount covered by the tariff in force.

Pass-throughs of funds from the Flag Account in 2017 totaled R$ 585,527 (R$ 341,244 in 2016) and were recognized as a partial realization of the CVA receivable previously constituted.

The amount referred to above includes the receipt of the Flag tariff amounts for December 2016, totaling R$ 2,406, which was posted in sector Financial liabilities only in January 2017 when approved by Aneel. The remaining balance of R$ 583,121 refers to the period January through November 2017.

369

Table of Contents

16. INVESTMENTS

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

		Consolidated		Holding company	
R$ 000	**Control**	**2017**	**2016**	**2017**	**2016**
Cemig Geração e Transmissão	Subsidiary			4,793,832	4,583,195
Hidrelétrica Cachoeirão	Jointly-controlled	57,957	50,411		
Guanhães Energia	Jointly-controlled	25,018			
Hidrelétrica Pipoca	Jointly-controlled	26,023	31,809		
Retiro Baixo	Jointly-controlled	157,773	161,848		
Aliança Norte (Belo Monte plant)	Jointly-controlled	576,704	527,498		
Madeira Energia (Santo Antônio plant)	Affiliated	534,761	643,890		
FIP Melbourne (Santo Antônio plant)	Affiliated	582,504	677,182		
Lightger	Jointly-controlled	40,832	41,543		
Baguari Energia	Jointly-controlled	148,422	162,106		
Renova	Jointly-controlled	282,524	688,625		
Aliança Geração	Jointly-controlled	1,242,170	1,319,055		
Central Eólica Praias de Parajuru	Jointly-controlled	60,101	63,307		
Central Eólica Volta do Rio	Jointly-controlled	67,725	81,228		
Central Eólica Praias de Morgado	Jointly-controlled	50,569	59,586		
Amazônia Energia (Belo Monte Plant)	Jointly-controlled	866,554	781,022		
Usina Hidrelétrica Itaocara S.A.	Jointly-controlled	3,699	2,782		
Cemig Distribuição	Subsidiary			3,737,310	2,499,867
Light	Jointly-controlled	1,534,294	1,070,477	1,083,140	1,070,477
Taesa	Jointly-controlled	1,101,462	1,582,633	1,101,462	1,582,633
CemigTelecom	Subsidiary			247,313	191,515
Ativas Data Center	Affiliated	17,450	17,741		
Gasmig	Subsidiary			1,418,271	1,419,492
Rosal Energia	Subsidiary			106,897	141,038
Sá Carvalho	Subsidiary			102,536	106,111
Horizontes Energia	Subsidiary			53,165	52,396
Usina Térmica Ipatinga	Subsidiary			4,932	4,009
Cemig PCH	Subsidiary			96,944	91,969
LEPSA (1)	Subsidiary		343,802	455,861	343,802
RME	Jointly-controlled	383,233	340,063	383,233	340,063
Companhia Transleste de Transmissão	Jointly-controlled		21,588		21,588
UTE Barreiro	Subsidiary			17,982	39,266
Companhia Transudeste de Transmissão	Jointly-controlled		20,505		20,505
Empresa de Comercialização de Energia Elétrica	Subsidiary			18,403	20,154

Companhia Transirapé de Transmissão	Jointly-controlled		23,952		23,952
Efficientia	Subsidiary			7,084	4,868
Cemig Comercializadora de Energia Incentivada	Subsidiary			2,004	1,867
Companhia de Transmissão Centroeste de Minas	Jointly-controlled	20,584	21,171	20,584	21,171
Cemig Trading	Subsidiary			29,206	28,635
Axxiom Soluções Tecnológicas	Jointly-controlled	11,866	19,264	11,866	19,264
Cemig Overseas	Subsidiary			158	20
Total of investments		**7,792,225**	**8,753,088**	**13,692,183**	**12,627,857**
Guanhães Uncovered liabilities of jointly-controlled entity	Jointly-controlled		(59,071)		
Total		**7,792,225**	**8,694,017**	**13,692,183**	**12,627,857**

(1) On November 2017, the Company acquired all the shares of Lepsa, and therefore as from that date now consolidates that company in its financial statement. Lepsa s sole assets are common and preferred shares in Light. Hence the Company no longer presents the investment that it previously held in Lepsa in its consolidated statement, presenting only the interest in Light.

