

ENERGY CO OF MINAS GERAIS

Form 20-F

May 09, 2018

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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**

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

**For the fiscal year ended December 31, 2017**

**or**

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

**or**

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

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

Commission file number 1-15224

**COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG**

(Exact name of Registrant as specified in its charter)

**ENERGY CO OF MINAS GERAIS**

(Translation of Registrant's name into English)

**BRAZIL**

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

**Title of each class:**

**Name of exchange on which registered:**

Preferred Shares, R\$5.00 par value  
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

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

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**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 share as of the close of the period covered by the annual report:

487,614,213 Common Shares

971,138,388 Preferred Shares-

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

International Financial Reporting Standards as

U.S. GAAP

Other

issued by the International Accounting Standards Board

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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**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, the CEMIG Group, the Company, we, us, our and ourselves are to Companhia Energética de Minas Gerais CEMIG and its consolidated subsidiaries, and references to CEMIG Holding are to Companhia Energética de Minas Gerais CEMIG on an individual basis, except when 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 statutory 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, 2017 and 2016 and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2017, 2016 and 2015, in *reais* in accordance with IFRS, as issued by the IASB.

Ernst & Young Auditores Independentes S.S. (EY) audited our consolidated financial statements as of December 31, 2017. Deloitte Touche Tohmatsu Auditores Independentes (Deloitte Touche Tohmatsu) audited our consolidated financial statements as of December 31, 2016 and 2015; EY and Deloitte Touche Tohmatsu did not audit the financial statements of Madeira Energia S.A. and Norte Energia S.A. as of December 31, 2017, 2016 and 2015, which are investments of the Company accounted for under the equity method. The financial statements of Madeira Energia S.A. and Norte Energia S.A. were audited by PricewaterhouseCoopers Auditores Independentes, whose reports related to the financial statements of Madeira Energia S.A. as of December 31, 2017, 2016 and 2015 and to the financial statements of Norte Energia S.A. as of December 31, 2017, 2016 and 2015, have been presented to EY and Deloitte Touche Tohmatsu and are the sole base for the opinion of EY and Deloitte Touche Tohmatsu on the financial statements of Madeira Energia S.A. and Norte Energia S.A..

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\$3.3121 to US\$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of December 29, 2017. 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, 2017 and is based on, or derived from, reports issued by the Brazilian National Electric Energy Agency (*Agência Nacional de Energia Elétrica*, or ANEEL), and by the Brazilian Electric Power Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, 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 our Preferred American Depositary Receipts, or Preferred ADRs, and Common American Depositary Receipts, or Common ADRs, are referred to collectively as ADRs.

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 certain forward-looking statements, mainly 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 contingencies including, but not limited to, the following:

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

inflation and fluctuations in exchange rates and in interest rates;

existing and future governmental regulation as to energy rates, energy 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 customers;

our ability to implement our divestment program;

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 or merge into our operations;

changes in volumes and patterns of customer energy usage;

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

trends in the energy 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 hydroelectrical power generation facilities;

existing and future policies of the government of Minas Gerais (the State Government), including policies affecting its investment in us and its plans for future expansion of energy 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, could, will, plan, estimate, continue, anticipate, seek, intend, expect 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.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****Selected Consolidated Financial Data**

The following tables present our selected consolidated financial and operating information 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, 2017 and 2016 and for each of the years ended December 31, 2017, 2016 and 2015, prepared in accordance with 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\$3.3121 per US\$1.00, the exchange rate as of December 29, 2017. The *real* has historically experienced high volatility. We cannot guarantee that U.S. dollars can or could have been converted into *reais*, or that *reais* can or could have been converted into U.S. dollars at the above rate or at any other rate. The selected consolidated financial data as of December 31, 2015, 2014 and 2013 and for each of the years ended December 31, 2014 and 2013 has been derived from our audited consolidated financial statements not included in this annual report on Form 20-F.

**Consolidated Statement of Income Data**

	<b>Year ended December 31,</b>					
	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>(in millions</b>	<b>(in millions of R\$ except per share/ADS</b>				
	<b>of US\$(1)</b>	<b>data or otherwise indicated)</b>				
<b>Net operating revenue</b>						
Energy sales to final customers	6,171	20,438	20,458	20,319	14,922	12,597
Revenue from wholesale supply to other concession holders	985	3,263	2,972	2,207	2,310	2,144
CVA (compensation for changes in Portion A items) and other financial components in tariff	298	988	(1,455)	1,704	1,107	

increases

Revenue from use of the energy distribution systems (TUSD)	486	1,611	1,705	1,465	855	1,008
Transmission concession revenue	112	371	312	261	557	404
Transmission indemnity revenue	113	373	751	101	420	21
Generation indemnity revenue	82	272				
Adjustment to expectation of cash flow from indemnifiable Financial asset of the distribution concession	3	9	8	576	55	
Revenue from financial updating of the Concession						
Grant Fee	96	317	300			
Construction revenue	338	1,119	1,193	1,252	941	975
Energy transactions on the CCEE	260	860	161	2,425	2,348	1,193
Supply of gas	531	1,759	1,444	1,667	422	
Other operating revenues	448	1,483	1,421	1,440	1,284	1,047
Deductions from revenue	(3,367)	(11,151)	(10,497)	(11,549)	(5,626)	(4,762)
<b>Total net operating revenue</b>	<b>6,556</b>	<b>21,712</b>	<b>18,773</b>	<b>21,868</b>	<b>19,595</b>	<b>14,627</b>

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	Year ended December 31,					
	2017	2017	2016	2015	2014	2013
	(in millions of US\$)(1)	(in millions of R\$ except per share/ADS data or otherwise indicated)				
<b>Operating costs and expenses</b>						
Energy purchased for resale	(3,297)	(10,919)	(8,273)	(9,542)	(7,428)	(5,207)
Charges for use of the national grid	(354)	(1,174)	(947)	(999)	(744)	(575)
Depreciation and amortization	(257)	(850)	(834)	(835)	(801)	(824)
Personnel	(491)	(1,627)	(1,643)	(1,435)	(1,252)	(1,284)
Gas purchased for resale	(323)	(1,071)	(877)	(1,051)	(254)	
Outsourced services	(294)	(974)	(867)	(899)	(953)	(917)
Post-retirement obligations	69	229	(345)	(156)	(212)	(176)
Materials	(18)	(61)	(58)	(154)	(381)	(123)
Operating provisions, net	(258)	(854)	(704)	(1,402)	(581)	(305)
Employee and managers profit sharing	(2)	(5)	(7)	(137)	(249)	(221)
Infrastructure construction costs	(338)	(1,119)	(1,193)	(1,252)	(942)	(975)
Other operating expenses, net	(119)	(393)	(155)	(426)	(651)	(624)
<b>Total operating costs and expenses</b>	<b>(5,682)</b>	<b>(18,818)</b>	<b>(15,903)</b>	<b>(18,288)</b>	<b>(14,448)</b>	<b>(11,231)</b>
Share of (loss) profit, net, of associates and joint ventures	(76)	(252)	(302)	393	210	764
Gain on acquisition of control of investee					281	
Gain on disposal of equity investment						284
Unrealized gain on disposal of investment						(81)
Impairment loss on Investments			(763)			
Fair value gain on shareholding transaction				729		
Income before finance income (expenses) and taxes	798	2,642	1,805	4,702	5,638	4,363
Finance income (expenses), net	(301)	(996)	(1,437)	(1,340)	(1,159)	(309)
Income before income tax and social contribution tax	497	1,646	368	3,362	4,479	4,054
Income taxes expense	(194)	(644)	(34)	(893)	(1,342)	(950)
Net income for the year	303	1,002	334	2,469	3,137	3,104
Other comprehensive income (loss)	(91)	(302)	(553)	(307)	(41)	213
Comprehensive income	212	700	(219)	2,162	3,096	3,317
Basic earnings:						
Per common share	0.11	0.37	0.10	1.96	2.49	2.47
Per preferred share	0.25	0.84	0.35	1.96	2.49	2.47
Per ADS common share	0.11	0.37	0.10	1.96	2.49	2.47
Per ADS preferred share	0.25	0.84	0.35	1.96	2.49	2.47
Diluted earnings:						
Per common share	0.11	0.37	0.07	1.96	2.49	2.47
Per preferred share	0.25	0.84	0.32	1.96	2.49	2.47
Per ADS common share	0.11	0.37	0.07	1.96	2.49	2.47
Per ADS preferred share	0.25	0.84	0.32	1.96	2.49	2.47

**Table of Contents****Statement of Financial Position Data**

	Year ended December 31,					
	2017 (in millions of US\$(1))	2017	2016	2015	2014	2013
	(in millions of R\$ except per share/ADS data or otherwise indicated)					
<b>Assets</b>						
Current assets	2,578	8,537	8,285	9,377	6,554	6,669
Property, plant and equipment, net	834	2,762	3,775	3,940	5,544	5,817
Intangible assets	3,368	11,156	10,820	10,275	3,379	2,004
Concession financial assets	1,994	6,605	4,971	2,660	7,475	5,841
Other assets	3,979	13,180	14,185	14,605	12,048	9,483
<b>Total assets</b>	<b>12,753</b>	<b>42,240</b>	<b>42,036</b>	<b>40,857</b>	<b>35,000</b>	<b>29,814</b>
<b>Liabilities</b>						
Current loans financing and debentures	716	2,371	4,837	6,300	5,291	2,238
Other current liabilities	1,899	6,292	6,610	6,774	4,832	3,684
<b>Total current liabilities</b>	<b>2,615</b>	<b>8,663</b>	<b>11,447</b>	<b>13,074</b>	<b>10,123</b>	<b>5,922</b>
Non-current loans financing and debentures	3,631	12,027	10,342	8,866	8,218	7,219
Non-current post-retirement obligation	1,194	3,954	4,043	3,086	2,478	2,311
Other non-current liabilities	986	3,266	3,270	2,843	2,896	1,724
<b>Total non-current liabilities</b>	<b>5,811</b>	<b>19,247</b>	<b>17,655</b>	<b>14,795</b>	<b>13,592</b>	<b>11,254</b>
Share capital	1,900	6,294	6,294	6,294	6,294	6,294
Capital reserves	581	1,925	1,925	1,925	1,925	1,925
Profit reserves	1,730	5,729	5,200	4,663	2,594	3,840
Equity valuation reserve	(252)	(837)	(489)	102	468	579
Subscription of shares to be capitalized	367	1,215				
Equity attributable to non-controlling interests	1	4	4	4	4	
<b>Total equity</b>	<b>4,327</b>	<b>14,330</b>	<b>12,934</b>	<b>12,988</b>	<b>11,285</b>	<b>12,638</b>
<b>Total liabilities and equity</b>	<b>12,753</b>	<b>42,240</b>	<b>42,036</b>	<b>40,857</b>	<b>35,000</b>	<b>29,814</b>
<b>Other data</b>						

	2017	2016	2015	2014	2013
Outstanding shares basic:					
Common (3)	487,614,144	420,764,639	420,764,639	420,764,639	420,764,639
Preferred (3)	970,577,739	837,516,297	837,516,297	837,516,297	837,516,297
Dividends per share					
Common	R\$0.03		R\$0.50	R\$0.63	R\$1.28
Preferred	R\$0.50	R\$0.50	R\$0.50	R\$0.63	R\$1.28
Dividends per ADS common	R\$0.03		R\$0.50	R\$0.63	R\$1.28
Dividends per ADS preferred	R\$0.50	R\$0.50	R\$0.50	R\$0.63	R\$1.28
Dividends per share (2)					
Common	US\$0.01		US\$0.13	US\$0.24	US\$0.48
Preferred	US\$0.15	US\$0.15	US\$0.13	US\$0.24	US\$0.48
Dividends per ADS (2) common	US\$0.01		US\$0.13	US\$0.24	US\$0.48

Dividends per ADS (2) preferred	US\$0.15	US\$0.15	US\$0.13	US\$0.24	US\$0.48
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	2017	2016	2015	2014	2013
Outstanding shares diluted:					
Common (3)	487,614,144	420,764,639	420,764,639	420,764,639	420,764,639
Preferred (3)	970,577,739	837,516,297	837,516,297	837,516,297	837,516,297
Dividends per share diluted					
Common	R\$0.03		R\$0.50	R\$0.63	R\$1.28
Preferred	R\$0.50	R\$0.50	R\$0.50	R\$0.63	R\$1.28
Dividends per ADS diluted common	R\$0.03		R\$0.50	R\$0.63	R\$1.28
Dividends per ADS diluted Preferred	R\$0.50	R\$0.50	R\$0.50	R\$0.63	R\$1.28
Dividends per share diluted (2)					
Common	US\$0.01		US\$0.13	US\$0.24	US\$0.48
Preferred	US\$0.15	US\$0.15	US\$0.13	US\$0.24	US\$0.48
Dividends per ADS diluted common (2)	US\$0.01		US\$0.13	US\$0.24	US\$0.48
Dividends per ADS diluted preferred (2)	US\$0.15	US\$0.15	US\$0.13	US\$0.24	US\$0.48

(1) Converted at R\$3.3121 /US\$, the exchange rate on December 29, 2017. See Exchange rates .

(2) This information is presented in U.S. dollars at the exchange rate in effect as of the end of each year.

(3) For the year ended December 31, 2017 was included new shares issued through capital increase. Please See Item 4. Information on the Company

**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, as restated in 2008, 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 *reais* float freely or will intervene in the exchange rate market. The *reais* 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 depository 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 *reais* 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 .





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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

Year Ended December 31,	Reais per US\$1.00			
	Low	High	Average	Period-end
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
2016	3.4112	4.1299	3.4839	3.2532
2017	3.0557	3.3823	3.1916	3.3121

Month	Reais per US\$1.00			
	Low	High	Average	Period end
November 2017	3.2055	3.3132	3.2629	3.2843
December 2017	3.2338	3.3396	3.2950	3.3121
January 2018	3.1470	3.2620	3.2115	3.1782
February 2018	3.1718	3.3083	3.2507	3.2428
March 2018	3.2191	3.3370	3.2790	3.3045
April 2018 (through April 27, 2018)	3.3149	3.5090	3.4051	3.4685

Source: U.S. Federal Reserve Board.

**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 are not certain whether new concessions or authorizations, as applicable, will be obtained, nor that our present concessions or authorizations will be extended on terms similar to those currently in effect, nor that any compensation received by us in the event of non-extension will be sufficient to cover the full value of our investment.*

We operate most of our power generation, transmission and distribution activities under concession agreements entered into with the Brazilian Federal Government or pursuant to authorizations granted to companies of the CEMIG Group. The Brazilian Constitution determines that all concessions related to public services must be granted 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 governs bidding procedures in the electric power industry.

On September 22, 2004, while the rules established by Law No. 9,074 of July 7, 1995 were still in force, we requested a 20 years extension from ANEEL of the concessions to the Emborcação and Nova Ponte hydroelectrical plants. On January 14, 2007, ANEEL approved the required extension as of July 24, 2005. The related concession contract was amended on October 22, 2008, to reflect these extensions.

On September 11, 2012, the Brazilian Federal Government issued Provisional Act No. 579 ( PA 579 ), later converted into Law No. 12,783 of January 11, 2013 ( Law No. 12,783/13 ), which governs the extensions of concessions granted prior to Law No. 9,074/95. Law No. 12,783/13 determines that, as of September 12, 2012, concessions prior to Law No. 9,074/95, can be extended once, for up to 30 years, at the option of the concession authority.

With respect to generation activities, the Company chose not to accept the mechanism offered to extend the generation concessions that would expire in the period from 2013 to 2017. These are: Três Marias, Salto Grande, Itutinga, Volta Grande, Camargos, Peti, Piau, Gafanhoto, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Dona Rita, Sumidouro, Poquim and Anil.

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Following publication of the tender documents for Generation Auction No. 12/2015, on October 7, 2015 ( Auction 12/2015 ), which was held under the revised regulatory structure for renewal of concessions of existing plants as set forth in Law No. 13,203 of December 8, 2015 ( Law No. 13,203/15 ), the Company's Board of Directors authorized Cemig Geração e Transmissão S.A. ( Cemig GT ) to bid at an auction, held on November 25, 2015, in which Cemig GT was successful. In the auction, Cemig GT won the concessions for the 18 hydroelectrical plants comprising Lot D : Três Marias, Salto Grande, Itutinga, Camargos, Cajuru, Gafanhoto, Martins, Marmelos, Joasal, Paciência, Piau, Coronel Domiciano, Tronqueiras, Peti, Dona Rita, Sinceridade, Neblina and Ervália. The total installed capacity of these plants is 699.5 MW, and their offtake guarantee is 420.2 MW average.

In relation to the Jaguará, São Simão and Miranda power plants, which the date of the first contractual extension of their concessions fell after the issuance of PM 579, the Company understands that the Generation Concession Contract No. 007/1997 enables the extension of the concessions of these power plants for 20 years, i.e. until 2033, 2035 and 2036 respectively, without any restrictions.

Based on this understanding, our subsidiary CEMIG Geração e Transmissão S.A. ( CEMIG GT ) has filed for a judicial order of mandamus (Writ of Mandamus No. 20,432/DF) against the actions of the Brazilian Mining and Energy Ministry ( MME ) to safeguard its rights to an extension of the concession term for the Jaguará Hydroelectrical Power Plant, under the terms of Clause 4 of the Generation Concession Contract No. 007/1997, and in accordance with the original terms and conditions of that agreement, which was signed prior to Law No. 12,783/13.

On September 3, 2013 the Company was awarded an interim judgment that entitled it to continue commercial operation of the Jaguará plant until a judgment was issued by the courts on the writ of mandamus. On May 27, 2015 there was a decision on the matter, denying CEMIG GT's request. Prior to the publishing of this decision, which would have prevented the filing of the appropriate appeal, CEMIG GT appealed to the Federal Supreme Court (Supremo Tribunal Federal, or STF) for a provisional remedy with interim injunction requesting a permission to continue operating and managing the power plant. The interim injunction was granted on December 21, 2015. The Action for Provisional Remedy itself has not yet been judged. With the publication of the result of the judgment on February 15, 2016, Cemig GT filed an Ordinary Appeal to the STF on March 1, 2016. On March 21, 2017, the interim remedy given in the Action for Provisional Remedy referred to above was revoked by the Reporting Justice. On November 21, 2017, the 2nd Panel of the STF ruled that the application for mandamus should be dismissed, but this is not a final decision as it requires a full panel to decide. As soon as the full panel judgment is published, the Company will assess the possibility of appeal.

