Companhia Energética de Minas Gerais – CEMIG

Financial Statements as of December 31, 2016 and December 31,2015 and for the Years Ended December 31, 2016, 2015 and 2014 and Report of Independent Registered Public Accounting Firm

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

ASSETS

(MILLIONS OF BRAZILIAN REAIS - R$ mn)

	Note	2016	2015
Current			
Cash and cash equivalents	6	995	925
Securities	7	1,014	2,427
Consumers and traders and Concession holders – Transport of electricity	8	3,425	3,765
Financial assets of the concession	14	730	874
Recoverable taxes	9	236	175
Income and social contribution tax credits	10a	590	306
Dividends receivable		11	62
Restricted cash	11	367	-
Inventories		49	37
Advance to suppliers	28	1	87
Energy Development Account (CDE)	13	64	72
Low-income subscriber subsidy		36	31
Receivable from Eletrobras – RGR	21	48	-
Receivable from Eletrobras – CDE		90	-
Other		630	616
TOTAL, CURRENT		**8,286**	**9,377**
NON-CURRENT			
Securities	7	31	84
Advance to suppliers	28	229	60
Consumers and traders and Concession holders – Transport of electricity	8	146	133
Recoverable taxes	9	178	258
Income and social contribution taxes recoverable	10a	112	206
Deferred income and social contribution taxes	10b	1,797	1,498
Escrow deposits	12	1,887	1,813
Other credits		1,051	808
Financial assets of the concession	14	4,971	2,660
Investments – Equity method	15	8,753	9,745
Property, plant and equipment	16	3,775	3,940
Intangible assets	17	10,820	10,275
TOTAL, NON-CURRENT		**33,750**	**31,480**
TOTAL ASSETS		**42,036**	**40,857**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016 AND 2015

LIABILITIES

(MILLIONS OF BRAZILIAN REAIS - R$ mn)

	Note	2016	2015
CURRENT			
Suppliers	18	1,940	1,901
Regulatory charges	21	381	517
Profit sharing		18	114
Taxes payable	19a	794	740
Income and Social Contribution tax	19b	27	11
Interest on equity and dividends payable	24	467	1,307
Loans, financings and debentures	20	4,837	6,300
Payroll and related charges		225	221
Post-retirement liabilities	22	199	167
Concessions payable		3	3
Financial liabilities of the concession	14	482	-
Financial Instruments - put options	15	1,150	1,245
Advance sales of power supply	8	181	-
Other obligations		743	548
TOTAL, CURRENT		**11,447**	**13,074**
NON-CURRENT			
Regulatory charges	21	455	226
Loans, financings and debentures	20	10,342	8,867
Taxes payable	19a	724	740
Deferred income and social contribution tax	10b	582	689
Provisions	23	815	755
Post-retirement liabilities	22	4,043	3,086
Concessions payable		19	19
Financial liabilities of the concession	14	323	-
Financial Instruments - put options	15	192	148
Other obligations		160	265
TOTAL, NON-CURRENT		**17,655**	**14,795**
TOTAL LIABILITIES		**29,102**	**27,869**
EQUITY	24		
Share capital		6,294	6,294
Capital reserves		1,925	1,925
Profit reserves		5,200	4,663
Accumulated Other Comprehensive Income		(489)	102
EQUITY ATTRIBUTABLE TO THE CONTROLLING SHAREHOLDERS		**12,930**	**12,984**
EQUITY ATTRIBUTABLE TO NON-CONTROLLING SHAREHOLDER		**4**	**4**
TOTAL EQUITY		**12,934**	**12,988**
TOTAL LIABILITIES AND EQUITY		**42,036**	**40,857**

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

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(MILLIONS OF BRAZILIAN REAIS - R$ mn)
(except Net income per share)

	Note	2016	2015 Restated	2014 Restated
NET REVENUE	**25**	**18,773**	**21,868**	**19,595**
OPERATING COSTS				
COST OF ELECTRICITY AND GAS	**26**			
Electricity purchased for resale		(8,273)	(9,542)	(7,428)
Charges for the use of the national grid		(947)	(999)	(744)
Gas purchased for resale		(878)	(1,051)	(254)
		(10,098)	(11,592)	(8,426)
OTHER COSTS	**26**			
Personnel and managers		(1,348)	(1,143)	(999)
Materials		(41)	(126)	(340)
Outsourced services		(720)	(740)	(736)
Depreciation and amortization		(802)	(811)	(779)
Operating provisions		(171)	(23)	(262)
Infrastructure construction cost		(1,193)	(1,252)	(942)
Other		(57)	(96)	(318)
		(4,332)	(4,191)	(4,376)
TOTAL COST		**(14,430)**	**(15,783)**	**(12,802)**
GROSS PROFIT		**4,343**	**6,085**	**6,793**
OPERATING EXPENSES	**26**			
Selling expenses		(382)	(175)	(128)
General and administrative expenses		(667)	(674)	(654)
Operating provisions		(5)	(1,203)	(190)
Other operating expenses		(420)	(452)	(674)
		(1,474)	(2,504)	(1,646)
Equity in earnings of unconsolidated investees, net	15	(302)	393	210
Impairment of Investments	15	(763)	-	-
Fair value gain (loss) on stockholding transaction	15	-	729	-
Gain on acquisition of control of investee	15	-	-	281
Income before Financial income (expenses) and taxes		**1,804**	**4,703**	**5,638**
Financial revenues	**27**	1,041	863	535
Financial expenses	**27**	(2,478)	(2,204)	(1,694)
Income before income tax and social contribution tax		**367**	**3,362**	**4,479**
Current income and social contribution taxes	**10c**	(174)	(881)	(1,259)
Deferred income and social contribution taxes	**10c**	141	(12)	(83)
NET INCOME FOR THE YEAR		**334**	**2,469**	**3,137**
Total of net income for the year attributed to:				
Controlling shareholders		334	2,469	3,137
Non-controlling shareholder		-	-	-
		334	**2,469**	**3,137**
Basic income per preferred share – R$	24	0.35	1.96	2.49
Basic income per common share – R$	24	0.10	1.96	2.49
Diluted income per preferred share – R$	24	0.32	1.96	2.49
Diluted income per common share – R$	24	0.07	1.96	2.49

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(MILLIONS OF BRAZILIAN REAIS - R$ mn)

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(MILLIONS OF BRAZILIAN REAIS - R$ mn, except where otherwise indicated)

	Share capital	Capital reserves	Profit reserves	Accumulated Other Comprehensive Income	Retained earnings	Total interest of the controlling shareholders	Total interest of the non-controlling shareholder	Total equity
AS OF DECEMBER 31, 2013	**6,294**	**1,925**	**3,840**	**579**	**-**	**12,638**	**-**	**12,638**
Net income for the year	-	-	-	-	3,137	3,137	-	3,137
Other comprehensive income								
Post retirement liabilities, net of taxes	-	-	-	(44)	-	(44)	-	(44)
Equity gain on Other comprehensive income in jointly-controlled entity	-	-	-	3	-	3	-	3
Total Comprehensive income for the year	**-**	**-**	**-**	**(41)**	**3,137**	**3,096**	**-**	**3,096**
Other changes in equity:								
Additional dividends proposed in 2013 (R$ 0.04 per share)	-	-	(55)	-	-	(55)	-	(55)
Extraordinary dividends (R$ 2.23 per share)	-	-	(2,804)	-	-	(2,804)	-	(2,804)
Statutory dividends (R$ 1.04 per share)	-	-	-	-	(1,364)	(1,364)	-	(1,364)
Interest on Equity (R$ 0.18 per share)	-	-	-	-	(230)	(230)	-	(230)
Constitution of reserves					-			
Tax incentives reserve	-	-	29	-	(29)	-	-	-
Profit reserve	-	-	1,584	-	(1,584)	-	-	-
Realization of reserves								
Equity valuation adjustments – deemed cost of PP&E	-	-	-	(70)	70	-	-	-
ATTRIBUTED TO INTEREST OF THE CONTROLLING SHAREHOLDERS	**6,294**	**1,925**	**2,594**	**468**	-	**11,281**	-	**11,281**
Non controlling shareholder	-	-	-	-	-	-	**4**	**4**
AS OF DECEMBER 31, 2014	**6,294**	**1,925**	**2,594**	**468**	-	**11,281**	**4**	**11,285**
Net income for the year	-	-	-	-	2,469	2,469	-	2,469
Other comprehensive income								
Post retirement liabilities, net of taxes	-	-	-	(361)	-	(361)	-	(361)
Equity gain on Other comprehensive income in jointly-controlled entity	-	-	-	54	-	54	-	54
Total Comprehensive income for the year	**-**	**-**	**-**	**(307)**	**2,469**	**2,162**	**-**	**2,162**
Other changes in equity:								
Reserve for obligatory dividends not distributed	-	-	797	-	-	797	-	797
Statutory dividends (R$ 0.84 per share)	-	-	-	-	(1,056)	(1,056)	-	(1,056)
Interest on Equity (R$ 0.16 per share)	-	-	-	-	(200)	(200)	-	(200)
Constitution of reserves								
Tax incentives reserve	-	-	21	-	(21)	-	-	-
Profit reserve	-	-	1,251	-	(1,251)	-	-	-
Realization of reserves								
Equity valuation adjustments – deemed cost of PP&E	-	-	-	(59)	59	-	-	-
ATTRIBUTED TO INTEREST OF THE CONTROLLING SHAREHOLDERS	**6,294**	**1,925**	**4,663**	**102**	**-**	**12,984**	**-**	**12,984**
Non-controlling shareholder	-	-	-	-	-	-	4	4
AS OF DECEMBER 31, 2015	**6,294**	**1,925**	**4,663**	**102**	**-**	**12,984**	**4**	**12,988**

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

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CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(MILLIONS OF BRAZILIAN REAIS - R$ mn)

	2016	2015	2014
CASH FLOW FROM OPERATIONS			
Net income for the year	334	2,469	3,137
Expenses (revenues) not affecting cash and cash equivalents			
Income and social contribution taxes	33	893	1,342
Depreciation and amortization	834	835	801
Write-offs of PP&E, Intangible assets and Investments	109	124	105
Gain on disposal of investments	(315)	-	-
Impairment of Investments	763	-	-
Equity in earnings (losses) of unconsolidated investees, net	302	(393)	(210)
Interest and monetary variation	808	818	1,384
Fair value gain (loss) on stockholding transaction	-	(729)	-
Provisions for operating losses	704	1,401	581
Net gain on indemnity of assets	-	-	(420)
Financial assets - CVA	1,455	(1,704)	(1,107)
Gain on acquisition of subsidiary	-	-	(281)
Post-retirement liabilities	447	285	311
	5,475	3,999	5,643
(Increase) / decrease in assets			
Consumers and traders	(64)	(1,470)	(285)
Financial assets - CVA	341	1,529	-
Energy Development Account (CDE)	8	273	(170)
Recoverable Taxes	19	167	320
Income and social contribution tax credit	(62)	(77)	(37)
Transport of electricity	8	(5)	(5)
Escrow deposits	(28)	(67)	(305)
Dividends received from investments	683	487	683
Financial assets	(1,941)	10	6
Advance to suppliers	(120)	(131)	-
Gas	(193)	(141)	(265)
Other	105	(248)	74
	(1,244)	327	16
Increase (decrease) in liabilities			
Suppliers	38	297	472
Taxes payable	38	202	54
Income and social contribution taxes payable	24	(105)	(22)
Payroll and related charges	4	26	4
Regulatory charges	92	386	11
Post-retirement liabilities	(239)	(208)	(195)
Financial instruments – Put options	(150)	-	-
Other	(167)	156	(160)
	(360)	754	164
Cash generated by operating activities	3,871	5,080	5,823
Interest paid on loans and financings	(2,369)	(1,331)	(781)
Income and Social Contribution taxes paid	(289)	(741)	(1,308)
NET CASH GENERATED BY OPERATING ACTIVITIES	**1,213**	**3,008**	**3,734**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