(2) Cemig Overseas: formed in Spain for assessment of investment opportunities outside Brazil. It had no operational activity at December 31, 2017.

370

Table of Contents

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 interests held (by Cemig GT and Cemig Telecom, respectively) exercise 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 exploitation 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 historical value of the investments in the previous table. These assets will be amortized over the remaining period of the concessions on the straight-line basis.

	2015	**Addition**	**Amortization**	**Written off**	**2016**	**Addition**	**Amortization**	**Written off**	**2017**
Cemig Geração e Transmissão	1,123,096		(56,468)	(762,691)	303,937		(13,701)	(4,468)	285,768
Renova (1)	805,458		(42,767)	(762,691)					
Retiro Baixo	30,706		(1,181)		29,525		(1,181)		28,344
Central Eólica Praias de Parajuru	20,868		(1,527)		19,341		(1,527)	(1,311)	16,503
Central Eólica Volta do Rio	14,818		(1,011)		13,807		(1,010)	(1,762)	11,035
Central Eólica Praias de Morgado	29,461		(2,055)		27,406		(2,055)	(1,395)	23,956
Madeira Energia (Santo Antônio plant)	163,296		(5,956)		157,340		(5,956)		151,384
Aliança Norte (Belo Monte plant)	58,489		(1,971)		56,518		(1,972)		54,546
Taesa	414,774		(17,371)	(109,257)	288,146		(13,207)	(86,194)	188,745
Light	231,163		(22,363)		208,800		(22,363)		186,437
Gasmig	215,410		(7,912)		207,498		(7,912)		199,586
Lepsa		49,695	(1,266)		48,429		(5,357)	(43,072)	
RME		49,694	(1,265)		48,429		(5,064)		43,365
	1,984,443	**99,389**	**(106,645)**	**(871,948)**	**1,105,239**		**(67,604)**	**(133,734)**	**903,901**

OVERALL TOTAL

(1) On December 31, 2016 there was a downward adjustment in the intangible concession assets of Renova, which in consolidated affected the equity method result of Cemig GT.

onsolidated R$ 000	2015	Addition	Amortization	Written off	2016	Addition	Amortization	Written off	2017
aesa	414,774		(17,371)	(109,257)	288,146		(13,207)	(86,194)	188,74
ight	231,163		(22,363)		208,800		(22,363)		186,43
asmig	215,410		(7,912)		207,498		(7,912)		199,58
epsa		49,695	(1,266)		48,429		(5,357)	(43,072)	
ME		49,694	(1,265)		48,429		(5,064)		43,36
OTAL	**861,347**	**99,389**	**(50,177)**	**(109,257)**	**801,302**		**(53,903)**	**(129,266)**	**618,13**

371

Table of Contents

b) This table shows the movement of investments in subsidiaries and jointly-controlled entities:

ing company R$ 000	2016	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Loss	Others	201
g Geração e Transmissão	4,583,195	428,458	(103,591)	(214,230)	100,000				4,793
g Distribuição	2,499,867	(117,313)	(145,244)		1,500,000				3,737
gTelecom	191,515	5,821	(680)		50,657				247
Energia	141,038	15,079	(18,252)	(30,968)					106
rvalho	106,111	25,056		(28,631)					102
ig	1,419,492	133,374		(134,595)					1,418
ontes Energia	52,396	19,562		(18,793)					53
Térmica Ipatinga	4,009	1,258		(335)					4
g PCH	91,969	28,344		(23,369)					96
	343,802	9,970	(2,002)		147,163		(43,072)		455
	340,063	6,841	(1,942)		38,195			76	383
anhia Transleste de missão	21,588	4,985		(6,656)		(19,917)			
Barreiro	39,266	(1,749)		(5,535)				(14,000)	17
anhia Transudeste de missão	20,505	3,709		(11,849)		(12,365)			
esa de Comercialização ergia Elétrica	20,154	35,696		(37,447)					18
anhia Transirapé de missão	23,952	4,451		(6,687)		(21,716)			
entia	4,868	3,388		(1,171)				(1)	7
g Comercializadora de ia Incentivada	1,867	779		(642)					2
anhia de Transmissão oeste de Minas	21,171	5,058		(5,644)				(1)	20
	1,070,477	18,176	(5,513)						1,083
g Trading	28,635	56,127		(55,555)				(1)	29
om Soluções ológicas	19,264	(7,398)							11
	1,582,633	216,330		(182,687)		(514,814)			1,101
g Overseas	20				138				
	12,627,857	**896,002**	**(277,224)**	**(764,794)**	**1,836,153**	**(568,812)**	**(43,072)**	**(13,927)**	**13,692**