Considering that the São Simão Hydroelectrical Plant ( the São Simão Plant ) concession of Cemig GT will expire shortly, Cemig GT filed an order of mandamus against an act of the MME, in order to ensure its right to extend the concession of this plant, under Clause 4 of Generation Concession Contract No. 007/1997, obeying the original bases of this contract, which were prior to Law 12,783/13. On December 19, 2014 the Superior Court of Justice (Superior Tribunal de Justiça, or STJ ) granted Cemig GT an interim relief which allowed it to continue in control of the commercial operations of the São Simão Plant. This decision was reviewed, and overturned, by the Reporting Justice on June 30, 2015. The judgment of the merit of this action has not begun. The Reporting Justice, considering the STF decision on the interim relief of the Jaguará Plant, on December 21, 2015, served notice on Cemig GT to make a statement on the suspension of this order of mandamus relating to the São Simão Plant. On 09/08/2016, Cemig GT, stated its interest in the suspension, but requested an interim remedy with the same outcome that was employed in the case of the Jaguará Plant was granted, i.e. keeping Cemig GT as holder of the concession of the São Simão Plant, on the same terms as the Jaguará Plant, obeying the original bases of the Generation Concession Contract No. 007/1997, prior to Law 12,783/2013. On 08/03/2017, the injunction was granted by the Reporting Justice to allow CEMIG GT to retain ownership of the São Simão concession, under the initial bases of Concession Contract No. 007/1997, until the conclusion of the judgment. On March 28, 2017, that interim injunction was revoked. On December 13, 2017, the

First Section of the STJ ruled to deny Cemig's request. CEMIG GT appealed again to the Federal Supreme Court (Supremo Tribunal Federal, or STF). As of the date of this report, there has been no judgment on the merits of this action.

On December 21, 2016, Cemig GT filed an application for mandamus, requesting interim relief, against an act practiced by the Mining and Energy Minister that was unlawful and violated the plaintiff's net and certain right with the objective of obtaining extension of the period of concession of the Miranda Hydroelectrical Power Plant, on the basis of Clause 4 of the Generation Concession Contract No. 007/1997. Cemig GT was granted an interim remedy to continue commercial operation of the Miranda Plant until a final judgment would be given on this application for mandamus. In response to a motion for revision of judgment brought by the Federal Government against the internal appeal, the Reporting Justice revoked this interim remedy on March 29, 2017. As of the date of this report, there has been no judgment on the merits of this action.

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On February 21, 2017, Cemig GT made a renewal request to the MME, renewing its administrative application for extension, for a term of 20 (twenty) years, of the concessions of the Jaguara, São Simão and Miranda hydroelectrical plants pursuant to Clause 4 of Generation Concession Contract No. 007 of 1997. In this renewal request, which reaffirms the Company's interests in these plants, Cemig GT also made an alternative request, in the event the application is denied, for the concession of these hydroelectrical plants to be transferred/granted to one of its subsidiaries, for the purposes specified by Paragraph 1-C of Article 8 of Law 12,783/13 (as amended by Law 13,360 of November 17, 2016), which enables the Federal Government to grant a power generation concession for 30 years when associated with transfer of control of a legal entity providing this service which is under direct or indirect control of a State, the Federal District or a municipality.

On September 27, 2017, the Brazilian Federal Government auctioned the concessions of the São Simão, Jaguara, Miranda and Volta Grande hydroelectrical power plants formerly owned by CEMIG GT with a total capacity of 2,922 MW for a total of R\$12.13 billion. In each case, the winning bidder of the concessions was a third party unrelated to CEMIG. Ownership of these concessions would be transferred from CEMIG to the winning bidders on December 30, 2017.

CEMIG GT understands that it complied with the requirements to maintain the concessions of the São Simão, Jaguara and Miranda power plants, which were each subject to automatic renewals. Several legal actions, public acts and negotiation meetings were held with MME e ANEEL in order to seek a solution to the litigation that has extended since 2012. In the case of Volta Grande, CEMIG GT has also worked intensively to negotiate renewal terms for that concession. Despite the outcome of the auction, CEMIG GT plans to continue to assert its rights with respect to this concession in court. Following the legal actions in progress in the STF and the STJ, cases were brought in the administrative and the judicial sphere related to the indemnity to which the Company is entitled.

On August 3, 2017, the MME established the amounts of the indemnity owed to CEMIG GT for investments made in the São Simão and Miranda power plants. The total amount of the indemnity has been calculated at R\$1.028 billion, of which R\$243.59 million relates to the residual value the São Simão plant and R\$784.15 million relates to the indemnity for the Miranda plant. These amounts are as of September 2015 and December 2016, respectively, and are to be adjusted by the IPCA inflation index and by the Selic rate. However, payment is conditional on budgetary and financial availability of public funds and is subject to administrative and judicial challenges and there can be no assurance as to when such amounts will be paid.

Our initial estimates indicate that these amounts are insufficient to cover Cemig's investment, therefore on August 17, 2017 we filed a hierarchy appeal that has not yet been judged. On November 27, 2017 Cemig GT filed a Prior Provisional Remedy in order to obtain an order for the Federal Government to disclose the basis for calculation of the indemnity for Jaguara, Miranda, São Simão and Volta Grande Hydroelectrical Power Plants, and also immediately deposit the non-contested portion of the indemnity, which had been set at R\$1.028 billion. On November 29, 2017 the application for this remedy was denied and Cemig GT filed an Interlocutory Appeal that is currently pending judgment. Additionally, on January 17, 2018 Cemig amended the writ: (i) to file additional support for the disclosure of the calculation; (ii) applying for declaration of nullity of Article 1, §§1 and 2, and Article 2, of the Mining and Energy Ministry Order No. 291/2017, and consequent payment of indemnity to include all the investments made by Cemig GT in the concession; and (iii) requesting immediate payment of the non-contested amount.

Regarding transmission activities, on December 4, 2012, the Company signed the second amendment to Transmission Concession Agreement No. 006/1997, extending the concession for 30 years as of January 1, 2013. The concession extension resulted in a reduction of the Permitted Annual Revenue (Receita Anual Permitida, or RAP), which decreased from R\$ 485 million (in June 2012) to R\$ 296 million (in June 2016). The Brazilian Government has compensated us for the reduction of the RAP of part of those concessions, but the assets in operation before the year

of 2000 have not been compensated yet. In our view, Law 12,783/13 states that the Federal Government is required to compensate us, using the IPCA index as basis, RAP reductions of assets operating before 2000 within a 30 year period. According to Brazilian Mining and Energy Ministry Ordinance No. 120/2016, as of July 2017, the transmission companies that extended their concession agreements will have their assets not yet compensated included in the Regulatory Remuneration Base and will also receive the recovery of past revenues from those assets.

With respect to extension of the energy distribution concession, CEMIG Distribuição S.A. ( CEMIG D ), as per Decree No. 7,805/12 and Decree No. 8,461/15, accepted the extension of its concession contracts, and signed the Fifth Amendment to its Concession Contract in December 2015 (the Fifth Amendment ). This extends the concession for a further 30 years from January 1, 2016, but requires compliance with even more rigid rules related to the quality of service provided and the economic and financial sustainability of the Company over the 30 years of the concession.

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In light of the degree of discretion granted to the Brazilian Federal Government in relation to new concession contracts or new authorizations, as applicable, and renewal of existing concessions and authorizations, and due to the new provisions established by PA 579 (and subsequent Law No. 12,783/13) and amendments made to it by Law No. 13,203/15 and Law No. 13,360/16, for renewals of generation, transmission and distribution concession agreements, we cannot guarantee that: (i) new concessions and authorizations will be obtained; (ii) our existing concessions and authorizations will be extended on terms similar to those currently in effect; nor (iii) the compensation received in the event of non-extension of a concession or authorization will be in an amount sufficient to cover the full value of our investment. Our inability to obtain new or extended concessions or authorizations could have a material adverse effect on our business, results of operations and financial condition. For more information about the renewal of our concessions and authorizations, see Item 8. Financial Information – Legal and Administrative Proceedings.

***Our subsidiaries might suffer intervention by Brazilian public authorities to ensure adequate levels of service, or be sanctioned by ANEEL for non-compliance with their concession agreements, or the authorizations granted to them, which could result in fines, other penalties and/or, depending on the severity of the non-compliance, legal termination of concession agreements or revocation of authorizations.***

We conduct our generation, transmission and distribution activities pursuant to concession agreements entered into with the Brazilian Federal Government, through ANEEL, and pursuant to authorizations granted to companies of the CEMIG Group, as the case may be.

ANEEL may impose penalties or revoke a concession or authorization if we fail to comply with any provision of the concession agreements or authorizations, including those relating to compliance with the established quality standards. Depending on the severity of the non-compliance, these penalties could include:

finances 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;

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;

revocation of the concession; and

execution of the guarantees related to the concession.

Further, the Brazilian Federal Government can revoke any of our concessions or authorizations before the expiration of the concession term, in the event of bankruptcy or dissolution, or by legal termination, if determined to be in the public interest. It can also intervene in concessions to ensure adequate provision of the services, full compliance with



the relevant provisions of agreements, authorizations, regulations and applicable law, and where it has concerns about the operations of the facilities of the Company and its subsidiaries.

Delays in the implementation and construction of new energy 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.

Any compensation we may receive upon rescission of the concession agreement or revocation of an authorization may not be sufficient to compensate us for the full value of certain investments. If we are responsible for the rescission of any concession agreement, the effective amount of compensation could be lower, due to fines or other penalties. The imposition of fines or penalties or the early termination or revocation by ANEEL of any of our concession agreements or authorizations, or any failure to receive sufficient compensation for investments we have made, may have a material adverse effect on our business, financial condition and results of operations, and on our ability to meet our payment obligations.

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Rules under the Fifth Amendment to the distribution concession contract came into effect as from 2016. They contain new targets for service quality, and requirements related to CEMIG D's economic and financial sustainability. These targets must be complied with over the 30 years of the concession. Compliance with these targets is assessed annually, and non-compliance could result in an obligation for CEMIG to inject capital into CEMIG D or a limitation on distribution of dividends or the payment of interest on equity by CEMIG D to CEMIG. According to ANEEL regulations, in case of failure to comply with global annual targets for collective continuity indicators for two consecutive years, or three times in five years, or at any time in the last five years of the agreement term, distribution of dividends or payment of interest on shareholders' equity may be limited until compliance is resumed. Furthermore, in the first five years, non-compliance with a target for two consecutive years, or with any one of the targets in the fifth year will result in legal termination of the concession. The imposition of fines or penalties or the early termination or annulment by ANEEL of our concession agreements or any failure to receive sufficient indemnification for investments we have made, may have a material adverse effect on our business, financial condition and results of operations.

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

Our operations are highly regulated and supervised by the Brazilian Government, through the MME, ANEEL, the National System Operator (Operador Nacional do Sistema, or ONS), and other regulatory authorities. These authorities have a substantial degree of influence in our business. MME, ANEEL and ONS have discretionary authority to implement and change policies, interpretations and rules applicable to different aspects of our business, particularly operations, maintenance, health and safety, compensation and inspection. Any significant regulatory measure implemented by such authorities may result in a significant burden on our activities, which may have a material 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 energy industry. As part of the restructuring of the industry, Law No. 10,848, of March 15, 2004 introduced a new regulatory regime for the Brazilian energy industry. This regulatory structure has undergone several changes in recent years, the most recent being the changes added by PA 579 (which was converted into Law No. 12,783/2013), which governs the extension of some concessions governed by Law No. 9,074/1995. Under this law, such concessions can, from September 12, 2012, be extended only once, for up to 30 years, at the option of the concession authority.

Amendments in the legislation or regulations relating to the Brazilian energy 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. Also, we cannot guarantee that measures taken in the future by the Brazilian Government, in relation to development of the Brazilian energy system, will not have a negative effect on our activities. Further, we are unable to predict to what extent such measures might affect us. If we are required to conduct our business and operations in a way that is substantially different from that specified in our business plan, our business, results of operations or financial position may be negatively affected.

***Changes in Brazilian tax law or conflicts regarding its interpretation may adversely affect us.***

The Brazilian Federal, State and Municipal Governments have regularly implemented changes in tax policies that have affected us. These changes include the creation and alteration of taxes and charges, permanent or temporary, related to specific purposes of the government. Some of these governmental measures can increase our tax burden, which could affect our profitability, and consequently our financial situation. We cannot guarantee that we will be

able to maintain our cash flow and profitability after an increase in taxes and charges that apply to us, and this might result in a material adverse effect on the Company.

***We are subject to restrictions on our ability to make capital investments and to incur indebtedness, which could adversely affect our business, results of operations and financial condition.***

We are subject to certain restrictions on our ability to make capital investments and acquisitions 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.

Our by-laws require us to maintain certain financial indicators, related to factors including debt and investments, within certain limits, and this could affect our operational flexibility. In 2015, 2016 and 2017, certain limits and financial ratios specified in our bylaws were exceeded, and corresponding waivers were granted pursuant to the relevant approvals given by our shareholders at the General Shareholders Meetings for 2015, 2016 and 2017.

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In relation to investments, 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. This restriction could indirectly affect our investment capacity. 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 compliance with competitive bidding processes. These are currently governed by Law No.8,666/1993 ( the Tenders Law ) and from June 30, 2018 will be governed by Law No. 13,303/2016 ( the State Companies Law ).

In relation to loans from third parties: (i) as a state-controlled company, we are subject to rules and limits relating to the level of credit applicable to the public sector, including rules established by the National Monetary Council (Conselho Monetário Nacional, or CMN), and by the Brazilian Central Bank; and (ii) we are subject to the rules and limits established by ANEEL that regulate indebtedness for companies in the energy sector. Also, state-controlled companies, in some cases, must comply with certain requirements to use funds extended by local commercial banks, such as (i) in the case of Brazilian federal banks, use the proceeds for refinancing of financial obligations undertaken with entities of the Brazilian financial system; or (ii) in transactions guaranteed by receivables.

Further, we are subject to certain contractual conditions under our existing debt instruments, and we may enter into new loans that contain covenants or similar clauses that could restrict our operational flexibility. These restrictions might also affect our ability to obtain new loans that are necessary for financing our activities and our growth strategy, and for meeting our future financial obligations when they become due, and this could adversely affect our ability to comply with our financial obligations. We have financing contracts and other debt obligations containing restrictive covenants, including Brazilian local market debentures, Eurobonds on international market and loans from Caixa Econômica Federal and Banco do Brasil.

We have approximately R\$8.3 billion of outstanding debt with financial covenant restrictions, and any breach could have severe negative consequences to us. See The Company has a considerable amount of debt, and it is exposed to limitations on its liquidity a factor that might make it more difficult for the Company to obtain financing for investments that are planned, and might negatively affect its financial condition and our results of operation.

If, for example, we breach a financial covenant under the Eurobonds, we would have an interest increase, or even suffer early maturity of some of our debts. Similarly, if the Company violates a covenant under our debenture issuance, the debenture holders may anticipate the maturity of the debt in a meeting organized by the Fiduciary Agent (Trustee), unless 75% of the debenture holders decide not to do so. The anticipation of the maturities of our debts could have a material adverse effect on our financial situation, and may also trigger cross-default clauses in other financial instruments.

In the event of a default and acceleration of the maturities, our assets and cash flow might be insufficient to repay amounts due, or to comply with the servicing of such debts. In the past, we have, on certain occasions, failed to comply with certain financial covenants that had conditions that were more restrictive than those currently in place. Although we were able to obtain waivers from our creditors in relation to past non-compliance, we cannot guarantee that we will be successful in obtaining any particular waiver in the future.

***The Company might face difficulties in delivering the results described in the business plans of the companies that it has acquired, or those which may be acquired in the future, which could have a material adverse effect on our business, financial condition and results of operations.***

The Company might not realize the results expected from our acquisitions. The process of integration for any acquired business could subject the Company to certain risks, such as, for example, the following: (i) unexpected expenses; (ii) inability to integrate the activities of the companies acquired with a view to obtaining the expected economies of scale and efficiency gains; (iii) possible delays related to integration of the operations of companies; (iv) exposure to potential contingencies; and (v) legal claims made against the acquired business that were unknown at the moment of its acquisition. The Company might be unsuccessful in dealing with these or other risks, or problems related to any other operation of a future acquisition, and be negatively affected by the companies acquired or which may be acquired in the future.

***A reduction in our credit risk rating or in Brazil's sovereign credit ratings 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 a global basis.

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Ratings reflect, among other factors, the outlook for the Brazilian energy sector, the hydrological conditions of Brazil, the political and economic conditions, country risk, and the rating and outlook for the Company's controlling shareholder, the State of Minas Gerais.

The rating agencies began a review of Brazilian sovereign credit risk in September 2015 that culminated in the loss of the country's investment-grade rating with the three principal agencies. They referenced the worsened credit scenario and the growing deterioration of Brazilian debt indicators, taking into account the environment of low growth and the challenging political situation. As a result, the trading prices of Brazilian debt and other Brazilian securities were affected. We believe that a continuation of the present recession in Brazil could cause further ratings reductions.

In the last years, the three main rating agencies have downgraded CEMIG Holding, CEMIG D and CEMIG GT's ratings following the macroeconomic deterioration in Brazil and as a result of the increasing leverage of CEMIG, due to the pressure on its cash flow. More recently, Standard & Poor's upgraded each Company to brBBB (national scale) keeping the rating B in the global scale. Currently, Fitch classifies each company as BBB-(bra) (national scale) e B (global scale) and Moody's classifies each company as B2.br (national scale) e B3 (global scale).

