

ENERGY CO OF MINAS GERAIS

Form 20-F

November 14, 2016

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

FORM 20-F

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

or

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

For the fiscal year ended December 31, 2015

or

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

or

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

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

Commission file number 1-15224

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

(Exact name of Registrant as specified in its charter)

ENERGY CO OF MINAS GERAIS

(Translation of Registrant's name into English)

BRAZIL

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class:

Preferred Shares, R\$5.00 par value
American Depositary Shares, each
representing 1 Preferred Share, without par value
Common Shares, R\$5.00 par value
American Depositary Shares, each
representing 1 Common Share, without par value

Name of exchange on which registered:

New York Stock Exchange*
New York Stock Exchange
New York Stock Exchange*
New York Stock Exchange

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

420,764,708 Common Shares

838,076,946 Preferred Shares

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated Filer

Non accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

IFRS

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

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

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EXPLANATORY NOTE

The filing of this annual report on Form 20-F for the year 2015 was delayed because we required additional time to complete disclosures related to the ongoing internal investigation of Norte Energia S.A. (NESA), the owner of the concession for the construction and operation of Belo Monte Hydroelectric Plant, on Xingu River, State of Pará, Brazil. Cemig indirectly holds a 12.5% interest in NESA through its ownership of Aliança Norte and Amazonia Energia.

In March 2014, while conducting an investigation involving a local gas station/carwash in the city of Brasília (Federal District, Brazil), the Brazilian Federal Police and Public Prosecutors uncovered evidence of a much larger corruption and bribery scheme involving Brazil's state owned oil company, Petrobras. As a result, a federal investigation, called *Operação Lava Jato* (Operation Carwash), was initiated and is being conducted by Federal Prosecutors and the Federal Police under the supervision of a Federal Judge. Over the course of the investigation into Operation Carwash, a number of companies and individuals have entered into cooperation agreements with the Brazilian Federal Prosecutor's Office (*Ministério Público Federal*, or MPF), whereby suspects choose to collaborate with the authorities in exchange for a lighter sentence. Some of these cooperation agreements contained allegations involving the Belo Monte Hydroelectric Plant, on Xingu River in State of Pará. No criminal charges have been brought against Cemig as part of Operation Carwash.

In response to the allegations, Centrais Elétricas Brasileiras S.A. Eletrobras (Eletrobras), which owns 49.98% of the share capital of NESA, hired an international investigation team to search for irregularities in projects in which it is a shareholder, including NESA (the Independent Investigation). The Independent Investigation team has completed the investigation designed to identify misstatements to Eletrobras' consolidated financial statements, which included an analysis of NESA. The Independent Investigation team is still in the process of performing some procedures, focusing on internal compliance matters. There are also ongoing investigations and other legal measures being conducted by the MPF involving other shareholders of NESA and some of their executives. Based on our current knowledge, Cemig does not expect these additional procedures provide any additional relevant information that would materially impact its consolidated financial statements in future periods.

The investigation concluded that certain contracts with some contractors and suppliers of the Belo Monte Hydroelectric Plant project included bribes estimated at 1% of the price of the contract plus some other fixed amounts.

Based on the conclusions and results identified by the independent internal investigation, the management of NESA has evaluated the impact on the financial statements according to International Accounting Standard IAS-16 Property, Plant and Equipment, and concluded that the amount of R\$ 183 million is attributable to overpricing due to bribes deemed to be of an illicit nature and should not have been capitalized as part of the cost of its property, plant and equipment considering that such amount is not a cost attributable to operating and maintaining the plant.

NESA is not able to identify an accurate manner to estimate the periods of prior Financial Statements in which excessive capitalized costs may have occurred, because of the fact that the information made available by the independent internal investigation does not individually specify the contracts, payments and the periods of disclosure in which such excesses may have occurred. It is also emphasized that the alleged undue payments were not made by NESA, but by contractors and suppliers of Belo Monte Power Plant, and this factor also prevents identification of the exact amounts and periods of the payments.

Hence, NESA has applied the procedure specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, adjusting the estimated amounts of excessive capitalized costs in the amount of R\$183 million, related to illegal payments in the Financial Statements as of December 31, 2015, due to the impracticability of identification of

the adjustments for each prior period affected.

As a consequence of the adjustment recorded by NESAs, Cemig recorded in the year ended December 31, 2015, as part of its equity method accounting in NESAs, the amount of R\$23 million on account line Investment in counterpart to the equity in its Statement of Income. Of this total amount, R\$21 million was made by Cemig GT and R\$2 million was made by Light S.A., according to IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors.

The following sections of this annual report contain disclosures related to the NESAs investigation:

Recent Developments Allocation of Net Income for 2015 ;

Item 4. Information on the Company Note 4 Acquisition of a 9.77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant Investigation of Norte Energia S.A. ;

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Item 5. Operating and Financial Review and Prospects Operating Results Year ended December 31, 2015 compared to the year ended December 31, 2014 Equity gain (loss) in subsidiaries ;

Item 18. Financial Statements Note 14 Investments ; and

Item 18. Financial Statements Note 23 Equity and Remuneration to Shareholders (c) Dividends Allocation of Net Income for 2015 Proposal by Management .

Under its code of ethics, the Company does not tolerate corruption or other any illegal business practices of its employees, contractors or suppliers.

The investigations under Operation Carwash are still ongoing and the MPF may take a considerable amount of time to conclude its procedures. Therefore, new relevant information may be disclosed in the future, which could cause NESA and, therefore, Cemig, to recognize additional adjustments in its financial statements. The Company will continue to monitor the results of the investigations and the availability of other information concerning the allegations and will make appropriate disclosures if warranted.

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RECENT DEVELOPMENTS

Payments to debenture holders

On February 15, 2016 Cemig made payments of interest on the first, second and third Series of the 3rd Issue of Debentures by Cemig D and Cemig GT, in the amounts of R\$162 million and R\$139 million, respectively.

Issue of Bank Credit Note

On March 22, 2016 Cemig D issued a Bank Credit Note in favor of Caixa Econômica Federal, in the amount of R\$695 million, to be used for the payment of interest and principal on existing debt, represented by Bank Credit Notes issued in favour of both Banco do Brasil and Caixa Econômica Federal, as well as the 8th issuance of Promissory Notes of the Company due in the first half of 2016. The interest rate is 132.14% of the CDI rate, p.a., with maturity of 48 months, grace period of 18 months for payment of the principal, payment of interest in a quarterly basis during this period, and amortization over 30 months, with monthly payments in installments of principal and interest. Caixa Econômica Federal disbursed the funds over the months of March 2016 through May 2016. Of this total, R\$355 million was released in March 2016, R\$300 million in April 2016 and R\$40 million in May 2016.

Issue of debentures

On March 28, 2016 Cemig D completed its fourth issue of non-convertible debentures, in the amount of R\$1,615 million, in a single series, with an issue date of December 15, 2015 and a maturity of 3 years. The interest rate on the debentures is the CDI rate + 4.05% p.a.; with principal to be amortized in two equal installments due in December 2017 and December 2018. The proceeds were used for payment of the Company's eighth issue of promissory notes, which matured on March 26, 2016.

Exchange of Shareholders' Debentures owned by AGC Energia for shares in Cemig

On March 3, 2016, BNDES Participações (BNDESPar) exchanged 100% of its holding of debentures issued under the Deed of the First Private Issue by AGC Energia of Non-convertible Permanent Asset-guaranteed Exchangeable Shareholders' Debentures, in a Single Series, dated February 28, 2011 and amended January 17, 2012, for 54,342,992 common shares and 16,718,797 preferred shares in Cemig, owned by AGC Energia.

After the exchange, the equity interests held by BNDESPar in Cemig which on March 2, 2016 totaled 0% of the common shares, 1.13% of the preferred shares and .75% in the total capital of Cemig, increased to 12.9%, 3.13% and 6.4% respectively. This characterizes a material transaction in the stock of Cemig in the terms of Article 12, §1º, of CVM Instruction 358/02.

Increase in capital of Renova Energia S.A.

Cemig increased its capital in Renova through its wholly-owned subsidiary Cemig GT in the amount of R\$240 million. Of this total, R\$85 million was subscribed and paid up in February 2016, R\$115 million was subscribed and paid up in March 2016 and the remaining amount of R\$40 million was subscribed and paid up in May 2016.

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Investment in Renova Loss on impairment of assets available for sale

Put options contract

On September 18, 2015 a contract was signed providing Renova the option to sell to SunEdison, Inc. (SunEdison), on or after March 31, 2016, up to 7,000,000 shares in TerraForm Global.

The exercise price of this option was contractually established at R\$50.48 or US\$15.00 at the exchange rate of the day, at the election of SunEdison. The contract also gave SunEdison an option to buy 7 million shares on the same terms.

Renova notified SunEdison and TerraForm Global of its intention to exercise its option to sell 7 million shares in TerraForm Global owned by Renova, on the terms specified by contract and publicly stated in the Material Announcement published by Renova on September 18, 2015.

On April 21, 2016, SunEdison applied for Chapter 11 protection in the United States. On June 1, 2016, the period for payment of the option by SunEdison expired.

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

In the first half of 2016 Renova recognized a loss of R\$111 million, resulting in the change in the fair value of the option, considering the credit risk. In addition, it recognized a loss of R\$63 million relating to the expiration of the option, and commenced an arbitration proceeding seeking, among other items, indemnity for losses. At the date of issuance of this report, Sun Edison and Renova had not settled this arbitration.

The figures above refer to the impact of the option expiration on Renova's interim financial statements. The effect for Cemig is proportional to its interest of 34.2%, in Renova, valued by the equity method, in the amount of R\$60 million.

Investment in TerraForm Global pricing of the shares

Renova also recognized a loss, in the first half of 2016, of R\$272 million, reflecting the negative volatility in the share price of TerraForm in the period, in which Renova has an equity interest of 11.65%, valued on the basis of the market price of the shares.

The figures above refer to the impact on Renova's interim financial statements. The effect on Cemig is proportional to its interest of 34.2%, in Renova, valued by the equity method, in the amount of R\$93 million.

Rescission of share purchase agreement

On April 1, 2016 Renova announced that the share purchase agreement dated July 15, 2015 for the sale to TerraForm Global of the assets of the Espra Project (the Espra Contract) owned by Renova had been terminated by an agreement between the parties, with payment by TerraForm Global to Renova of a break-up fee of US\$10.0 million. As a result of the termination of this agreement, the assets of the Espra project, comprising three small hydroelectric plants (SHPs), with aggregate installed capacity of 41.8 MW, remain in as part of Renova's portfolio of operational assets.

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Issue of Bank Credit Note Banco do Brasil

On April 22, 2016 Cemig D signed amendments to two Bank Credit Notes issued in favor of Banco do Brasil, for a total of R\$600 million. The interest rate is 128.00% of the CDI rate, p.a., and the funds will be paid in four six-monthly installments commencing in October 2016 with final repayment and maturity due in April 2018.

Mining and Energy Ministry Ministerial Order 120

On April 22, 2016 the Mining and Energy Ministry published its Ministerial Order 120, setting the deadline and method of payment of the remaining amount of the transmission indemnity related to the acceptance of the terms established by Federal Law No. 12,783/13.

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

The amount will be indexed to the Expanded Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA). The capital cost remuneration and the depreciation of the Regulatory Asset Base not incorporated since 2013, the date of the extensions of the concessions up to the tariff-setting process of 2017, is to be adjusted by the real cost of capital of the transmission segment, as set by Aneel in the methodologies of the Periodic Tariff Review of the Revenues of Existing Concessions currently 10.44% p.a. to be paid over a period of eight years, through the RAP.

The Ministerial Order will be submitted to Public Hearings to be held by Aneel scheduled for the second half of 2016 and the first half of 2017.

The Company made its estimate and recognized, in its June 2016 Statement of Income, the amount of R\$548 million, as follows:

R\$20 million relating to the difference between the amount of the Preliminary Revision made by Aneel on February 23, 2015 of the Opinion sent by the Company, R\$1.157 billion, and the Final Revision;

R\$90 million representing the difference between the variations resulting from the IGP-M index and the IPCA index since the Company had updated the balance by the IGP-M index until March 31, 2016; and

R\$438 million, representing the remuneration from use of own capital, calculated on the basis of 10.44% p.a.