1. OPERATING CONTEXT

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

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

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

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

- In relation to loans from outside parties: (i) as a state-controlled company, CEMIG is subject to rules and limits relating to the level of credit applicable to the public sector, including rules established by the National Monetary Council (Conselho Monetário Nacional, or CMN), and by the Brazilian Central Bank; (ii) CEMIG operates in the electricity sector, it is subject to the rules and limits established by Aneel which deal with indebtedness for companies of the electricity sector and (iii) state-controlled companies may use funds arising from transactions with commercial banks only for refinancing of financial obligations, or in transactions guaranteed by duplicate trade bills.
- The National Treasury Department (part of the Finance Ministry) and by the Central Bank would need to approve certain international financial transactions; this approval is usually given only if the purpose of the transaction is to finance importation of goods or to roll over external debt. These rules have the effect of placing limits on the CEMIG H's capacity for indebtedness.
- CEMIG is subject to certain contractual conditions under existing debt instruments. In the event of non-compliance with an obligation under that financing contract, the CEMIG will be required to strengthen the guarantees for the financing, on penalty of early maturity of the contract. Any default event in our financial instruments might lead creditors to cause all the amounts relating to that debt to become payable immediately. Acceleration of debts might cause significant negative effects on the CEMIG H's financial situation, and might also cause activation of cross-default clauses in other financial instruments. In the event of a default, CEMIG H's cash flow might be insufficient to completely settle the debts, or to comply with the servicing of such debts.
- The credit risk rating agencies attribute a rating to Brazil, the Company and its debt securities on a Brazilian basis, and also a rating for the Company on the global basis. If ratings are downgraded due to any external factor, operational performance or high levels of debt, it may increase the cost of capital.

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

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

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

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

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

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

Jointly-controlled entities and affiliated company:

- **Hidrelétrica Cachoeirão S.A. ('Cachoeirão')** (Jointly controlled): Production and sale of electricity as an independent power producer, through the *Cachoeirão* hydroelectric power plant, located at Pocrane, in the State of Minas Gerais.

- **Baguari Energia S.A. ('Baguari Energia')** (Jointly controlled): Construction, operation, maintenance and commercial operation of the *Baguari* Hydroelectric Plant, through participation in the UHE Baguari Consortium (Baguari Energia 49.00%, Neoenergia 51.00%), located on the Doce River in Governador Valadares, Minas Gerais State.

- **Central Eólica Praias de Parajuru S.A. ('Parajuru')** (Jointly controlled): Production and sale of electricity from the *Parajuru* wind farm at Beberibe, in the State of Ceará, Northern Brazil.

- **Central Eólica Praias do Morgado S.A. ('Morgado')** (Jointly controlled): Production and sale of electricity from the *Morgado* wind farm at Acaraú in Ceará, Northern Brazil.

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

- **Hidroelétrica Pipoca S.A. (‘Pipoca’)** (Jointly controlled): Independent production of electricity, through construction and commercial operation of the *Pipoca* Small Hydro Plant (*Pequena Central Hidrelétrica*, or PCH), on the Manhuaçu River, in the counties of Caratinga and Ipanema, in the State of Minas Gerais.

- **Madeira Energia S.A. (‘Madeira’)** (Affiliated): Construction and commercial operation, through its subsidiary **Santo Antônio Energia S.A.**, of the Santo Antônio hydroelectric plant, in the basin of the Madeira River, in the State of Rondônia.

- **Lightger S.A.** (Jointly controlled): Independent power production through building and commercial operation of the *Paracambi* Small Hydro Plant (or PCH), on the Ribeirão das Lages river in the county of Paracambi, in the State of Rio de Janeiro.

- **Renova Energia S.A. (‘Renova’)** (Jointly controlled): Listed company operating in development, construction and operation of plants generating power from renewable sources – wind power, small hydro plants (SHPs), and solar energy; sales and trading of electricity, and related activities.

- **Retiro Baixo Energética S.A. (‘RBE’)** (Jointly controlled): RBE holds the concession to operate the *Retiro Baixo* hydroelectric plant, on the Paraopeba River, in the São Francisco river basin, in the municipalities of Curvelo and Pompeu, in Minas Gerais State. The plant has installed capacity of 83.7 MW and assured energy offtake level of 38.5MW average.

- **Aliança Norte Energia Participações S.A. (‘Aliança Norte’)** (Jointly controlled): A special-purpose company (SPC) created by Cemig GT (49.9% ownership) and Vale S.A. (50.1% ownership), for acquisition of an interest of 9% in Norte Energia S.A. (‘Nesa’), the company holding the concession for the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the State of Pará. The first turbine of Belo Monte Plant started operating on April 20, 2016 and the second turbine began operating on July 16, 2016. There are more details on this in Note 15.

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

- **Cemig Geração Três Marias S.A.:** A corporation wholly owned by Cemig GT. Its objects are production and sale of electricity as public service concession holder, by commercial operation of the *Três Marias* Hydroelectric Plant, and sale and trading of electricity in the Free Market. It has installed capacity of 396 MW, and guaranteed offtake level ('Assured energy') of 239 MW average.

- **Cemig Geração Salto Grande S.A.:** A corporation wholly owned by **Cemig GT.** Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Salto Grande* Hydroelectric Plant, and trading in electricity in the Free Market. This company has installed generation capacity of 102 MW, and average offtake guarantee of 75 MW.

- **Cemig Geração Camargos S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Camargos* Hydroelectric Plant, and trading in electricity in the Free Market. Has installed generation capacity of 46 MW, and average offtake guarantee of 21 MW.

- **Cemig Geração Itutinga S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Itutinga* Hydroelectric Plant, and trading in electricity in the Free Market. Has installed generation capacity of 52 MW, and average offtake guarantee of 28 MW.

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

- **Cemig Geração Oeste S.A.:** Corporation wholly owned by **Cemig GT**. Its objects are production and sale of electricity as public concession holder, by commercial operation of the *Gafanhoto, Cajuru and Martins* Small Hydroelectric Plants, and trading in electricity in the Free Market. Installed generation capacity is 28.90 MW, and average offtake guarantee 11.21 MW.

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

Subsidiaries and jointly-controlled entities at development stage:

- **Guanhães Energia S.A. ('Guanhães Energia')** (Jointly controlled): Production and sale of electricity through building and commercial operation of the following Small Hydro Plants (PCHs): *Dores de Guanhães, Senhora do Porto and Jacaré*, in the county of Dores de Guanhães; and *Fortuna II*, in the county of Virginópolis, in Minas Gerais. Construction works are 97% completed, and start of commercial generation is scheduled for April 2017.

- **Cemig Baguari Energia S.A. ('Cemig Baguari')** (Subsidiary) – Production and sale of electricity as an independent power producer in future projects.

- **Amazônia Energia Participações S.A. ('Amazônia Energia')** (Jointly controlled) – Unlisted company whose object is to hold and manage equity interest in **Norte Energia S.A. (Nesa)**, which holds the concession to operate the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the State of Pará. It is jointly controlled by **Light S.A.** (25.5%) and **Cemig** (74.5%). Amazônia Energia owns 9.77% of the share capital of Nesa. The first turbine of the Belo Monte Plant started operating on April 20, 2016 and the second turbine began operating on July 16, 2016. There are more details in Note 15.

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

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

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

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

- **Light Energia S.A.** (Subsidiary) – Plans, builds and operate electricity generation, transmission and sales/trading systems and related services. Owns equity interests in two wind power companies – **Central Eólica São Judas Tadeu Ltda.** and Central **Eólica Fontainha Ltda** – and in **Guanhães Energia S.A.** and **Renova Energia S.A.**

- **Light Esco Prestação de Serviços Ltda. ('Light Esco')** (Subsidiary) – Purchase, sale, importation and exportation of electricity and consultancy services in the electricity sector. Light Esco has an interest in **EBL Companhia de Eficiência Energética S.A.**

- **Itaocara Energia Ltda.** (Subsidiary) – Company and pre-operational phase: principal activity will be construction and operation of generation plants. It is a member of the Itaocara Hydro Plant Consortium for commercial operation of the Itaocara Hydroelectric Plant (51%). **Cemig GT** owns 49%. There are more details in Note 14.

- **Lightger S.A.** (Jointly controlled) – Described in the list of jointly controlled entities of Cemig GT, above.

- **Light Soluções em Eletricidade Ltda.** (Subsidiary)**:** Its main objects are provision of service to low-voltage clients including assembly, overhaul and maintenance of installations in general.

- **Instituto Light para o Desenvolvimento Urbano e Social (Light Institute)** (Subsidiary): Participation in social and cultural projects, and interest in economic and social development of cities.

- **Lightcom Comercializadora de Energia S.A.** (Subsidiary): Purchase, sale, importation and exportation of electricity, and general consultancy, in the free and regulated electricity markets.

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

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

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

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

Usina Térmica Ipatinga S.A. (‘Ipatinga’) (Subsidiary) – Currently without operational activity.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

2.2 Bases of measurement

The consolidated financial statements have been prepared based on historical cost, with the exception of the following material items recorded in the Statement of financial position:

- Non-derivative financial assets measured at fair value through profit or loss.
- Financial assets held for trading measured at fair value.
- Financial assets of the Concession measured by the New Replacement Value (VNR), equivalent to fair value.

2.3 Functional currency and currency of presentation

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

2.4 Use of estimates and judgments

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

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

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

- Allowance for doubtful accounts – see Note 8;
- Deferred income and social contribution taxes – see Note 10;
- Financial assets of the concession – see Note 14;
- Investments – See Note 15.
- Property, plant and equipment – Note 16.
- Intangible assets – see Note 17;
- Depreciation – see Note 16;
- Amortization – see Note 17;
- Employee post-retirement liabilities – see Note 22;
- Provisions – see Note 23;
- Unbilled electricity supplied – see Note 25; and
- Fair value measurement and Derivatives instruments – see Note 30.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.7 Principal accounting policies

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

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

a) Financial instruments

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

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

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

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

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

b) Consumers and traders; Power transport concession holders; and Traders – transactions in 'Free Energy'

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

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

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

c) Investments

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

d) Assets linked to the concessions

Electricity distribution activity: The portion of the assets of the concession that will be totally amortized during the concession period is recorded as intangible and is completely amortized during the concession agreement period.

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

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

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

New assets are recorded initially in Intangible assets, valued at acquisition cost, including capitalized borrowing costs. When the assets start operation they are split into financial assets and intangible assets, according to the criterion mentioned in the previous paragraphs: The portion of the assets that is recorded in financial assets is valued based on the new replacement cost, having as a reference the amounts homologated by Aneel for the Asset Base for Remuneration in the processes of tariff review.

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

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

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

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

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

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

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

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

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

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

e) Intangible assets

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

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

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

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

f) Property, plant and equipment

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

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

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

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

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

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

g) Impairment

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

h) Benefits to employees

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

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

i) Income and Social Contribution taxes

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

j) Operational revenue

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

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

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

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

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

The 'Portion A' revenue and the Other financial items related to tariff adjustments are recognized in the statement of income when the costs effectively incurred are different from those incorporated into the electricity distribution tariff. For more details, see Note 14.
The gain on adjustment of expectation of cash flow from the indemnifiable financial asset of the distribution concession arising from the variation in the fair value of the Remuneration Asset Base is presented as operational revenue, together with the other revenues related to the Company's end-activity.

k) Financial revenue and expenses

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

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

l) Segment reporting

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

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

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

m) Determination of the adjustment to present value

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

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

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

This conclusion is based in the following facts:

i. Investing in infrastructure is an inherent activity of the energy distribution business, which business model is supported by the construction, maintenance and operation of this infrastructure;

ii. Part of the energy distribution industry, as well as the energy transmission industry, already adopts this classification, hence the Company will be increasing the comparability of its financial statements with others;

iii. As a result of the inflation increase in the past years faced by the country, which directly impacted the increase in the financial asset of the concession, impacted the importance of this revenue in the income statement.

In accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Company changed the accounting policy previously adopted to an accounting policy that better presents its business performance (as described in the above mentioned topics). Therefore, the corresponding figures in the financial statements relating to the consolidated income statement for the year ended December 31, 2015 and 2014, presented for purposes of comparison, were retrospectively reclassified and are being restated for purposes of comparison. The reclassification does not change the total consolidated assets, consolidated equity, net income, statements of comprehensive income and cash flow.

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

	2015	Ajustment	2015 Restated
NET REVENUE	**21,292**	**576**	**21,868**
OPERATING COSTS			
COST OF ELECTRICITY AND GAS			
Electricity purchased for resale	(9,542)	-	(9,542)
Charges for use of the national grid	(999)	-	(999)
Gas bought for resale	(1,051)	-	(1,051)
	(11,592)	-	(11,592)
OTHER COSTS			
Personnel and managers	(1,143)	-	(1,143)
Materials	(126)	-	(126)
Outsourced services	(740)	-	(740)
Depreciation and amortization	(811)	-	(811)
Operating provisions	(23)	-	(23)
Infrastructure construction cost	(1,252)	-	(1,252)
Other	(96)	-	(96)
	(4,191)	-	(4,191)
TOTAL COST	**(15,783)**	-	**(15,783)**
GROSS PROFIT	**5,509**	**576**	**6,085**
OPERATING EXPENSES			
Selling expenses	(175)	-	(175)
General and administrative expenses	(674)	-	(674)
Operating provisions	(1,203)	-	(1,203)
Other operating expenses	(482)	30	(452)
	(2,534)	30	(2,504)
Equity method gains in non-consolidated investees	393	-	393
Fair value results in Corporate Operation	729	-	729
Income before Financial income (expenses) and taxes	**4,097**	**606**	**4,703**
Financial revenues	1,469	(606)	863
Financial expenses	(2,204)	-	(2,204)
Income before income tax and social contribution tax	**3,362**	-	**3,362**
Current income tax and Social Contribution tax	(881)	-	(881)
Deferred income tax and Social Contribution tax	(12)	-	(12)
NET INCOME FOR THE YEAR	**2,469**	-	**2,469**
Total of net income for the year attributed to:			
Interest of the controlling shareholders	2,469	-	2,469
Interest of non-controlling shareholder	-	-	-
	2,469	-	**2,469**
Basic and diluted income per preferred share	1.96	-	1.96
Basic and diluted income per common share	1.96	-	1.96

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

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

3. PRINCIPLES OF CONSOLIDATION

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

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

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

a) Subsidiaries and jointly-controlled entities

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

b) Consortia

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

c) Transactions eliminated in consolidation

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

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

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

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

4. CONCESSIONS AND AUTHORIZATIONS

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

	Location	Date of concession or authorization	Expiration date
GENERATION			
Hydroelectric plants			
São Simão (1)	Rio Paranaíba	01/1965	01/2015
Emborcação	Rio Paranaíba	07/1975	07/2025
Nova Ponte	Rio Araguari	07/1975	07/2025
Jaguara (1)	Rio Grande	08/1963	08/2013
Miranda (1)	Rio Araguari	12/1986	12/2016
Três Marias	Rio São Francisco	01/2015	01/2045
Volta Grande	Rio Grande	02/1967	02/2017
Irapé	Rio Jequitinhonha	01/1999	02/2035
Salto Grande	Rio Santo Antônio	01/2015	01/2045
Queimado	Rio Preto	11/1997	01/2033
Itutinga	Rio Grande	01/2015	01/2045
Camargos	Rio Grande	01/2015	01/2045
Piau	Rio Piau / Pinho	01/2015	01/2045
Gafanhoto	Rio Pará	01/2015	01/2045
Cachoeirão SHP	Rio Manhuaçu	07/2000	07/2030
Santo Antônio	Madeira	06/2008	06/2043
Baguari	Rio Doce	08/2006	08/2041
Pipoca SHP	Rio Manhuaçu	09/2001	09/2031
Other	Various	Various	Various
Wind farms (2)			
Morro do Camelinho	Gouveia – Minas Gerais	03/2000	01/2017
Praias do Parajuru	Beberibe – Ceará	09/2002	08/2029
Volta do Rio	Acaraú – Ceará	12/2001	08/2034
Praia de Morgado	Acaraú – Ceará	12/2001	08/2034
Thermal plants			
Igarapé	Juatuba – Minas Gerais	01/2001	08/2024
Barreiro	Belo Horizonte, Minas Gerais	02/2002	04/2023
TRANSMISSION			
National grid	Minas Gerais	07/1997	07/2015
Itajubá Substation	Minas Gerais	10/2000	10/2030
DISTRIBUTION	Minas Gerais	01/2016	12/2045

(1) The extension of the concession specified in the concession contract is not included in these figures. See details in this Note.
(2) Permission to operate the activity of wind power generation is given by means of authorizations.

Generation concessions

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

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

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

Auctions of electricity generation concessions

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

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

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

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

For more information please see Note 14.

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

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

The *Jaguara* hydroelectric plant

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

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

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

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

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

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

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

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

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

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

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

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

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

The São Simão hydroelectric plant

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- recognized, up to the date of September 15, 2015, the operational revenues from sales of power supply and costs of this plant, in accordance with current accounting practices, in view of the fact that it remained in control of the asset up to that date;
- considering the requirements of Ministerial Order 432/2015, as from September 16, 2015, ceased to recognize the expenses of depreciation on the São Simão plant, and began to recognize revenues relating to the provision of services of operation and maintenance of the plant, in accordance with the regime of quotas;
- transferred, on September 16, 2015, the amount of R$ 220 from its PP&E to the account line 'Other long term assets', considering that it is still under decision in the Courts. Based on the terms of the concession agreement, this asset is considered as having a recovery value higher than the value at which it is recorded.

Concession of the *Miranda* Hydroelectric Plant

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

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

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

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

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

Administrative proceedings – Material Announcement of February 21, 2017

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

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

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

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

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

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

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

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

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

Transmission concessions

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

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

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

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

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

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

Distribution of electricity concessions

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

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

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

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

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

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

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

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

Renewal of concessions

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

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

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

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

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

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

Distribution of gas concessions

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

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

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

Concessions payable

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

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

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

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

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

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

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

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

5. OPERATING SEGMENTS

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

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

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

OPERATING SEGMENTS, 2016								
	ELECTRICITY			TELECOMS	GAS	OTHER (*)	ELIMINATIONS	TOTAL
	GENERATION	TRANSMISSION	DISTRIBUTION					
ASSETS OF THE SEGMENT	14.414	4.267	18.166	338	2.737	2.389	(276)	42.035
ADDITIONS TO THE SEGMENT	916	-	1.602	163	56	-	-	2.737
ADDITIONS TO FINANCIAL ASSETS	2.217	54	-	-	-	-	-	2.271
INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES	5.292	1.670	1.754	18	-	19	-	8.753
NET REVENUE	5.875	1.113	10.597	125	1.181	116	(234)	18.773
COST OF ELECTRICITY AND GAS	-	-	-	-	-	-	-	-
Electricity bought for resale	(3.071)	-	(5.260)	-	-	-	59	(8.272)
Charges for use of the national grid	(321)	-	(760)	-	-	-	134	(947)
Gas bought for resale	-	-	-	-	(877)	-	-	(877)
Operational costs, total	(3.392)	-	(6.020)	-	(877)	-	193	(10.096)
OPERATIONAL COSTS AND EXPENSES	-	-	-	-	-	-	-	-
Personnel	(271)	(111)	(1.147)	(23)	(47)	(45)	-	(1.644)
Employees' and managers' profit shares	(1)	-	(10)	(1)	-	4	-	(8)
Post-retirement obligations	(54)	(23)	(231)	-	-	(37)	-	(345)
Materials	(11)	(3)	(42)	-	(2)	-	-	(58)
Outsourced services	(129)	(30)	(674)	(23)	(16)	(32)	37	(867)
Depreciation and amortization	(202)	-	(525)	(38)	(54)	(16)	-	(835)
Operational provisions (reversals)	(88)	(10)	(544)	(4)	-	(67)	-	(713)
Construction costs	-	(54)	(1.102)	-	(37)	-	-	(1.193)
Other operational expenses, net	(57)	(13)	(395)	11	(8)	313	4	(145)
Total cost of operation	(813)	(244)	(4.670)	(78)	(164)	120	41	(5.808)
OPERATIONAL COSTS AND EXPENSES	(4.205)	(244)	(10.690)	(78)	(1.041)	120	234	(15.904)
OPERATIONAL PROFIT BEFORE EQUITY GAINS (LOSSES) AND FINANCIAL REVENUE (EXPENSES)	1.670	869	(93)	47	140	236	-	2.869
Equity in earnings of unconsolidated investees, net	(448)	362	(180)	(31)	-	(5)	-	(302)
Adjustment for loss of value in Investments	(763)	-	-	-	-	-	-	(763)
Financial revenues	190	7	743	4	15	82	-	1.041
Financial expenses	(1.320)	(4)	(1.078)	(9)	(49)	(18)	-	(2.478)
PRE-TAX PROFIT	(671)	1.234	(608)	11	106	295	-	367
Income tax and the Social Contribution tax	(24)	5	103	(6)	(8)	(103)	-	(33)
NET PROFIT (LOSS)	(695)	1.239	(505)	5	98	192	-	334
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified to profit or loss								
Post retirement liabilities – restatement of obligations of the defined benefit plans, net of taxes	(92)	-	(380)	-	-	(43)	-	(515)
Equity gain (loss) on Other comprehensive income in jointly-controlled entities	-	-	-	-	-	4	-	4
Items that may be reclassified to profit or loss								
Conversion adjustment of equity gain (loss) in other comprehensive income in subsidiary and jointly-controlled entity	-	-	-	-	-	(3)	-	(3)
Recycling of conversion adjustments to the Income statement arising from sale of Transchile	-	(39)	-	-	-	-	-	(39)
COMPREHENSIVE INCOME FOR THE YEAR	(92)	(39)	(380)	-	-	(42)	-	(553)
Total of comprehensive income for the year attributed to:								
Controlling shareholders	(787)	(1,200)	(885)	5	98	150	-	(219)
Non-controlling shareholder	-	-	-	-	-	-	-	-