372

Table of Contents

Advance against future capital increase, in Cemig D

On December 11, 2017, the Board of Directors authorized transfer to Cemig D of up to R$ 1,600,000, as an advance against future capital increase (*Adiantamento para Futuro Aumento de Capital*, or AFAC), to be subsequently converted into a capital increase, through decision in a future Extraordinary General Meeting of Cemig D: R$ 1,500,000 was transferred in December 2017, and R$ 100,000 in February 2018.

On February 8, 2018 the Board of Directors authorized a further transfer to Cemig D of up to R$ 600,000, as advance against future capital increase.

solidated R$ 000	2016	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Others	201
panhia Transleste de Transmissão	21,588	4,985		(6,656)		(19,917)		
panhia Transudeste de Transmissão	20,505	3,709		(11,849)		(12,365)		
panhia Transirapé de Transmissão	23,952	4,451		(6,687)		(21,716)		
panhia de Transmissão Centroeste de as	21,171	5,058		(5,644)			(1)	20,
t	1,070,477	34,807	(5,513)				434,523	1,534,
om Soluções Tecnológicas	19,264	(7,398)						11,
a	343,802	295	(2,002)				(342,095)	
E	340,063	6,841	(1,942)		38,195		76	383,
elétrica Cachoeirão	50,411	10,187		(2,641)				57,
nhães Energia (1)		(13,099)			97,188		(59,071)	25,
elétrica Pipoca	31,809	2,292		(8,078)				26,
eira Energia (Santo Antônio plant)	643,890	(109,129)						534,
Melbourne (Santo Antônio plant)	677,182	(94,678)						582,
tger	41,543	1,858		(2,569)				40,
uari Energia	162,106	16,590		(30,274)				148,
ral Eólica Praias de Parajuru	63,307	(1,489)		(406)			(1,311)	60,
ral Eólica Volta do Rio	81,228	(11,741)					(1,762)	67,
ral Eólica Praias de Morgado	59,586	(7,622)					(1,395)	50,
zônia Energia (Belo Monte Plant)	781,022	705			84,827			866,
as Data Center	17,741	(2,294)					2,003	17,
a	1,582,633	216,330		(182,687)		(514,814)		1,101,
ova	688,625	(390,249)	(33,852)		18,000			282,
a Hidrelétrica Itaocara S.A.	2,782	(1,741)			2,658			3,
nça Geração	1,319,055	71,756		(148,641)				1,242,

nça Norte (Belo Monte plant)	527,498	(2,352)			51,558			576,
o Baixo	161,848	9,688		(13,763)				157,
l of investments	**8,753,088**	**(252,240)**	**(43,309)**	**(419,895)**	**292,426**	**(568,812)**	**30,967**	**7,792,**

(1) Uncovered liability reversed through injection of capital.

373

Table of Contents

olding company	2015	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Capital injections	Sales	Absorption	Others	2016
emig Geração e ransmissão	4,683,812	69,867	(72,526)	(97,958)					4,583,195
emig Distribuição	2,695,848	(323,950)	(379,834)	97,803	410,000				2,499,867
emigTelecom	169,006	5,965	(115)		16,660			(1)	191,515
osal Energia	121,822	43,669		(24,452)				(1)	141,038
á Carvalho	102,926	28,236		(25,051)					106,111
asmig	1,406,371	82,015		(68,894)					1,419,492
orizontes Energia	70,539	11,033		(4,176)				(25,000)	52,396
sina Térmica patinga	3,898	447		(336)					4,009
emig PCH	84,956	13,779		(6,766)					91,969
epsa		(17,890)	513	(57,185)	251,977		166,387		343,802
ME		(17,757)	510	(58,763)	247,941		168,132		340,063
ompanhia ransleste de ransmissão	18,307	5,325		(2,044)					21,588
TE Barreiro	29,703	12,167		(2,604)					39,266
ompanhia ransudeste de ransmissão	17,536	3,783		(813)				(1)	20,505
mpresa de omercialização e Energia Elétrica	9,120	37,997		(26,963)					20,154
ompanhia ransirapé de ransmissão	19,298	4,654							23,952
ranschile	108,230	1,776	(22,988)			(87,018)			
fficientia	5,511	(643)							4,868
emig omercializadora e Energia ncentivada	6,284	111		(528)				(4,000)	1,867
ompanhia de ransmissão entroeste de inas	17,528	5,667		(2,024)					21,171