Aneel decides annual tariff adjustment of Cemig D

On May 24, 2016, Aneel announced the Annual Tariff Adjustment to be applied to the tariffs of Cemig D. The result was an average increase in consumer electricity rates by 3.78%, in effect on May 28, 2016, through May 27, 2017.

For industrial and service sector consumers, served at medium and high voltage, the average increase in their electricity bills will be 2.06%. For those served at low voltage, the average increase will be 4.63%.

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Changes in the Stockholders Agreement of Parati

In the second quarter of 2016, certain amendments were signed to the stockholders agreement of Parati. The principal changes arising from these amendments are as follows:

- 1) The maturity of the Put Option granted in 2011 by Cemig in favor of the unit holders of FIP Redentor, initially specified to be as May 31, 2016, was postponed, to two separate exercise dates:
 - a) First option exercise window: up to, and including, September 23, 2016, only with respect to preferred shares, up to a limit of 153,634,195 preferred shares in Parati, representing 14.30% of the total shares in Parati held by the other direct stockholders. With respect to shares put within this exercise window, Cemig must make payment by November 30, 2016.
 - b) Second payment window: up to, and including, September 23, 2017, and not restricted to preferred shares, and may include the totality of the shares in Parati, regardless of the exercise of the Put Option in the first payment window. With respect to shares put within this exercise window, Cemig must make payment by November 30, 2017.
- 2) The Put Option may be exercised by the direct shareholders of Parati, and not only by FIP Redentor.
- 3) New provisions were included to provide for the possibility of acceleration of the Put Option exercise window in case Cemig fails to comply with certain clauses of the stockholders agreement, allowing any direct shareholders to present to Cemig a notice of bringing forward the option, at which moment the option shall be considered exercised by all the direct shareholders, over the totality of their shares.
- 4) To guarantee the full payment of the Put Option, on May 31, 2016 Cemig offered the holders of the Put Option: 55,234,637 common shares and 110,469,274 preferred shares that Cemig directly holds in Transmissora Aliança de Energia S.A. (Taesa), and as further guarantee, 53,152,298 shares that Cemig directly holds in Light.

Miranda Plant: Aneel recommends against acceptance of Cemig GT's application to extend concession

On June 10, 2016, Cemig's wholly-owned subsidiary Cemig GT filed an application with Aneel for a 20 year extension of its concession period for the Miranda hydroelectric plant (the Miranda Plant), which is scheduled to expire in December 2016. On July 12, 2016, Aneel, accepting the vote of its rapporteur, decided to refer the application to the Mining and Energy Ministry, with the recommendation that the application made by Cemig GT for extension of the period of the concession for the Miranda Hydroelectric Plant should not be granted, due to having been made after the deadline stipulated by Law 12,783/2013.

The Company is considering any possible administrative or legal measures, and will keep its shareholders and the market updated on any material developments.

Issues of Promissory Notes

On July 1, 2016 Cemig GT concluded its seventh issuance of Commercial Promissory Notes, for a total of R\$620 million. The net proceeds will be used to pay the second portion of the concession grant fee for the hydroelectric plants in Lot D of Aneel Auction 12/2015, and to improve the Company's working capital. The Promissory Notes have a maturity of 360 days, and mature on June 26, 2017, and pay interest equal to 128% of the average one-day DI rate, the daily interbank deposit rate, to be paid on the maturity date. This issuance is guaranteed by Cemig.

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Disposal by Cemig of shares in Taesa

On August 31, 2016, the Board of Directors of Cemig authorized the sale of up to 40,702,230 Units in Transmissora Aliança de Energia Elétrica S.A (Taesa), consisting of 40,702,230 common shares and 81,404,460 preferred shares in Taesa, owned by Cemig.

On September 29, 2016, Taesa publically announced the launch of a restricted offering (Restricted Offering) of its units. In the offering, each unit will be evidenced by *certificados de depósito de ações*, each of which represents one outstanding *ação ordinária* (common share) and two outstanding *ações preferenciais* (preferred shares) of Cemig (the Units). The Units were offered and sold by Fundo de Investimento em Participações Coliseu (FIP Coliseu), the equity investment fund that is part of the controlling block of Taesa, and Cemig.

The Restricted Offering was a secondary offering, with restricted placement efforts of 65,702,230 Units, at a price per Unit of R\$19.65. The total amount of the Restricted Offering was R\$1,291 million, of which R\$800 million was received by Cemig. The settlement of the Restricted Offering occurred on October 24, 2016.

The Restricted Offering of the Units of Taesa has not been registered under the Securities Act, or any other U.S. federal and state securities laws (the Securities Act), and the Units cannot be offered, sold, pledged or otherwise transferred in the United States or to U.S. investors, unless they are registered, or exempt from, or not subject to, registration under the Securities Act.

Because this was a secondary offering with restricted placement efforts Taesa did not receive any proceeds. The Selling Shareholders were the beneficiaries of the net proceeds arising from the sale of Units and are responsible for the payment of all costs and fees of the Restricted Offering.

With the settlement of the Restricted Offering, FIP Coliseu holds 153,775,790 common shares issued by Taesa, representing 26.03% of the voting capital of Taesa and 14.88% of the capital stock of Taesa and CEMIG holds 252,369,999 common shares issued by Taesa, representing 42.72% of the voting capital of Taesa and 73,646,184 preferred shares issued by Taesa, which, together with the common shares represents 31.54% of the capital stock of Taesa. The outstanding Units (other than Units held by FIP Coliseu, CEMIG, Taesa's management and treasury shares) represents 53,58% of Taesa's capital stock and 31.24% of Taesa's voting stock.

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Promissory Notes Payment

On March 28, 2016, Cemig D paid off its 8th issuance of Promissory Notes. The amount of R\$1.958 billion was paid to the holders of the notes, R\$1.7 billion of principal and R\$258 million of interest.

Cemig Telecom signs investment agreement for subscription of capital in Ativas

On August 25, 2016, Cemig Telecom signed an Investment Agreement with Sonda Procwork Outsourcing Informática Ltda., a company of the Chilean group Sonda S.A. (Sonda), for the subscription of capital in Ativas Data Center S.A. (Ativas), in partnership with Ativas Participações S.A. (Ativas Participações), a company controlled by the Asamar Group.

Sonda is a leading company providing IT services in Latin America, with a presence in 10 countries, and 17,000 employees. This strategic alliance strengthens the commitment of Cemig and Ativas to its present and future clients, continuing to ensure high standards of security and availability.

On October 19, 2016 the transaction was completed in compliance with certain conditions precedent.

Sonda, has subscribed capital totaling R\$ 114 million, and now holds an equity interest of 60% in Ativas, while Cemig Telecom holds 19.6% and Ativas Participações holds 20.4%.

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Notice of intention to exercise put option

On September 6, 2016 Cemig received from Banco BTG Pactual (BTG Pactual) a Notice of Intention to Exercise a Put Option, giving irrevocable notice of exercise of BTG Pactual's right to sell to Cemig 153,634,195 preferred shares held by Pactual in Parati S.A. Participações em Ativos de Energia Elétrica (Parati), under the First Exercise Window specified in Clauses 6.1 and 6.2 of the Stockholders Agreement of the Parati, signed on April 11, 2011 between Cemig, Banco Santander (Brasil) S.A., BV Financeira S.A. Crédito, Financiamento e Investimento, BB Banco de Investimento S.A., and Banco BTG Pactual S.A., with Parati as consenting party, as amended. Cemig has until November 30 to settle the put option and acquire the shares or indicate a third party which will do so.

Sale of interest in Transchile

On September 12, 2016, Cemig signed a share purchase agreement for sale of the whole of its interest in Transchile Charrúa Transmisión S.A. corresponding to 49% of the company's share capital to Ferrovial Transco Chile SpA, a company controlled by Ferrovial S.A., for US\$56.6 million. On October 6, 2016, all of the shares in Transchile Charrúa Transmisión S.A. previously held by Cemig, were transferred to Ferrovial Transco Chile SpA, concluding the sale.

Advances to Renova under Power Purchase Agreement

On September 6, 2016, our Board of Directors approved an advance payment of R\$118 million by Cemig to Renova for future contracted electricity supply under the Power Purchase Agreement between Renova Comercializadora de Energia S.A. and Cemig GT, which was signed in 2013.

The agreement provides for the parties to elect to make advance payments for power. The advance payments will be allocated to the Alto Sertão III project, and also to meet other needs of Renova. The amount due will be settled by delivery of power supply, in the amounts specified in such agreement, starting in May 2021.

In June 2016 Cemig GT made an advance payment to Renova Trading of R\$94 million under the Agreement, and at that time signed an agreement placing a security interest on 100% of the shares in Enerbrás S.A. and 100% of the shares in the specific-purpose companies of Phase B of the Alto Sertão III Project on behalf of Cemig GT to guarantee the advance payment. An option was also granted to Cemig GT to purchase 100% of the shares of Enerbrás S.A.

A Share Purchase Agreement has been signed which will enable Cemig GT to convert the total amount advanced into a shareholding interest in Alto Sertão Participações S.A. (Alto Sertão), the controlling shareholder of the companies that comprise Phase A of the Alto Sertão III project; up to a limit of 49.9% of the shares in Alto Sertão, and also an agreement placing a security interest upon 100% of the shares in Bahia Holding S.A. and 49% of the shares in Ventos de São Cristóvão Energias Renováveis S.A., which holds certain of Renova's wind power projects. Exercise of the call option is conditional upon prior approval by the BNDES. Settlement of the share option transactions referred to above will require the prior approval of BNDES, Banco do Brasil S.A. where applicable, Aneel, and the Brazilian Monopolies Authority (CADE).

Payment of loans

On October 21, 2016 Cemig Distribuição S.A. repaid to Banco do Brasil S.A. two Commercial Credit Notes (including their amendments) with final maturities in April 2018, paying the principal amount of R\$ 600 million, plus interest, calculated up to the date of settlement, of R\$ 25 million. The payment was made from the Company's own funds.

Table of Contents**Statutory Covenants**

The Company's by-laws define certain targets related to indebtedness and capital expenditures that shall be attended by the Management. However, in the ordinary Shareholders Meeting held on May 30, 2016, the Management was authorized to exceed such targets for 2016 year, as follows:

	By-laws Targets	Exceeding authorized in the Ordinary Shareholders Meeting
Indebtedness / Ebitda	2.00	4.12
Net debt / Net debt + Shareholders' equity	40.00%	52.00%
Capital Expenditures / Ebitda	40.00%	146.00%

Payment of dividends below the mandatory minimum

On April 29, 2016, the Annual and Extraordinary General Meetings of Cemig approved the payment of R\$ 634 million as dividends, relating to the net profit for the 2015 business year, an amount below the minimum obligatory dividend.

Refinancing of Banco do Brasil credits

On October 24, 2016, Cemig GT paid to Banco do Brasil S.A. the installments of two Fixed Credit Contracts, in the amount of R\$286 million, and Bank Credit Notes in the amount of R\$430 million, totaling R\$716 million. The payments were made with funds from a new lending transaction, also with Banco do Brasil S.A., and with the Company's own funds.

On October 24, 2016, Cemig GT issued a Bank Credit Note in favor of Banco do Brasil S.A., in the total amount of R\$600 million, in order to refinance certain notes previously extended by Banco do Brasil. This loan has an annual interest rate of 132.90% of the CDI rate, and will be paid in four half-yearly installments, with the last payment to be made in October 2018.

Review of compliance and corporate governance system

Cemig has undertaken a number of initiatives to boost its compliance and corporate governance system, including revising its code of ethics in light of the Brazilian Anticorruption Law (Law no. 12.846/2013), the new Brazilian Public Companies Law (Law no. 13.303/2016), creating a Compliance Superintendence and providing anticorruption and fraud training to all of its employees.