OPERATING SEGMENTS, 2015 (RESTATED)								
ITEM	GENERATION	TRANSMISSION	DISTRIBUTION	TELECOM	GAS	OTHER (*)	ELIMINATIONS	TOTAL
SEGMENT ASSETS	**13,382**	**4,880**	**17,738**	**317**	**2,530**	**2,986**	**(976)**	**40,857**
ADDITIONS TO THE SEGMENT	**577**	**-**	**1,044**	**42**	**62**	**1**	**-**	**1,726**
ADDITIONS TO FINANCIAL ASSETS		**146**						**146**
INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	**5,751**	**2,423**	**1,547**	**-**	**-**	**24**	**-**	**9,745**
NET REVENUE	**7,047**	**519**	**12,962**	**123**	**1,395**	**90**	**(268)**	**21,868**
OPERATING COSTS								
Electricity purchased for resale	(2,669)	-	(6,993)	-	-	-	120	(9,542)
Charges for the use of the national grid	(297)	-	(814)	-	-		112	(999)
Gas purchased for resale	-	-	-	-	(1,051)	-	-	(1,051)
	(2,966)	**-**	**(7,807)**	**-**	**(1,051)**		**232**	**(11,592)**
OTHER COSTS								
Personnel	(224)	(113)	(1,000)	(15)	(43)	(40)	-	(1,435)
Employees' and managers' profit shares	(24)	(12)	(95)	(2)	-	(4)	-	(137)
Post-retirement liabilities	(21)	(10)	(121)	-	-	(4)	-	(156)
Materials	(95)	(5)	(52)	-	(2)	-	-	(154)
Outsourced services	(143)	(37)	(697)	(25)	(15)	(13)	31	(899)
Depreciation and amortization	(273)	-	(444)	(49)	(54)	(15)	-	(835)
Operating provisions (reversals)	(109)	2	(209)	(1)	-	(1,084)	-	(1,401)
Construction costs	-	(146)	(1,044)	-	(62)	-	-	(1,252)
Other operating expenses. net	(62)	(16)	(283)	(20)	(9)	(42)	5	(426)
Total cost of operation	**(951)**	**(337)**	**(3,945)**	**(112)**	**(185)**	**(1,202)**	**36**	**(6,695)**
TOTAL COSTS AND EXPENSES	**(3,917)**	**(337)**	**(11,752)**	**(112)**	**(1,236)**	**(1,202)**	**268**	**(18,287)**
Operating profit before Equity gains (losses) and Financial revenue (expenses)	**3,130**	**182**	**1,210**	**11**	**159**	**(1,112)**		**3,581**
Equity in earnings of unconsolidated investees, net	17	410	(6)	(28)	-	-	-	393
Fair value results in Corporate Operation	729	-	-	-	-	-	-	729
Financial revenues	199	22	543	4	23	73		863
Financial expenses	(984)	(7)	(1,130)	(6)	(42)	(35)	-	(2,204)
Income before income tax and social contribution taxes	**3,091**	**607**	**617**	**(19)**	**140**	**(1,074)**	**-**	**3,362**
Income and social contribution taxes	(836)	(71)	(256)	(16)	(23)	309	-	(893)
NET INCOME FOR THE YEAR	**2,255**	**536**	**361**	**(35)**	**117**	**(765)**	**-**	**2,469**
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified to profit or loss								
Post retirement liabilities – restatement of obligations of the defined benefit plans, net of taxes	(84)	-	(170)	-	-	(106)	-	(360)
Equity gain (loss) on Other comprehensive income in jointly-controlled entities	-	-	-	-	-	(1)	-	(1)
Items that may be reclassified to profit or loss								
Equity gain (loss) on Other comprehensive income in jointly-controlled entitie	14	-	-	-	-	40	-	54
COMPREHENSIVE INCOME FOR THE YEAR	**2,171**	**536**	**194**	**(35)**	**117**	**(821)**	**-**	**2,162**
Total of comprehensive income for the year attributed to:								
Controlling shareholders	2,171	536	194	(35)	117	(821)	-	2,162
Non-controlling shareholder	-	-	-	-	-	-	-	-

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

OPERATING SEGMENTS. 2014 (RESTATED)								
ITEM	GENERATION	TRANSMISSION	DISTRIBUTION	TELECOM	GAS	OTHER	ELIMINATIONS	TOTAL
SEGMENT ASSETS	**11,528**	**3,882**	**15,064**	**327**	**2,549**	**2,007**	**(357)**	**35,000**
ADDITIONS TO THE SEGMENT	**2,995**		**792**	**29**	**501**	**19**	**-**	**4,336**
ADDITIONS TO FINANCIAL ASSETS		**80**						**80**
INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES	**4,036**	**2,315**	**1,199**	**-**	**-**	**490**	**-**	**8,040**
	-	-	-	-	-	-	-	-
NET REVENUE	**7,339**	**708**	**11,296**	**119**	**340**	**90**	**(297)**	**19,595**
OPERATING COSTS	-	-	-	-	-	-	-	-
Electricity purchased for resale	(1,833)	-	(5,747)	-	-	-	152	(7,428)
Charges for the use of the national grid	(282)	-	(573)	-	-	-	111	(744)
Gas purchased for resale	-	-	-	-	(254)	-	-	(254)
	(2,115)	**-**	**(6,320)**	**-**	**(254)**	**-**	**263**	**(8,426)**
OTHER COSTS								
Personnel	(201)	(105)	(886)	(13)	(11)	(36)	-	(1,252)
Employees' and managers' profit shares	(39)	(16)	(184)	(1)	-	(9)	-	(249)
Post-retirement liabilities	(34)	(14)	(153)	-	-	(11)	-	(212)
Materials	(295)	(5)	(80)	-	(1)	-	-	(381)
Outsourced services	(159)	(39)	(737)	(23)	(2)	(23)	30	(953)
Depreciation and amortization	(324)	-	(428)	(34)	(4)	(11)	-	(801)
Royalties for use of water resources	(127)	-	-	-	-	-	-	(127)
Operating provisions (reversals)	(62)	(26)	(300)	-	-	(193)	-	(581)
Construction costs	-	(81)	(861)	-	-	-	-	(942)
Other operating expenses, net	(130)	(34)	(297)	(27)	(11)	(29)	4	(524)
Total cost of operation	**(1,371)**	**(320)**	**(3,926)**	**(98)**	**(29)**	**(312)**	**34**	**(6,022)**
TOTAL COSTS AND EXPENSES	**(3,486)**	**(320)**	**(10,246)**	**(98)**	**(283)**	**(312)**	**297**	**(14,448)**
Operating profit before Equity gains (losses) and Financial revenue (expenses)	**3,853**	**388**	**1,050**	**21**	**57**	**(222)**	**-**	**5,147**
Equity in earnings of unconsolidated investees, net	(386)	386	150	(28)	47	41	-	210
Gain on acquisition of control of investee	-	-	-	-	-	281	-	281
Financial revenues	119	46	300	5	21	44	-	535
Financial expenses	(396)	(291)	(751)	(3)	(6)	(247)	-	(1,694)
Income before income tax and social contribution taxes	**3,190**	**529**	**749**	**(5)**	**119**	**(103)**	**-**	**4,479**
Income and social contribution taxes	(1,116)	(44)	(169)	(7)	(12)	6	-	(1,342)
NET INCOME FOR THE YEAR	**2,074**	**485**	**580**	**(12)**	**107**	**(97)**	**-**	**3,137**
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified to profit or loss								
Post retirement liabilities – restatement of obligations of the defined benefit plans, net of taxes	-	-	**(36)**	-	-	**(8)**	-	**(44)**
Equity gain (loss) on other comprehensive income in jointly-controlled entities	-	-	-	-	-	**(7)**	-	**(7)**
Items that may be reclassified to profit or loss								
Equity gain (loss) on other comprehensive income in jointly-controlled entities	-	-	-	-	-	**10**	-	**10**
COMPREHENSIVE INCOME FOR THE YEAR	**2,074**	**485**	**544**	**(12)**	**107**	**(102)**	**-**	**3,096**
Total of comprehensive income for the year attributed to:								
Controlling shareholders	**2,074**	**485**	**544**	**(12)**	**107**	**(102)**	**-**	**3,096**
Non-controlling shareholder	-	-	-	-	-	-	-	-

6. CASH AND CASH EQUIVALENTS

	2016	2015
Bank accounts	101	52
Cash investments		
Bank certificates of deposit	524	723
Repos (‘Overnight’ market)	370	128
Other	-	22
	894	873
	995	**925**

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

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

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

7. SECURITIES

	2016	2015
Cash investments		
Current		
Bank certificates of deposit	46	1,717
Financial Notes – Banks	728	461
Treasury Financial Notes (LFTs)	193	88
Debentures	45	160
Other	2	1
	1,014	**2,427**
Non-current		
Bank certificates of deposit	-	43
Financial Notes – Banks	14	41
Other	17	-
	31	**84**
	1,045	**2,511**

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

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

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

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

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

8. CONSUMERS, TRADERS AND POWER TRANSPORT CONCESSION HOLDERS

	Balances not yet due	Up to 90 days past due	More than 90 days past due	2016	2015
Invoiced supply	1,067	710	791	2,568	2,413
Supply not yet invoiced	920	-	-	920	1,125
Wholesale supply to other concession holders	390	20	13	423	99
CCEE (Electricity Trading Chamber)	-	-	1	1	516
Concession holders – Transport of electricity	233	11	75	319	370
(–) Allowance for doubtful accounts	-	-	(660)	(660)	(625)
	2,610	**741**	**220**	**3,571**	**3,898**
Current assets				**3,425**	**3,765**
Non-current assets				**146**	**133**

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

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

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

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

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

Advance sales of power supply

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

9. RECOVERABLE TAXES

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

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

10. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Income and social contribution taxes recoverable

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

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

b) Deferred income and social contribution taxes

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

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

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

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

Balance on December 31, 2013	**965**
Effects allocated to Statement of income	(83)
Deferred taxes recognized in business combination	(269)
Effects allocated to Statement of comprehensive income	22
Balance on December 31, 2014	**635**
Effects allocated to Statement of income	(12)
Effects allocated to Statement of comprehensive income	191
Realized	(5)
Balance on December 31, 2015	**809**
Effects allocated to Statement of income	141
Effects allocated to Statement of comprehensive income	265
Balance at December 31, 2016	**1,215**

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

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

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

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

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

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

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

Tax incentives – Sudene

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

11. RESTRICTED CASH

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

12. ESCROW DEPOSITS

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

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

	2016	2015
Employment law cases	381	367
Tax issues		
Income tax on Interest on Equity	15	15
Pasep and Cofins tax (1)	746	751
ICMS credits on PP&E	37	36
Donations and legacy tax (ITCD)	46	34
Urban property tax (IPTU)	80	68
Finsocial tax	37	23
Other	202	185
	1,163	**1,112**
Other		
Monetary updating on AFAC from Minas Gerais State Government (2)	239	239
Regulatory	60	57
Third party	13	10
Consumer relations	6	4
Court embargo	8	12
Other	17	12
	343	**334**
	1,887	**1,813**

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

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

13. ENERGY DEVELOPMENT ACCOUNT (CDE)

Reimbursment of tariff subsidy payments

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

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

Payments from the Tariff Flag Funds Centralizing Account

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

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

14. FINANCIAL ASSETS AND LIABILITIES OF THE CONCESSION

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

Financial liabilities of the concession	2016	2015
CVA (*Portion A Variation Compensation Account*) and *Other financial components* in tariff adjustments (b)	805	-
Current liabilities	482	-
Non-current liabilities	323	-

a) Assets related to infrastructure

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

Transmission Indemnity receivable

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

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

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

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

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

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

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

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

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

Transmission – Assets remunerated by tariff

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

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

Distribution assets

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

Generation Indemnity receivable

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

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

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

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

Concession Grant Fee – Auction 12/2015

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

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

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

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

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

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

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

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

	Transmission	Generation	Distribution	Gas	Total
Balance on December 31. 2013	**779**	**-**	**5,064**	**-**	**5,843**
Additions	80	-	-	-	80
Written off	-	-	(19)	-	(19)
Updating of indemnifiable value of assets	420	-	-	-	420
Asset acquired in business combination	-	-	-	656	656
Transfers	(1)	-	844	(656)	187
Amounts received	(6)	-	-	-	(6)
Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession	-	-	55	-	55
Balance on December 31. 2014	**1,272**	**-**	**5,944**	**-**	**7,216**
Additions	146	-	-	-	146
Written off	(6)	-	(31)	-	(37)
Transfer from Financial assets to Intangible assets on renewal of concessions	-	-	(7,162)	-	(7,162)
Transfers	(2)	-	808	-	806
Generation Indemnity receivable	-	546	-	-	546
Amounts received	(10)	-	-	-	(10)
Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession	-	-	578	-	578
Updating of indemnifiable value of assets	101	-	-	-	101
Balance on December 31. 2015	**1,501**	**546**	**137**	**-**	**2,184**
Additions	54	1	-	-	55
Addition – Grant Fee – Plants	-	2,216	-	-	2,216
Written off	(3)	0	-	-	(3)
Amounts received	(16)	(315)	-	-	(331)
Transfer from Financial to Intangible assets	-	-	71	-	71
Updating of the Concession Grant Fee	-	352	-	-	352
Adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession	-	-	8	-	8
Monetary updating	751	-	-	-	751
Balance at December 31, 2016	**2,287**	**2,800**	**216**	**-**	**5,303**