If our ratings are downgraded due to any external factors, operational performance or high levels of debt, our cost of capital could increase and our ability to comply with existing financial covenants in the instruments that regulate our debt could be adversely affected. Further, our operating or financial results and the availability of future financings could be adversely affected. Also, further reductions in Brazilian sovereign ratings could adversely affect perception of risk in relation to securities of Brazilian issuers, and, as a result, increase the cost of any future issues of debt securities. Any further reductions in our ratings or Brazil's sovereign ratings could adversely affect our operating and financial results, and our access to future financings.

***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 condition and results of operations.***

The operation of complex energy generation, transmission and distribution networks and systems involves various risks, operational difficulties and unexpected interruptions, caused by accidents, damage to failure of equipment or processes, performance below planned levels of availability and efficiency of assets, or disasters (such as explosions, fires, natural phenomena, floods, landslides, sabotage, terrorism, vandalism or other similar events). In the event of this occurrence, the insurance coverage for Operational Risks may be insufficient to fully repay costs and losses incurred as a result of damage caused to assets, or interruptions of services. Also, operational decisions taken by an entity responsible for the operation of the national grid, or actions or decisions taken by authorities responsible for regulation of the power industry, or for the environment or for issues that affect the energy generation, transmission and distribution businesses could have an adverse effect on the functioning and profitability of the operations of the Company's generation, transmission and distribution systems.

The revenues that the Company and its subsidiaries generate from establishing, operating and maintaining facilities are, directly or indirectly, correlated with the availability of equipment and assets, and to the quality of the services (continuity, and compliance with the regulatory requirements). Under our concession agreements, 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) reduction of the Permitted Annual Revenue (RAP) of the Transmission Companies, due to non-availability of transmission lines and substation equipment; and (iii) impacts on the revenue of the generation companies arising from the Availability Factor (Fator de Disponibilidade, or FID), and from reduction of the guarantee offtake levels of the plants. The hydroelectrical plants share the hydrological risk, and based on the applicable regulations and on the level of the guarantees offered previously by agents, to the extent that the plants do not meet the necessary production levels, on average agents will

have to acquire the equivalent of the shortfall in volume of power at the spot price (Preço de Liquidação de Diferenças Differences Settlement Price, or PLD), which tends to be highly volatile.

The generation agents are exposed to financial risks, since there may be differences in the financial accounting of the contracts in the sub-markets of the CCE, depending on: (a) the location of the plant, which determines the PLD used in the accounting procedure for the vendors; and (b) the location of consumption of the contract, which will determine the PLD used in the accounting procedure for the consuming agent. If there is a difference between the PLD of the sub-markets, the agents will be subject to these differences.

Penalties and payments of offsetting or other compensation are applicable, depending on the scope, severity and duration of the unavailability of service or equipment. Thus, stoppages in our generation, transmission or distribution facilities, substations or networks, may have a material adverse effect on our business, financial situation and operational results.

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***We have a considerable amount of debt, and we are exposed to limitations on our liquidity a factor that might make it more difficult for us to obtain financing for investments that are planned, and might negatively affect our financial condition and our 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 loans, financing and debentures (including interest) decreased by 5%, to R\$ 14,398 million on December 31, 2017 from R\$ 15,179 million on December 31, 2016 and R\$ 15,167 million on December 31, 2015. At present, 42% of our existing loans, financing and debentures totaling R\$ 6,084 million, have maturities in the next three years. To meet our growth objectives, maintain our ability to fund our operations and comply with scheduled debt maturities, we will need to raise debt capital from a range of funding sources. To service its debt after meeting the capital expenditure targets, the Company has relied upon, and may continue to rely upon, a combination of cash flows provided by its operations, drawdowns under its available credit facilities, its cash and short-term financial investments balance and the incurrence of additional indebtedness. Any further lowering of its credit ratings may have adverse consequences on the Company's ability to obtain financing or may impact its cost of financing, also making it more difficult or costly to refinance maturing obligations. If, for any reason, the Company were faced with continued difficulties in accessing debt financing, this could hamper its ability to make capital expenditures in the amounts needed to maintain its current level of investments or its long-term targets and could impair its ability to timely meet its principal and interest payment obligations with its creditors, as its cash flow from operations is currently insufficient to fund such both planned capital expenditures and all of its debt service obligations. A reduction in the Company's capital expenditure program or the sale of assets could significantly and adversely affect its results of operations.

In the context of lengthening the amortization schedule, CEMIG GT prepared itself along 2017 to tap the international debt capital market through a seven-year bond issuance of US\$1 billion. The issuance was priced in December with a 9.25% coupon and 9.5% yield and the proceeds were used to repay existing short-term debt. The bonds will pay interests semiannually and the principal will fall due in December 2024, with the possibility of a call from December 2023 on. The issuance was hedged by a coupon swap and a call spread on the principal, in order to protect the company against foreign exchange volatility.

In addition, in December 2017, Cemig concluded the re-profiling of its debt, representing up to R\$3.4 billion, by negotiating a bank debt refinancing with its main creditors in order to refinance short and medium term indebtedness of CEMIG GT and CEMIG D and, then, to balance CEMIG's short and medium term cash flows. The debt re-profiling involved the amortization schedules of existing debt maturities, ranging from 2017 through 2020, into facilities with a principal amortization grace period in 2018 and final maturities in 2022.

***Our divestment program depends on external factors that could impede its successful implementation.***

Among other initiatives, in 2017, a divestment program which contemplates the sale of R\$ 8,046 million in assets in the 2017 and 2018 was publicly informed, which targets at least 50% of the divestment (by value) by the end of 2018. This program is intended to contribute to the balancing of our financial profile by reducing net indebtedness in the short term. External factors, such as regulatory changes, exchange rate fluctuations, the deterioration of Brazilian and global economic conditions and the Brazilian political crisis, among others, may adversely affect our ability to sell our assets or reduce sales price of such assets.

Any difficulty in successfully implementing our divestment program could have a material adverse effect on our business, results of operations and financial condition, including exposing us and the Company to liquidity constraints in the near and medium term. In addition, while the sale of assets will allow us to reduce our total indebtedness and



improve our short-term liquidity position, such sales will also result in a decrease in our cash flows from operations, which could have a material adverse effect on our long-term operating growth prospects and consequently our results of operations in the medium and long term.

***We might be unable to implement the strategies in our long-term strategic planning within a desired time, or without incurring unforeseen costs, which could have adverse consequences for our business, results of operations and financial condition.***

Our ability to meet strategic objectives depends, to a large extent, on successful, cost-effective and timely implementation of our strategic planning. The following are some of the factors that could negatively affect this implementation:

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

Inability to obtain necessary governmental licenses and approvals;

Unexpected engineering and environmental problems;

Unexpected delays in the processes of eminent domain and establishment of servitude rights;

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Unavailability of the necessary workforce or of equipment;

Labor strikes;

Delay in delivery of equipment by suppliers;

Delay resulting from failings of suppliers or third parties in compliance with their commitments;

Interference by climate factors, or environmental restrictions;

Changes in the environmental legislation creating new obligations and causing additional costs for projects;

Legal instability caused by political issues; and

Substantial changes in economic, regulatory, hydrological or other conditions.

The occurrence of the above factors, separately or in the aggregate, might lead to a significant increase of costs, and might delay or impede implementation of initiatives, and consequently compromise the execution of the strategic plan, negatively affecting our operating and financial results.

Furthermore, because we are a mixed-capital company controlled by the State of Minas Gerais, we are subject to changes to our board of directors and executive officers as a result of change in the political agents of the Executive Branch of government due to the electoral process, as occurred with most of our executive officers, including the CEO and CFO in December 2014, and also due to political instability. These types of changes may adversely affect the continuity of the Company's strategy.

***The operating and financial results of our subsidiaries and minority investees might negatively affect our strategies, operational results and financial situation.***

We own equity in and do business through various subsidiaries and minority investees, including companies with significant assets in energy generation, transmission and distribution. The future development of our subsidiaries and minority investees, such as Transmissora Aliança de Energia Elétrica S.A. ( TAESA ), Light S.A. ( Light ), Renova Energia S.A. ( Renova ) and Aliança Geração de Energia S.A. ( Aliança ), could have a significant impact on our operational results. The Company's ability to meet its financial obligations is correlated, in part, to the cash flow and the profits of these subsidiaries, and the consequent distribution to the Company of such profits in the form of dividends or other advances or payments. If these companies' abilities to generate profit and cash flow are reduced, this might cause a reduction of dividends and interest on equity paid to the Company, which could have a material adverse effect on our results of operations and financial position.

Further, some of our subsidiaries or investees might, in the future, enter into agreements with creditors that could restrict dividend payments or other transfers of funds to the Company.

These subsidiaries are separate legal entities. Any right that we might have in relation to receipt of assets or other payments in the event of liquidation or reorganization of any subsidiary, will likely be in fact structurally subordinated to the demands of the creditors of such subsidiary (including tax authorities, commercial creditors and lenders to those subsidiaries).

Furthermore, the Company does not control the management of some of its minority investees and their management practices might not to be aligned with those of the Company.

Any deterioration in the operating results or financial conditions of these subsidiaries, and any sanctions or penalties imposed on them, could have a material adverse effect on the Company's results of operations or financial condition.

***New investments and acquisitions will require additional capital, which might not be available to us 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). 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 condition, results of operations and future prospects.

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***Delays in the expansion of facilities, in new investments or 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. Our capacity to conclude projects, within deadlines and on budget, without adverse economic effects, 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, such as 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; and

Environmental demands and claims by local communities during construction of generation plants, transmission lines, distribution lines, distribution networks and substations; and, possibility of failure to comply with the Duração Equivalente de Interrupção por Unidade Consumidora DEC (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, we might suffer increases of costs, or, perhaps, lower profitability than originally expected for the projects.

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

On December 31, 2017, the total of our past-due receivables owed by customers, traders and power transport concession holders was approximately R\$ 1,038 million (R\$961.5million in 2016), corresponding to 4.78% of our consolidated net revenue in 2017 (5.12% in 2016). We have recorded in 2017 a provision for doubtful receivables in the amount of R\$ 568 million (R\$660 million in 2016). The possibility exists that we might be unable to collect amounts payable by various customers 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 customers that exceeds the provision that we have made could cause an adverse effect on our business, operational results and/or financial condition.

***Cemig D's economic and financial sustainability is directly related to the effectiveness of the actions to control energy losses, and the regulatory limits established for it. If Cemig D does not succeed in successfully controlling energy loss, its business, operations, profit and financial situation could be substantially and adversely affected.***

A distribution company's energy losses comprise two types of losses: technical losses and non-technical (commercial) losses. Technical losses are inherent in the process of transmission and transformation of electric power, and occur in the lines and equipment of the energy system. Non-technical losses comprise power that is supplied and not invoiced, which may be the result of illegal connections (theft), fraud, metering errors or failures in internal processes.

Cemig's Total Losses Index as of December 31, 2017, using a 12 month window was 14.24%. This percentage is in relation to the total energy injected into the distribution system (the total volume of losses was 7,113 GWh). Of that percentage, 8.98% comprised technical losses, and 5.26% comprised non-technical losses. This result was 0.78 percentage points higher than the result for December 2016, and above the regulatory target set by ANEEL for 2017 (10.84%).

In our view, the adverse macroeconomic scenario that Brazil has gone through in recent years, with high unemployment, and the changes in the energy sector resulting from Provisional Act 579 (converted into Law No. 12,783 of 2013), which affected the cash flow and situation of the distribution company and resulted in successive tariff increases, in our view led to an increase in fraud against the energy supply in Cemig's concession area, beginning in 2014.

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From a regulatory point of view, ANEEL has been increasingly rigorous in establishing target caps for distribution losses. The target caps for non-technical losses are set on the basis of a benchmarking model that compares the social-economic complexity of each concession in relation to cost involved in combating the illegal use of the power supply. For the targets for technical losses, ANEEL uses metering measurements and power flow software.

In light of this complex scenario, involving regulatory uncertainties, even with the implementation of a strategy to reduce technical and commercial losses, Cemig cannot guarantee that the target caps for losses established by ANEEL will be met in the medium term, and this could affect the Company's financial situation and operational results, since the portion of a distribution company's power losses that exceeds the regulatory cap cannot be passed through to the client as an expense in the form of an increase in tariffs.

***Dams are part of the critical and essential infrastructure in the Brazilian energy sector. Dam failures can cause serious damage to affected communities and to the Company.***

Wherever there are dams, there is an intrinsic risk of dam failure, due to factors that may be internal or external to the structure (such as, for example, failure of a dam upstream from the site). The scale, and nature, of the risk are not entirely predictable. Thus, we are subject to the risk of a dam failure that could have repercussions far greater than the loss of hydroelectrical generation capabilities. The failure of a dam could result in economic, social, regulatory, and environmental damage and potential loss of human life in the communities downstream from dams, which could have a material adverse effect on the Company's image, business, results of operations and financial condition.

***Requirements and restrictions imposed by environmental agencies might require the Company to incur additional costs.***

Our operations relating to generation, distribution and transmission of energy, 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, 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.

Any non-compliance with environmental laws and regulations, such as construction and operation of a potentially polluting facility without a valid license or authorization, could give rise to the obligation to remedy any damages that are caused (third party liability), and result in criminal and administrative sanctions. 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 companies. 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.

We are also subject to Brazilian legislation that requires payment of compensation in the event that our activities have polluting effects. According to Federal Law No. 9,985/2000, Federal Decree No. 6,848/2009, and Minas Gerais State Decree No. 45,175/2009, up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact should be used to pay for offsetting measures in an amount to be decided by the environmental agencies, based on the project's specific level of pollution and environmental impact. State Decree 45,175/2009 ( Decree 45,175 ) also indicated that the compensation rate will be applied retroactively to projects

implemented prior to promulgation of the present legislation.

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 enacted for this purpose could have a major effect on the energy 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 ).

If we are unable to meet the technical requirements established by the environmental agencies during the process of licensing, this might prejudice the installation and operation of our projects, or make carrying out of our activities more difficult, which could negatively affect our results of operations.

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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. They might also restrain our production activities or demand that we take other action that could have an adverse effect on our business, results of operations or financial condition.

***Increases in energy purchase prices could cause an imbalance in CEMIG D's cash flows.***

The prices of energy purchase contracts signed by energy distribution concession holders such as CEMIG D 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 energy arising from adverse hydrological conditions and from higher than forecast dispatching of the thermal plants are passed through to the energy 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 CEMIG D's financial situation.

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 energy.

In 2013, funds from the Energy Development Account (Conta de Desenvolvimento Energético, or CDE) were used to reduce this effect; and in 2014 a series of bank loans, in the name of the Energy Trading Exchange (Câmara de Comercialização de Energia Elétrica, or CCEE), were employed, passed through to the distributors in the account referred to as the ACR Account. As from 2015, these costs began to be incorporated into the energy tariffs paid by customers. In 2015, there was also an extraordinary review of tariffs to compensate the increased costs of higher contributions to the CDE, and of energy 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 customer when the generation system is undergoing adverse hydrological conditions, and thus transfers part of the costs to these customers more rapidly. The Red Flag was in force for the whole of the year 2015; this is the highest rate, indicating higher energy acquisition costs for the distributors and constantly higher charges for the customer. Even with this mechanism in place there is a risk of the increase in purchase prices being so great that the Company's cash position is pressured until the next tariff adjustment. The recovery of higher costs of purchase of energy by passing through to tariffs takes place gradually, over the 12 months between price adjustments.

Starting in 2014, the Brazilian Federal Government undertook another round of funding support transactions, with funds from the CDE. These amounts refer to the subsidies to certain customers (users of irrigation, water service utilities, rural customers, and other users) that had been withdrawn from the tariff adjustment when Law No 12,783/2013 was put into effect. These funds were granted by the Brazilian Federal Government, among other sources, and paid through Eletrobras. We note that a delay in these payments could cause problems of mismatch in the cash flow of CEMIG D.

The current economic downturn in Brazil contributed to several factors resulting in the increase in rates charged from regulated customers, and the migration of customers to the free market. This could lead to a revenue decrease and possible financial exposure due to an energy inventory greater than 5% of demand. In order to mitigate these effects, distributors can assign contracts for the purchase of energy provided by existing generation facilities through the Surpluses and Deficits Compensation Mechanism (Mecanismo de Compensação de Sobras e Déficit, or MCSD), which is available to distributors who have deficits and generators with delay on their initial operations. 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 spot price is lower than the costs of the purchase contracts. This loss cannot be passed on to the customer and is bared by the concessionaire. Such losses



could have a material adverse effect on our business and results from operations.

In 2016 the New Energy MCSD was created, which allows the termination of new energy contracts between distributors in order to compensate for surpluses and deficits. If there is more surplus than deficit, the mechanism also allows the generators to offer reduction of the contracts to the distributors in order to compensate for the surplus. The reduction is then effected in descending order of price and there is no financial compensation for the reduction. In addition to the New Energy MCSD, Resolution No. 711/2016 was also published, which allows bilateral negotiation of contracts between generators and distributors, enabling partial or full reduction of Regulated Market Energy Sale Contracts (CCEARs). This mechanism provides financial compensation to the stakeholders if the reduced contract is priced above the PMIX (average price of the distributor's portfolio), such compensation to the stakeholder is limited to a 36-month period. If the contract has a price lower than the PMIX, the loss must be reimbursed from the stakeholder to the customer.

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There has been an increase in the volume of distributed generation, mainly solar, in the area served by CEMIG D. The amounts involved are not yet significant for CEMIG D's market, but they are being monitored, and in the future they might cause a material adverse effect on our business, operational results or financial condition.

***Brazil's supply of energy is heavily dependent on hydroelectrical plants, which in turn depend on climatic conditions to produce energy. Adverse hydrological conditions that result in lower generation of hydroelectrical power could adversely affect our business, results of operations and financial condition.***

Hydroelectrical generation is predominant in Brazil. The advantages of hydroelectrical power have also been widely publicized: it is a renewable resource, and avoids substantial expenditures on fuels in thermal generation plants. 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 and annual flows, which depend fundamentally on the volume of rain that falls in each rainy season. Adverse hydrological conditions in the Brazilian southeast region caused drought and water scarcity in the states of São Paulo, Minas Gerais and Rio de Janeiro in the recent past. These conditions might become worse during the dry period, which occurs from April through September. This could cause rationing of water consumption and/or energy, which could have a material adverse effect on the Company's business and results of operations.