Criminal proceedings involving members of our Board of Directors

On January 5, 2016, Mr. José Afonso Bicalho Beltrão da Silva, the Chair of the Company's Board of Directors, was convicted in the Federal Court (1st Federal Circuit) for reckless management in connection with the granting of irregular loans when he was the CEO of the Banco do Estado de Minas Gerais, between 1995 and 1998. As a result of this conviction, Mr. Da Silva was prohibited from holding executive or management positions at financial institutions in Brazil for a period of eight years. Immediately thereafter, Mr. Da Silva appealed to the Court of Appeals of the 1st Federal Circuit, on the grounds that the ruling judge did not have the necessary authority to hear the case, as Mr. Da Silva is currently a Secretary of State and, therefore, the case should have been heard and tried by the Minas Gerais State Court of Appeals, and not by a Federal Court. The appeal is currently pending.

On October 1, 2015, Mr. Mauro Borges Lemos, the former Minister of Development and current CEO and vice-chair of the Company's Board of Directors, and on September 23, 2016, Mr. Marco Antônio de Rezende Teixeira, the Secretary of State in Minas Gerais (*Secretário da Casa Civil de Minas Gerais*) and a member of the Company's Board of Directors, were subjected to search and seizure and coercive hearing orders carried out by the Federal Police in connection with *Operação Acrônimo* (Operation Acronym). Operation Acronym began in October 7, 2014 when a private plane landed in Brasília/DF with three passengers (Benedito Rodrigues de Oliveira Neto, Marcier Trombiere Moreira and Pedro Medeiros) and the authorities found an undeclared amount of R\$116,000 in cash belonging to the owner of the aircraft, Benedito Rodrigues de Oliveira Neto. The companies owned by Benedito Rodrigues de Oliveira Neto had provided services to certain Brazilian political parties during the 2014 Presidential Elections, therefore, the Federal Police started to investigate a money laundering scheme involving the funding of political campaigns by Brazilian companies, including those who have received loans from the Brazilian National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES). The reasons for the search and seizure orders are still unclear, as the investigation records are sealed by the Superior Court of Justice (*Superior Tribunal de Justiça*, or STJ). Operation Acronym still ongoing and as of the date of this annual report no arrest warrants have been issued against Mr. Lemos or Mr. Teixeira.

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PRESENTATION OF FINANCIAL INFORMATION

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

We maintain our books and records in reais. We prepare our financial statements in accordance with generally accepted accounting practices adopted in Brazil, and with International Financial Reporting Standards (or IFRS), as issued by the International Accounting Standards Board (IASB). For purposes of this annual report, we prepared the consolidated statements of financial position as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2015, 2014 and 2013, in reais in accordance with IFRS, as issued by the IASB.

Deloitte Touche Tohmatsu Auditores Independentes audited our consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013; Deloitte Touche Tohmatsu Auditores Independentes did not audit the financial statements of Madeira Energia S.A. (a 18.05% percent owned direct and indirect equity method investee company) and Norte Energia S.A. (a 12.50% percent owned indirect equity method investee company). The financial statements of Madeira Energia S.A. and Norte Energia S.A. were audited by PricewaterhouseCoopers Auditores Independentes, whose reports related to financial statements as of and for the years ended December 31, 2015 and 2014 and December 31, 2015, respectively have been furnished to Deloitte Touche Tohmatsu Auditores Independentes, and Deloitte Touche Tohmatsu Auditores Independentes opinion, insofar as it relates to the amounts included for Madeira Energia S.A. and Norte Energia S.A., is based solely on the reports of PricewaterhouseCoopers Auditores Independentes. The above mentioned auditors reports appear elsewhere in this annual report on Form 20-F.

This annual report contains translations of certain *real* amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from *reais* at an exchange rate of R\$3,1811 to US\$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of October 31, 2016. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into reais, or that reais can be converted into U.S. dollars, at the above rate or at any other rate.

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MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2015 and is based on, or derived from, reports issued by the *Agência Nacional de Energia Elétrica* (the Brazilian National Electric Energy Agency), or ANEEL, and by the *Câmara de Comercialização de Energia Elétrica* (the Brazilian Electric Power Trading Chamber), or CCEE.

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

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

On April 30, 2012, a 25.00% stock dividend was paid on the preferred shares and common shares. On May 11, 2012, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 30 2013, a 12.85% stock dividend was paid on the preferred and common shares. On May 14, 2013, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On January 3, 2014, a 30.76% stock dividend was paid on the preferred and common shares (in each case paid in preferred shares). On January 10, 2014, a corresponding adjustment was made to the ADSs through the issuance of additional Preferred ADSs to holders of Preferred ADSs and Common ADSs.

The Preferred ADSs are evidenced by Preferred ADRs, issued pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Preferred ADSs evidenced by Preferred ADRs issued thereunder (the Second Amended and Restated Deposit Agreement). The Common ADSs are evidenced by Common ADRs, issued pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder (the Common ADS Deposit Agreement and, together with the Second Amended and Restated Deposit Agreement, the Deposit Agreements).

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FORWARD-LOOKING INFORMATION

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

general economic, political and business conditions, principally Brazil, the State of Minas Gerais, (or Minas Gerais), the State of Rio de Janeiro, (or Rio de Janeiro), as well as other states in Brazil;

inflation and fluctuations in exchange rates;

existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;

existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;

on-going high profile anti-corruption investigations in Brazil;

our expectations and estimates concerning future financial performance and financing plans;

our level, or maturity profile, of indebtedness;

the likelihood that we will receive payment in connection with accounts receivable;

our capital expenditure plans;

our ability to satisfactorily serve our consumers;

failure or hacking of our security and operational infrastructure or systems;

our ability to renew our concessions, approvals and licenses on terms as favorable as those currently in effect or at all;

our ability to integrate the operations of companies we have acquired and that we may acquire;

changes in volumes and patterns of consumer electricity usage;

competitive conditions in Brazil's electricity generation, transmission and distribution markets;

trends in the electricity generation, transmission and distribution industry in Brazil, particularly in Minas Gerais and Rio de Janeiro;

changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;

existing and future policies of the government of Minas Gerais, (the State Government), including policies affecting its investment in us and State Government's plans for future expansion of electricity generation, transmission and distribution in Minas Gerais; and

other risk factors identified in Item 3. Key Information Risk Factors.

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

delay or prevent successful completion of one or more projects;

increase the costs of projects; and

result in the failure of facilities to operate or generate income in accordance with our expectations.

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify forward-looking statements. We do not undertake to publicly update or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not materialize as described. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Consolidated Financial Data

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

The selected consolidated financial data as of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013, in IFRS, has been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. U.S. dollar amounts in the table below are presented for your convenience. Unless indicated otherwise, these U.S. dollar amounts have been translated from reais at R\$3.1811 per US\$1.00, the exchange rate as of October 31, 2016. The real has historically experienced high volatility. We cannot guarantee that U.S. dollars can be converted into reais, or that reais can be converted into U.S. dollars, at the above rate or at any other rate. The selected consolidated financial data as of December 31, 2013, 2012 and 2011 and for each of the years ended December 31, 2012 and 2011 has been derived from our audited consolidated financial statements not included in this annual report on Form 20-F.

We restated our consolidated financial statements as of and for the year ended December 31, 2012 and 2011 as a result of the adoption, on January 1, 2013, of IFRS 11 (Joint Arrangements). We retroactively applied IFRS 11 to 2012 and 2011 for comparison purposes. The adoption of these new accounting standards impacted several line items of our consolidated financial statements.

Table of Contents**Selected Consolidated Financial Data in IFRS**

	Year ended December 31,					
	2015	2015	2014	2013	2012(4)	2011(4)
	(in millions of US\$(1))	(in millions of R\$ except per share/ADS data or otherwise indicated)				
Income Statement Data:						
Net operating revenues:						
Electricity sales to final consumers	6,387	20,319	14,922	12,597	13,691	12,522
Revenue from wholesale supply to other concession holders	694	2,208	2,310	2,144	1,689	1,504
Revenue from use of the electricity distribution systems (TUSD)	461	1,465	855	1,008	1,809	1,771
CVA (compensation for changes in Portion A items) account and Other financial components of tariffs	536	1,704	1,107			
Revenue from use of the concession transmission system	82	261	557	404	662	612
Transmission indemnity revenue	32	101	420	21	192	
Construction revenues	394	1,252	941	975	1,336	1,232
Transactions in electricity on the CCEE	762	2,425	2,348	1,193	387	175
Other operating revenues	976	3,106	1,706	1,047	506	362
Taxes on revenue and regulatory charges	(3,631)	(11,549)	(5,626)	(4,762)	(6,135)	(5,785)
Total net operating revenues	6,693	21,292	19,540	14,627	14,137	12,393
Operating costs and expenses:						
Electricity purchased for resale	(3,000)	(9,542)	(7,428)	(5,207)	(4,683)	(3,330)
Charges for the use of the national grid	(314)	(999)	(744)	(575)	(883)	(748)
Depreciation and amortization	(262)	(835)	(801)	(824)	(763)	(786)
Personnel	(451)	(1,435)	(1,252)	(1,284)	(1,173)	(1,104)
Gas purchased for resale	(330)	(1,051)	(254)			
Royalties for usage of water resources			(127)	(131)	(185)	(153)
Outsourced services	(283)	(899)	(953)	(917)	(906)	(858)
Post-retirement obligations	(49)	(156)	(212)	(176)	(134)	(124)
Materials	(48)	(154)	(381)	(123)	(73)	(81)
Provisions for operating losses	(441)	(1,402)	(581)	(305)	(671)	(166)
Employee and managers profit shares	(43)	(137)	(249)	(221)	(239)	(219)
Construction costs	(394)	(1,252)	(942)	(975)	(1,336)	(1,232)
Other operating expenses, net	(143)	(455)	(527)	(493)	(481)	(327)
Total operating costs and expenses	(5,758)	(18,317)	(14,451)	(11,231)	(11,527)	(9,128)
Equity in Subsidiaries	124	393	210	764	865	539
Gain on disposal of investment				284		
Unrealized gain on disposal of investment				(81)		
Gain on acquisition of control of investee			281			
Fair value in corporate operation	229	729				

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Operational profit before Financial revenue (expenses) and Taxes	1,288	4,097	5,580	4,363	3,475	3,804
Financial revenues (expenses), net	(231)	(735)	(1,101)	(309)	1,629	(640)
Pretax profit	1,057	3,362	4,479	4,054	5,104	3,164
Income taxes expense	(280)	(892)	(1,342)	(950)	(832)	(749)
Net profit for the year	777	2,469	3,137	3,104	4,272	2,415
Other comprehensive income (loss)				213	(412)	(74)
Comprehensive income	777	2,469	3,137	3,317	3,860	2,41
Basic earnings (loss): (2)						
Per common share	0.50	1.96	2.49	2.47	3.40	1.92
Per preferred share	0.50	1.96	2.49	2.47	3.40	1.92
Per ADS	0.50	1.96	2.49	2.47	3.40	1.92
Diluted earnings (loss): (2)						
Per common share	0.50	1.96	2.49	2.47	3.40	1.92
Per preferred share	0.50	1.96	2.49	2.47	3.40	1.92
Per ADS	0.50	1.96	2.49	2.47	3.40	1.92

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	Year ended December 31,					
	2015 (in millions of US\$(1))	2015	2014	2013	2012(4)	2011(4)
	(in millions of R\$ except per share/ADS data or otherwise indicated)					
Balance sheet data:						
Assets:						
Current assets	2,948	9,377	6,554	6,669	8,804	5,768
Property, plant and equipment, net	1,239	3,940	5,544	5,817	6,109	6,392
Intangible assets	3,230	10,275	3,379	2,004	1,874	2,779
Financial assets of concessions	836	2,660	7,475	5,841	5,475	3,834
Account receivable from the Minas Gerais State Government						1,830
Other assets	4,591	14,605	12,048	9,483	10,308	9,018
Total assets	12,844	40,857	35,000	29,814	32,570	29,621
Liabilities:						
Current portion of long-term financing	1,980	6,300	5,291	2,238	6,466	4,504
Other current liabilities	1,935	6,152	4,832	3,684	6,332	3,595
Total current liabilities	3,915	12,452	10,123	5,922	12,798	8,099
Non-current financing	2,787	8,866	8,218	7,219	3,950	6,000
Post-retirement liabilities non-current	970	3,086	2,478	2,311	2,575	1,956
Other non-current liabilities	894	2,843	2,896	1,724	1,697	1,900
Total non-current liabilities	4,651	14,795	13,592	11,254	8,222	9,856
Share capital	1,979	6,294	6,294	6,294	4,265	3,412
Capital reserves	605	1,925	1,925	1,925	3,954	3,954
Profit reserves	1,661	5,285	2,594	3,840	2,856	3,293
Accumulated other comprehensive income	32	102	468	579	475	1,007
Equity attributable to non-controlling shareholder	1	4	4			
Total equity	4,278	13,610	11,285	12,638	11,550	11,666
Total liabilities and equity	12,844	40,857	35,000	29,814	32,570	29,621
Other data						