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

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

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

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

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

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

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

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

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

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

Balance on December 31, 2013	-
New financial assets constituted	1,107
Balance on December 31, 2014	**1,107**
(+) New financial assets constituted	2,285
(–) Amortization	(581)
(–) Receipt of funds from the ACR Account and from the Centralizing Account for Funds from the Tariff Flag System - CCRBT (1)	(1,529)
(+) Updating – Selic rate	68
Balance on December 31, 2015	**1,350**
(–) Net constitution of financial assets	(858)
(–) Amortization	(597)
(–) Payments from the Tariff Flag Funds Centralizing Account (1)	(341)
(–) Transfer (2)	(165)
(+) Updating – Selic rate (3)	204
Balance at December 31, 2016	**(407)**

(1) See more details in Note 13.
(2) The financial component constituted to be passed through to the tariff at the next tariff adjustment, arising from judgments (injunctions/provisional remedy) in legal actions challenging part of the amount of the CDE (Energy Development Account) charge, was reclassified to Credits owed by Eletrobras, and will be amortized with counterpart in deductions from the monthly CDE charges to be paid to Eletrobras, in accordance with a Dispatch issued by Aneel in 2016.
(3) Includes adjustment for homologation of the CVA by Aneel which took place in May 2016.

15. INVESTMENTS

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

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

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

a) Right to commercial operation of the regulated activity

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

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

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

	Dec. 31, 2015	Equity method gain (Statement of income)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Incorporation	Other	Dec. 31, 2016
Companhia Transleste de Transmissão	18	6	-	(2)	-	-	-	-	22
Companhia Transudeste de Transmissão	18	4	-	(1)	-	-	-	-	21
Companhia Transirapé de Transmissão	19	5	-	-	-	-	-	-	24
Transchile	108	2	(23)	-	-	(87)	-	-	-
Companhia de Transmissão Centroeste de Minas	18	5	-	(2)	-	-	-	-	21
Light	1,188	(121)	3	-	-	-	-	-	1,070
Axxiom Soluções Tecnológicas	24	(5)	-	-	-	-	-	-	19
Luce	-	(18)	1	(57)	252	-	166	-	344
RME	-	(20)	-	(58)	247	-	169	1	339
Hidrelétrica Cachoeirão	42	10	-	(2)	-	-	-	-	50
Guanhães Energia (1)	19	(103)	-	-	25	-	-	59	0
Hidrelétrica Pipoca	27	5	-	-	-	-	-	-	32
Madeira Energia (Santo Antônio Plant through Madeira Energia)	676	(71)	-	-	39	-	-	-	644
FIP Melbourne (Santo Antônio Plant through Madeira Energia)	703	(63)	-	-	40	-	-	(3)	677
LightGer	37	5	-	-	-	-	-	-	42
Baguari Energia	187	41	-	(14)	-	-	-	(52)	162
Central Eólica Praias de Parajuru	63	-	-	-	-	-	-	-	63
Central Eólica Volta do Rio	85	(4)	-	-	-	-	-	-	81
Central Eólica Praias de Morgado	62	(2)	-	-	-	-	-	-	60
Amazônia Energia (Belo Monte Plant through Norte Energia)	495	(6)	-	-	292	-	-	-	781
Ativas Data Center (2)	-	(31)	-	-	99	-	-	(50)	18
Parati	358	(24)	1	-	-	-	(335)	-	
Taesa	2,242	342	-	(382)	-	(619)	-	-	1,583
Renova (3)	1,527	(372)	19	-	278	-	-	(763)	689
Usina Hidrelétrica Itaocara S.A.	-	-	-	-	3	-	-	-	3
Aliança Geração	1,327	104	-	(112)	-	-	-	-	1,319
Aliança Norte (Belo Monte Plant through Norte Energia)	354	(7)	-	-	180	-	-	-	527
Retiro Baixo	148	16	-	(2)	-	-	-	-	162
Total of investments	**9,745**	**(302)**	**1**	**(632)**	**1,455**	**(706)**	**-**	**(808)**	**8,753**
Ativas Data Center – Uncovered liabilities of jointly-controlled entity	(28)	-	-	-	-	-	-	-	(28)
Guanhães – Uncovered liabilities of jointly-controlled entity	-	-	-	-	-	-	-	(59)	(59)
Total	**9,717**	**(302)**	**1**	**(632)**	**1,455**	**(706)**	**-**	**(867)**	**8,666**

(1) Transfer to uncovered liabilities.
(2) The amount of R$ 50 refers to the dilution of shareholding interest arising from subscription of share capital by a new shareholder.
(3) The amount of R$ 763 refers to the impairment of intangible concession assets resulting from the financial difficulties of Renova.

	2014	Equity method gain (Statement of income)	Equity method gain (Other comprehensive income)	Dividends	Injections / acquisitions	Other	2015
Companhia Transleste de Transmissão	14	8	-	(4)	-	-	18
Companhia Transudeste de Transmissão	13	5	-	-	-	-	18
Companhia Transirapé de Transmissão	13	6	-	-	-	-	19
Transchile	67	5	36	-	-	-	108
Companhia de Transmissão Centroeste de Minas	22	2	-	(6)	-	-	18
Light	1,198	(11)	2	(1)	-	-	1,188
Axxiom Soluções Tecnológicas	23	1	-	-	-	-	24
Hidrelétrica Cachoeirão	34	8	-	-	-	-	42
Guanhães Energia	69	(49)	-	(1)	-	-	19
Hidrelétrica Pipoca	28	2	-	(3)	-	-	27
Madeira Energia (Santo Antônio plant through Madeira Energia)	674	2	-	-	-	-	676
FIP Melbourne (Santo Antônio plant through Madeira Energia)	708	(5)	-	-	-	-	703
Lightger	38	(1)	-	-	-	-	37
Baguari Energia	193	12	-	(18)	-	-	187
Central Eólica Praias de Parajuru	62	2	-	(1)	-	-	63
Central Eólica Volta do Rio	84	2	-	(1)	-	-	85
Central Eólica Praias de Morgado	62	-	-	-	-	-	62
Amazônia Energia (Belo Monte Plant through Norte Energia)	395	(19)	-	(1)	120	-	495
Ativas Data Center	-	(28)	-	-	-	28	-
Epícares Empreendimentos (1)	92	1	-	1	-	(94)	-
Parati	372	3	-	(17)	-	-	358
Taesa	2,188	383	-	(329)	-	-	2,242
Renova	1,538	(25)	15	(1)	-	-	1,527
Aliança Geração	3	107	-	(93)	581	729	1,327
Aliança Norte (Belo Monte Plant through Norte Energia)	-	(13)	-	-	367	-	354
Retiro Baixo	150	(5)	-	-	3	-	148
Total do Investimento	**8,040**	**393**	**53**	**(475)**	**1,071**	**663**	**9,745**
Ativas Data Center – Uncovered liabilities of jointly-controlled entity	-	-	-	-	-	(28)	(28)
Total	**8,040**	**393**	**53**	**(475)**	**1,071**	**635**	**9,717**

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

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

(1) Consolidation of Gasmig began as from October 2014, and as a result the value of the investment, of R$ 569 was eliminated.
(2) Acquisition of 7.87% interest on Madeira Energia trough FIP Melbourne for R$697,796. Cemig also has a directly-held stockholding interest of 10.00% on Madeira Energia. Cemig made a capital increase of R$429,367 in 2016.

Cemig GT enters into controlling block of Renova

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

Acquisition of equity interest

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

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

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

Company	Number of shares	2016			2015			2014		
		Cemig Interest %	Share capital	Equity	Cemig Interest %	Share capital	Equity	Cemig Interest %	Share capital	Equity
Cemig Geração e Transmissão	2,896,785,358	100.00	1,838	4,583	100.00	1,838	4,684	100.00	1,700	3,487
Hidrelétrica Cachoeirão	35,000,000	49.00	35	103	49.00	35	83	49.00	35	69,991
Guanhães Energia	137,608,000	49.00	186	-	49.00	138	38	49.00	138	137,608
Hidrelétrica Pipoca	41,360,000	49.00	41	65	49.00	41	54	49.00	41	58,789
Retiro Baixo	222,850,000	49.90	223	264	49.90	223	296	49.90	217	300
Aliança Norte (Usina de Belo Monte)	34,715,961,339	49.00	1,014	1,077	49.00	647	723	-	-	-
Madeira Energia (Usina de Santo Antônio)	9,730,201,137	18.13	10,152	6,419	18.05	9,762	7,642	17.76	9,456	7,782
Lightger	79,078,937	49.00	79	85	49.00	79	76	49.00	79	79
Baguari Energia (1)	26,157,300,278	69.39	187	248	69.39	262	270	69.39	262	279
Renova (2)	360,815,313	34.15	2,856	1,956	27.37	2,526	5,581	27.37	2,568	5,620
Aliança Geração	1,291,582,500	45.00	1,291	1,973	45.00	1,291	2,949	-	-	-
Central Eólica Praias de Parajuru	70,560,000	49.00	71	89	49.00	71	129	49.00	71	127
Central Eólica Volta do Rio	117,230,000	49.00	117	137	49.00	117	174	49.00	117	171
Central Eólica Praias de Morgado	52,960,000	49.00	53	65	49.00	53	127	49.00	53	127
Amazônia Energia (1) (Usina de Belo Monte)	1,039,491,023	74.50	1,116	1,048	74.50	723	665	74.50	563	529
Usina Hidrelétrica Itaocara S.A.	5,677,000	49.00	6	6	-	-	-	-	-	-
Cemig Distribuição	2,359,113,452	100.00	2,362	2,500	100.00	2,362	2,696	100.00	2,262	2,482
Light	203,934,060	26.06	2,226	3,354	26.06	2,226	4,558	26.06	2,226	4,602
Cemig Telecom	397,683,385	100.00	242	192	100.00	225	169	100.00	225	225
Rosal Energia	46,944,467	100.00	47	141	100.00	47	122	100.00	47	121
Sá Carvalho	361,200,000	100.00	37	106	100.00	37	103	100.00	37	107
Gasmig	409,255,483	99.57	665	1,426	99.57	665	1,408	99.57	665	1,437
Horizontes Energia	39,257,563	100.00	39	52	100.00	64	71	100.00	64	70
Usina Térmica Ipatinga	174,281	100.00	0	4	100.00	-	4	100.00	14	24
Cemig PCH	35,952,000	100.00	36	92	100.00	36	85	100.00	31	67
Cemig Capim Branco Energia	87,579,000	-	-	-	100.00	-	-	100.00	88	130
LUCE	1,379,839,905	66.62	438	443	-	-	-	-	-	-
RME	1,365,421,406	66.27	434	440	-	-	-	-	-	-
Companhia Transleste de Transmissão	49,569,000	25.00	50	81	25.00	50	73	25.00	50	54
UTE Barreiro	30,902,000	100.00	31	39	100.00	31	30	100.00	31	29
Companhia Transudeste de Transmissão	30,000,000	24.00	30	85	24.00	30	73	24.00	30	53
Empresa de Comercialização de Energia Elétrica	486,000	100.00	-	20	100.00	-	9	100.00	-	9
Companhia Transirapé de Transmissão	22,340,490	24.50	22	98	24.50	22	79	24.50	22	56
Transchile	-	-	-	-	49.00	237	221	49.00	161	135
Efficientia	6,051,994	100.00	6	5	100.00	6	6	100.00	6	5
Cemig Comercializadora de Energia Incentivada	1,000,000	100.00	1	2	100.00	5	6	100.00	5	5
Companhia de Transmissão Centroeste de Minas	28,000,000	51.00	28	42	51.00	28	34	51.00	28	41
Cemig Trading	1,000,000	100.00	1	29	100.00	-	30	100.00	-	31
Axxiom Soluções Tecnológicas	17,200,000	49.00	47	39	49.00	47	49	49.00	17	48
Parati	1,432,910,602	-	-	-	25.00	1,433	1,431	25.00	1,433	1,481
TAESA	1,033,496,721	31.54	3,042	4,308	43.36	3,042	5,171	43.36	3,042	5,045

(1) Control shared under a Shareholders' Agreement.