To deal with this difficulty, the Brazilian system has a complementary component of thermoelectric generation plants, and a growing portfolio of wind farms. It also has accumulation reservoirs, the purpose of which is to secure water from the rainy to the dry period, and from one year to the next. However, these mechanisms are not able to absorb all the adverse consequences of a prolonged hydrological shortage, like the one that we have seen in the recent past.

The operation of the Brazilian energy system is coordinated by the National Energy System Operator (Operador Nacional do Sistema, or ONS). Its primary function is to achieve optimal operation of the resources available, minimizing operational cost, and the risks of shortage of energy. In periods when the hydrological situation is adverse, a decision by the ONS might, for example, reduce generation by hydroelectrical plants and increase thermal generation, which results in higher costs for the hydroelectrical generating agents, as happened in 2014. In the distribution companies, this increase in costs generates an increase in the purchase price of energy that is not always passed through to the customer at the same moment, generating mismatches in cash flows, with an adverse effect on the business and financial situation of those distribution companies. Also, in extreme cases of scarcity of power due to adverse hydrological situations, the system might undergo rationing, which could result principally in reduction of cash flow.

The Energy Reallocation Mechanism (Mecanismo de Realocação de Energia, or MRE) aims to mitigate the impact of the variability of generation of the hydroelectrical plants. This mechanism shares the generation of all the hydroelectrical 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 2015, the Federal Government proposed a system of voluntary renegotiation relating to hydrological risk. This process allows the generation company to pass on to customers its costs and revenues related to hydrological risk, in exchange for payment of a risk premium, while also receiving indemnity for the losses suffered in 2015 through, among other measures, an extension of their generation concessions (or permissions, depending on the case) for up to 15 years.

To be able to participate in the renegotiation, the companies had to waive and withdraw all the claims that they had filed and all the applications for injunction that they had made, and also waive any other rights that they might have in relation to those actions.

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. Thus, no plant that sells energy in the free market signed up for any renegotiation of hydrological risk.

Those operators that did not subscribe to the renegotiation continued to have injunctions preventing charging of the hydrological risk in full. These injunctions are causing a deficit of approximately R\$7.4 billion in the short-term market (as of January, 2018). This position increases the level of default calculated by the CCEE, thus reducing the amounts received by creditor agents in the short-term market. To avoid this effect, some creditor agents filed for further injunctions to acquire the right to priority in receipt. This effect leads to uncertainty in the market, reduction of liquidity, increase of default, and reduction in amounts received in the short-term market, representing a risk for the Company.

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Any substantial seasonal variation in the monthly flows and in the total of flows over the year could limit hydroelectrical generation, making it necessary to use alternative generation systems, which could have a significant adverse effect on the Company's costs, including court fees and expenses relating to the subject.

### ***The rules for energy trading and market conditions may affect the sale prices of energy.***

Under applicable laws, our generation companies are not allowed to sell energy directly to distribution companies. Thus, the power generated by our companies is sold in the Regulated Market (Ambiente de Contratação Regulado, or ACR) also referred to as the Pool through public auctions held by ANEEL, or through the Free Market (Ambiente de Contratação Livre, or ACL) through bilateral negotiations with customers and traders. The applicable legislation allows distributors that sign contracts for existing energy supply (energia existente) with generation companies in the Regulated Market to reduce the quantity of energy contracted by up to 4%, per year, in relation to the amount of the original contract, for the entire period of the contract. This exposes our generation companies to the risk of not selling the de-contracted supply at adequate prices.

We conduct trading activities through power purchase and sale agreements, mainly in the Free Market, through our generation and trading companies. Contracts in the Free Market may be entered into with other generating entities, energy traders, or mainly, with free customers. Free customers are customers with a demand of 3MW or more: they are allowed to choose their energy supplier. Some contracts have flexibility in the amount sold, allowing the customer to consume a higher or lower amount (5% on average) from our generating companies than the original amount contracted, which might cause an adverse impact on our business, operational results and/or financial situation.

Other contracts do not allow for this kind of flexibility in the purchase of energy, but increased competition in the Free Market could influence the occurrence of this type of arrangement in purchase contracts.

In addition to the free customers referred to above, there is a category of clients referred to as Special Customers, which are those with contracted demand between 500kW and 3MW. Special Customers are eligible to participate in the Free Market provided they buy energy from incentive-bearing alternative sources, such as Small Hydroelectrical plants, biomass plants or wind farms. The Company has conducted sales transactions for this category of energy from specific energy resources in particular companies of the CEMIG 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 energy market for incentive-bearing alternative power sources. Contracts for the sale of energy 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 MRE aims to reduce the exposure of generators of hydroelectrical power, such as our generation companies, to the uncertainties of hydrology. It functions as a pool of hydroelectrical 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. Correspondingly, when the total generation of the plants is higher than the volume demanded, the mechanism increases the guaranteed offtake level of the plants, leading to a positive exposure, permitting the liquidation of power at the PLD. In years of poor rainfall the reduction factor which applies to the assured energy levels can reduce the levels of the hydroelectrical plants by 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 customers 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, hydroelectrical 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).

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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 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.

The determination of the PLD is done through the results of the optimization models of the operation of the national grid used by the ONS and by the CCEE. The models depend on entry data revised by the ONS at each period of four months, and monthly, and weekly. In this system there is the possibility of errors being made in entry of data into the model, which can lead to an unexpected change in the PLD and possible subsequent re-publication of it, in accordance with ANEEL Resolution No. 568/2013. The alteration of these models, errors in entry of data and re-publications of the PLD constitute a risk for the trading business, causing uncertainty in the market, reducing liquidity, and resulting in financial losses with the unexpected variation in the price.

***The anticorruption investigations currently in progress in Brazil, which have had large-scale public exposure, might have adverse effects on the perception of the country, on us and other companies of the CEMIG Group.***

Investors' perception about Brazil has been adversely affected by investigations of public corruption in large Brazilian companies, and by political events which may represent potential risks to the social and economic outlooks for Brazil.

Among the Brazilian companies involved in these investigations are companies in the oil and gas, energy and infrastructure sectors, which are being submitted to investigations due to accusations of corruption by the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM), the Federal Police, the Brazilian Public Attorneys, the Federal Audit Board, the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ). Some issues raised have included Norte Energia S.A., holder of the concession to build and operate the Belo Monte Hydroelectrical Plant, on the Xingu River, in the state of Pará, Brazil, in which CEMIG GT is a minority shareholder through Aliança Norte and Amazônia Energia S.A., with an interest of 11.74%. In an on-going internal investigation by Norte Energia S.A., the estimated amount of losses have already been provisioned in our financial statements. We cannot guarantee, however, that further amounts of provisioning will not be necessary as a result of further investigations based on the same accusations.

Investigations and other legal measures are in progress, conducted by the Federal Public Attorneys' Office, which involve other indirect shareholders of Madeira Energia S.A. and certain executives of those other indirect shareholders. The Company has direct and indirect investments, of 10% and 8.13% respectively, in Madeira Energia S.A. (which holds an investment in Santo Antônio Energia S.A.), of R\$ 1,117 at December 31, 2017 (R\$ 1,321 at December 31, 2016). In this context, the Federal Public Attorneys have started investigations into irregularities involving contractors and suppliers of Mesa and of its other shareholders. These investigations are in progress. In response to allegations of possible illegal activities, the investee and its other shareholders have started an independent internal investigation. At the present moment there is no way of determining the results of these investigations, or the developments arising from them, which may at some time in the future have consequences for the investee.

On January 19, 2018, Renova, a company in which Cemig has a direct interest of 36.23% and indirect interest of 6.8%, responded to a formal statement by the Civil Police of Minas Gerais State received in November 2017, relating

to the investigation being carried out by that Police Force into certain injections of capital made by the controlling shareholders of Renova, and injections of capital made by it in certain projects under development in previous years. As a consequence of this matter, the governance bodies of Renova requested the opening of an internal investigation on this subject, which is being conducted by an independent company. The work of the internal investigation is in progress, and it is not at present possible to measure any effects of this investigation, nor any impacts on the financial statements of Renova, of the Company, or of its subsidiary Cemig GT for the year ended December 31, 2017.

We have not been notified and are not aware of any on-going investigation by the SEC or the DOJ involving us. Also, we cannot guarantee that CEMIG Holding or companies of the CEMIG Group will not become the subject of court actions, criminal or civil, based on these or new anticorruption investigations, in the ambit of the applicable jurisdiction either of the United States or of Brazil, if any additional illegal acts come to light.

Any future anti-corruption actions that might find failures of conduct by the managers of the Company or by third parties might result in fines, penalties or significant negative postings in the accounts, and also intangible damage, such as damage to reputation, and other significant, unforeseen, adverse effects.

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***We may be exposed to behaviors that are incompatible with our standards of ethics and compliance, and we might be unable to prevent, detect or remedy them in time, which might cause material adverse effects on our business, results of operations, financial condition and reputation.***

Our businesses, including our relationships with third parties, are oriented by ethical principles and rules of conduct. We have a range of internal rules that aim to orient our managers, employees and contractors, and to reinforce our ethical principles and rules of professional conduct. Due to the wide distribution and outsourcing of the production chains of our suppliers, we are unable to control all the possible irregularities of the latter. This means that we cannot guarantee that the financial, technical, commercial and legal evaluations that we use in our selection processes will be sufficient for preventing our suppliers from having problems related to employment law, or sustainability, or in the outsourcing of the production chain with inadequate safety conditions. We also cannot guarantee that these suppliers, or third parties related to them, will not involve themselves in irregular practices. If a significant number of our suppliers involve themselves in irregular practices, we might be adversely affected.

Further, we are subject to the risks that our employees, contractors or any person who may do business with us might become involved in activities of fraud, corruption or bribery, circumventing our internal controls and procedures, misappropriating or using our assets for private benefit to the detriment of the Company's interests. This risk is exacerbated by the fact that there are some affiliated companies, such as special-purpose companies and joint ventures, in which we do not have shareholding control.

Our internal controls systems to identify, monitor and mitigate risks may not be effective in all circumstances, especially in relation to companies that are not under our control. In the case of companies we have acquired, our internal controls systems might be incapable of identifying fraud, corruption or bribery that took place prior to the acquisition. Any failing in our capacity to prevent or detect non-compliance with the applicable rules of governance or of regulatory obligation could cause harm to our reputation, limit our capacity to obtain financing, or otherwise cause material adverse effects on our, business, results of operations, financial condition and reputation.

***Certain members and former members of our management are parties in administrative and judicial proceedings and ongoing corruption investigations.***

Brazilian authorities have been conducting anticorruption investigations in a number of governmental areas, including partnerships and equity interests held by Brazilian Governmental entities in the private sector. These investigations have resulted in administrative, civil and criminal proceedings against the individuals under investigation.

Members of our management who have worked for the Brazilian Government and the government of Minas Gerais are parties to judicial and administrative proceedings being conducted by the competent authorities. For more information, see Item 6. Significant Civil and Criminal Proceedings Involving Key Management Members. We cannot assure you that judicial and administrative proceedings, or even the commencement of new judicial and administrative proceedings against members of our management will not impose limitations or restraints on the performance of the members of our management who are party to these proceedings. In addition, we cannot assure you that these limitations will not adversely affect us and our reputation.

In addition, we have not hired any third party to conduct an internal investigation as we are not aware of wrongdoing in connection with our operations. If new allegations arise and we decide to conduct an internal investigation, any findings under such internal investigation could have an adverse effect for the Company and for our reputation.

***The multiple uses of water and the various interests related to this natural resource might give rise to conflicts of interest between CEMIG and society as a whole, which might cause losses to our business, results of operations or***



*financial condition.*

During the year 2017, Cemig lost four of its most important hydroelectrical power plants, due to the termination of their concession contracts. It represented a reduction of 2,922 MW in Cemig's installed capacity. At present, taking into account projects and companies that are jointly controlled, Cemig has more than 66 hydroelectrical power plants, with 5,319.63 MW and representing 94% of our installed capacity.

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Water is the main raw material for CEMIG's production of energy, and a resource that is sensitive to climate change and vulnerable to the consequences of exploration of other natural resources, significantly impacted by human actions and subject to a regulatory environment.

CEMIG's operation of reservoirs for generation of hydroelectrical power essentially require consideration of the multiple uses of water by other users in a river basin; and this in turn, leads to the need to take into account a range of constraints—environmental, safety, irrigation, human consumption, waterways and bridges, among others. 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 energy, and also the other uses of this resource.

Finally, CEMIG uses a Risk Management System to analyze scenarios and determine the degree of financial exposure to risks, considering the probability of occurrence and its effect. In the scenarios relating to potential conflicts with other users, CEMIG evaluates both the effects arising from prolonged droughts, which can lead to an increase of competition between the energy sector and other users, and also the effects of flood events occurring due to excess of rains. While CEMIG engages with other essential users, and takes steps to analyze community input and studies on issues relating to the impact of water use, competing interests relating to water use 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 adversely affect our business results of operations and financial condition.

***We are controlled by the government of the State of Minas Gerais, which might have interests that are different from the interests of the other investors, or even of the Company.***

As our controlling shareholder, the government of the State of Minas Gerais exercises substantial influence on the strategic orientation of our business. Currently it holds 51% of the common shares of CEMIG Holding and has full powers to decide on all business relating to the Company's objects as stated in the bylaws, and to adopt whatever decisions it deems to be necessary for the defense of its interests and development.

The government of the State of Minas Gerais can elect the majority of the members of our Board of Directors and has the competency to approve, among other subjects, matters that require a qualified quorum of shareholders. The latter include transactions with related parties, shareholding reorganizations and the date and payment of any dividends.

The government of the State of Minas Gerais, as our controlling shareholder, has the capacity to direct us to engage in activities and to make investments that promote the controlling shareholder's economic or social objectives, and these might not be strictly aligned with the Company's strategy, adversely affecting the direction of our business.

***Our processes of governance, risk management, compliance and internal controls might fail to avoid regulatory penalties, damages to our reputation, or other adverse effects on our business, results of operations or financial condition.***

Our Company is subject to various different regulatory structures, of which the following are examples: (i) laws and regulations of the Brazilian energy sector, such as Law No. 10,848/04 (on trading in energy), regulations by ANEEL; (ii) the laws and regulations that apply to listed companies with securities traded on the Brazilian capital market, such as Law No. 6,404/76 (the Corporate Law), regulations of the Brazilian Securities Commission (Comissão de Valores Mobiliários, or CVM); (iii) laws and regulations that apply to Brazilian companies with majority state-owned shareholdings, such as Law No. 8,666/93 (the Tenders Law) and Law No. 13,303/2016 (the State Companies Law); and (iv) laws and regulations that apply to Brazilian companies that have securities traded on the U.S. capital markets, such as the Sarbanes-Oxley Act of 2002, the Foreign Corrupt Practices Act (FCPA), and regulations of the U.S.

Securities and Exchange Commission (SEC), among others.

Furthermore, in recent years, Brazil has intensified and improved its legislation and structures relating to maintaining competition, combat of improbity and prevention of corrupt practices. For instance, Law No. 12,846/13 (the Anticorruption Law) established objective liabilities for Brazilian companies that commit acts against Brazilian or foreign public administration, including acts relating to tender processes and administrative contracts, and established tough penalties for those companies that are punished.

The Company has a high number of administrative contracts with high values and a large number of suppliers and clients, which increases its exposure to risks of fraud and administrative impropriety.

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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). Furthermore, due to the majority interest held by the State Government in our shareholding 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, State Companies Law and other complementary legislation.

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 (regarding labor, tax, environment, energy, among others), 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.

We might also be unable completely to prevent accounting errors in our financial reports and to prevent the occurrence of material weaknesses in the future. Our management identified a material weakness in our internal control over financial reporting in 2017. For more information on the material weaknesses identified by our management, see: Item 15 Controls and Procedures Management's Annual Report on Internal Control over Financial Reporting

Furthermore, we might be incapable of reporting the results of our operations, and other material information, with precision and timeliness in future periods, and/or successfully remedying the material weakness identified, and/or filing the documentation and information required by the authorities, including the SEC and the CVM.

Non-compliance with laws and regulations, and other rules; accounting errors with material weaknesses; and not presenting precise and timely information as required by public authorities all are risks that might result in penalties, loss of licenses, damages to our reputation, or significant financial losses.

If our efforts to remediate the material weakness are not successful, we may be unable to report the Company's results of operations for future periods accurately and in a timely manner and make our required filings with government authorities, including the SEC. There is also a risk that there could be accounting errors in our financial reporting, and we cannot be certain that in the future additional material weaknesses will not exist or otherwise will not be discovered. Any of these occurrences could adversely affect our and the Company's business, results of operations and financial condition.

***Cyber-attacks, or violation of the security of our data such as might lead to an interruption of our operations, or a leak of confidential information either of the Company, or of our clients, third parties or interested parties, might cause financial losses, legal exposure, damage to reputation or other severe negative consequences for the Company.***

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 we may incur 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.

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 potential security problems and security vulnerabilities could have similar effects on us.

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### ***Potential shortages of skilled personnel in operational areas could adversely affect our business and results of operations.***

It is possible that we may experience shortages of qualified personnel. In the last two years we have been carrying out a voluntary severance incentive program open to all of our employees which have enabled us to reduce our headcount by approximately 25%. This reduction allowed us to adapt to the reference levels of the market indicated by a Strategic Planning study, the objective of which was to make it possible to achieve optimal human resource efficiency level demanded by the concession contracts. Our success depends on our ability to continue to successfully train our personnel so they can assume qualified senior positions in the future. We cannot assure you that we will be able to properly train, qualify or retain skilled personnel, or do so without costs or delays. Nor can we assure you that we will be able to hire new qualified personnel, in particular in operational areas, should the need arise. Any such failure could adversely affect our results of operations and our business.