	2015	2014	2013	2012	2011
Outstanding shares basic: (2)					
Common	420,764,639	420,764,639	420,764,639	420,764,639	420,764,639
Preferred	837,516,297	837,516,297	837,516,297	837,516,297	837,516,297
Dividends per share (2)					
Common	R\$0,50	R\$0.63	R\$1.28	R\$2.20	R\$1.03
Preferred	R\$0,50	R\$0.63	R\$1.28	R\$2.20	R\$1.03
Dividends per ADS (2)	R\$0,50	R\$0.63	R\$1.28	R\$2.20	R\$1.03
Dividends per share (3)(2)					
Common	US\$0.13	US\$0.24	US\$0.48	US\$0.83	US\$0.39
Preferred	US\$0.13	US\$0.24	US\$0.48	US\$0.83	US\$0.39
Dividends per ADS (3)(2)	US\$0.13	US\$0.24	US\$0.48	US\$0.83	US\$0.39
Outstanding shares diluted: (2)					
Common	420,764,639	420,764,639	420,764,639	420,764,639	420,764,639
Preferred	837,516,297	837,516,297	837,516,297	837,516,297	837,516,297

Dividends per share diluted (2)					
Common	R\$0.50	R\$0.63	R\$1.28	R\$2.20	R\$1.03
Preferred	R\$0.50	R\$0.63	R\$1.28	R\$2.20	R\$1.03
Dividends per ADS diluted (2)					
	R\$0.50	R\$0.63	R\$1.28	R\$2.20	R\$1.03
Dividends per share diluted (3)(2)					
Common	US\$0.13	US\$0.24	US\$0.48	US\$0.83	US\$0.39
Preferred	US\$0.13	US\$0.24	US\$0.48	US\$0.83	US\$0.39
Dividends per ADS diluted (3)(2)					
	US\$0.13	US\$0.24	US\$0.48	US\$0.83	US\$0.39

- (1) Converted at R\$3.1811/US\$, the exchange rate on October 31, 2016. See Exchange rates .
- (2) Per share numbers have been adjusted to reflect the stock dividends on our shares in April 2015, and per ADS numbers have been adjusted to reflect the corresponding adjustments to our ADS.
- (3) This information is presented in U.S. dollars at the exchange rate in effect as of the end of each year.
- (4) Data as of and for the year ended December 31, 2012 and 2011, has been restated to reflect the application of IFRS 11, adopted from January 1, 2013.

Table of Contents**Exchange Rates**

On March 4, 2005, the National Monetary Council (*Conselho Monetário Nacional*), or CMN, consolidated the commercial rate exchange market and the floating rate market into a single exchange market. Such regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of reais by a foreign person or company, without restriction as to the amount. Additionally, all foreign exchange transactions must be carried out by financial institutions authorized by the Brazilian Central Bank (*Banco Central do Brasil*), or the Central Bank, to operate in this market.

Brazilian law provides that whenever there (i) is a significant deficit in Brazil's balance of payments or (ii) are major reasons to foresee a significant deficit in Brazil's balance of payments, temporary restrictions may be imposed on remittances of foreign capital abroad. In the past, the Central Bank has occasionally intervened to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Federal Government will continue to let the real float freely or will intervene in the exchange rate market. The real may depreciate or appreciate against the U.S. dollar and other currencies substantially in the future. Exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of Preferred ADSs or Common ADSs. We will make any distributions with respect to our preferred shares or common shares in reais and the depositary will convert these distributions into U.S. dollars for payment to the holders of Preferred ADSs and Common ADSs. We cannot make assurances that such measures will not be undertaken by the Brazilian Government in the future, which could prevent us from making payments to the holders of our ADSs. Exchange rate fluctuations may also affect the U.S. dollar equivalent of the real price of the preferred shares or common shares on the Brazilian stock exchange on which they are traded. Exchange rate fluctuations may also affect our results of operations. For more information see **Risk Factors** **Risks Relating to Brazil** **Exchange rate instability may adversely affect our business, results of operations and financial condition and the market price of our shares, the Preferred ADSs and the Common ADSs**.

The table below sets forth, for the periods indicated the low, high, average and period-end exchange rates for reais, expressed in reais per US\$1.00

Month	Reais per US\$1.00			
	Low	High	Average	Period-end
October 2015	3.7339	4.0003	3.8752	3.8439
November 2015	3.7048	3.8982	3.7858	3.8982
December 2015	3.7264	4.0231	3.8808	3.9593
January 2016	3.9893	4.1299	4.0556	4.0364
February 2016	3.8785	4.0564	3.9644	3.9793
March 2016	3.5500	3.9475	3.6980	3.5500
April 2016	3.4547	3.7106	3.5634	3.4547
May 2016	3.4594	3.6122	3.5403	3.6074
June 2016	3.2003	3.6030	3.4234	3.2003
July 2016	3.2350	3.3436	3.2781	3.2380
August 2016	3.1292	3.2650	3.2086	3.2470
September 2016	3.1962	3.3274	3.2532	3.2434
October (1)	3.1193	3.2359	3.1858	3.1811

(1) As of October 31, 2016.

Year Ended December 31,	Reais per US\$1.00			
	Low	High	Average	Period-end
2011	1.5375	1.8865	1.6723	1.8627
2012	1.6997	2.1141	1.9535	2.0476
2013	1.9480	2.4464	2.1570	2.3608
2014	2.1940	2.7306	2.3498	2.6563
2015	2,5644	4.1638	3.3360	3,9593

Source: U.S. Federal Reserve Board.

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Risk factors

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

Risks relating to CEMIG

We cannot be certain that new generation concessions will be granted, nor that our present concessions will be extended on terms similar to those currently in effect, nor that the indemnities received in the event of non-extension will correspond to the expected value.

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

On September 11, 2012 the Brazilian federal government issued Provisional Measure 579 (PM 579), later converted into Law No. 12,783 of January 11, 2013 (Law No. 12,783/2013), which governs extension of the concessions granted prior to Law No. 9,074 of July 7, 1995. Under that law, as from September 12, 2012 these concessions can be extended only once, for up to 30 years, at the option of the concession authority.

On December 4, 2012, the Company signed the second amendment to Transmission Concession Contract 006/1997, extending this concession contract for 30 years under the terms of Law No. 12,783/2013, to be calculated from January 1, 2013. The concession extension resulted in a reduction of the Permitted Annual Revenue (Receita Anual Permitida, or RAP), which decreased our anticipated revenue with respect to those concessions. The Brazilian federal government has indemnified the Company for the RAP reduction in connection with part of the extended concessions. However, the Company has not been indemnified for the RAP reduction in connection with assets the operation of which began before the year 2000. According to Law No. 12,783/2013, the indemnification that is pending will be paid by the concession authority within 30 years and will be, adjusted for the Amplified National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA) until it is fully paid.

The Company opted not to request the extension of the generation concessions that would expire within the period from 2013 to 2017. For the plants that have yet to undergo their first extension, including the Jaguará, São Simão and Miranda plants, Concession Contract 007/1997 guarantees the extension of these concessions for a further 20 years, under their existing terms and conditions.

Based on this understanding, Cemig Generation and Transmission (Cemig GT) applied for a judicial order of mandamus (Application for Mandamus No. 20,432/DF) against the actions of the Mining and Energy Ministry with the objective of safeguarding its rights to an extension of the concession period of the Jaguará Hydroelectric Plant, under the terms of Clause 4 of Concession Contract 007/1997, and in accordance with the original terms and conditions of that Contract, which was signed prior to Law No. 12,783/ 2013.

The Superior Court of Justice (STJ) affirmed the Mining and Energy Ministry's denial of the merits of Cemig GT's application for an extension of the Jaguará Hydroelectric Plant concession and rejected Cemig GT's application by a majority of 6 votes to 2.

On December 21, 2015, Brazil's Federal Supreme Court (STF) granted an interim judgment in the Application for Provisional Remedy No. 3980/DF brought against the Brazilian federal government by Cemig GT, which granted Cemig GT the right to retain the control of the Jaguara Hydroelectric Plant commercial operation until a final decision is made by the STF. Application for Provisional Remedy No. 3,980/DF seeks on the merits the suspension of the effects of STJ's decision on the Application for Mandamus No. 20,432/DF described above.

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On the same basis, due to the imminent expiry of the period originally specified in the São Simão Hydroelectric Plant concession, Cemig GT filed for an injunction against the actions of the Mining and Energy Minister, with the objective of ensuring its right to extend the period of that concession, under Clause 4 of Concession Contract 007/1997, in accordance with the original terms of this contract, which was signed prior to Law No. 12,783/2013. Cemig GT obtained an initial interim relief from the court, in which recognized Cemig GT's right to retain control of the São Simão Hydroelectric Plant's commercial operations until a final decision was made by the court. However, on June 30, 2015, Minister Mauro Campbell of the STJ revoked that injunction. The São Simão Hydroelectric Plant is provisionally under the responsibility of Cemig GT until a public tender is held for its concession.

Based on the classification adopted by the Company of the risk of loss involved in legal actions (where the chances of loss for the Company are assessed as probable, possible, or remote) the Company has classified the chance of loss in the actions mentioned above as possible, due to the nature and complexity of those specific cases. The cases have several particular elements characterizing the contingency, such as: (i) the singular nature of Concession Contract 007/1997; (ii) the unprecedented nature of the subject matter; and (iii) the fact that the actions will be regarded as leading cases when extension of concessions is considered by the Brazilian Courts.

On June 10, 2016, Cemig's wholly-owned subsidiary Cemig GT filed an application with Aneel for a 20-year extension of the concession period for the Miranda hydroelectric plant (the Miranda Plant), which is scheduled to expire in December 2016. On July 12, 2016, Aneel decided to refer the application to the Mining and Energy Ministry, with the recommendation that the application made by Cemig GT for extension of the period of the concession for the Miranda Hydroelectric Plant should not be granted, due to its application having been made after the deadline stipulated by Law 12,783/2013. The Company is considering any possible administrative or legal measures, and will keep its shareholders and the market informed of any material developments.

For the other generation plants that have concessions that expire during the period from 2013 to 2017, which have already undergone an extension according to the conditions established in Concession Contract 007/1997 related to Três Marias, Salto Grande, Itutinga, Camargos, Piau, Gafanhoto, Peti, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Sumidouro, Anil, Poquim, Dona Rita and Volta Grande generation plants, we have opted to return them to the concession authority (i.e. not to request extension, under the terms of PM 579).

In relation to Sumidouro, Anil, Poquim, ANEEL decided to extinguish the concession and, considering the capacity of such plants (less than 3 MW), they qualified for a registration regime and the assets were not returned to the federal government.

Further, CEMIG GT took part in the Hydroelectric Plant Concessions Auction under the Regime of Quotas, held on November 25, 2015 and won generation concessions for 18 hydroelectric power plants. CEMIG GT already operated 14 of those 18 hydroelectric power plants (Três Marias, Salto Grande, Itutinga, Camargos, Piau, Gafanhoto, Peti, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos and Dona Rita). The remaining four concessions are new and include the following hydroelectric power plants: Ervália, Coronel Domiciano, Sinceridade and Neblina. These new assets added almost 50 MW to the Cemig's power generation facilities. The total capacity of the 18 hydroelectric power plants is approximately 700 MW.