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

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

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

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

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

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

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

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

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

2016	Parati	Transleste	Transirapé	Centroeste	Transudeste	Luce	RME	Light	Taesa	Axxiom	Aliança Norte
Assets											
Current	12	50	41	61	32	6	3	3,612	1,955	66	2
Cash and cash equivalents	8	3	2	20	4	-	-	668	102	9	2
Non-current	1,327	123	122	1	78	437	437	10,718	6,456	13	1,075
Total assets	1,339	173	163	62	110	443	440	14,330	8,411	79	1,077
	-	-	-	-	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-	-	-	-
Current	-	28	33	5	22	-	-	4,871	1,074	32	-
Suppliers	-	-	-	-	-	-	-	1,342	37	1	-
Loans and financings – Current	-	18	19	3	19	-	-	15,568	9	10	-
Non-current	-	63	32	15	3	-	-	6,105	3,029	8	-
Equity	1,339	82	98	42	85	443	440	3,354	4,308	39	1,077
Total liabilities	1,339	173	163	62	110	443	440	14,330	8,411	79	1,077
	-	-	-	-	-	-	-	-	-	-	-
Statement of income	-	-	-	-	-	-	-	-	-	-	-
Net sales revenue	-	34	45	13	22	-	-	9,645	1,391	57	-
Cost of sales	-	(2)	(19)	(2)	(1)	-	-	(8,042)	(149)	(64)	-
Depreciation and amortization	-	-	-	(1)	-	-	-	(452)	(1)	(2)	-
Gross profit	-	32	26	11	21	-	-	1,603	1,242	(7)	-
General and administrative expenses (SG&A) :	(6)	-	(1)	-	(1)	(1)	(1)	(753)	(107)	(8)	(2)
Financial revenues	4	2	1	4	1	-	1	148	58	1	-
Financial expenses	(60)	(11)	(5)	(3)	(4)	(41)	(41)	(1,281)	(223)	-	(7)
Operational profit	(62)	23	21	12	17	(42)	(41)	(283)	970	(14)	(9)
Income tax and the Social Contribution tax	-	(2)	(2)	(1)	(1)	-	-	(30)	(108)	5	-
Net profit for the year	(62)	21	19	11	16	(42)	(41)	(313)	862	(9)	(9)
Other comprehensive income for the year											
Net profit for the year	(62)	21	19	11	16	(42)	(41)	(313)	862	(9)	(9)
Gain (loss) on conversion of financial statements	-	-	-	-	-	-	-	(86)	-	-	-
Actuarial gains (losses)	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income for the year	(62)	21	19	11	16	(42)	(41)	(399)	862	(9)	(9)

2016	Cachoeirão	Baguari Energia	Guanhães Energia	Madeira Energia	Pipoca	Retiro Baixo	Renova	Parajuru	Morgado	Volta do Rio	LightGer	Amazônia Energia	Aliança Geração
Assets													
Current	43	45	16	1,520	20	30	136	38	24	37	35	-	388
Cash and cash equivalents	40	11	1	58	17	19	36	18	17	27	32	-	147
Non-current	86	220	65	23,557	98	377	5,765	128	142	245	152	1,048	2,512
Total assets	129	265	81	25,077	118	407	5,901	166	166	282	187	1,048	2,900
	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Current	9	12	191	3,131	8	25	3,347	19	27	37	16	-	592
Suppliers	2	6	-	662	-	1	547	1	1	1	6	-	101
Non-current	17	5	11	15,527	45	118	598	58	74	108	86	-	335
Equity	103	248	(121)	6,419	65	264	1,956	89	65	137	85	1,048	1,973
Total liabilities	129	265	81	25,077	118	407	5,901	166	166	282	187	1,048	2,900
	-	-	-	-	-	-	-	-	-	-	-	-	-
Statement of income	-	-	-	-	-	-	-	-	-	-	-	-	-
Net sales revenue	34	65	-	2,803	25	62	484	27	22	29	36	-	804
Cost of sales	(10)	(12)	-	(1,845)	(6)	(29)	(454)	(17)	(17)	(27)	(17)	-	(314)
Depreciation and amortization	(3)	(9)	-	(673)	(3)	(9)	(93)	(10)	(10)	(17)	(11)	-	(125)
Gross profit	24	53	-	958	19	33	30	10	5	2	19	-	490
General and administrative expenses (SG&A)	-	(1)	-	(146)	(2)	-	(41)	(1)	(1)	(2)	(1)	(1)	(58)
Impairment of PP&E	-	-	-	-	-	-	(281)	-	-	-	-	-	-
Adjustment for losses on investment	-	-	-	-	-	-	(455)	-	-	-	-	-	-
Financial revenues	4	15	-	146	2	2	16	3	3	5	3	-	46
Financial expenses	(3)	(1)	(208)	(1,552)	(6)	(15)	(424)	(7)	(10)	(15)	(10)	(8)	(58)
Operational profit	25	66	(208)	(594)	13	20	(1,155)	5	(3)	(10)	11	(9)	420
Income tax and the Social Contribution tax	(2)	(7)	-	(23)	(2)	(3)	54	(2)	1	3	(3)	-	(127)
Net profit for the year	23	59	(208)	(617)	11	17	(1,101)	3	(2)	(7)	8	(9)	293
Comprehensive income for the year													
Net profit for the year	23	59	(208)	(617)	11	17	(1,101)	3	(2)	(7)	8	(9)	293
Gain (loss) on conversion offinancial statements	-	-	-	-	-	-	(182)	-	-	-	-	-	-
Other comprehensive income for the year	23	59	(208)	(617)	11	17	(1,283)	3	(2)	(7)	8	(9)	293

2015	Parati	Transleste	Transirapé	Centroeste	Transudeste	Transchile	Light	Taesa	Axxiom	Aliança Norte	Cachoeirão
Assets											
Current	59	47	34	58	32	39	3,976	2,082	74	1	28
Cash and cash equivalents	46	8	6	16	6	36	447	132	7	1	23
Non-current	1,408	128	114	1	81	299	11,818	7,574	14	726	89
Total assets	**1,467**	**175**	**148**	**59**	**113**	**338**	**15,794**	**9,656**	**88**	**727**	**117**
Liabilities											
Current	36	18	20	4	17	21	4,399	1,008	34	-	10
Suppliers	-	-	-	-	-	-	1,450	34	2	-	2
Loans and financings – current	-	6	3	2	-	10	1,629	628	5	-	
Non-current	-	84	49	21	23	96	6,838	3,477	5	4	24
Equity	1,431	73	79	34	73	221	4,557	5,171	49	723	83
Total liabilities	**1,467**	**175**	**148**	**59**	**113**	**338**	**15,794**	**9,656**	**88**	**727**	**117**
Statement of Income											
Net sales revenue	-	33	34	14	22	28	1,222	1,973	66	-	30
Cost of sales	-	(4)	(13)	(4)	(2)	(10)	(460)	(287)	(59)	-	(14)
Depreciation and amortization	-	-	-	(1)	-	(9)	(412)	(15)	(1)	-	(3)
Gross profit	**-**	**29**	**21**	**10**	**20**	**18**	**762**	**1,686**	**7**	**-**	**16**
General and administrative expenses	-	-	-	-	-	-	(91)	-	(6)	-	-
Net financial revenue (expenses)	11	(9)	(5)	(3)	(5)	(6)	(672)	(562)	-	(27)	(1)
Financial revenues	48	2	1	2	1	-	1,371	769	1	-	2
Financial expenses	(37)	(11)	(6)	(5)	(6)	(6)	(2,043)	(1,331)	(1)	(27)	(3)
Operating profit	**11**	**20**	**16**	**7**	**15**	**12**	**(1)**	**1,124**	**1**	**(27)**	**15**
Income tax and Social Contribution tax	-	(2)	(1)	(1)	(1)	-	(40)	(241)	-	-	(2)
Net profit for the year	**11**	**18**	**15**	**6**	**14**	**12**	**(41)**	**883**	**1**	**(27)**	**13**
Comprehensive income for the year											
Net profit for the year	11	18	15	6	14	12	(41)	883	1	(27)	13
Actuarial gain (loss)	1	-	-	-	-	-	8	-	-	-	-
Other comprehensive income for the year	**12**	**18**	**15**	**6**	**14**	**12**	**(33)**	**883**	**1**	**(27)**	**13**

2015	Baguari Energia	Guanhães Energia	Madeira Energia	Pipoca	Retiro Baixo	Renova	Parajuru	Morgado	Volta do Rio	Lightger	Amazônia Energia	Aliança Geração
Assets												
Current	72	2	1,608	13	10	551	21	31	46	23	-	243
Cash and cash equivalents	9	1	300	-	1	66	12	12	20	14	-	70
Non-current	220	248	23,754	101	443	8,425	192	209	290	161	666	3,093
Total assets	**292**	**250**	**25,362**	**114**	**453**	**8,976**	**213**	**240**	**336**	**184**	**666**	**3,336**
Liabilities												
Current	16	212	2,151	10	25	1,497	18	28	36	14	-	113
Suppliers	6	-	384	-	6	570	-	-	1	4	-	36
Non-current	6	-	15,569	50	132	1,898	66	85	126	94	-	274
Equity	270	38	7,642	54	296	5,581	129	127	174	76	666	2,949
Total liabilities	**292**	**250**	**25,362**	**114**	**453**	**8,976**	**213**	**240**	**336**	**184**	**666**	**3,336**
Statement of Income												
Net sales revenue	59	-	2,605	22	53	458	31	34	47	32	-	797
Cost of sales	(46)	-	(1,103)	(11)	(40)	(5)	(16)	(18)	(28)	(25)	-	(442)
Depreciation and amortization	(9)	-	(471)	(3)	(9)	(4)	(10)	(10)	(17)	(10)	-	(69)
Gross profit	**13**	**-**	**1,502**	**11**	**13**	**453**	**15**	**16**	**19**	**7**	**-**	**355**
General and administrative expenses	-	(86)	(816)	(2)	(11)	-	(5)	(6)	(2)	(1)	(2)	(69)
Net financial revenue (expenses)	9	(14)	(967)	(3)	(13)	(355)	(5)	(8)	(11)	(7)	(23)	(18)
Financial revenues	10	-	950	2	1	41	2	2	3	2	-	9
Financial expenses	(1)	(14)	(1,917)	(5)	(14)	(396)	(7)	(10)	(14)	(9)	(23)	(27)
Operating profit	**22**	**(100)**	**(281)**	**6**	**(11)**	**98**	**5**	**2**	**6**	**(1)**	**(25)**	**268**
Income tax and Social Contribution tax	(5)	-	266	(1)	1	(191)	(1)	(1)	(2)	(2)	-	(30)
Net profit for the year	**17**	**(100)**	**(15)**	**5**	**(10)**	**(93)**	**4**	**1**	**4**	**(3)**	**(25)**	**238**
Comprehensive income for the year												
Net profit for the year	17	(100)	(15)	5	(10)	(93)	4	1	4	(3)	(25)	238
Gain (loss) on conversion of financial statements	-	-	-	-	-	54	-	-	-	-	-	-
Other comprehensive income for the year	**17**	**(100)**	**(15)**	**5**	**(10)**	**(39)**	**4**	**1**	**4**	**(3)**	**(25)**	**238**