### ***Instability of inflation rates and interest rates could adversely affect our results of operations and financial condition.***

Brazil has historically experienced high rates of inflation, particularly prior to 1995. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy. More recently, inflation rates were 2.95% in 2017, 6.29% in 2016, 10.67% in 2015, 6.41% in 2014, and 5.91% in 2013, as measured by the Amplified National Customer Price Index (Índice Nacional de Preços ao Consumidor Amplo, or IPCA), compiled by IBGE (Brazilian Institute of Geography and Statistics).

The Brazilian Government may introduce policies to reduce inflationary pressures, such as maintaining a tight monetary policy with high real interest rates, which could have the effect of reducing the overall performance of the Brazilian economy. Some of these policies may have an effect on our ability to access foreign capital or reduce our ability to execute our future business and management plans.

We are also 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 index.

A significant increase in interest rates or inflation would have an adverse effect on our finance 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.

### ***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 net income 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.

Under our by-laws, we must pay our shareholders a mandatory annual dividend equal to at least 50% of our net income 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 in the allocation of the minimum mandatory dividend for the period in question. 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 shareholders' equity represented by our shares. If in a given fiscal year we do not have net income, or our net income 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.

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***ANEEL has discretion to establish the rates that distribution companies charge their customers. 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 a company's control, such as the cost of energy for supply to customers, 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 IPCA inflation index, less a productivity and efficiency factor, known as the X Factor, which considers aspects such as distribution productivity and service quality standards. 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 CEMIG's concession contracts specify preservation of their economic and financial equilibrium, we cannot guarantee that ANEEL will set tariffs that do remunerate us adequately in relation to the investments made or the operational costs incurred by reason of the concession, and this might have a material adverse effect on our business, financial situation and operational results.

***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 inflation index (IPCA for Contract No. 006/1997 and IGP-M for Contract No. 079/2000). 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 due for July 2018, as stated in our Concession Contract. However, the rules for the tariff review are being discussed between ANEEL and the society, including the transmission companies, and they are not finished. This review may be postponed to July 2019, with retroactive effects. 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 of the various transmission companies in Brazil. Thus, 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 an adverse effect on our business, results of operations and financial condition.

The concessions for some of our transmission assets were extended for a further 30 years, under Law No. 12,783/13, and this resulted in an adjustment of the RAP of those concessions, reducing the revenue that we will receive from them. The Federal Government has compensated the Company for the reduction of a portion of the remuneration, and reduction of the RAP, of part of these concessions, but the assets in operation before the year 2000 have not yet been compensated. Under Law No. 12,783/13, compensation is to be received for reduction of the RAP of the assets that



were in operation before the year 2000, paid over a period of 30 years, with monetary updating by the IPCA inflation index. On April 20, 2016, the Mining and Energy Ministry issued its Ministerial Order 120, determining that the amounts ratified by ANEEL in relation to the assets specified in Article 15, §2, of Law No. 12,783/13, should now become a part of the Regulatory Remuneration Base of the transmission concession holders, and that the cost of capital should be added to the related Permitted Annual Revenue. In this context, Public Hearing No. 068/2016 was held with the aim of establishing the procedures for inclusion of this RAP into the Revenue of the transmission companies.

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 agreements specify that the economic and financial balance of the contract shall be preserved, we cannot guarantee that ANEEL will set tariffs that adequately compensate us in relation to the investments made or in relation to the operational costs incurred by reason of the concession, which may have a material adverse effect on our business, financial condition and results of operations.

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### ***We have strict liability for any damages caused to third parties resulting from inadequate provision of energy services.***

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inefficient rendering of energy generation, transmission and distribution services. In addition, when damages are caused to final customers 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 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 energy concession holders receives in the general meetings of the ONS, and as such, are subject to change in the future. Consequently, our business, results of operations and financial condition might be adversely affected in the event we are held liable for any such damages.

### ***We may incur losses and reputational damage in connection with pending litigation.***

We are party to several legal and administrative proceedings relating to civil, administrative, environmental, tax, regulatory, 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. See Item 8. Financial Information Legal and Administrative Proceedings. Our consolidated financial statements includes provisions for risks in a total amount of R\$ 678 million, as of December 31, 2017, for actions in which the chances of loss have been assessed as probable (i.e., more likely than not).

One or more unfavorable decisions against us in any legal or administrative proceeding may have a material adverse effect on us. In addition to making provisions and the costs associated with legal fees, we may be required by the court to provide collateral for the proceedings, which may adversely affect our financial condition. In the event that our provisions for legal actions are insufficient, payments for actions in excess of the amounts provisioned could adversely affect our results of operations and financial condition.

In addition, certain members of our management are involved as defendants in criminal proceedings that are currently pending, which may distract our management and negatively affect us and our reputation. See Item 6. Significant Civil and Criminal Proceedings Involving Key Management Members.

### ***Environmental regulations require us to perform environmental impact studies on future projects and obtain regulatory permits.***

We must conduct environmental impact studies and obtain regulatory and environmental permits and licenses for our current and future projects. We cannot assure that these environmental impact studies will be approved by environmental agencies, that environmental licenses will be issued, that public opposition will not result in delays or modifications to any proposed project, or that laws or regulations will not change or be interpreted in a manner that could materially adversely affect our operations or plans for the projects in which we have an investment. We believe that concern for environmental protection is also an increasing trend in our industry. Although we consider environmental protection when developing our business strategy, changes in environmental regulations, or changes in the policy of enforcement of existing environmental regulations, could have a material adverse effect on our results of operations and our financial condition by delaying the implementation of energy projects, increasing the costs of expansion.

Furthermore, the implementation of investments in the transmission sector has suffered delays due to the difficulty in obtaining the necessary regulatory and environmental permits and approvals. This has led to delays in investments in generation due to the lack of transmission lines to provide for the outflow of the energy generated. If we experience any of these or other unforeseen risks, we may not be able to generate, transmit and distribute energy in amounts consistent with our projections, which may have a material adverse effect on our financial condition and results of operations.

***We operate without insurance policies against catastrophes and third-party liability.***

Except for use of aircraft, we do not have third-party liability that covers accidents and we do not seek proposals for this type of insurance. CEMIG has not sought a proposal for, and has not contracted, insurance coverage against disasters, such as earthquakes or floods, that might affect our facilities. Any events of this type could generate unexpected additional costs, resulting in adverse effects on our business, results of operations and financial condition.

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***The insurance contracted by us might be insufficient to reimburse costs of damage.***

Our business is normally subject to a range of risks, including industrial accidents, labor disputes, and unexpected geological conditions, changes in the regulatory environment, environmental and climatic risks, and other natural phenomena. Also, we and our subsidiaries might be considered to be responsible for losses and damages caused to third parties as a result of failures to provide generation, transmission and/or distribution service.

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

We cannot guarantee that the insurance contracted by us will be sufficient to cover in full or at all 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, results of operations and/or financial condition. Further, we cannot guarantee that we will be able to maintain our insurance coverage at favorable or acceptable commercial prices in the future.

***Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors could adversely affect our results of operations and our business.***

All our employees are represented by labor unions. Disagreements on issues involving divestments or changes in our business strategy, reductions in our personnel, as well as potential employee contributions, could lead to labor unrest. We cannot ensure that strikes affecting our production levels will not occur in the future. Strikes, work stoppages or other forms of labor unrest at any of our major suppliers, contractors or their facilities could impair our ability to operate our business, complete major projects and adversely impact our ability to achieve our long-term objectives.

***A substantial portion of our and the Company's assets is tied to the provision of public services and would not be available for liquidation in the event of our bankruptcy for attachment as collateral for the enforcement of any court decision***

A substantial portion of our and the Company's assets is tied to the provision of public services. These assets are not available for liquidation in the event of our bankruptcy nor can they be attached as collateral for the enforcement of any court decision because the assets revert to the concession-granting authority to ensure continuity in the provision of public services, according to applicable legislation and our concession agreements. Although the Brazilian Government would be obligated to compensate us for early termination of our concessions, we cannot assure you that the amount ultimately paid by the Brazilian Government would be equal to the market value of the reverted assets. These restrictions on liquidation may lower significantly the amounts available to holders of the notes in the event of our liquidation and may adversely affect our ability to obtain adequate financing.

***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 No. 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, Gasmig will continue its natural gas distribution activities until the end of the concession, being compensated through tariffs paid by the users of distribution services.

The Minas Gerais State Economic, Scientific, Technological and Higher Education Development Department (SEDECTES), an entity of the Minas Gerais State government, responsible for the regulation of distribution of piped gas, was expected to make its first review of Gasmig's tariff in 2017. The review process took longer than planned, and is now expected to be completed in 2018. The process of review of the tariffs is intended to determine the regulatory remuneration required from 2018 to 2022. The methodology used will determine the maximum margins to be applied by Gasmig from 2018 to 2022, in accordance with expectations of investments, costs, volumes and other variables of the business. This review will be the subject to public consultation before the end of first half 2018. After the public consultation, there will be a final decision by the regulator on the regulatory compensation rate, which might cause a change in the profit margin for gas distribution and could have a material adverse effect our business and results of operations.

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

Excluding the thermoelectric generation sector, the volumes of sales are sustained by the large-scale industrial market, which represents 93.5% of the volume of gas sold to this sector in 2017. Gasmig's largest clients are in steel, metallurgy, mining and paper pulp which provided an aggregate 73.5% of the non-thermoelectric consumption volume in 2017.

After three successive years of heavy falls in production, Brazilian industry is now on a recovery trend: over the course of 2017, the index of production, according to industrial production volume figures from IBGE (the Monthly Industrial Survey - Physical Production, or PIM-PF), improved on a month to month basis comparing same months of 2016, and the country's total industrial production rose 2.5% over the prior year.

Even with the positive recent figures, industry has recovered only part of the losses it has suffered in the last three years, and is still 13.8% below the maximum level of production it reached in June 2013.

In 2017, the volume sold by Gasmig to the industrial sector, including steel, metallurgy and mining companies, was 12.8% higher than in 2016, mainly due to operational adjustments in some of its principal clients. In the event of reversal of expectations and an adverse economic scenario, continuity of the structure of the market served by Gasmig could have a negative effect on Gasmig's business, operational results and financial situation.

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

In January 2017 Gasmig and Petrobras signed the Seventh Amendment to their Additional Supply Contract, adjusting the contracted quantity, the price of gas, and other matters. The price of gas acquired from Petrobras follows a variation defined by a contractual formula, and is adjusted in accordance with the price of oil. In the period from November 2016 to November 2017, the average price of acquisition for the market, excluding thermoelectric generation plants, was increased by approximately 30.5%.

Since the second half of 2016, Petrobras has been decreasing its presence in the natural gas supply chain. In 2017, it sold part of its transportation pipeline to Canadian Brookfield Infrastructure Partners, although it retained the operation of the gas transportation system.

The Brazilian Government has launched the *Gás para Crescer* (Gas to Grow) initiative, which aims changes in the regulatory environment of Natural Gas Industry preparing for a less massive Petrobras participation. National Congress is expected to analyze the *Gás para Crescer* proposals bill from 2018 onwards. This initiative did not show solid results yet, but Petrobras is expected not to be the only Brazilian Market natural gas supplier at the end of Gasmig's contract in 2021. In 2017, Petrobras also reviewed its policy of prices in energy sources that compete with natural gas. The price of LPG (liquefied petroleum gas) and fuel oil underwent many variations during the year, resulting in increases of 32.4%, and 23.0% in the respective prices by December 31, 2017. The prices of these energy products also vary in accordance with the oil price, which would result in gas maintaining its competitiveness.

However, Petrobras is entitled to, at any time, review the price policy of its products, which can change the market demand, since price drives customers choice between natural gas and competing fuels, usually LPG, gas oil and/or fuel oil. If this happens, Petrobras could cause a positive or negative impact on the demand for natural gas, directly impacting Gasmig's operational results and financial situation.

### ***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 indirectly controlled by the State of Minas Gerais, through the majority shareholding position held by CEMIG Holding in Gasmig. The Minas Gerais Economic, Scientific, Technological and Higher Education Development Department (SEDECTES) is a body of the state government, and in Minas Gerais it exercises the function of regulator of piped gas distribution services. SEDECTES is also responsible for promoting sustainable development in the State of Minas Gerais.

The Government of the State of Minas Gerais, as indirect controlling shareholder of Gasmig and, at the same time, regulator of the public service, through SEDECTES, 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.

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**Risks Relating to Brazil**

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

Historically, the Brazilian political environment has influenced, and continues to influence, the performance of the country's economy. Political crises have affected and continue to affect investor confidence and that of the general public, which resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies. The Brazilian economy today continues to be subject to the effects of the process of impeachment against former President Dilma Rousseff. On August 31, 2016, after a judgment by the Senate, Dilma Rousseff, until then President, was formally impeached. The Vice-President, Michel Temer, assumed the position of President of Brazil until the next presidential election, which is set for 2018, with the next presidential term commencing on January 1, 2019. The President of Brazil has power to determine the governmental policies and actions related to the Brazilian economy and, consequently, to affect the operations and financial performance of companies, including ours. The Public Attorneys' Office filed charges of participation in a criminal organization and obstructing justice against President Temer and others from his party. President Temer denied the accusations, and Congress voted to set aside the accusations against him.

Further, Brazilian markets have experienced a high level of volatility due to the uncertainties derived from the on-going Operação Lava Jato investigation, and other similar investigations, which are being carried out by the Brazilian Federal Prosecutors, and their impact on the economy and on the Brazilian political environment. Such events could cause the trading value of our shares, preferred and common, of our preferred and common ADSs, and our other securities to be reduced, and could negatively affect our access to the international financial markets. Furthermore, any political instability resulting from such events, including upcoming political elections at the federal and state levels, if it affects the Brazilian economy, could cause us to re-evaluate our strategy.

***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;

liquidity of the domestic markets for capital and loans;

development of the energy sector;

controls on foreign exchange and restrictions on remittances out of the country; and/or

limits on international trade.

Uncertainty on whether the Brazilian Government will make changes in policy or regulation that affect these or other factors in the future might contribute to the economic uncertainty in Brazil and to greater volatility of the Brazilian securities markets and the markets for securities issued outside Brazil by companies. 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 markets, adversely affecting our business, results of operations and financial condition. If the political and economic situations deteriorate, we may also face increased costs.

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***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 as well as increases in prevailing market interest rates.***

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 29, 2017, the exchange rate between the Real and the US dollar was R\$ 3.3121 for US\$ 1.00. There is no guarantee that the Real will not depreciate, or appreciate, in relation to the US dollar, in the future.

The instability of the Brazilian Real/U.S. Dollar exchange rate could have a material adverse effect on us. Depreciation of the Real against the United States dollar and other principal foreign countries could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy, and consequently, our growth. Depreciation of the Real could cause an increase in financial and operational costs, since we have payment obligations under financing contracts and import contracts indexed to exchange rate variations. Also, depreciation of the Real could cause inflationary pressure that might result in abrupt increases in the inflation rate, which would increase our operational costs and expenses, which might adversely affect our business, results of operations, or outlook.

We generally do not enter into derivative contracts or similar financial instruments or make other arrangements with third parties to hedge against the risk of an increase in interest rates. To the extent that such floating rates rise, we may incur additional expenses. Additionally, as we refinance our existing debt in the coming years, the mix of our indebtedness may change, specifically as it relates to the ratio of fixed to floating interest rates, the ratio of short-term to long-term debt, and the currencies in which our debt is denominated or to which it is indexed. Changes that affect the composition of our debt and cause rises in short or long-term interest rates may increase our debt service payments, which could have an adverse effect on our results of operations and financial condition.

***Inflation and certain government measures aimed to control it might contribute significantly to economic uncertainty in Brazil, and could have a material adverse effect on our business, results of operations, financial condition and the market price of our shares.***

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. Brazilian annual inflation as measured by the IPCA index in the years 2015, 2016 and 2017 was, respectively, 10.67%, 6.29% and 2.95%. No assurance can be given that inflation will remain at these levels, especially at the level of 2017.

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 customers 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, common ADSs and other securities.

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**Risks Relating to the Preferred and Common Shares, and the Preferred 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 Item 3. Key Information Exchange Rates.

***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.

***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 2017, the São Paulo

Stock Exchange (Brasil, Bolsa, Balcão S.A or B3), the only stock exchange in Brazil on which our shares are traded, had an annual market capitalization of approximately R\$ 3.16 trillion, and average daily trading volume of approximately R\$ 7.44 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 B3(main brazilian stock exchange) by the Brazilian Corporate Law, Federal Law No. 13,303/16 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 from 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 if compared to the United States rules, potentially establishing a disadvantage for holders of the preferred shares, common shares, or preferred or common ADSs.

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***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.

***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.

In order to have a judgment rendered outside of Brazil enforced in Brazil, the party seeking enforcement would need to be recognized in the courts of Brazil (to the extent that Brazilian courts may have jurisdiction) and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action only if such judgment had been previously ratified by the STJ, in accordance with Articles 216-A to 216-X of the Internal Regulations of the STJ (RISTJ), introduced by Regulatory Amendment No. 18/2014. Notwithstanding the foregoing, no assurance can be given that ratification will be obtained.

***Exchange of preferred ADSs or common ADSs for underlying shares may have adverse consequences.***

The Brazilian custodian for the preferred shares and common shares must obtain an electronic certificate of foreign capital registration from the Central Bank to remit U.S. dollars from Brazil to other countries for payments of dividends, or any other cash distributions, or to remit the proceeds of a sale of shares.

If the investor decides to exchange his preferred ADSs or common ADSs for the underlying shares, the investor will be able to continue to rely, for five business days from the date of the exchange, on the depositary bank's electronic certificate of registration in order to receive any proceeds distributed in connection with the shares. After that period, the investor may not be able to obtain and remit U.S. dollars abroad upon sale of our common/preferred shares, or distributions relating to our common/preferred shares, unless he or she obtains his or her own certificate of registration or registers the investment under CMN Resolution No. 4,373/2014, dated September 29, 2014, which entitles registered foreign investors ( Resolution No. 4,373/2014 ) to buy and sell on a Brazilian stock exchange. If the investor does not obtain a certificate of registration or register under Resolution No. 4,373/2014, the investor will generally be subject to less favorable tax treatment on gains with respect to our common shares.