The percentage of the physical guarantee allocated to the Regulated Market (*Ambiente de Contratação Regulado*, or ACR) was 100% from January 1, 2016 to December 31, 2016 and will be 70% as of January 1, 2017. Contracts were executed after the payment of a concession grant fee of R\$2,216 million, as follows: the first installment on December 31, 2015 and the second installment within 180 calendar days of the execution of the contracts. The amount is updated by the Selic rate from the date of payment of the first installment until the second installment payment date.

Cemig GT will receive in total R\$498.7 million per year for generation services related to the plants, which is comprised of two components: (i) Fee for Management of Generation Assets (*Custo de Gestão dos Ativos de Geração* or GAG), and (ii) Yield on the Concession Grant Fee (*Retorno da Bonificação pela Outorga*, or RBO).

Regarding distribution concessions, the new concession agreement, with a 30-year term, imposes efficiency conditions on distribution companies under two categories: (i) service quality, and (ii) economic-financial sustainability. Non-compliance with the conditions for two consecutive years or any of the limits at the end of the first five years will result in the termination of the concession. Additionally, non-compliance with the global collective continuity indicator targets (global annual limits of collective continuity indicators) may lead to restrictions in the payment of dividends and/or interest on equity, while non-compliance with the economic-financial sustainability indicators may require capital contributions from the controlling shareholders.

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

On December 21, 2015, Cemig Distribuição S.A. (Cemig D) executed the fifth amendment to each of the distribution concession contracts it is a party to. Under the fifth amendment, the concessions granted under the Concession Contract 002/1997, Concession Contract 003/1997, Concession Contract 004/1997, and Concession Contract 005/1997, were consolidated and granted an extension from January 1, 2016 to December 31, 2045.

In light of the degree of discretion granted to the Brazilian federal government in relation to new concession contracts and renewal of existing concessions, and due to the new provisions established by PM 579 (and subsequent Law No. 12,783/2013) for renewals of distribution, generation and transmission concession contracts, we cannot guarantee: (i) that new concessions will be obtained; nor (ii) that our existing concessions will be extended on the same terms as those in effect; nor (iii) that the indemnities received in the event of non-extension of a concession will be in the amount expected. In this context, unfavorable events in relation to the concessions could adversely affect our business, results of operations and financial condition.

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

The Brazilian federal government has been implementing policies that have a far-reaching impact on the Brazilian energy sector and, in particular, the electricity industry. As part of the restructuring of the industry, the New Industry Model Law introduced a new regulatory regime for the Brazilian electricity industry.

This regulatory structure has undergone several changes over recent years, the most recent being the changes added by PM 579 (which was converted into Law No. 12,783/2013), which governs the extension of some concessions governed by Law No. 9,074 of July 7, 1995. Under this law, such concessions can, as from September 12, 2012, be extended only once, for up to 30 years, at the option of the concession authority.

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

Our subsidiaries may suffer intervention by public authorities to ensure appropriate provision of services, or imposition of fines by ANEEL, for failing to comply with their concession agreements and/or authorizations, which could result in penalties or, depending on the severity of the non-compliance, expiration of the concession agreements or revocation of the authorizations.

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

finer for breach of contract of up to 2.0% of the concession holder's revenues in the financial year immediately prior to the date of the breach;

injunctions related to the construction of new facilities and equipment;

restrictions on the operation of existing facilities and equipment;

temporary suspension from participating in bidding processes for new concessions for a period of up to two years;

intervention by ANEEL in the management of the concession holder that is in breach; and

repeal of the concession.

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In addition, the Brazilian federal government has the power to revoke any one of our concessions or authorizations, prior to the end of their term, in the event of bankruptcy or dissolution, or by a procedure of bringing forward expiration, for reasons related to the public interest. It can also intervene in concessions for the purpose of ensuring adequacy in provision of services, and faithful compliance with relevant provisions of contracts, regulations or law, and may also interfere in the operations of, and revenues arising from, the operations of the facilities of the Company and its subsidiaries.

Delays in the implementation and construction of new electricity undertakings can trigger the imposition of regulatory penalties by ANEEL, which, under ANEEL's Resolution No. 63 of May 12, 2004, can vary from warnings to the termination of concessions or withdrawal of authorizations.

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

Further, rules of the new distribution contract come into effect in 2016. These rules contain new standards for service quality and economic-financial sustainability of distribution companies, which must be complied with during the 30 years of the concessions. The evaluation of the standards will happen annually and, in the event of non-compliance, it may become obligatory for the controlling stockholders of the distribution company to contribute additional capital; or this might result in limitation on dividends payment, or payment of interest on equity.

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

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

Ability to generate cash flow or obtain future financings necessary for implementation of the projects;

Delays in the delivery of equipment by suppliers;

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

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

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

Directors.

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Any delays, such as those described above, or significant increases in our costs for another reason, could delay or prevent the successful implementation of our long-term strategic plan, which could cause an adverse effect on our businesses, results of operations and financial condition.

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

The Company and its subsidiaries have been acquiring interests in other companies, and they intend to maintain this profile of their business expansion in the future. However, there is a possibility that the benefits expected from these acquisitions may not be achieved. The process of integrating an acquired business might subject the Company to certain risks, such as: unexpected expenses, not being able to integrate the activities of the acquired company, not realizing the economies of scale and the expected efficiency gains, potential delays related to the integration of the operations of the acquisitions, exposure to unexpected contingencies, and prior legal claims made against an acquired business. The Company and/or its subsidiaries might not be successful in dealing with these and other risks or problems related to the most recent acquisitions or any future acquisition transaction. The Company's and/or its subsidiaries inability to integrate its operations successfully, or any significant delay in achieving such integration, could adversely affect our business, financial condition or operational results.

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

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

In relation to reinvestment, our by-laws state that we may use up to 40.0% of our annual EBITDA (earnings before interest, income taxes, depreciation and amortization), each fiscal year, on capital investments and acquisitions. Our ability to carry out our capital expenditure program is dependent upon a number of factors, including our ability to charge adequate rates for our services, access to the domestic and international capital markets, and a variety of operational and other factors. Further, our plans to expand our generation and transmission capacity are subject to the competitive bidding process governed by Law No. 8,666/1993 (the Tenders Law).

Regarding loans from unrelated parties, we note that as a state-controlled company, we are subject to rules and limits on the level of credit that may be contracted by the public sector, set by the National Monetary Council (*Conselho Monetário Nacional*, or *CMN*) and by the Brazilian Central Bank (BACEN (the Central Bank)), and also for operating in the electricity sector which are also subject to rules and limits established by ANEEL, which govern the indebtedness of electricity sector companies. Those bodies set certain parameters and indicators for financial institutions to be able to offer credit to companies in the public sector or the electricity industry. State-controlled companies, for example, may use the proceeds of external transactions with commercial banks (debt, including bonds) only for the purpose of refinancing financial obligations. When it comes to local banks, state-controlled companies can enter into transactions guaranteed by duplicates of trade bills or for the purpose of refinancing financial obligations (federal banks only).

In addition, prior approval by the Finance Ministry the Central Bank is required before carrying out certain international financial transactions. Such approval is usually being given only if the purpose of the transaction is to finance importation of goods or refinance our external debt. As a result of these rules, our ability to incur debt is limited.

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Further, we may enter into financial agreements that contain covenants, which could restrain our operational flexibility. As of this date, we have entered into financial agreements with this profile with the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or *BNDES*). In the event of non-compliance by ourselves with an obligation contained in any of these financing agreements, we are required to strengthen the guarantees of the financing, on penalty of early maturity of the contract. In the past, there have been occasions when we have been non-compliant with financial covenants, which had conditions that were more restrictive than the present ones. Although we have been able to obtain waivers from our creditors in relation to such non-compliances, no guarantee can be given that we will be successful in obtaining any particular waiver in the future.

Our by-laws require us to keep certain financial indicators, including ratios related to debt and reinvestment, within certain limits. In 2014 and 2015, certain financial limits and indicators required by our by-laws were exceeded pursuant to the relevant approvals given by our stockholders at the general stockholders' meetings for those years. Such limits could affect our operational flexibility.

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

We will need funds to finance acquisitions and investments. However, we cannot guarantee that we will have our own funds or that we will be able to raise such funds in a timely manner and in the necessary amounts, or at competitive rates (by issuance of debt securities, or incurrence of loans) to finance investments and acquisitions. If we are unable to obtain funds as planned, we may be unable to meet our acquisition commitments, and our investment program could suffer delays or significant changes, which could adversely affect our business, financial situation or future prospects.

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

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

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

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

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

assets, or due to outages.

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

The operational and financial results of the affiliated companies in which we invested may adversely affect our strategies, results of operations and financial condition.

We hold equity interests in, and conduct business through, a number of affiliated companies, including the acquisition of significant power generation and transmission assets (for further information, please refer to Item 4. Information on the Company Organization and Historical Background). The performance of our affiliated companies, such as Taesa, Light, Renova and Aliança Geração, can have a significant impact in our business and results of operations, as our ability to meet financial obligations is related in part to the cash flow and earnings of our subsidiaries and the distribution or other transfer of those earnings to us in the form of dividends or other advances and payment.

In addition, some of our subsidiaries may in the future be subject to loan agreements that require that any indebtedness of these subsidiaries to us be subordinate to the indebtedness under those loan agreements. Our subsidiaries are separate legal entities. Any right we may have to receive assets of any subsidiary or other payments upon their liquidation or reorganization will be effectively subordinated to the claims of that subsidiary's creditors (including tax authorities, trade creditors and lenders to such subsidiaries), except to the extent that we are a creditor of that subsidiary, in which case our claims would still be subordinated to any security interest in the assets of that subsidiary and indebtedness of that subsidiary senior to that held by us.

Further, as we do not control the management of several of these subsidiaries, their management practices may not be aligned with ours. Any deterioration in the results of operations or financial condition of any subsidiary or any sanctions or penalties imposed on them may have a negative effect on our results of operations or financial condition.

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

We are currently engaged in the construction and expansion of plants, transmission lines, distribution lines, distribution networks and substations, and also studying other potential expansion projects. Conclusion of the projects, within deadlines and budget, within the assumptions established in our Business Plan, and without adverse economic effects, and also of the projects of expansion, new investments, and the required capitalizations, is subject to various risks. For instance, we may encounter the following:

Various problems in the phase of planning and construction of expansion projects or new investments (examples might be work stoppages, delays by suppliers in materials and services, delays in tender processes, embargos on

work, unexpected geological and meteorological conditions, political and environmental uncertainties, the liquidity of our partners, contractors and subcontractors);

Regulatory or legal challenges that delay the start date of operations of expansion projects;

New assets might operate below the planned capacity, or the costs of their operation/installation might be greater than planned;

Difficulty of obtaining adequate working capital to finance the expansion projects;

Environmental demands and claims by the population during construction of generation plants, transmission lines, distribution lines, distribution networks and substations. and

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possibility of failure to comply with the SAIDI (outages duration) target, resulting in risk of loss of the concession, since the contract provides that non-compliance with the targets for quality indicators for 2 consecutive years, or in the fifth year, will result in opening of a process of expiration of the concession. If we face any of these problems or other problems related to the new investments or to the expansion of our generation, transmission or distribution capacity, there is the possibility that we might suffer increases of costs, or, perhaps, lower profitability than originally projected for the projects.

We have substantial liabilities and are exposed to short-term liquidity constraints, which could make it difficult for us to obtain financing for our planned investments and adversely affect our financial condition and results of operations.

In order to finance the capital expenditures needed to meet our long-term growth objectives, we have incurred a substantial amount of debt. As our cash flow from operations in recent years has not been sufficient to fund our capital expenditures, debt service and payment of dividends, our debt has significantly increased since 2012. Our total debt (including accrued interest) increased by 12.2 % to R\$15,167 million as of December 31, 2015, compared to R\$13,509 million as of December 31, 2014 and to R\$9,457 million as of December 31, 2013. Our debt, net of cash, cash equivalents and marketable securities, increased by 1.6% to R\$11,815 million as of December 31, 2015 compared to R\$11,628 million as of December 31, 2014 and to R\$6,322 million as of December 31, 2013. 87.0% of our existing debt (principal), or R\$13,190 million, will mature in the next five years. In order to meet our growth objectives, maintain our ability to fund our operations and amortize scheduled debt maturities, we will need to raise significant amounts of debt capital from a broad range of funding sources.