2014	Parati	Transleste	Transirapé	Centroeste	Transudeste	Transchile	Light	Taesa	Axxiom	Ativas	Epícares
Assets											
Current	125	47	35	67	30	24	2,466	2,292	70	40	31
Cash and cash equivalents	42	7	7	19	4	22	506	329	9	16	14
Non-current	1,390	121	101	-	80	208	12,141	7,197	13	71	157
Total assets	1,515	168	136	67	110	232	14,607	9,489	83	111	188
Liabilities											
Current	34	6	16	8	12	15	2,963	940	26	59	1
Suppliers	-	-	3	-	-	-	1,945	53	2	5	-
Loans and financings – current	-	-	-	-	-	-	580	723	-	-	-
Non-current	-	108	64	18	45	82	7,042	3,504	9	79	2
Equity	1,481	54	56	41	53	135	4,602	5,045	48	(27)	185
Total liabilities	1,515	168	136	67	110	232	14,607	9,489	83	111	188
Statement of Income											
Net sales revenue	-	30	52	14	20	20	9,223	1,924	57	26	41
Cost of sales	-	(4)	(34)	(4)	(2)	(13)	(7,798)	(295)	(54)	(29)	(15)
Depreciation and amortization	-	-	-	-	-	(5)	(415)	(3)	1	7	8
Gross profit	-	26	18	10	18	7	1,425	1,629	3	(3)	26
General and administrative expenses	(6)	-	-	-	-	-	(163)	(29)	-	(10)	(12)
Net financial revenue (expenses)	143	(5)	(4)	-	(5)	(3)	(325)	(469)	(1)	(14)	1
Financial revenues	143	1	1	2	1	-	577	276	1	2	1
Financial expenses	-	(6)	(5)	(2)	(6)	(3)	(902)	(745)	(2)	(16)	-
Operating profit	137	21	14	10	13	4	937	1,131	2	(27)	15
Income tax and Social Contribution tax	(2)	(13)	(12)	(1)	(9)	(1)	(273)	(239)	-	-	(2)
Net profit for the year	135	8	2	9	4	3	664	892	2	(27)	13
Comprehensive income for the year											
Net profit for the year	135	8	2	9	4	3	664	892	2	(27)	13
Gain (loss) on translation	-	-	-	-	-	19	-	-	-	-	-
Actuarial gains (losses)	-	-	-	-	-	-	(17)	-	-	-	-
Other comprehensive income for the year	135	8	2	9	4	22	647	892	2	(27)	13

2014	Cachoeirão	Baguari Energia	Guanhães Energia	Madeira Energia	Pipoca	Retiro Baixo	Renova	Parajuru	Morgado	Volta do Rio	Lightger	Amazônia Energia
Assets												
Current	23	96	34	1,477	19	12	847	15	27	41	21	-
Cash and cash equivalents	19	15	27	241	13	3	596	4	4	4	16	-
Non-current	91	228	511	22,151	104	453	8,402	204	223	304	170	529
Total assets	114	324	545	23,628	123	465	9,249	219	250	345	191	529
Liabilities												
Current	14	39	407	1,961	7	20	656	17	22	26	10	-
Suppliers	2	9	1	1,282	-	-	130	2	2	2	1	-
Loans and financings – current	-	-	-	406	-	-	-	-	-	-	-	-
Non-current	30	6	-	13,885	57	145	2,973	75	101	148	102	-
Equity	70	279	138	7,782	59	300	5,620	127	127	171	79	529
Total liabilities	114	324	545	23,628	123	465	9,249	219	250	345	191	529
Statement of Income												
Net sales revenue	30	56	-	1.858	25	55	163	27	35	55	32	-
Cost of sales	(10)	(46)	-	(3.194)	(9)	(29)	(141)	(13)	(16)	(25)	(24)	-
Depreciation and amortization	(3)	(9)	-	(296)	(3)	(3)	(31)	(9)	(10)	(17)	(11)	-
Gross profit	20	10		(1.336)	16	26	22	14	19	30	8	
General and administrative expenses	(1)	-	-	(202)	(1)	(4)	(14)	(4)	(5)	(5)	-	(23)
Net financial revenue (expenses)	(1)	8	-	(602)	(3)	(26)	(45)	(5)	(8)	(11)	(6)	-
Financial revenues	2	9	-	57	1	1	24	1	1	1	2	-
Financial expenses	(3)	(1)	-	(659)	(4)	(27)	(69)	(6)	(9)	(12)	(8)	-
Operating profit	18	18		(2.140)	12	(4)	(37)	5	6	14	2	(23)
Income tax and Social Contribution tax	(2)	(6)	-	5	(1)	(2)	(6)	(1)	(1)	(1)	(2)	-
Net profit for the year	16	12		(2.135)	11	(6)	(43)	4	5	13		(23)
Comprehensive income for the year												
Net profit for the year	16	12	-	(2.135)	11	(6)	(43)	4	5	13	-	(23)
Other comprehensive income for the year	16	12	-	(2.135)	11	(6)	(43)	4	5	13	-	(23)

Investments in jointly controlled entities and affiliated companies

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

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

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

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

Arbitration proceedings

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

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

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

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

Amazônia Energia and Aliança Norte are shareholders in Norte Energia S.A. ('Nesa'), which holds the concession to operate the Belo Monte Hydroelectric Plant, on the Xingu River, in the State of Pará.

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

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

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

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

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

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

Summary of the conclusions of the independent investigation

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

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

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

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

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

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

<u>Investment in Guanhães Energia S.A. – Adjustment for impairment</u>

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

Investment in Renova

Option contract

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

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

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

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

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

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

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

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

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

Investment in TerraForm – pricing of the shares

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

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

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

Rescission of share purchase agreement

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

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

Adjustment for impairment

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

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

Investment in Light through Parati, RME and Lepsa

Corporate reorganization of Parati

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

- Extinction of Redentor Energia S.A., through reverse absorption by Rio Minas Energia Participações S.A. (‘RME’);
- Total split of Parati, with absorption by RME and Luce Empreendimentos e Participações S.A. (‘LEPSA’) of the separated assets and liabilities;
- Extinction of Parati, through reverse absorption by RME and LEPSA;

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

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

- In RME: 50.00% of the common shares and 50.00% of the preferred shares, representing 66.27 of the total share capital.
- In Lepsa: 50.00% of the common shares and 50.00% of the preferred shares, representing 66.62 of the total share capital.

Exercise of put option

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

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

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

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

Disposal of shares in Taesa owned by Cemig

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

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

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

Investment Agreement for subscription of capital in Ativas

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

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

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

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

Disposal of interest related to Transchile

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

Put options

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

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

Put options for shares in Parati

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

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

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

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

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

1) The maturity of the Put Option granted in 2011 by Cemig in favor of the unit holders of FIP Redentor, initially specified to be May 31, 2016, was postponed, to two separate exercise dates:

    a) First option exercise window: The intention to exercise may be stated by any direct shareholder/s who decide to do so, independently of the exercise of the Put Option by the other direct shareholders, up to September 23, 2016, inclusive, and shall cover only preferred shares in Parati, up to a limit of 153,634,195 shares, representing 14.30% of the total shares in Parati held by the other direct shareholders. Cemig had to make payment by November 30, 2016.

    b) Second payment window: The intention to exercise may be stated by any direct shareholder/s who decide to do so, independently of the exercise of the Put Option by the other direct shareholders, up to September 23, 2017, inclusive, and may cover the totality of the shares in Parati, being independent of any exercise, or not, of the Put Option in the first payment window. Cemig must make payment by November 30, 2017.

2) The Put Option may now be exercised not only by FIP Redentor, but also by the direct shareholders of Parati, including but not limited to the unit holders of FIP Redentor, and/or their affiliates, who shall become holders of a Put Option and/or of the rights arising therefrom, under which each one of the direct shareholders shall individually have the right to sell any shares in Parati that they own.

3) Conditions were included for bringing forward the date of exercise of the put option: in the event of any occurrence resulting in bringing forward of the option referred to, any direct shareholder may present to Cemig a notice of bringing forward of the option, at which moment the option shall be considered exercised by all the direct shareholders, over the totality of their shares.

4) As guarantee for the full payment of the Put Option, on May 31, 2016 Cemig offered to the holders of the put option 55,234,637 common shares and 110,469,274 preferred shares that Cemig directly holds in Transmissora Aliança de Energia S.A. (Taesa), and as further guarantee, 53,152,298 shares that Cemig directly holds in Light.

Amount of the Company's exposure

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

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Initial balance	**1,245**	**166**	**-**
Additions	55	1,079	166
Reductions	(150)	-	-
Final balance	**1,150**	**1,245**	**166**

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

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

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

Put options for Units in FIP Melbourne and FIP Malbec

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

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

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

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

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

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

	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Initial balance	**148**	**29**	**-**
Adjustment to fair value	48	119	29
Final balance	**196**	**148**	**29**

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

Sonda options

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

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

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

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

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

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

Formation of Aliança Geração de Energia

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

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

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

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

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

Additional equity interest in Gasmig

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

Business combination carried out in stages – additional effects

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

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

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

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

	Fair value of the original interest (59.60%)
Fair value of Gasmig on the date of acquisition of control	1,427
Cemig's original interest, of 59.57%, valued at fair value on the acquisition date	850
Book value	569
Gain recorded in 2014	281

Generation companies constituted – Lot D of Auction 12/2015 won by the company in 2015

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

16. PROPERTY, PLANT AND EQUIPMENT

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

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

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

	2014	Additions	Write-offs	Transfer of assets to Aliança Geração de Energia	Indemnity receivable	Depreciation	Transfers to Other long term assets	Transfers / capitalizations	2015
In service									
Land	372	-	(12)	(41)	(16)	(3)	(17)	(4)	279
Reservoirs, dams and water courses	2,261	-	-	(163)	(46)	(127)	(102)	7	1,830
Buildings, works and improvements	609	-	(1)	(116)	(17)	(32)	(13)	7	437
Machinery and equipment	2,053	-	(3)	(308)	(466)	(149)	(69)	134	1,192
Vehicles	9	-	-	-	-	(3)	-	2	8
Furniture and utensils	5	-	-	-	-	-	-	(1)	4
	5,309	-	(16)	(628)	(545)	(314)	(201)	145	3,750
Under construction	235	126	(4)	(3)	(1)	(1)	(22)	(140)	190
Net PP&E	**5,544**	**126**	**(20)**	**(631)**	**(546)**	**(315)**	**(223)**	**5**	**3,940**

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

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

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

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

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

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

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

Consortia

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

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

17. INTANGIBLE ASSETS

Assets of the concession

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

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

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

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

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

b) Changes in Intangible assets

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

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

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

(*) See comments in Note 13.