If an investor attempts to obtain his or her own certificate of registration, the investor may incur expenses or suffer delays in the application process, which could delay his or her ability to receive dividends or distributions relating to our common shares or the return of his or her capital in a timely manner. The custodian's certificate of registration or any foreign capital registration obtained by an investor may be affected by future legislative changes, and additional restrictions applicable to the investor, the disposition of the underlying common/preferred shares or the repatriation of the proceeds of disposition may be imposed in the future.

If the investor decides to exchange his preferred or common shares back into preferred ADSs or common ADSs, respectively, once he has registered his investment in preferred shares or common shares, he may deposit his preferred or common shares with the custodian and rely on the depositary bank's registration certificate, subject to certain conditions. We cannot guarantee that the depositary bank's certificate of registry or any certificate of foreign capital registration obtained by an investor may not be affected by future legislative or other regulatory changes, nor that additional Brazilian restrictions applicable to the investor, or to the sale of the underlying preferred shares, or to repatriation of the proceeds from the sale, will not be imposed in the future.

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***An investor of our common shares and ADSs might be unable to exercise preemptive rights and tag-along rights with respect to the common shares.***

U.S. investors of common shares and ADSs may not be able to exercise the preemptive rights and tag-along rights relating to common shares unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to our common shares relating to these rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, an ADR investor may receive only the net proceeds from the sale of his or her preemptive rights and tag-along rights or, if these rights cannot be sold, they will lapse and the ADR investor will receive only the net proceeds from the sale of his or her preemptive rights and tag-along rights or, if these rights cannot be sold, they will lapse and the ADR holder will receive no value for them.

***Judgments of Brazilian courts with respect to our shares will be payable only in Reais.***

If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of our common shares, we will not be required to discharge any such obligations in a currency other than Reais (R\$). Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than Reais (R\$) may only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank, in effect on the date the judgment is obtained, and any such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then prevailing exchange rate may not afford non-Brazilian investors full compensation for any claim arising out of, or related to, our obligations under our common shares.

***Sales of a substantial number of shares, or the perception that such sales might take place, could adversely affect the prevailing market price of our shares, or of the preferred or common ADSs.***

As a consequence of the issuance of new shares, sales of shares by existing share investors, or the perception that such a sale might occur, the market price of our shares and, by extension, of the preferred and/or common ADSs, may decrease significantly.

***The preferred shares and preferred ADSs generally do not have voting rights, and the common ADSs can only be voted by proxy by providing voting instructions to the depository.***

Under the Brazilian Corporate Law and our by-laws, holders of our preferred shares, and, consequently, holders of our ADSs representing preferred shares, are not entitled to vote at our shareholders' meetings, except in very specific circumstances.

Holders of our preferred ADSs may also encounter difficulties in the exercise of certain rights, including the limited voting rights. Holders of the ADSs for our common shares do not have automatic entitlement to vote in our General Meetings of Shareholders, other than by power of attorney, by sending a voting instruction to the depository. Where there is not enough time to send the form with voting instructions to the depository, or in the event of omission to send the voting instruction, the holders of ADSs for CEMIG's preferred and common shares may be unable to vote by means of instructions to the depository.

***Future equity issuances may dilute the holdings of current holders of our common shares or ADSs and could materially affect the market price for those securities.***



We may in the future decide to offer additional equity to raise capital or for other purposes. Any such future equity offering could reduce the proportionate ownership and voting interests of holders of our common shares and ADSs, as well as our earnings and net equity value per common share or ADS. Any offering of shares and ADSs by us or our main shareholders, or a perception that any such offering is imminent, could have an adverse effect on the market price of these securities.

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### ***The Brazilian Government may assert that the ADS taxation for Non- Resident Holders shall be payable in Brazil.***

Pursuant to Section 26 of Law No. 10,833, published on December 29, 2003, the sale of property located in Brazil involving non-resident investors is subject to Brazilian income tax as of February 1, 2004. Currently, the Company understands that ADSs do not qualify as property located in Brazil and, thus, should not be subject to the Brazilian withholding tax; nevertheless, the Brazilian Tax Authorities may try to assert Brazilian tax jurisdiction in such situation, incurring on the payment of tax income in Brazil for the Non-Resident Holders.

## **Item 4. Information on the Company Organizational and Historical Background**

CEMIG started its activities on May 22, 1952 in Minas Gerais, Brazil as a *sociedade por ações de economia mista* (a state-controlled mixed capital company) with indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree No. 3,710 of February 20, 1952. The Company's full legal name is Companhia Energética de Minas Gerais - CEMIG, headquartered at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil.

In order to comply with legal and regulatory provisions pursuant to the required unbundling of its vertically integrated businesses, in 2004, CEMIG incorporated two wholly-owned subsidiaries: CEMIG Geração e Transmissão S.A., referred to as CEMIG GT, and CEMIG Distribuição S.A., referred to as CEMIG D, which were established to carry on the business of energy generation and transmission, and distribution, respectively.

Several major companies decided to be headquartered in Minas Gerais - such as Mannesmann, a steel company producing seamless tubes - due to the guarantee given by the state government that CEMIG would be able to supply their energy requirements. At that time, Mannesmann's energy needs was equal to half of the entire consumption of the State of Minas Gerais.

The first three hydroelectrical power plants built by CEMIG were commissioned in the 1950s- Tronqueiras, Itutinga and Salto Grande.

In 1960, CEMIG commenced its energy transmission and distribution operations. During the same period the Canambra consortium was formed, by a group of Canadian, American and Brazilian technical experts, who between 1963 and 1966, identified and evaluated the hydroelectrical potential of the State of Minas Gerais. This study, which was aligned with the concept of sustainable development - it revolutionized the focus of construction of power plants in Brazil, and defined which projects could be developed to supply future electric power needs.

In the 1970s, CEMIG took over responsibility for the distribution of energy in the region of the city of Belo Horizonte, incorporated Companhia Força e Luz de Minas Gerais, and embarked on the construction of more major power plants. In 1978, CEMIG commissioned the São Simão hydroelectrical power plant, at that time its largest plant. In this decade, the State of Minas Gerais saw major progress in transmission with the construction of 6,000 km of power lines .

In the 1980s a partnership between CEMIG, Eletrobrás (*Centrais Elétricas Brasileiras S.A.*) and the Brazilian Federal Government, launched the Minas-Luz Program, to expand service to low-income populations in rural areas and outer urban suburbs, including the shantytowns. The Emborcação hydroelectrical power plant, on the Paranaíba River, started operation in 1982. At that time, it was the Company's second largest power plant, and together with the São

Simão plant it tripled the Company's generation capacity. In 1983, CEMIG established its Ecological Program Coordination Management Unit, which is responsible for the planning and development of an environmental protection policy. This enabled the research of alternative energy sources, such as wind power and solar generation, biomass and natural gas, which became a focus of the Company's research projects.

The subsidiary Gasmig (*Companhia de Gás de Minas Gerais*), was established in 1986, for purposes of distributing natural gas. On September 18, 1986, CEMIG changed its corporate name from Centrais Elétricas de Minas Gerais to Companhia Energética de Minas Gerais - CEMIG to reflect the expansion of its area of operation, including multiple sources of power. By the end of the 1980s, CEMIG was distributing energy to 96% of the State of Minas Gerais, according to ANEEL (*Agência Nacional de Energia Elétrica*), the Brazilian regulatory agency.

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In the 1990s, despite the economic crisis, CEMIG, according to its records, served approximately 5 million customers. At that time, CEMIG added 237,000 new connections to the energy supply in a single year, a record in its history. Also in the 1990s, CEMIG began to build hydroelectrical plants in partnership with the private sector. It was through this structure, for example, that Igarapava hydroelectrical power plant, in the Triângulo Mineiro region, was built. Igarapava was commissioned in 1998.

In 2000, CEMIG was included in the Dow Jones Sustainability Index for the first time and it has been part of this index since then. CEMIG sees this as confirmation of its dedication to the balance between the three pillars of corporate sustainability: economic, environmental and social. The year 2000 was also marked by the simultaneous construction of three hydroelectrical plants (Porto Estrela, Queimado and Funil) and the number of CEMIG's customers growing to more than 5 million for the first time in its history.

In 2001, CEMIG inaugurated Porto Estrela Hydroelectrical Power Plant, started the construction of Aimorés Hydroelectrical Power Plant and the feasibility process for Irapé Hydroelectrical Power Plant. In the same year, CEMIG's ADRs representing its common and preferred shares were upgraded to Level 2 on the New York Stock Exchange.

In 2002, according to its records, the number of CEMIG's customers exceeded 6 million for the first time. And it was also the year when the construction of the Irapé Hydroelectrical Power Plant, in the Valley of the Jequitinhonha River, and Barreiro Thermoelectric Plant, started, and Funil Hydroelectrical Power Plant was inaugurated. In that year, CEMIG's shares began being traded on the Latibex segment of the Madrid Stock Exchange.

In 2003, CEMIG began simultaneous construction of several hydroelectrical power plants, as part of an effort to avoid power rationing, and established several centers of excellence and research focusing on climatology, thermoelectric generation, energy efficiency and renewable power sources.

The year 2004 CEMIG had some major challenges: the new Brazilian regulatory framework came into force its main requirement being the unbundling of CEMIG's distribution, generation and transmission activities. In 2005, as a consequence of this unbundling, CEMIG operated as a holding company, with two wholly-owned subsidiaries: CEMIG Distribuição S.A. and CEMIG Geração e Transmissão S.A..

In 2005, CEMIG inaugurated Aimorés Hydroelectrical Power Plant.

In 2006, CEMIG connected in its grid a further 230,000 new customers, and its investment in protecting the environment totaled R\$60 million. The Irapé and Capim Branco I hydroelectrical power plants were inaugurated in July, and in that same year CEMIG began to operate in other states, with the acquisition of a significant interest in Light S.A. (Light), which concession is in the state of Rio de Janeiro, and Transmissoras Brasileiras de Energia TBE, which owned transmission lines in Northern, Midwest and Southern Brazil.

In 2007, CEMIG inaugurated Capim Branco II Hydroelectrical Plant, in the Araguari River.

In 2008, CEMIG acquired a shareholding in wind farms in the northern Brazilian state of Ceará, with total potential generating capacity of approximately 100MW. In addition, CEMIG initiated its participation in the UHE Santo Antônio generation project at the Madeira River.

In April 2009, CEMIG acquired Terna Participações S.A., now called Transmissora Aliança de Energia Elétrica S.A. (TAESA). In May 2013, it increased its holdings in the energy transmission sector with the acquisition of equity interests in five other transmission companies. This increased CEMIG's market share in Brazilian energy transmission

from 5.4% to 12.6% at that time.

In December 2009, CEMIG signed a share purchase agreement to acquire up to 13.03% of Andrade Gutierrez Concessões S.A. equity interest in Light. This acquisition was completed in 2010, starting the process of building its position within the controlling shareholding group of Light.

2009 was the tenth year in which CEMIG was included in the worldwide Dow Jones Sustainability Index, and in that year it was elected as the world leader in sustainability among utilities. It continues to be the only company in the energy sector of Latin America that has been included in the DJSI World since the inception of that index.

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In 2010, CEMIG formed a partnership with Light for the development of smart grid technology with a view to increasing operational efficiency, and reducing commercial losses. Also in 2010 for the second year running CEMIG was rated Prime (B ) by Oekom Research, a German agency that issues sustainability ratings. In the same year CEMIG GT signed a contract with Light for the acquisition of 49% of the share capital of Lightger S.A., a special-purpose company ( SPC ) holding the authorization for the commercial operation of the Paracambi Small Hydroelectrical Power Plant.

In 2011, CEMIG expanded its participation in relevant generation and transmission assets, including the acquisition, by Amazônia Energia S.A. (in which CEMIG and Light have, respectively, 74.5% and 25.5% of the total capital) of 9.77% stake in Norte Energia S.A. ( NESA ), the owner of the concession for the construction and operation of Belo Monte Hydroelectrical Power Plant, in Xingu River, State of Pará. The transaction added 818 MW of generation capacity to our total activities and increased Light s total generation capacity by 280 MW. Also in 2011, CEMIG acquired a controlling stake in Renova Energia S.A. ( Renova ), which has been working with small hydroelectrical power plants ( SHPs ) and wind farms for over a decade.

In 2012, CEMIG concluded the consolidation of its investments in the transmission sector, by transferring the assets of this sector to TAESA. This same year, CEMIG was selected for the eighth consecutive year to be included in the ISE Corporate Sustainability Index ( Índice de Sustentabilidade Empresarial ) of B3.

The following describes some activities of CEMIG, subsidiaries, jointly-controlled entities and associates during 2013, which includes the acquisition of significant power generation and transmission assets:

Parati made a public offering to acquire shares for cancellation of the listed company registration of Redentor Energia S.A. and for its delisting from the *Novo Mercado*, a special listing segment of B3. Redentor Energia left the *Novo Mercado* listing segment, but continues to be traded in the standard listing segment of B3;

CEMIG GT signed a share purchase agreement with Petrobras (*Petróleo Brasileiro S.A.*) and Joelpa (tag along) for the acquisition of 49% and 2%, respectively, of the common share of Brasil PCH; and an investment agreement with Renova, RR Participações S.A., Light Energia S.A. ( Light Energia ) and a new company Chipley (jointly owned by CEMIG GT and Renova), governing the admission of CEMIG GT into the controlling shareholding block of Renova, and the assignment of the Brasil PCH Share Purchase Agreement to Chipley;

CEMIG Capim Branco Energia S.A. completed the acquisition from Suzano Group of a 30.30% holding in the SPC Epícares Empreendimentos e Participações Ltda., corresponding to an additional equity interest of 5.42% in the Capim Branco Energia Consortium;

Madeira Energia S.A. ( MESA ) received cash injections from its shareholders, and credit lines, loans and financings with a long-term profile;

Gasmig invested to expand its distribution network, and increased its presence in the compressed natural gas (GNC) and in the residential distribution market segments;

Acquisition by Empresa Amazonense de Transmissão de Energia ( EATE ) of the equity interest held by Orteng Equipamentos e Sistemas S.A. ( Orteng ) in Transmineiras (a group of three concessionaires made up of Companhia Transleste de Transmissão, Companhia Transirapé de Transmissão and Companhia Transudeste de Transmissão);

Transfer of control of TAESA from CEMIG GT to CEMIG (the holding company). The holders of the debentures of the second and third issuances of CEMIG GT agreed with the reduction of the share capital of CEMIG GT as a result of the transfer of shares in TAESA to CEMIG (the holding company), in accordance with the consent given by ANEEL;

TAESA won Lot A (a 500kV energy line) in ANEEL Auction No. 013/2013, and subsequently created Mariana Transmissora de Energia Elétrica S.A.;

Negotiation to create the company Aliança Geração de Energia S.A. ( Aliança ), to be the platform for consolidation of generation assets held by CEMIG GT and Vale S.A. ( Vale ) in a generation consortium, and investments in future energy generation projects.

Negotiation for the acquisition by CEMIG GT of 49% of Aliança Norte Energia Participações S.A. (formed in 2015), which owns a 9% interest in NESAs belonging to Vale.

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The following describes certain activities relating to CEMIG, subsidiaries, jointly-controlled entities and associates during 2014:

Inclusion of four special-purpose companies operating in hydroelectrical generation, created for the purpose, in Guanhães Energia S.A., with 100% equity interest;

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

Inclusion in Light Energia of the wholly-owned subsidiary Lajes Energia S.A.;

Acquisition of the equity interest in MESA which was held by Andrade Gutierrez Participações S.A. and, subsequently, by SAAG Investimentos S.A ( SAAG ). In the second half of 2014, CEMIG GT acquired an indirect interest in MESA through the vehicles Fundo de Investimentos em Participações Malbec, Parma Participações S.A., and Fundo de Investimentos em Participações Melbourne ( FIP Melbourne ). FIP Melbourne acquired an 83% interest in SAAG Investimentos S.A., which owns a 12.4% interest in MESA, which owns 100% of Santo Antônio Energia S.A. ( SAESA ). On December 31, 2017, CEMIG s total indirect interest in SAESA is at 18.13%;

Creation by Renova of 17 special-purpose companies operating in wind generation to participate in auctions of wind power generation and the commercialization of energy on the free market;

Inclusion in Light S.A. of its 50.10% shareholding interest in the SPE Energia Olímpica, the objects of which are building and implementation of the Vila Olímpica substation and two 138-kV underground lines;

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

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

Inclusion of the Renova Moinhos de Vento Consortium in Renova, with 99.99% equity stake;

Acquisition by CEMIG GT of a 49.9% interest in Retiro Baixo Energética S.A. from Orteng (24.4%) and Arcadis (25.5%). Retiro Baixo Energética S.A. holds the concession to operate the Retiro Baixo hydroelectrical plant, with installed generation capacity of 83.7 MW, until August 2041;



Addition of the SLT Project Consortium in CEMIG GT, with a 33.33% interest. Its objectives are to manage and negotiate the contracting of legal, environmental, technical and any other external consultants necessary for the preparation of studies to ascertain the attractiveness of the São Luiz do Tapajós hydroelectrical plant, in the State of Pará;

Addition of CEMIG GT in the controlling block of Renova, with 27.37% of the total share capital and 36.62% of the voting shares, through a capital increase of 87,186,035 nominal common shares without par value;

Change in the equity interest in Empresa Regional de Transmissão de Energia S.A ERTE (TAESA);

Establishment of two sub-holding companies by Renova, named Diamantina Eólica Participações S.A. and Alto Sertão Participações S.A., with a 99.99% equity interest in each company. The purpose of such companies is to hold equity interests in other companies in the area of energy generation and trading, and sales of energy;

CEMIG GT exited the Cosama Consortium;

Divestment by CEMIG Geração e Transmissão of its 40.00% interest in Chipley SP Participações and increase in the percentage equity interest held by Renova in Chipley to 99.99%; and

Formation of the company Aliança, to be a platform for consolidation of generation assets held by CEMIG GT and Vale in generation consortia and investments in future energy generation projects.