To service our debt after meeting our capital expenditure targets, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our available credit facilities, our cash and short-term financial investments balance and the incurrence of additional indebtedness. Any further lowering of our credit ratings may have adverse consequences on our ability to obtain financing or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. If, for any reason, we are faced with continued difficulties in accessing debt financing, this could hamper our ability to make capital expenditures in the amounts needed to maintain our current level of investments or our long-term targets and could impair our ability to timely meet our principal and interest payment obligations with our creditors, as our cash flow from operations is currently insufficient to fund such both planned capital expenditures and all of our debt service obligations. A reduction in our capital expenditure program or the sale of assets could significantly affect our results of operations.

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

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

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The state government, as our controlling shareholder, has the capacity to cause the Company to concentrate on activities and make investments that are intended to promote its own economic or social objectives, which may not be aligned with the strategy of the Company or the interests of our other shareholders.

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

As is widely known, hydroelectric generation is predominant in Brazil constituting approximately 65% of total installed capacity. The advantages of hydroelectric power have also been widely publicized: it is a renewable resource, and enables substantial expenditures on fuels in thermal generation plants to be avoided. At the same time the main difficulty in the use of this resource arises from the variability of the flows to the plants. There are substantial seasonal variations in monthly flows and in the total of flows over the year, which depend fundamentally on the volume of rain that falls in each rainy season. Adverse hydrological conditions in the Brazilian Southeast resulted in scarcity of water in the states of São Paulo, Minas Gerais and Rio de Janeiro. These conditions may get even worse during the dry period April to September. This could also lead to rationing of water consumption and, consequently, of electricity.

To deal with this problem, the Brazilian system has a complementary thermal generation system with about 28% of the total power generation capacity (and has increased the use of wind power). It also has accumulated water reserves, for the purposes of maintaining the necessary water supply from the rainy season to the dry season and from one year to the next. However, these measures are, to date, not able to handle prolonged water shortages, such as that which occurred in 2014.

The operation of the whole system is coordinated by the National System Operator (*Operador Nacional do Sistema*, or ONS). Its primary function is to achieve optimal operation of the resources available and minimize operational costs and risks of electricity shortages. In periods when the hydrological situation is unfavorable, the ONS can (as it did in 2014) reduce generation by hydroelectric plants and increase thermal generation, which results in higher costs for the hydroelectric generators. For the distribution companies, this increase in costs increases the price of their electricity purchases which is not always passed through immediately to the consumer, causing mismatches in cash flows which has an adverse effect on business, and financial conditions. Further, in the event of extreme shortages of electricity due to unfavorable hydrological conditions, the system experiences rationing, which could result in a reduction of cash flow.

To mitigate the effect of the seasonality of generation of the hydroelectric plants, the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*, or MRE) was created. This mechanism shares the generation of all the hydroelectric plants in the system in such a way as to supplement the shortage of generation of one plant with excess generation by another. However, this mechanism is not able to eliminate the risk of the generation players, because when there is an extremely unfavorable hydrological situation, to the extent that all the plants in aggregate are unable to reach the sum of their Physical Guarantee levels of power output, this mechanism makes an adjustment to the Physical Guarantee of each plant through the Physical Guarantee Adjustment Factor (*Fator de Ajuste da Garantia Física*, or GSF), resulting in the generating companies being exposed to the short-term (spot) market.

In 2014, factors such as a reduction in consumption, low storage levels in the reservoirs, low hydrology (rainfall levels and other sources of water) and increased capacity and use of thermoelectric plants have led to a reduction in hydroelectric generation which, in turn, led to a lower GSF. Hydroelectric Generation Companies are aware of this risk and, as such, they typically separate approximately 5% of their physical guarantee levels to mitigate the levels of the GSF. However, extraordinary conditions with respect to a lack of rainfall led to a GSF below the values expected by Hydroelectric Generation Companies, closing the year 2014 at a GSF of 0.91. In 2015, in spite of the small improvement in hydrological conditions, continuous dispatching of the thermal plants, and the lower load, resulted in

a GSF of 0.84 at the close of the year. This means that there has been a reduction of more than 15% in the output of the Hydroelectric Generation Companies and when there is no excess to compensate this reduction it results in increased exposure to the spot market. The exposures to the spot market, and the balance between requirements and resources, are measured monthly by the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or *CCEE*). These exposures, negative or positive, are valued by the spot price (*Preço de Liquidação de Diferenças* - PLD). If the exposures are negative the generator will have a debit in the CCEE, thus affecting its cash flow.

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This unexpected exposure of hydroelectric generation companies to spot prices, resulting from low GSF values, caused these companies to seek legal injunctions to avoid exposure to the spot prices, which led to a large number of injunctions which had the effect of paralyzing the CCEE market.

In 2015, to correct this situation, the federal government published Provisional Measure 688, enacted as Law No. 13,203, of December 8, 2015, which created the mechanism of voluntary re-negotiation of hydrological risks as they affect the hydroelectric generation companies. In this process, the generator was allowed to transfer their costs and revenues related to hydrological risk to consumers in exchange for the payment of a risk premium to be deposited in the so-called tariff band deposit account (the tariff band surcharges are deposited in such account and transfers to the distribution concessionaires are made from this account as well) and would be indemnified for the losses suffered in 2015 by means of, among other measures, an extension of their power generation grants (concessions or authorizations, as the case may be) for up to 15 years. In other words, hydroelectric power plants would recover the costs incurred with GSF deficits retroactively to January 2015, and such recovery would form a regulatory asset which would be amortized over the term of the concession with a postponement of the risk premium. If the remaining concession/authorization period is insufficient (i.e. not long enough to amortize the regulatory asset), then generators would have a concession/authorization extension (limited to 15 years). To be able to use the mechanism the companies have to waive all claims filed and all injunctions obtained, as well as waive any further rights they would have in connection such lawsuits. This mechanism enables plants with contracts signed in the regulated market and the free market to renegotiate them. However, the system and mechanism for renegotiating are different in the two markets. In both, this mechanism functions as a hedge in which the generators bear the high cost of reserve of energy, and for their generation they receive the amount stipulated by the spot market price.

In the free market, the system did not receive the same acceptance, since even with the payment of the premium, generation companies would have had to continue assuming the hydrological risk at moments of critical hydrology. In this environment, the system required contracting of reserve energy, which has very high prices, for mitigation of the hydrological risk. For this reason this mechanism became inefficient for the generation companies. Acceptance of the mechanism by the regulated market was, approximately, 90%. However, it was not accepted by the free market.

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

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

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

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In addition to the Free Consumers referred to above, there is a category of clients referred to as Special Consumers, which are those with contracted demand between 500kW and 3MW. Special Consumers are eligible to participate in the Free Market provided they buy electricity from incentive-bearing alternative sources, such as Small Hydroelectric Plants, biomass plants or wind farms. The company has conducted sales transactions for this category of electricity from specific electricity resources in particular companies of the group and, since 2009, the volume of these sales has gradually increased. The Company has formed a portfolio of purchase contracts which now occupies an important space in the Brazilian electricity market for incentive-bearing alternative power sources. Contracts for the sale of electricity to these clients have specific flexibilities to serve their needs, and these flexibilities of greater or lesser consumption are linked to the historic behavior of these loads. Higher or lower levels of consumption by these clients may cause purchase or sale exposures to spot prices, which can have an adverse impact on our business, operational results and/or financial situation. Market variations, such as variations of prices for signature of new contracts, and of volumes consumed by our clients in accordance with flexibilities previously contracted, can lead to spot market positions, which can potentially have a negative financial impact on our results.

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

In 2015 the Brazilian federal government proposed a system of voluntary renegotiation relating to hydrological risk. This process enabled the generating companies to transfer their costs and revenues related to hydrological risk to consumers in exchange for the payment of a risk premium to be deposited in the so-called tariff band deposit account (the tariff band surcharges are deposited in such account and transfers to the distribution concessionaires are made from this account as well) and would be indemnified for the losses suffered in 2015 by means of, among other measures, an extension of their power generation grants (concessions or authorizations, as the case may be) for up to 15 years. In other words, hydroelectric power plants would recover the costs incurred with GSF deficits retroactively to January 2015, and such recovery would form a regulatory asset which would be amortized over the term of the concession with a postponement of the risk premium. If the remaining concession/authorization period is insufficient (i.e. not long enough to amortize the regulatory asset), then generators would have a concession/authorization extension (limited to 15 years).

In the free market, the system was not favorable enough to gain acceptance: even with the payment of the risk premium, generation companies would have been required to continue assuming the hydrological risk at moments of critical hydrology. In this environment, the system required contracting of reserve power, which has very high prices, for mitigation of the hydrological risk.

Low liquidity or volatility in future prices, due to market conditions and/or perceptions, could negatively affect our results of operations. Further, if we are unable to sell all the power that we have available (our own generation capacity plus contracts under which we have bought supply of power) in the regulated public auctions or in the Free Market, the unsold capacity will be sold in the CCEE at the spot price (PLD), which tends to be very volatile. If this occurs in periods of low spot prices, our revenues and results of operations could be adversely affected.

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

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

In recent years, the Brazilian federal government and Aneel have created mechanisms to reduce the mismatch in the distributors' cash flow arising from the increase in prices for purchase of electricity.

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In 2013, funds from the Energy Development Account (*Conta de Desenvolvimento Energético*, or CDE) were used; and in 2014 a series of bank loans were made in the name of the CCEE, the funds from which were passed through to the distributors through an account which received the name of the ACR Account (*Conta ACR*). As from 2015, these costs began to be incorporated into the electricity tariffs paid by consumers. In 2015 there was also an Extraordinary Review of tariffs to compensate the increased costs of higher contributions to the CDE, and of electricity purchased from Itaipu, among other factors. Finally, as from January 2015, the tariff flag system was finally put in place on a permanent basis. This system increases the tariff for the final consumer when the generation system is undergoing adverse hydrological conditions, and thus transfers part of the costs to these consumers more rapidly. The Red Flag was in force for the whole of the year 2015 – this is the highest rate, indicating higher electricity acquisition costs for the distributors and constantly higher charges for the consumer. Even with this mechanism, there is the risk of increase in electricity purchase prices being on such a scale that the Company's cash is significantly pressured until the next tariff adjustment. Also, the recovery of higher costs for purchase of electricity via pass-through to tariffs takes place gradually over the 12 months between tariff adjustments.

Starting in 2014, the Brazilian federal government undertook another round of funding support transactions, with funds from the CDE. These funds relate to subsidies, including those for low-income consumers, and other components, including access for irrigation, access to water and water services, and rural consumption, which had been withdrawn from the tariff adjustment process at the implementation of Law No. 12,783/2013. These funds were sourced from the Brazilian federal government, among other sources, and paid through Eletrobrás. We note that if there is a delay in these payments it could cause problems of mismatch in the cash flow of our distribution company (Cemig D).

The current economic downturn in Brazil contributed to several factors resulting in the increase in rates charged from captive consumers, and the migration of customers to the free market. This could lead to a revenue decrease during 2016 and possible financial exposure due to an electricity inventory greater than 5% of demand. In order to mitigate these effects, distributors can assign contracts for the purchase of electricity provided by existing generation facilities through the Surpluses and Deficits Compensation Mechanism (*Mecanismo de Compensação de Sobras e Déficits*, or MCSD), which is available to distributors who have deficits. If, after using this mechanism, distributors still have an excessive inventory of more than 5% of current consumption, such excess can be sold in the spot market, which can result in a loss for the distributor if the PLD is lower than the costs of the purchase contracts. This loss cannot be passed on to the consumer and is bared by the concessionaire. Such losses could have an effect on our business and results from operations.