ight	1,187,722	(120,512)	2,948	320				(1)	1,070,47
emig Trading	29,840	60,374		(61,579)					28,63
xxiom Soluções ecnológicas	23,840	(4,527)		(49)					19,26
arati	357,753	(24,305)	850	221			(334,519)		
aesa	2,242,186	341,081		(381,609)		(619,025)			1,582,63
emig Overseas	45	(15)	(10)						20
	13,412,081	**218,347**	**(470,652)**	**(723,450)**	**926,578**	**(706,043)**		**(29,004)**	**12,627,85**

374

Table of Contents

Consolidated	2015	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Absorption	Others	2016
Companhia Transleste de Transmissão	18,307	5,325		(2,044)					21,588
Companhia Transudeste de Transmissão	17,536	3,783		(813)				(1)	20,505
Companhia Transirapé de Transmissão	19,298	4,654							23,952
Transchile	108,230	1,776	(22,988)			(87,018)			
Companhia de Transmissão Centroeste de Minas	17,528	5,667		(2,024)					21,171
Light	1,187,722	(120,512)	2,948	320				(1)	1,070,477
Axxiom Soluções Tecnológicas	23,840	(4,528)		(49)				1	19,264
Lepsa		(17,890)	513	(57,185)	251,977		166,387		343,802
RME		(17,757)	510	(58,763)	247,941		168,132		340,063
Hidrelétrica Cachoeirão	40,844	11,122		(1,555)					50,411
Guanhães Energia (1)	18,444	(102,108)			24,593			59,071	
Hidrelétrica Pipoca	26,237	5,571						1	31,809
Madeira Energia (Santo Antônio plant)	675,983	(71,093)			39,000				643,890
FIP Melbourne (Santo Antônio plant)	703,403	(63,755)			40,214			(2,680)	677,182
Lightger	37,454	4,088						1	41,543
Baguari Energia	187,227	41,037		(14,118)				(52,040)	162,106
Central Eólica Praias de Parajuru	63,045	287		(25)					63,307
Central Eólica Volta do Rio	85,101	(3,838)		(35)					81,228
Central Eólica Praias de	62,071	(2,440)		(45)					59,586

Morgado Amazônia Energia (Belo Monte Plant)	495,768	(6,659)			291,913				781,022
Ativas Data Center (2)		(31,424)			98,900			(49,735)	17,741
Parati	357,753	(24,305)	850	221			(334,519)		
Taesa	2,242,186	341,081		(381,609)		(619,025)			1,582,633
Renova (3)	1,527,435	(373,313)	19,330		277,864			(762,691)	688,625
Usina Hidrelétrica Itaocara S.A.					2,782				2,782
Aliança Geração	1,327,246	103,849		(112,040)					1,319,055
Aliança Norte (Belo Monte Plant)	354,284	(6,551)			179,765				527,498
Retiro Baixo	147,905	16,089		(2,146)					161,848
Total of investments	**9,744,847**	**(301,844)**	**1,163**	**(631,910)**	**1,454,949**	**(706,043)**		**(808,074)**	**8,753,088**
Ativas Data Center Uncovered liabilities of jointly-controlled entity	(27,769)							27,769	
Guanhães Uncovered liabilities of jointly-controlled entity								(59,071)	(59,071)
Total	**9,717,078**	**(301,844)**	**1,163**	**(631,910)**	**1,454,949**	**(706,043)**		**(839,376)**	**8,694,017**

(1) Transfer to uncovered liabilities.

(2) The amount of R$ 49,735 refers to the dilution of shareholding interest arising from subscription of share capital by a new shareholder.

(3) The amount of R$ 762,691 refers to the impairment of intangible concession assets, resulting from the transaction with Terraform.