The following describe certain activities relating to CEMIG, subsidiaries, jointly-controlled entities and associates during 2015:

*Renova Group:*

Transfer of the SPE Ventos de São Cristóvão Energias Renováveis S.A. from Renova Energia S.A. to Centrais Eólicas Bela Vista XIV S.A.;

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Restructuring of Renova, which included: (i) acquisition of a 11.36% equity interest in TerraForm Global Inc., with the corporate purpose of acquiring, from SunEdison or third parties, assets connected to the generation of clean energy; (ii) creation of three subholdings of TerraForm Global Inc.: (1) TerraForm Global BV, (2) Other Holdings and (3) TERP GLB Brasil; (iii) transfer of Nova Renova Energia, alongside Bahia Eólica Participações S.A. and the 5 wind generating SPEs, in which Renova had an ownership interest to TERP GLB Brasil; (iv) transfer of Salvador Holding S.A., in which Renova had an ownership interest in to TERP GLB Brasil; (v) transfer of Salvador Eólica Participações S.A., alongside the other 9 wind generating SPEs, in which Nova Renova Energia had an ownership interest to Salvador Holding S.A.; (vi) transfer of Renova Eólica Participações S.A., alongside 15 wind generating SPEs in which Nova Renova Energia had an ownership interest to Nova Energia Holding S.A.; (vii) transfer of Diamantina Eólica Participações S.A., in which Renova had an ownership interest to Alto Sertão Participações S.A.; (viii) transfer of the 24 wind generating SPEs in which Renova had an interest to Diamantina Eólica Participações S.A.

*Aliança Geração de Energia S.A. ( Aliança ):*

Conclusion of the transaction of association between Vale and CEMIG GT to form Aliança. The two companies subscribed shares issued by Aliança which were paid in by means of the equity interests they held in the following energy generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés and Candonga; plus a 100% interest in the following wind generation SPCs: Central Eólica Garrote Ltda., Central Eólica Santo Inácio III Ltda., Central Eólica Santo Inácio IV Ltda. and Central Eólica São Raimundo Ltda.

*CEMIG Geração e Transmissão S.A.:*

Merger of CEMIG Capim Branco Energia S.A. into CEMIG GT, and consequently the cancellation of its registration with the Brazilian Federal Revenue Service;

Acquisition by CEMIG GT, from Vale, of Vale's 49% stake in Aliança Norte Energia Participações S.A., which holds a 9.00% interest in NESA (which owns the concessions of Belo Monte) corresponding to an indirect holding of 4.41% in NESA;

Winding up of the Aimorés and Funil consortia, and the consequent cancellation of their registration with the National Registry of Legal Entities (CNPJ) of the Federal Revenue Service;

EBL Companhia de Eficiência Energética S.A., that had a 33% equity interest in Light Esco Prestação de Serviço S.A was excluded;

Parati made a public tender offer seeking to acquire all of the outstanding shares of Redentor Energia S.A. ( Redentor ) and delist Redentor's shares from B3. As a result, Parati became the owner of 99.79% of Redentor's equity interest; and

CEMIG GT won the concession for Lot D in ANEEL's Auction No. 012/2015, for placement of concessions for hydroelectrical plants under a regime of allocation of generating capacity and physical offtake guarantees. Lot D is comprised of 13 plants that previously owned by CEMIG, and additional five plants which were owned by Furnas Centrais Elétricas S.A. The hydroelectrical plants CEMIG previously owned are: Três Marias, Salto Grande, Itutinga, Camargos, Marmelos, Joasal, Paciência, Piau, Tronqueiras, Peti, Cajuru, Gafanhoto and Martins. The plants Furnas previously owned are: Coronel Domiciano, Dona Rita, Sinceridade, Neblina and Ervália. The aggregate installed generation capacity of these 18 plants is 699.57 MW.

The following describe certain activities relating to CEMIG, subsidiaries, jointly-controlled entities and associates during 2016:

*Concession Contracts for 18 Generation Plants*

On January 5, 2016, CEMIG GT signed the concession contracts for operation of 18 generation plants (699.57 MW total installed generation capacity), acquired by CEMIG GT for R\$ 2.216 billion, as a result of ANEEL Auction No. 012/2015.

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### *Exchange of Debentures owned by AGC Energia for Shares Issued by CEMIG*

On March 3, 2016, BNDES Participações ( BNDESPar ) exchanged the totality of its debentures in the Non-convertible Permanent Asset-guaranteed Exchangeable Shareholders Debentures of the First Series issued by AGC Energia, for 54,342,992 common shares and 16,718,797 preferred shares issued by CEMIG and previously owned by AGC Energia. After the exchange, the equity interest held by BNDESPar in CEMIG which on March 2, 2016 comprised no common shares and 1.13% of the preferred shares increased to 12.9% of CEMIG s common shares and 3.13% of CEMIG s preferred shares. This increased the interest of BNDESPar in the total equity of CEMIG from 0.75%, before the exchange, to 6.4% immediately thereafter.

### *Investment Agreement for Subscription of Capital in Ativas signed by Cemig Telecom*

On August 25, 2016, CEMIG Telecomunicações S.A.( 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, 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%.

### *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 share capital to Ferrovial Transco Chile SpA., a company controlled by Ferrovial S.A., for US\$ 57 million, the amount to be adjusted at the closing. This transaction was concluded on October 6, 2016.

### *Miranda Hydroelectrical Plant*

On December 22, 2016, the Superior Court of Justice (STJ) granted an interim injunction to CEMIG GT maintaining CEMIG GT in control of the Miranda Hydroelectrical Plant, in Minas Gerais, on the initial basis stated in Concession Contract No. 007/97, until conclusion of judgment on the application for mandamus filed by CEMIG GT. In response to a motion for revision of judgment brought by the Federal Government against the Internal Appeal, the Reporting Justice revoked this interim remedy on March 29, 2017.

### *Renova Group*

On February 2, 2016, the Board of Directors of Renova approved an increase in the capital of Renova in which we will take part through the Parent Company s wholly-owned subsidiary CEMIG GT, which has approved allocation of up to R\$ 240 million.

On April 1, 2016, Renova terminated the purchase and sale of shares for the sale of the ESPRA project ( ESPRA Agreement ) owned by Renova to Terraform Global, Inc. ( Terraform Global ) by an agreement between the parties, upon a break-up fee payment in the amount of US\$10 million to Renova. In this way, the ESPRA projects (three small hydroelectrical plants (SHPs) contracted under PROINFA, with 41.8MW installed capacity), would remain within Renova and return to compose Renova s portfolio of operational assets.

On June 14, 2016, the Board of Directors of Renova approved cancellation of the power purchase agreement entered into between Renova Comercializadora de Energia S.A. ( Renova Trading ) and CEMIG GT for supply by 25 wind farms in the region of Jacobina, in the Brazilian state of Bahia, with 676.2 MW of installed capacity, for operational startup on January 1, 2019. The Board of Directors of Renova approved an advance payment of R\$ 118 million for contracted future energy supply under the agreement between Renova Trading and CEMIG GT. The agreement, signed in 2013, provides for the parties to make earlier or later payments for the power supply that is the subject of the agreement.

CEMIG increased its capital of Renova, through the Parent Company's wholly-owned subsidiary CEMIG GT, in the amount of up to R\$240 million. Such capital increase was ratified on June 21, 2016, in the total amount of R\$280 million (R\$ 240 million by CEMIG and R\$ 40 million by Light Energia S.A.), by means of a issuance of 42,042,219 common shares and 165 preferred shares, subscribed and paid up for the issuance price of R\$6.66 per share (common or preferred) and R\$19.98 per unit.

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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 R\$ 50.48 per share, while SunEdison, at its own discretion, has the right to pay US\$15.00 per share rather than R\$ 50.48. The contract also gave SunEdison an option to buy 7 million shares on the same terms.

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. On May 26, 2017, Renova and Terraform Global signed an agreement for the parties to terminate arbitration proceedings, upon compensation to Renova of US\$15.0 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 had 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 was proportional to its interest at the time of 34.2%, in Renova, valued by the equity method, in the amount of R\$93 million.

### *Advances to Renova under Power Purchase Agreement*

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

The agreement provided for the parties to elect to make advance payments for power. The payments were meant to be primarily allocated to the Alto Sertão III project, and also to meet other needs of Renova. The amount due would 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 Comercializadora de Energia S.A. of R\$94 million under the Power Purchase 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. An option was also granted to CEMIG GT to purchase 100% of the shares of Enerbrás S.A..

A Call Option 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).

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**Table of Contents***Adjustment for impairment in value of investments*

In 2016, CEMIG posted an adjustment for a reduction in value of investments of R\$ 763 million related to its investment in Renova. Renova incurred losses totaling R \$1,101 million for the year ended December 31, 2016, had negative working capital of R\$ 3,211 million as of December 31, 2016 and presented negative cash flow generation. The main reasons for these negative financials are: (i) energy purchases Renova was forced to make to comply with previous commitments because of a delay in certain wind farms becoming operational; (ii) substantial investments Renova made in the construction of the Alto Sertão III wind farm; (iii) a delay in obtaining BNDES long-term financing; (iv) Renova's failure to meet certain covenants and obtain creditors' approval in 2016, which resulted in certain long-term debt being reclassified as current liabilities and (v) losses resulting from its Terraform operation. In addition, currently Renova is late on certain payments and in negotiation with creditors under several contracts. As a result, Renova's management has been taking various measures to rebalance its liquidity and cash generation structure such as selling assets, decreasing administrative and operational structure and administrative costs, increasing shareholders' commitment of financial support, entering into long-term financing with the BNDES, starting cash flow equalization projects and seeking the consent of creditors to reclassify certain current debts as noncurrent liabilities.

*Increase in Capital of Renova*

CEMIG GT increased its stake in Renova in the amount of R\$56 million through a capital increase that was ratified on June 21, 2017, in the total amount of R\$112.8 million by means of a issuance of 50,888,993 common shares and 5,492,938 preferred shares, subscribed and paid up to the issuance price of R\$2.00 per share (common or preferred) and R\$6.00 per unit.

*Sale of Alto Sertão III Wind Farm Complex by Renova*

On November 12, 2017, Renova received a binding proposal from Brookfield for primary investment of R\$ 1.4 billion in Renova, at a price of R\$ 6 per unit. The offer further includes an earn-out of up to R\$ 1.00 per unit, for any amount that Renova receives in the future as adjustment to the sale price of the Alto Sertão II Wind Power Complex. The proposal also specifies conditions precedent that are usual in this type of transaction. This proposal was accepted by Renova's board of directors on November 24, 2017.

On February 23, 2018, Renova received a new binding proposal from Brookfield replacing the previous offer for primary capitalization (November 12, 2017 proposal). This new proposal provided for the acquisition of all assets of the Alto Sertão III Complex (the ASIII Complex), in addition to certain other wind projects under development with total planned generating capacity of approximately 1.1 GW. The value proposed for the ASIII Complex was R\$ 650 million, to be paid upon the completion of the transaction (the Price). The Price would be subject to regular post-closing adjustments and to an earn-out mechanism that may increase the Price up to additional R\$ 150 million.

On February 27, 2018, the board of directors of Renova accepted Brookfield's February 23, 2018 binding offer for the acquisition of ASIII Complex and additional wind power projects under development. Renova's board of directors also approved to grant Brookfield an exclusivity term of up to 60 days for the negotiation and execution of the transaction documents. The exclusivity term has ended, but negotiation between Renova, its shareholders and Brookfield is still continue and final completion of the transaction will take place after agreement is reached and consideration and approval by the governance bodies of Renova and of its controlling shareholders, and after all conditions precedent are met.





**Table of Contents***TAESA*

On April 13, 2016, TAESA was the winning bidder of Branch P in Auction No. 013/2015 of Public Power Transmission Lines auction promoted by the Brazilian Energy Regulatory Agency ( ANEEL ). Branch P comprises 90 km of transmission lines and two substations in Tocantins state. ANEEL granted TAESA the right to explore the concessions for 30 years. TAESA did not offer a discount for Lot P RAP defined by ANEEL at the auction notice, granting an initial revenue of R\$ 56 million.

On August 31, 2016, the Board of Directors of CEMIG authorized monetization of up to 40,702,230 units in TAESA corresponding to 40,702,230 common shares and 81,404,460 preferred shares in TAESA, owned by CEMIG.

On October 24, 2016, TAESA settled its restricted offering ( Restricted Offering ) of 65,702,230 units (each unit being evidenced by Certificados de Depósito de Ações, each of which represented one outstanding ação ordinária (common share) and two outstanding ações preferenciais (preferred shares)) ( Units ) offered and sold by Fundo de Investimento em Participações Coliseu ( FIP Coliseu ) and CEMIG. The Restricted Offering was a secondary offering, with restricted placement efforts of 65,702,230 units held by the Selling Shareholders, being 25,000,000 units held by FIP Coliseu and 40,702,230 units held by CEMIG, at a price per Unit of R\$19.65.

On December 27, 2016, TAESA received the notice sent by Fundo de Investimento em Participações Coliseu and Fundo de Investimento em Ações Taurus (jointly, Sellers ), informing that a Share Purchase Agreement was executed with Interconexión Eléctrica S.A. E.S.P. ( Agreement and Buyer , respectively) for the sale of the totality of their equity interests bound to the block of control of TAESA, representing, jointly, 26.03% of the common shares and 14.88% of the total capital share of TAESA, for the total amount of R\$1,055,932,217.19.

*Changes in the Shareholders Agreement of Parati*

In 2016, there has been a corporate simplification with regard to CEMIG's indirect investment on Light, such as FIP Redentor termination, incorporation of Redentor Energia SA. by Rio Minas Energia Participações S.A. ( RME ), Parati's total break-up, whereby CEMIG, Santander (Brasil) S.A., BV Financeira S.A., BB Banco de Investimento S.A. and Banco BTG Pactual became direct shareholders of RME and Luce Empreendimentos e Participações S.A. ( Lepsa ), bearing same rights, obligations and equity then held by Parati. CEMIG has also acquired Banco BTG Pactual S.A.'s equity shareholdings of RME and Lepsa in 2016. Legal instruments have been signed to formalize the related alterations to the rights and obligations relating to the Put Option granted by CEMIG to the Direct Shareholders on shares in Parati, with the result that the said rights and obligations now apply, instead, to the shares in RME and Lepsa, since these two companies received the whole of the body of assets and liabilities that were split off as a result of the 100% split of their controlling and sole shareholder, Parati.

In November of 2017, the Company entered into certain amendments to the shareholders agreement of RME, one of successors of Parati. The principal change arising from these amendments is to postpone the exercise of the put option on the RME common shares for November 23, 2018.

In essence, the obligations of the put option remained as follows:

- 1) The maturity of the put option granted in 2011 by CEMIG in favor of the unit holders of FIP Redentor, initially scheduled to be exercised on May 31, 2016 was postponed and divided into three 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 RME e Lepsa, representing 14.30% of the total shares in Light held by the other direct shareholders. With respect to shares put within this exercise window, CEMIG paid by November 30, 2016.
  
- b) Second option exercise window: up to, and including, September 23, 2017, and not restricted to preferred shares in RME and Lepsa, and may include the totality of the common shares in Lepsa, representing 5.49% of the total shares in Light held by the other direct shareholders, regardless of the exercise of the put option in the first payment window. With respect to shares put within this exercise window, CEMIG paid by November 30, 2017.
  
- c) Third option exercise window: up to, and including, September 23, 2018, only with respect to common shares in RME, regardless of the exercise of the put option in the first or second payment window. With respect to shares put within this exercise window, CEMIG must make payment by November 30, 2018.

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- 2) 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 shareholders' agreement, allowing any direct shareholders to present to CEMIG a notice of acceleration of the put option, at which moment the option shall be considered exercised by all the direct shareholders, over the totality of their shares.
  
- 3) To guarantee the full payment of the put option, on May 31, 2016 CEMIG offered the holders of the put option: Units directly held by CEMIG in TAESA, representing 55,234,637 ordinary shares and 110,469,274 preferred shares, and as a further guarantee, 26.06% (53,152,298 shares) that CEMIG directly holds in Light.
  
- 4) The put option may be exercised by the direct shareholders of RME.

The following describe certain activities relating to CEMIG, subsidiaries, jointly-controlled entities and associates during 2017:

*Light Put Option Amortization and Reprofiling*

On September 15, 2017, CEMIG received Notices of Intention to Exercise Put Options, under the Second Exercise Window, from BB Banco de Investimento S.A. (BB-BI), BV Financeira S.A. Crédito, Financiamento e Investimento (BV Financeira), and Banco Santander (Brasil) S.A. (Santander) (jointly, the Shareholder Banks), giving notice of irrevocable decision to exercise their right to sell the totality of their holdings of common and preferred shares (the Shares Subject of the Put Option), comprising the totality of their equity interests, in Lepsa and RME (jointly, the Companies). This put option was exercised under Clauses 6.1.4 and 6.3 of the Shareholders' Agreements of the Companies (Put Options Second Exercise Window), signed on October 31, 2016, and as amended, by CEMIG and the Shareholder Banks, with the Companies as consenting parties (the Lepsa Shareholders' Agreement and the RME Shareholders' Agreement). The acquisition of the shares, by CEMIG took place on November 30, 2017.

There have been negotiations with the Shareholder Banks in order to postpone for 12 months (to November 2018) the closing date of the put option, which would allow CEMIG to divest from its interests in Light. CEMIG proceeded with a block trade of part of its interest in TAESA by November 24, 2017 and deposited the funds in an escrow account it maintains with the proceeds of a previous sale of TAESA's shares. CEMIG paid R\$1,016 million of the put option on November 30, 2017 buying preferred shares of RME and common shares and preferred shares of Lepsa.

The 12-month extension with the Shareholder Banks was negotiated to postpone to November 30, 2018 in relation to common shares of RME. The basis for the negotiation of this postponement is the fact that if the put option on the common shares is exercised, Light could potentially become a state-controlled company, since CEMIG would then hold, directly and indirectly, 52.12% of Light's capital share. This would lead to the acceleration of several of Light's financing agreements that have cross-default clauses, and it would result in a sharp fall in the share price of Light, which would have a material adverse effect on CEMIG. See more details in note 30 in our consolidated financial statements.