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

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

Non-compliance with environmental laws and regulations, such as building and operation of a potentially polluting facility without a valid environmental license or authorization, can as a consequence, in addition to the obligation to redress any damages that may be caused, result in criminal, civil and/or administrative sanctions being applied. Under Brazilian legislation, criminal penalties, such as imprisonment and restriction of rights, may be applied to individuals (including managers of legal entities), and penalties such as fines, restriction of rights or community service may be

applied to legal entities. With respect to administrative sanctions, depending on the circumstances, the environmental authorities may: (i) impose warnings, or fines, ranging from R\$50,000 to R\$50 million; (ii) require partial or total suspension of activities; (iii) suspend or restrict tax benefits; (iv) cancel or suspend lines of credit from governmental financial institutions; or (v) prohibit us from contracting with governmental agencies, companies or authorities. Any of these actions could adversely affect our business, results of operations and financial condition.

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We are also subject to Brazilian legislation that requires payment of compensation in the event that our activities have polluting effects. Under Federal Law No. 6,848/2009 and Minas Gerais State Decree No. 45,175/2009 (Decree No. 45,175/2009), up to 0.5% of the total amount invested in implementation of a project that causes significant environmental impact must be applied in mitigating measures, in an amount to be determined on a case-by-case basis by environmental authorities according to the specific level of pollution and the environmental impact of the project. Decree No. 45,175/2009 also indicated that the compensation rate will be applied retrospectively to projects implemented prior to promulgation of the present legislation. That State Decree was altered by Decree No. 45,629/2011, which established that, for the reference value of the projects that cause significant environmental impact:

- (i) for projects executed before the publication of Federal Law No. 9,985 of July 18, 2000 (Federal Law No. 9,985), the net book value will be used, excluding revaluations or, in its absence, the value of the investment presented by the representative of the project; and
- (ii) compensation for environmental projects executed after the publication of Federal Law No. 9,985 will use the reference established in Item IV of Article 1 of Decree No. 45,175/2009, calculated at the time of execution of the project and updated based on an inflation-linked adjustment index.

Among the provisions of law that can lead to operational investments and expenses, one is compliance with the Stockholm Convention on Persistent Organic Pollutants (the Convention), to which Brazil is a signatory, assuming the international commitment to withdraw the use of PCB by 2025, and its complete prohibition by 2028, through Decree No. 5,472, of June 20, 2005. The legislation to be passed for this purpose could have a major effect on the electricity industry and on Cemig, due to the possibility of obligations to list, replace and dispose of equipment and materials containing substances included in the Convention such as Polychlorinated Biphenyls (PCBs).

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

Dams are critical and essential elements in the electricity sector. Dam failures can cause serious impacts on society as a whole and on the Company.

In all dams there is an intrinsic risk of dam failure, due to internal and external factors related to the structures. The measure and nature of the risk are not always foreseeable. Absolute security, as an absolute value, is unattainable. Thus, although Cemig complies with the legislation relating to dam safety, and applies best national and international engineering practices in management of its portfolio of dams, we are subject to the risk of a dam failure. The failure of a dam could result in unavailability of hydroelectric generation, causing economic, social, regulatory, and environmental damage and potential loss of human lives in the communities downstream from dams, which could have a material adverse effect on the Company's image, business and results from operations.

The multiple uses of water and the various interests related to this natural resource might give rise to conflicts of interest between the Company and Society as a whole, which might cause losses to our business, operational results or financial situation.

Cemig's generation facilities are predominantly hydroelectric plants. In the last 15 years, 44 projects have been added, comprising approximately 1,831 MW. At present, taking into account also the projects undertaken jointly, a total of 80 plants with 7,330 MW correspond to 95.53% of the Company's installed capacity, and more than 3,500 km² of reservoirs administrated. Because water is the principal raw material for Cemig's production of electricity, and a resource that is sensitive to climate change, and vulnerable to the consequences of exploration of other natural resources, significantly impacted by anthropic actions and subject to a regulatory environment, management and conservation of water are subjects of great importance to Cemig.

Decisions on dispatching of the thermal generation plants in Brazil's national grid system (*Sistema Interligado Nacional*, or SIN) are made by the National Electricity System Operator (*Operador Nacional do Sistema Elétrico*, or ONS). The ONS is a non-profit legal entity under private law, in the form of a civil association, created on August 26, 1998, by Law No. 9,648/98, with amendments by the New Industry Model Law and regulation by Decree No. 5.081/04. It is responsible for coordination and control of the operation of generation and transmission facilities in the national grid, under inspection and regulation by the National Electricity Agency (*Agência Nacional de Energia Elétrica*, or ANEEL).

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The operation of reservoirs for generation of electricity by Cemig results, essentially, in consideration of the multiple uses of water by other users of the river basin, and this in turn leads to the need to consider a series of restrictions in terms of the environment, security, irrigation systems, human supply, waterways, bridges, and others – all of which are rigidly respected and complied with by Cemig. In periods of severe drought, like those of 2013 until 2015, monitoring and forecasting the levels of reservoirs and the constant dialogue with the public authorities, civil society and users were essential for ensuring the generation of electricity, and also the other uses of this resource. While the Company engages other essential users, takes steps to analyze community input and studies regarding issues relating to the impact of water use in order to address concerns regarding the use of water, competing interests with respect to the use of water could, subject to certain minimum limits previously established by law, affect its availability to us for use in the operations of certain of our projects, which could affect our operational results and financial condition.

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

Our Company is subject to various regulatory schemes, such as: (i) the laws and regulations of the Brazilian electricity industry, including the New Industry Model Law, regulations of the Brazilian regulator (ANEEL), among others; (ii) the laws and regulations that apply to listed companies with securities traded on the Brazilian capital markets, such as Law N° 6,404/1976, regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or *CVM*), among others; (iii) the laws and regulations that apply to Brazilian companies which have majority public-sector ownership, such as the Tenders Law, among others; and (iv) the laws and regulations that apply to companies that have securities traded in the US capital markets, such as the Sarbanes-Oxley Act of 2002, the Foreign Corrupt Practices Act of 1977 (FCPA), and regulations of the United States Securities and Exchange Commission (SEC), among others.

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

In recent years Brazil has intensified and improved its legislation and structures relating to maintaining competition, combat of improbity and prevention of corrupt practices. Law No. 12,846/2013 holds Brazilian companies strictly liable if they commit acts against Brazilian or foreign governmental entities, including acts relating to processes of competitive tenders and administrative contracts, and has laid down heavy penalties for companies that contravene this law.

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

Ongoing high profile anti-corruption investigations in Brazil may affect us, the perception of Brazil and domestic growth prospects.

Political events in Brazil have affected the development of the Brazilian economy and investors' perceptions about Brazil. For example, mass street protests, which started in mid-2013, and have continued in 2014 and 2015 (albeit to a lesser degree than in 2013) and demonstrated the public's dissatisfaction with corruption and certain political measures, and represent a potential risk to the Brazilian social and economic outlook.

Additionally, certain Brazilian companies in the oil & gas, energy and infrastructure sectors are facing corruption probes by the CVM, the Brazilian Federal Police, the Brazilian Judiciary, the SEC and the U.S. Department of Justice (DOJ). Some issues are including Norte Energia S.A., the owner of the concession for the construction and operation of Belo Monte Hydroelectric Plant, on Xingu River, State of Pará, Brazil, in which Cemig is a minority shareholder through Aliança Norte and Amazônia Energia with an interest of 12.5%. For further information, please refer to Explanatory Note and Item 4. Information on the Company Note 4 Acquisition of a 9.77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant Investigation of Norte Energia S.A.

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Depending on the developments and outcome of such investigations, as well as the time it takes to conclude them, Cemig may be required to further adjust its financial statements, as well as face downgrades from rating agencies, civil and criminal penalties, funding restrictions, reduction in revenues, liquidity issues, reputational issues and other unforeseen material adverse effects. In addition, we cannot assure you that Cemig will not become the subject of any criminal or civil anti-corruption action brought under U.S. or Brazilian law if any illegal acts or regulatory failures come to light. Any potential future anti-corruption-related action brought against us could result in charges against us, members of our management, significant fines and penalties, reputational harm, distraction from our ongoing business and other unforeseen material adverse effects.

Our ability to distribute dividends is subject to limitations.

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

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

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

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

On December 31, 2015, the total of our past-due receivables owed by final consumers, excluding the allowance for doubtful receivables, was approximately R\$919 million, corresponding to 4.31% of our consolidated net revenue in 2015, and our provision for doubtful receivables was R\$625 million. The possibility exists that we might be unable to collect amounts payable by various consumers which are in arrears. If such debts are not totally or partially settled, we will suffer an adverse impact on our business, operation results and/or financial situation. Additionally, the amount of debts in arrears from our consumers that exceeds the provision that we have made could cause an adverse effect on our business, operational results and/or financial condition.

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

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

A significant increase in interest rates or inflation would have an adverse effect on our financial expenses and financial results as a whole. At the same time, a significant reduction in the CDI rate, or in inflation, could negatively affect the revenue generated by our financial investments, but also have the positive effect of revaluing adjustments to the balances of Financial Assets of our Concessions⁽²⁾.

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

Concession agreements and Brazilian law have established a mechanism that permits three types of rate adjustment: (i) the Annual Adjustment; (ii) the Periodic Review; and (iii) the Extraordinary Review. The purpose of the Annual Adjustment (*Reajuste Anual*) is to compensate for changes in costs that are beyond the Company's control, such as the cost of electricity for supply to consumers, the sector charges that are set by the federal government, and charges for use of the transmission and distribution facilities of other companies. Manageable costs, on the other hand, are adjusted by the IGP-M inflation index, less an efficiency factor, known as the X Factor. Every five years, there is a Periodic Tariff Review (*Revisão Periódica Tarifária*, or RTP), the purpose of which is to: identify the variations in costs referred to above; provide an adequate return on the assets that the company has constructed during the period; and establish a factor based on economies of scale, which will be taken into account in the subsequent annual tariff

adjustments. An Extraordinary Tariff Review takes place whenever there is any unforeseen development that significantly alters the economic/financial equilibrium of the concession. Thus, although our concession contracts specify that the economic and financial balance of the contract shall be preserved, we cannot guarantee that ANEEL will set tariffs that adequately remunerate us in relation to the investments made or in relation to the operational costs incurred by reason of the concession.

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

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

The RAP that we receive through our transmission companies is determined by ANEEL, on behalf of the federal government. The concession contracts provide for two mechanisms for the adjustment of revenues: (i) the annual tariff adjustments; and (ii) the Periodic Tariff Review (*Revisão Tarifária Periódica*). The annual tariff adjustment of our transmission revenues takes place annually in June and is effective in July of the same year. The annual tariff adjustments take into account the permitted revenues of the projects that have come into operation, and the revenue from the previous period is adjusted by the IPCA index. The periodic tariff review previously took place every four years, but Law No. 12,783/2013 changed the tariff review period to five years. Our last tariff review was in July, 2009, and the next is estimated for 2018 due to the fact that an Extraordinary Review occurred in 2013 as a result of Law No. 12,783/2013. During the periodic tariff review, the investments made by a concession holder in the period and the operational costs of the concession are analyzed by ANEEL, taking into account only investments that it deems to be prudent, and operational costs that it assesses as having been efficient, using a benchmarking methodology developed by employing an efficiency model which compares the data the various transmission companies in Brazil. Therefore, the tariff review mechanism is subject to some extent to the discretionary power of ANEEL, since it may omit to include investments that have been made, and could recognize operational costs as being lower than those actually incurred. This could result in a material adverse effect on our business, results of operations and financial condition.

As previously mentioned, the renewal of concessions of the transmission assets of Cemig GT, under Law No. 12,783/2013, resulted in a reduction of the Permitted Annual Revenue (RAP) of this concession, and gives rise to payment of indemnity for the assets of that concession that had not be amortized. The federal government has already paid indemnity for part of the assets, but the assets in operation prior to the year 2000 have not yet been indemnified. According to Law No. 12,783/2013, full indemnity will be made for the assets based on a calculation of the assets not yet amortized, using the methodology of New Replacement Value (*Valor Novo de Reposição*, or VNR). Normative Resolution 589/2013 set the criteria for calculation, by concession holders, of the amount to be indemnified for these assets. The companies have calculated the value of the indemnities, but there is still no decision or statement by the concession authority of how this indemnity will be put into effect.