375

Table of Contents

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:

		2017				2016	
Company	**Schedule 1 Number of shares**	**Schedule 2 Cemig interest Schedule 3% (iii)**	**Share capital**	**Shareholders equity**	**Schedule 1 Cemig interest Schedule 2%**	**Share capital**	**Shareholders equity**
Cemig Geração e Transmissão	2,896,785,358	100.00	1,837,710	4,793,832	100.00	1,837,710	4,583,195
Hidrelétrica Cachoeirão	35,000,000	49.00	35,000	118,280	49.00	35,000	102,880
Guanhães Energia	330,536,000	49.00	330,536	51,058	49.00	185,647	
Hidrelétrica Pipoca	41,360,000	49.00	41,360	53,108	49.00	41,360	64,916
Retiro Baixo	222,850,000	49.90	222,850	257,880	49.90	222,850	263,680
Aliança Norte (Belo Monte Plant)	3,622,440,125	49.00	1,119,255	1,065,628	49.00	1,014,111	1,076,527
Madeira Energia (Santo Antônio Plant)	9,730,201,137	18.13	9,546,672	5,327,114	18.13	10,151,952	6,418,617
Lightger	79,078,937	49.00	79,232	83,331	49.00	79,232	84,781
Baguari Energia S.A. (1)	26,157,300,278	69.39	186,573	213,895	69.39	186,573	247,662
Renova (2)	417,197,244	36.23	2,919,019	779,808	34.15	2,856,255	1,955,598
Aliança Geração	1,291,582,500	45.00	1,291,488	1,857,905	45.00	1,291,488	1,972,519
Central Eólica Praias de Parajuru	70,560,000	49.00	70,560	88,976	49.00	70,560	88,897
Central Eólica Volta do Rio	117,230,000	49.00	117,230	115,694	49.00	117,230	136,886
Central Eólica Praias de Morgado	52,960,000	49.00	52,960	54,312	49.00	52,960	65,128
Amazônia Energia (1) (Belo Monte Plant)	1,229,600,123	74.50	1,229,600	1,163,160	74.50	1,115,739	1,048,351
Usina Hidrelétrica Itaocara S.A.	11,102,420	49.00	11,102	7,549	49.00	5,677	5,677
Cemig Distribuição	2,359,113,452	100.00	2,771,998	3,737,310	100.00	2,361,998	2,499,867
Light	203,934,060	26.06	2,225,822	3,461,971	26.06	2,225,822	3,353,796
CemigTelecom	448,340,822	100.00	292,399	247,313	100.00	241,742	191,515
Rosal Energia	46,944,467	100.00	46,944	106,897	100.00	46,944	141,038
Sá Carvalho	361,200,000	100.00	36,833	102,536	100.00	36,833	106,111
Gasmig	409,255,483	99.57	665,429	1,223,948	99.57	665,429	1,425,622

Horizontes Energia	39,257,563	100.00	39,258	53,165	100.00	39,258	52,396
Usina Térmica Ipatinga	174,281	100.00	174	4,932	100.00	174	4,009
Cemig PCH	35,952,000	100.00	35,952	96,944	100.00	35,952	91,969
Lepsa	1,379,839,905	100.00	406,341	455,861	66.62	437,638	443,370
RME	1,365,421,406	75.00	403,040	453,157	66.27	433,770	440,069
Companhia Transleste de Transmissão	49,569,000		49,569		25.00	49,569	81,293
UTE Barreiro		100.00	16,902	17,982	100.00	30,902	39,266
Companhia Transudeste de Transmissão	30,000,000		30,000		24.00	30,000	85,438
Empresa de Comercialização de Energia Elétrica	486,000	100.00	486	18,403	100.00	486	20,154
Companhia Transirapé de Transmissão	22,340,490		22,340		24.50	22,340	97,763
Efficientia	6,051,994	100.00	6,052	7,084	100.00	6,052	4,868
Cemig Comercializadora de Energia Incentivada	1,000,000	100.00	1,000	2,004	100.00	1,000	1,867
Companhia de Transmissão Centroeste de Minas	28,000,000	51.00	28,000	40,361	51.00	28,000	41,512
Cemig Trading	1,000,000	100.00	1,000	29,206	100.00	1,000	28,635
Axxiom Soluções Tecnológicas	17,200,000	49.00	46,600	24,216	49.00	&nb	