*Decision on disposal of holding in Light*

On June 21, 2017, the Board of Directors of CEMIG decided to begin the process to sell its entire interest in the share capital of Light S.A. (Light), and on July 14, 2017 RME and Lepsa made formal decisions to start the process to sell their entire interest in Light. This formalized the joint decision of CEMIG, RME and Lepsa to dispose of the totality of the controlling shareholding block of Light, which comprises an aggregate holding of 52.12% of the share capital

of Light.

CEMIG has received non-binding proposals related to its process of divestment, as a result of the first phase of access to the documents and information contained in the data room made available to potential investors in relation to the Light group. CEMIG is analyzing these proposals for possible selection for inclusion in the next phase. If a selection is made, conclusion of the divestment process will also be subject to: a phase of due diligence, including technical visits; submission of binding proposals; negotiations; final approvals for signature of definitive agreements for the transaction referred to; and approvals of conditions precedent that are usual in this type of transaction.

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*Sale of Alto Sertão II Wind Farm Complex by Renova*

On August 3, 2017, CEMIG GT's affiliate Renova completed the sale to AES Tietê Energia (AES Tietê) of Renova's entire equity interest in Nova Energia Holding S.A. (Nova Energia), which, through Renova Eólica Participações S.A. (Renova Eólica), owns the Alto Sertão II Wind Farm Complex (the Complex). The base value of the acquisition (the Acquisition Price) is R\$ 600 million, and AES Tietê has also assumed the debt of the Alto Sertão II Complex, which totaled R\$ 1.15 billion at December 31, 2016. The Acquisition Price will be adjusted based on certain variations in working capital and net debt of the Complex. It may also be increased by up to R\$ 100 million under earn-out clauses, depending on the performance of the Complex as measured over a period of five years from the completion of the transaction. A tranche totaling R\$364.6 million of the Acquisition Price has been allocated to extraordinary amortization of the debentures of Renova's Third Issue of Nonconvertible Debentures (Unsecured, with Additional Asset Guarantee, for Public Distribution, in a Single Series, with Restricted Distribution Efforts), settling the whole of the outstanding balance of principal and remuneratory interest owed by Renova under that issue.

*Disposal of TerraForm Global Inc. shares*

On May 26, 2017, Renova entered into a Share Purchase Agreement and sold its equity interests in TerraForm Global Inc. to Orion US Holding 1 L.P., a vehicle of Brookfield Asset Management. The price for the acquisition was US\$92.8 million paid to Renova in cash upon completion of the transaction, after certain conditions precedent have been met. Also on the same date, Renova and Terraform Global signed an agreement for the parties to terminate certain arbitration proceedings, upon payment of compensation to Renova of US\$15.0 million. The transaction closed on July 3, 2017.

Renova's management has stated that the transaction is aligned with its new directional strategy, the goals of which are the (i) restoration of the balance of its capital structure; and (ii) sustainability of the business in the long term.

*Investment in Renova*

Renova is late on certain payments and is in negotiation with creditors under several contracts. As a result, Renova's management has been taking various measures to rebalance its liquidity and cash generation structure such as selling assets, decreasing administrative and operational structure and administrative costs, and increasing shareholders' commitment of financial support.

*Sale of Coliseu's interest in TAESA*

On June 13, 2017, CEMIG's affiliate TAESA received a notification from ISA Investimentos e Participações do Brasil S.A. (ISA Brasil) in relation to disposal of common shares in TAESA held by Fundo de Investimento em Participações Coliseu and Fundo de Investimento em Ações Taurus, under the share purchase agreement signed on December 27, 2016 between the vendors and Interconexión Eléctrica S.A. E.S.P. (the Purchaser).

In accordance with the terms of the purchase agreement the vendors sold in the aggregate 153,775,790 common shares, representing 26.03% of the voting share and 14.88% of the total capital of TAESA. These shares were transferred to ISA Brasil (an investment vehicle of the Purchaser) on June 13, 2017 for approximately R\$1 billion. ISA Brasil is now subject to the Shareholders' Agreement of TAESA.

**Table of Contents***Transfer of transmission companies to TAESA*

On July 13, 2017, CEMIG GT signed an agreement regarding an equity restructuring involving the transfer to TAESA of the equity interests held by CEMIG in the following public energy transmission concession holders (referred to jointly as the Transmineiras Companies ): Companhia Transleste de Transmissão S.A. ( Transleste ), Companhia Transudeste de Transmissão S.A. ( Transudeste ) and Companhia Transirapé de Transmissão S.A. ( Transirapé ).

The initial value of the transaction is approximately R\$ 76 million, to be paid on the date of closing. This amount will be subject to adjustment for: (i) accumulated variation of the IPCA inflation index as from January 1, 2017, inclusive, up to the day immediately prior to the date of signature of the agreement; and (ii) accumulated variation resulting from application of 100% of the CDI rate, from the date of signature, inclusive, up to the day immediately prior to the date of closing and is subject to discounting of any amounts of dividends and/or interest on equity declared as from January 1, 2017 (inclusive) by the Transmineiras Companies in favor of CEMIG GT, whether paid or not, up to the date of closing, duly updated by the accumulated variation of the IPCA inflation index from the date of the payment to the day immediately prior to the date of closing.

Under the terms of the agreement, a further tranche with a maximum value of R\$ 11.7 million may be divided between TAESA and CEMIG GT if the Transmineiras Companies obtain a favorable judgment in certain legal proceedings that are in progress. This amount will be updated by the accumulated variation resulting from application of 100% of the CDI rate from January 1, 2017, inclusive, to the day immediately prior to the day of payment.

Following approval by the Brazilian monopolies authority CADE (Conselho Administrativo de Defesa Econômica), Aneel (the Brazilian energy regulator), and the financing banks, on November 30, 2017, Cemig has concluded the shareholding restructuring involving transfer to Transmissora Aliança de Energia Elétrica S.A. of the shareholdings held by Cemig in the following transmission concession holders: Companhia Transleste de Transmissão S.A., Companhia Transudeste de Transmissão S.A. and Companhia Transirapé de Transmissão S.A.. The amount received by Cemig in this Transaction was R\$ 56 million this being the amount resulting from monetary updating by: (i) the accumulated variation of the IPCA inflation index from January 1, 2017, inclusive, to the day immediately prior to the signature of the final closing document for the Transaction; and (ii) accumulated variation of 100% (one hundred per cent) of the CDI rate from date of signature, inclusive, to the day immediately prior to date of closing, and after discounting of: any amounts of dividends and/or Interest on Equity declared as from January 1, 2017 (inclusive) by the Transmineiras Companies in favor of Cemig, whether paid or not, up to the date of closing of the Transaction, with monetary updating by the IPCA from the date of payment to the business day immediately prior to the closing date.

*TAESA Columbia Consortium*

On April 24, 2017, the Columbia Consortium formed by TAESA and CTEEP won the bid for Branch 1 of the Transmission Auction No. 5/2016, carried out by ANEEL by offering R\$267 million of Annual Allowable Revenue (RAP). The project, which will require a R\$1,936 million investment, will comprise (i) 525 kV Guaíra Sarandi transmission lines, extending them 266.3 kilometers; (ii) Foz do Iguaçu Guaíra transmission lines, extending them 173 kilometers; (iii) Londrina Sarandi transmission lines, extending them 75.5 kilometers; and (iv) the 230 kV Sarandi Paranavaí Norte line, extending it 85 kilometers, plus constructing and operating three substations (Guaíra, Sarandi and Paranavaí Norte), located in Paraná. The deadline for execution of the work is 60 months and the commercial operation start is scheduled for August, 2022.

*Cemig sold 34 million Taesa Units*

On November 24, 2017, Cemig has sold, by auction on the B3 exchange ( the Auction ) 34,000,000 Units in Transmissora Aliança de Energia Elétrica S.A. ( Taesa ) (TAE11), for R\$ 21.10 per Unit. This reduces Cemig s equity interest in Taesa from 31.54% to 21.68%. Cemig now owns 218,369,999 common shares equivalent to 36.97% of Taesa s total common shares and 5,646,184 preferred shares 1.28% of Taesa s total preferred shares. The controlling shareholding block of Taesa remains unchanged, since the shares sold were not bound by the Shareholders Agreement. The proceeds from the sale will be held in an escrow account to execute the Company s commitments in relation to the put option granted by Cemig to the shareholders of Rio Minas Energia Participações S.A. ( RME ) and Luce Empreendimentos e Participações S.A. ( Lepsa ).



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*Offer for Interest in Santo Antônio Power Plant*

On June 26, 2017, CEMIG received from State Power Investment Overseas Co., Ltd of China ( SPIC Overseas ) an offer for purchase of the equity interests held by CEMIG GT and SAAG Investimentos S.A. ( SAAG ) in Madeira Energia S.A. ( Mesa ), holder of the concession to operate the Santo Antônio Hydroelectrical Power Plant.

Starting from this proposal, the parties entered into a negotiation process aiming at achieving a common ground regarding the valuation of Mesa and the purchase price of the shares. This negotiation process has been temporarily suspended at the end of July 2017 and was resumed on March 2018.

*CEMIG's Bank Debt Refinancing*

In 2017, Cemig entered into negotiations with its main creditors aiming at a Bank Debt Refinancing, representing up to R\$3.4 billion of debt, in order to refinance short and medium term indebtedness of CEMIG GT and CEMIG D and, then, to balance CEMIG's short and medium term cash flows. The reprofiling involved the amortization schedules of existing debt maturities, ranging from 2017 through 2020, into facilities with a principal amortization grace period in 2018 and final maturities in 2022.

In December, CEMIG D concluded the reprofiling by means of a local notes issuance in the amount of R\$1,575 million and amendments in debt agreements entered into with Banco do Brasil (R\$500 million) and Caixa Econômica Federal - CEF (R\$625 million). As to CEMIG GT, there were amendments in debt agreements entered into with Banco do Brasil (R\$741 million). In aggregate, the bank debt reprofiling reached, approximately, R\$3.4 billion. The new debt of CEMIG D will pay interests of 146.5% of CDI (local interest rate), whereas the new debt of CEMIG GT will cost 140% of CDI. The amortization of principal will begin in 2019, with monthly payments in the following annual distribution: 33.36% in 2019 and 2020, and 33.28% in 2021 for CEMIG GT and 6.75% in 2019, 13.50% in 2020, 27% in 2021, 11.25% and a balloon of 41.50% in 2022 for CEMIG D.

The Bank Debt Refinancing did not involve a principal reduction and the new facilities were senior secured indebtedness. The collateral for CEMIG GT's Bank Debt Refinancing is comprised of cash sweep on CEMIG GT's asset sales (35% of every asset sale), pledges on dividends earned from some of CEMIG and CEMIG GT's subsidiaries and pledge on receivables (R\$125 million per month for the life of the new debt facility). The collateral for CEMIG D's Bank Debt Refinancing is comprised of cash sweep on CEMIG Holding's asset sales (35% of every asset sale) and pledge on receivables (R\$400 million per month for the life of the new debt facility).

*Cemig's Capital Increase*

On October 26, 2017, Cemig's Extraordinary General Meeting of Shareholders authorized an increase of the Company's share capital through the issuance of new shares that were available only for subscription by the Company's existing shareholders, with the following terms and conditions (the Capital Increase):

1. Amount of the Capital Increase: up to R\$ 1 billion through the issuance of up to 199,910,947 new shares each with nominal value of R\$ 5.00, for an issue price of R\$ 6.57, for both common and preferred shares. The difference between the issue price (R\$ 6.57) and the nominal price (R\$ 5.00) is to be allocated to the capital reserve account;

2. New shares: up to 199,910,947 new nominal shares (up to 66,849,505 nominal common shares and up to 133,061,422 nominal preferred shares). The new shares have the same rights of the shares of the same class, including with respect to dividends and/or distributions on equity that may be declared by the Company.

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3. Subscription of the new shares: the Capital Increase was implemented through a private subscription and Cemig's shareholders were eligible to exercise their preemptive rights in proportion equity holdings, at the ratio of 15.89% of the number of shares of each type that they held at the close of market on October 25, 2017.
4. Preemptive right exercise term: the preemptive right for the subscription of the new shares were exercised by the shareholders between October 30, 2017 to November 29, 2017.
5. Remaining shares: Not all the newly issued shares have been subscribed, shareholders were eligible to subscribe the remaining shares may do so at the same price and on the same conditions.

On March 21, 2018, all the Remaining Shares have been sold through a public auction, resulting in proceeds from the Capital Increase of R\$ 1.3 billion. On April 23, 2018, the Extraordinary General Meeting of Shareholders approved the Capital Increase and, the resulting amendment of Cemig's Bylaws to reflect the new amount of the Company's share capital: in the aggregate amount of R\$ 7,294 million, represented by 487,614,213 common shares and 971,138,388 preferred shares.

Cemig did not register the Capital Increase with the U.S. Securities and Exchange Commission (SEC). Citibank, as the Depositary Bank for the ADRs, sold the corresponding preemptive rights only in the Brazilian market and, on December 13, 2017, Citibank made a distribution of the net proceeds arising from such sale (gross revenue from the sales, less charges and expenses), in US dollars, to the holders of the ADRs.

*The merger of Cemig Telecomunicações S.A. by Cemig*

On January 12, 2018 in a meeting, Cemig's Board of Directors decided to submit a proposal to an Extraordinary General Meeting of Shareholders that Cemig should merge its wholly-owned subsidiary Cemig Telecomunicações S.A. The merger will provide gains from optimization of assets and synergies, and reduce financial, operational and administrative costs through concentration of existing administrative structures, while improving options for use of available funds.

An Extraordinary General Meeting of Shareholders of Cemig, and an Extraordinary General Meeting of Shareholders of Cemig Telecomunicações S.A., both held on February 28, 2018, have approved and authorized the signature of the Protocol of Merger and Justification establishing the terms and conditions governing the merger of Cemig Telecom by Cemig.

The merger of Cemig Telecomunicações S.A. by Cemig was completed on March 31, 2018.

Since this is a merger of a wholly-owned subsidiary, there was no capital increase nor issue of new shares by Cemig. The shares in the subsidiary were canceled, on the Merger Date, and the necessary accounting records made.

*Auction of Former CEMIG GT Generation Concessions and Indemnification*

Under Concession Contract 007/1997 the concessions of the Jaguará, São Simão, Miranda and Volta Grande hydroelectrical plants had expiration dates in August 2013, January 2015, December 2016 and February 2017, respectively.

Believing that Cemig had the right to renewal of the concessions of these three plants, based on the original terms of the Concession Contract, the Company filed administrative and court proceedings requiring their extension for the related renewal periods. These applications, however, were rejected by the Mining and Energy Ministry, on the view that the request was made out of time in relation to the deadlines and/or rules set by Law 12783/13.

In March 2017 the interim judgments that had maintained the Company in possession and operation of the concession of the Jaguará and Miranda plants on the basis of the original Concession Contract 007/1997 were revoked. Cemig GT remained in control of the asset, and recognized the sales revenue from energy, and the operational costs, of these plants up to the date of the revocation of those interim judgments. From that date onward, the subsidiary ceased to recognize the expenses of depreciation on the plants, and began to recognize revenues relating to the provision of services of operation and maintenance of these plants in accordance with the regime of quotas. As ordered by Mining and Energy Ministry Order 432/2015, the São Simão plant was being operated under the Quotas Regime since September 2015.

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In spite of the fact that there were court proceedings still pending, involving the São Simão, Jaguará and Miranda plants, on September 27, 2017 the Federal Government auctioned the concessions for the São Simão, Jaguará, Miranda and Volta Grande plants which have total generation capacity of 2,922 MW for a total of R\$ 12,130,784. The parties that won these concessions are not related to Cemig.

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

Volta Grande plant: Until November 30, 2017.

Jaguará and Miranda plants: Until December 28, 2017.

São Simão plant: Until May 9, 2018.

Annual Generation Revenue (Receita Anual de Geração, or RAG) of these plants was recognized in the amount of R\$ 462, million, in 2017 (R\$ 319 million in 2016).

On August 3, 2017 Mining and Energy Ministry Order 291/17 established the values of indemnity, to Cemig GT, for the investments made in the São Simão and Miranda plants that have not been amortized up to the end of the contract. The total amount of the indemnity is R\$ 1,027,751, of which R\$ 243,599 relates to indemnity for the São Simão Plant, and R\$ 784,152 is indemnity for the Miranda Plant these figures being expressed in December 2015 and February 2016 currency, respectively. The amounts will be updated, pro rata die, by the IPCA (Expanded Customer Price) index, up to the date of signature of the Concession Contract by whichever party wins the tender for the concession of the Plants, by the Selic reference rate for federal securities, as from the date of signature of the Concession Contract up to the date of actual payment of the indemnity.

The balances not yet amortized of the concessions of the São Simão and Miranda Plants, in relation to their Basic Plans, were adjusted to reflect the matters defined in Ministerial Order 291/17, and as a result revenue of R\$ 271,607 was recognized (more details in Notes 4, 15 and 26). Additionally, the Company transferred the balances referred to Concession Financial Assets.

The Company is discussing, with the Mining and Energy Ministry, the criteria used for deciding the amount published in Ministerial Order 291/17, and also the date of payment, since that Order establishes that the payment of the indemnity must be made, by the Federal Government, on or before December 31, 2018, provided that there is budget and financial availability.

On December 31, 2017, investments made after the Jaguará, São Simão and Miranda plants came into operation, in the amounts of R\$ 174,203, R\$ 2,920 and R\$ 22,546, respectively, are classified in Concession Financial assets, and the decision on the final amounts to be indemnified is in a process of discussion with Aneel.

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Companies incorporated in Brazil described below are our major subsidiaries and affiliates and jointly-controlled companies. Jointly controlled companies and affiliates are recorded under the equity method:

*CEMIG Holding's main subsidiaries and jointly-control*