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

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

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We may incur losses in connection with pending litigation

We are currently defending several legal and administrative proceedings relating to civil, administrative, environmental, tax, labor and other claims. These claims involve a wide range of issues and seek indemnities and restitution in money and by specific performance. Several individual disputes account for a significant part of the total amount of claims against the Company. The consolidated financial statements include provision for risks in a total amount of R\$755 million, as of December 31, 2015, for actions in which the chances of loss have been assessed as probable (i.e., more likely than not). In the event that our provisions for legal actions are insufficient, payments for actions in excess of the amounts provisioned could adversely affect our operational results and financial situation.

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

Other than in connection with flying, we do not have third party liability insurance covering accidents, and we have not sought proposals for this type of insurance. We have not sought a proposal for, and do not maintain, insurance coverage against natural disasters such as earthquakes or floods, that might affect our facilities. Occurrence of events of this nature could cause us additional unexpected costs, resulting in an adverse effect on our business, operational results and financial condition.

The insurance coverage held by the Company may be insufficient to pay compensation for possible damages.

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

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

We could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm and other serious negative consequences if we sustain cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our clients or other third parties.

We manage and store various proprietary information and sensitive or confidential data relating to our operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products.

In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly interfere with the operation of the system.

The costs to us to eliminate or address the foregoing security problems and security vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential clients that may impede our critical functions.

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In addition, breaches of our security measures and the dissemination of proprietary information or sensitive or confidential data about us or our customers or other third parties could expose us, our clients or other third parties affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business. In addition, we rely in certain limited capacities on third-party data management providers whose possible security problems and security vulnerabilities may have similar effects on us.

The volumes of natural gas supplied by Gasmig are concentrated in few sectors and few clients

The volumes of sales to the non-thermoelectric generation sector are based on the large-volume industrial market, which represents 94.41% of the volume of gas sold to this sector in 2015. While we serve clients in the steel, metallurgical and mining industries, our 20 largest clients, responsible for 82.41% of the volume of gas sold in 2015, are in the industrial sector.

The Brazilian manufacturing sector is undergoing a severe crisis, with strong reductions since 2014 (down 3.1% from 2014 to 2013), intensifying in 2015 with a reduction of 8.3% from 2014 according to data on industrial production volumes from the IBGE (Monthly Industrial Production Physical Production (Pesquisa Industrial Mensal / Produção Física or PIM PF)).

In 2015, sales to the industrial sector, which comprises steel, metallurgical and mining companies, were down 14.97% from the previous year, due to the economic recession, exacerbated in the middle of the year by the policy of increasing gas prices adopted by Petrobras.

Perpetuation of this adverse economic scenario could negatively affect the business, operational results and the financial condition of Gasmig.

The existence in Brazil of a sole supplier of natural gas affects competitiveness

In 1994, Petrobras and Gasmig entered into a gas supply contract, which was supplemented in 2004 by an Additional Supply Contract (*Contrato de Suprimento Adicional*, or CSA) under which Gasmig would increase the volume of gas it purchased from Petrobras as of 2010. Since 2011, Petrobras had been providing discounts on the price of gas specified in the CSA. Beginning in June 2015, Petrobras published a gradual reduction of these discounts. Accordingly, from November 2015, the price in effect is the price set forth in the CSA (without discount). As a result, throughout 2015, the average acquisition price for the non-thermal market increased by approximately 25.7%.

This policy of Petrobras to increase gas prices in 2015, combined with the discounts offered by Petrobras in earlier years, has led to the loss of competitiveness of natural gas vis-à-vis other forms of energy such as LPG (liquid petroleum gas) and fuel oil. If this trend continues, it could negatively affect the demand for natural gas, as it creates incentives to use other sources of energy, which would have a negative impact on the business, operational results and financial condition of Gasmig.

There are uncertainties about the methodology and parameters to be adopted by the regulatory authorities in the first Tariff Review cycle to be applied to Gasmig

Gasmig obtained the concession for distribution of piped gas in the state of Minas Gerais for 30 years from the date of publication of State Law 11.021, of January 11, 1993, with the possibility of extension provided certain requirements are met. On December 26, 2014 the Second Amendment to the respective Concession Contract was signed and the period of the concession was extended until January 10, 2053.

Under the Concession Contract, the Company will continue its natural gas distribution activities until the end of the concession, being compensated through tariffs paid by the users of distribution services.

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The Minas Gerais State Economic Development Department (*Secretaria de Estado de Desenvolvimento Econômico*, or SEDE), the body of the Minas Gerais State Government responsible for regulating piped gas distribution, will be undertaking the first tariff review of Gasmig. The process of tariff review is still being structured and at the moment there is no decision as to how long the review will take or to what methodology will be adopted. At some point during this process there will be a decision on the regulatory compensation rate, which might cause a change in the profit margin for gas distribution and affect our expected results.

In addition, given that this is Gasmig's first tariff review, there can be no assurances as to the methodology for the valuation of Cemig's assets, which could negatively impact the expected return for the business.

The regulatory agency responsible for piped gas distribution is controlled by the Minas Gerais State Government, the interests of which might conflict with those of economic equilibrium of the concession

The Brazilian Federal Constitution establishes that it is the function of the States to exploit local piped gas services, directly or through concession.

Gasmig is under the indirect control of the State of Minas Gerais, through the majority shareholding position held by Cemig in Gasmig. The Minas Gerais State Economic Development Secretariat (SEDE) is an instrumentality of the State and in Minas Gerais exercises the role of regulator of the services of piped gas distribution. SEDE is also responsible for promoting investments in the State of Minas Gerais.

The Government of the State of Minas Gerais, as indirect controlling stockholder of Gasmig and, at the same time, regulator of the public service, through SEDE, has the authority to direct efforts and investments of the Company in accordance with its own political, economic or social interests and these could have a negative impact on the economic equilibrium of the concession.

Risks Relating to Brazil

Political and economic instability in Brazil could have effects on the economy and affect us.

Brazil has experienced low economic growth and increasing tension in the political environment, due to the impeachment of former president of the Brazil, Dilma Rouseff, and the related events and repercussions.

The current government of President Michel Temer is experiencing low levels of popularity. The government's low level of popularity could result in political instability in Brazil, which could in turn result in a reduction of the credibility of public institutions.

Further, the country is suffering the effects on public opinion related to the irregularities that are being investigated in important Brazilian companies, which could result in a significant deterioration in the markets.

If such events result in a negative image being caused for investors, the trading value of our shares, preferred and common, and of our preferred and common ADSs might be reduced, and this could negatively affect our access to the international financial markets. Furthermore, any political instability resulting from such events, if it affects the Brazilian economy, could cause us to re-evaluate our strategy.

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The Brazilian federal government has exercised, and continues to exercise, significant influence on the Brazilian economy. Political and economic conditions can have a direct impact on our business, financial condition, results of operations and prospects.

The Brazilian federal government frequently intervenes in the country's economy and occasionally makes significant changes in monetary, fiscal and regulatory policy. Our business, results of operations and financial condition may be adversely affected by changes in government policies, as well as other factors including, without limitation:

fluctuations in the exchange rate;

inflation;

changes in interest rates;

fiscal policy;

other political, diplomatic, social and economic developments which may affect Brazil or the international markets;

controls on capital flows; and/or

limits on foreign trade.

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

Taking into account the Brazilian presidential system of government, and the considerable influence of the executive power, it is not possible to predict whether the present government or any successive governments will have an adverse effect on the Brazilian economy, and consequently on our business.

The stability of the Brazilian real is affected by its relationship with the U.S. dollar, inflation and Brazilian federal government policy regarding exchange rates. Our business could be adversely affected by any recurrence of volatility affecting our foreign currency-linked receivables and obligations.

The Brazilian currency has experienced high degrees of volatility in the past. The Brazilian federal government has implemented several economic plans, and has used a wide range of foreign currency control mechanisms, including sudden devaluation, small periodic devaluation during which the occurrence of the changes varied from daily to monthly, floating exchange market systems, exchange controls and parallel exchange market. From time to time, there was a significant degree of fluctuation between the U.S. dollar and the Brazilian real and other currencies. On

December 31, 2015, the exchange rate between the real and the U.S. dollar was R\$3.9593 to U.S.\$1.00.

The real may not maintain its current value or the Brazilian federal government may implement foreign currency control mechanisms. Any governmental interference with the exchange rate, or the implementation of exchange control mechanisms, could lead to a depreciation of the real, which could reduce the value of our receivables and make our foreign currency-linked obligations more expensive. Other than in respect of our revenues and receivables denominated in U.S. dollars, such devaluation could materially adversely affect our business, operations or prospects.

On December 31, 2015, approximately 0.31% of our consolidated indebtedness (which equaled approximately R\$15,167 million) was denominated in foreign currencies, of which approximately R\$33 million (or approximately 0.22% of our consolidated indebtedness) was denominated in U.S. dollars.

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

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

Brazil has historically experienced extremely high rates of inflation. Inflation, and some of the federal government's measures taken in an attempt to curb inflation, have had significant negative effects on the Brazilian economy. Since the introduction of the real in 1994, Brazil's inflation rate has been substantially lower than in previous periods. As measured by the IPCA index, Brazilian annual inflation rates in 2013, 2014 and 2015 were 5.91%, 6.41% and 10.67%, respectively. No assurance can be given that inflation will remain at these levels.

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

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

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

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

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

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

Changes in economic and market conditions in other countries, especially Latin American and emerging market countries, may adversely affect our business, results of operations and financial condition, as well as the market price of our shares, preferred ADS and common ADSs.

The market value of the securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American countries and emerging market countries. Although the economic conditions of such countries may differ significantly from the economic conditions of Brazil, the reactions of investors to events in those countries may have an adverse effect on the market value of the securities of Brazilian issuers. Crises in other emerging market countries might reduce investors' interest in the securities of Brazilian issuers, including our Company. In the future, this could make it more difficult for us to access the capital markets and finance

our operations on acceptable terms or at all. Due to the characteristics of the Brazilian power industry (which requires significant investments in operating assets) and due to our financing needs, if access to the capital and credit markets is limited, we could face difficulties in completing our investment plans and the refinancing our obligations, and this could adversely affect our business, results of operations and financial condition.

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

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

changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, related to their investments; and

restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than the major securities markets in the United States. This might substantially limit an investor's ability to sell the shares underlying his preferred or common ADSs for the desired price and within the desired period. In 2015 the São Paulo Stock Exchange (*BM&FBovespa S.A. Bolsa de Valores, Mercadorias e Futuros*, or *BM&FBovespa*), the only stock exchange in Brazil on which our shares are traded, had an annual market capitalization of approximately R\$1.67 trillion, and average daily trading volume of approximately R\$6.79 billion.

Holders of the preferred and common ADSs, and holders of our shares, may have different shareholders' rights than holders of shares in U.S. companies.

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

Exchange controls and restrictions on remittances from Brazil might adversely affect holders of preferred and common ADSs

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

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

Law No. 10,833 of December 29, 2003 (Law No. 10,833/2003) provides that the sale of assets located in Brazil is subject to taxation in Brazil, regardless of whether the sale occurs inside or outside Brazil. This rule applies whether the vendor is a Brazilian resident or a person not resident in Brazil, and also when both are resident outside Brazil.

There is no clear instruction as to the application of Law No. 10,833/2003. Accordingly, we are unable to predict whether Brazilian courts will decide whether it applies to sales of our preferred ADSs and common ADSs between non-residents of Brazil. However, in the event that the concept of the sale of assets is interpreted to include a sale of our preferred ADSs and common ADSs, application of this tax law would result in the imposition of withholding taxes on sales of our preferred ADSs and common ADSs by a non-resident to either a resident or a non-resident of Brazil.

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Foreign shareholders may be unable to enforce judgments given in non-Brazilian courts against the Company, or against members of its Board of Directors or Executive Board.

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