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

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

Hydroelectric generation	Thermal generation	Distribution	Management and other	Telecoms
20.00%	19.35%	3.85%	23.29%	11.56%

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

18. SUPPLIERS

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

19. TAXES, INCOME TAX AND SOCIAL CONTRIBUTION TAX

a) Taxes payable

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

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

b) Income tax and Social Contribution tax:

	2016	2015
Current		
Income tax	19	8
Social Contribution tax	8	3
	27	**11**

20. LOANS, FINANCINGS AND DEBENTURES

Financing source	Principal maturity	Annual financing cost %	Currency	2016			2015
				Current	Non-current	Total	Total
FOREIGN CURRENCY							
Banco do Brasil – Various bonds (1)	2024	Various	US$				33
KFW	2016	4.50	EURO	-	-	-	3
KFW	2024	1.78	EURO	4	3	7	11
Debt in foreign currency				**5**	**25**	**30**	**47**
Brazilian currency				-	-	-	
Banco do Brasil	2017	108.33% of CDI	R$	72	-	72	144
Banco do Brasil	2017	108.00% of CDI	R$	151	-	151	433
Banco do Brasil	2016	104.10% of CDI	R$	285	270	555	925
Banco do Brasil (6)	2016	104.25% of CDI	R$	-	-	-	804
Banco do Brasil	2017	111.00% of CDI	R$	50	-	50	100
Banco do Brasil	2020	114.00% of CDI	R$	8	494	502	499
Banco do Brasil	2018	132.90% of CDI	R$	291	292	583	
Brazilian Development Bank (BNDES)	2026	TJLP+2.34	R$	8	66	74	81
Brazilian Development Bank (BNDES)	2026	TJLP+2.48	R$	-	-	-	11
CEF	2018	119.00% of CDI	R$	100	9	109	201
CEF	2020	132.14% of CDI	R$	65	616	681	-
Eletrobras	2023	Ufir, RGR + 6.00 to 8.00	R$	19	49	68	185
Large consumers	2018	Various	R$	4	2	6	8
Finep	2018	TJLP + 5 and TJLP + 2.5	R$	3	3	6	9
Promissory Notes - 8th Issue (3)	2016	111.70 of CDI	R$	-	-	-	1,889
Promissory Notes - 6th Issue (2)	2016	120.00 of CDI	R$	-	-	-	1,441
Promissory Notes – 7th Issue (2)	2017	128.00% of CDI	R$	667	-	667	-
BASA	2018	CDI+1.9	R$	2	120	122	121
Sonda (4)	2021	110% of CDI	R$	46	37	83	-
Promissory Notes –1st Issue (4)	2015	110.40% of CDI	R$	-	-	-	23
Debt in Brazilian currency				**1,771**	**1,958**	**3,729**	**6,874**
Total of loans and financings				**1,776**	**1,983**	**3,759**	**6,921**
Debentures, 2nd Issue (3)	2017	IPCA + 7.96	R$	235	-	235	441
Debentures - 3rd Issue, 1st Series (2)	2017	CDI + 0.90	R$	543	-	543	540
Debentures - 3rd Issue, 3rd Series (2)	2022	IPCA + 6.20	R$	50	933	983	923
Debentures - 3rd Issue, 2nd Series (2)	2019	IPCA + 6.00	R$	15	278	293	275
Debentures - 3rd Issue, 2nd Series (3)	2021	IPCA + 4.70	R$	59	1,436	1,495	1,403
Debentures - 3rd Issue, 3rd Series (3)	2025	IPCA + 5.10	R$	38	857	895	839
Debentures - 3rd Issue, 1st Series (3)	2018	CDI + 0.69	R$	53	411	464	462
Debentures	2018	CDI+1.60	R$	553	485	1,038	1,037
Debentures	2020	IPCA+8.07	R$	1	30	31	29
Debentures – 7th Issue, 1st Series (2)	2021	140.0% of CDI	R$	(7)	2,204	2,197	-
Debentures, 4th Issue (3)	2018	CDI + 4.05%	R$	805	793	1,598	-
Debentures - 4th Issue, 2nd Series (2)	2016	CDI+0.85	R$	-	-	-	501
Debentures - 5th Issue, 1st Series (2)	2018	CDI+1.70	R$	711	700	1,411	1,412
Debentures (5)	2016	TJLP+3.12	R$	-	-	-	41
Debentures (5)	2018	CDI + 1.60	R$	1	100	101	103
Debentures (5)	2018	CDI+0.74	R$	33	34	67	100
Debentures (5)	2022	TJLP+7.82 (75%) and Selic+1.82(25%)	R$	20	114	134	125
Cemig Telecom - 1st Issue, 1st Series (4)	2018	TJLP+2.62	R$	-	-	-	8
Cemig Telecom - 1st Issue, 2nd Series (4)	2018	TJLP+3.32	R$	-	-	-	3
Cemig Telecom - 1st Issue, 3rd Series (4)	2018	TJLP+1.72	R$	-	-	-	2
Cemig Telecom - 1st Issue, 4th Series (4)	2018	TJLP+2.62	R$	-	-	-	2
(–) FIC Pampulha: Securities of subsidiary companies (7)				(49)	(16)	(65)	-
Total. debentures				**3,061**	**8,359**	**11,420**	**8,246**
Overall total – Consolidated				**4,837**	**10,342**	**15,179**	**15,167**

(1) Interest rates vary from 2.00 to 8.00% p.a. Six-month Libor plus spread of 0.81% to 0.88% p.a.
(2) Cemig GT (Cemig Geração e Transmissão).
(3) Cemig D (Cemig Distribuição).
(4) Cemig Telecom.
(5) Gasmig.
(6) On April 22, 2016 Cemig D signed amendments to two Bank Credit Notes issued in favor of Banco do Brasil, for a total of R$ 600 million, to roll over existing debt. The interest rate is 128.00% of the CDI rate, p.a., and the funds will be paid in four six-monthly installments with the last maturity in April 2018.
(7) FIC Pampulha has financial investments in securities issued by subsidiaries of the Company. For more information, and characteristics of the fund, see Note 28

Guarantees

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

	2016
Promissory Notes and Sureties	11,023
Receivables	3,840
Without guarantee	316
TOTAL	**15,179**

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

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

(1) Expanded National Consumer Price (IPCA) Index.
(2) Fiscal Reference Unit (UFIR / RGR).
(3) Interbank Rate for Certificates of Deposit.
(4) URTJ: Interest rate reference unit.
(5) IGP-DI ('General Domestic Availability Price Index').
(6) TR Reference Interest Rate

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

Currency	2016 (%)	2015 (%)	Indexor	2016 (%)	2015 (%)
US dollar	(16.54)	47.01	IPCA	6.29	10.67
Euro	(19.10)	31.71	CDI	14.06	13.23

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

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

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

Borrowing costs, capitalized

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

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

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

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

Funding raised

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

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

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

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

7th Issue of Commercial Promissory Notes

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

Issue of Bank Credit Note

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

7th debenture issue

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

Debentures

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

Issuer	Guarantee	Annual cost (%)	Maturity	2016	2015
Cemig GT – 2nd Issue – 2nd Series	None	IPCA + 7.68	2015	-	-
Cemig GT – 3rd Issue – 1st Series	Unsecured	CDI + 0.90	2017	543	540
Cemig GT – 3rd Issue – 3rd Series	Unsecured	IPCA + 6.20	2022	983	923
Cemig GT – 3rd Issue – 2nd Series	Unsecured	IPCA + 6.00	2019	293	275
Cemig GT – 4th Issue	Unsecured	CDI + 0.85	2016	-	501
Cemig GT – 5th Issue	Unsecured	CDI*1.70	2018	1,411	1,412
Cemig D – 3rd Issue – 1st Series	Surety	CDI + 0.69	2018	464	462
Cemig D – 3rd Issue – 2nd Series	Surety	IPCA + 4.70	2021	1,495	1,403
Cemig D – 3rd Issue – 3rd Series	Surety	IPCA + 5.10	2025	895	839
Debentures	Surety	CDI+1.6	2018	1,038	1,037
Debentures	Surety	IPCA+8.07	2020	31	29
Cemig D – 2nd Issue	None	IPCA + 7.96	2017	235	441
Cemig D – 4th Issue	Surety	CDI + 4.05%	2018	1,598	
Debentures – 7th Issue, 1st Series (2)	Receivables (Revenue)	140.0% of CDI	2021	2,197	
Gasmig	Unsecured	TJLP+3.12	2016	-	41
GASMIG	Unsecured	CDI + 1.60	2018	101	103
Gasmig	Unsecured	CDI+0.62	2015		-
Gasmig	Unsecured	CDI+0.74	2018	67	100
Gasmig	Unsecured	TJLP+7.82 (75%) and Selic+1.82(25%)	2022	134	125
Cemig Telecom - 1st Issue, 1st Series (4)	Receivables (Revenue)	TJLP+2.62	2018	-	8
Cemig Telecom - 1st Issue, 2nd Series (4)	Receivables (Revenue)	TJLP+3.32	2018	-	3
Cemig Telecom - 1st Issue, 3rd Series (4)	Receivables (Revenue)	TJLP+1.72	2018	-	2
Cemig Telecom - 1st Issue, 4th Series (4)	Receivables (Revenue)	TJLP+2.62	2018	-	2
Cemig Telecom - 1st Issue, 5th Series (4)	Receivables (Revenue)	TJLP+3.32	2018	-	-
Cemig Telecom - 1st Issue, 6th Series (4)	Receivables (Revenue)	TJLP+1.72	2018	-	-
Subtotal				11,485	8,246
(-)FIC Pampulha-Títulos de empresas controladas				(65)	-
TOTAL				11,420	8,246

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

Restrictive covenants

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

Transaction	Ratio	Ratio requirement – Issuer	Ratio requirement – Cemig (Guarantor)	Timing requirement
BNDES Financing – Cemig GT (1)	Equity of Guarantor / Total assets of Guarantor	-	30% or more	Annual
Banco do Brasil Credit Note – Cemig GT (2)	Net debt of Surety / Ebitda of Surety	-	Less than or = 6.00 in 2016 5.26 in 2017 5.00 in 2018	Quarterly, from December 2016
7th Debenture Issue – Cemig GT (3)	Net debt / (Ebitda + Dividends received)	Less than or = 5.5 in 2017 5.0 in 2018 4.5 in 2019 3.0 in 2020 2.5 in 2021	Less than or = 4.5 in 2017 4.25 in 2018 3.5 in 2019 3.0 in 2020 2.5 in 2021	Half-yearly, from June 2017
Gasmig Debentures (4)	Total debt / Total assets Ebitda / Debt servicing	Less than 0.6 1.30 or more	-	Annual

(1) If the Company does not succeed in achieving the required ratio, it will have six months from the end of the business year in which the ratio was found, to: (i) constitute real guarantees which in the assessment of the BNDES represent 130.00% of the value of the debtor balance of the contract; or (ii) present an interim balance sheet, audited by an auditor accredited by the CVM, that indicates the return to the index required.

(2) Bank Credit Note issued in favor of Banco do Brasil in October 2016, for R$ 600. If additional or more restrictive financial covenants are agreed with other creditors, they will automatically be incorporated into the Bank Credit Note.

(3) 7th Issue of Debentures by Cemig GT, in December 2016, of R$ 2,240.

(4) If it does not succeed in achieving the required ratio, Gasmig will have 120 days from the date of a communication in writing from BNDESPar or BNDES to constitute guarantees that are acceptable to the debenture holders for the total amount of the debt, obeying the rules of the National Monetary Council, unless in that period the required ratios have been re-established. Cross-default: Certain contractually specified situations can cause early maturity of other debts.

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

21. REGULATORY CHARGES

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

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

22. POST-RETIREMENT LIABILITIES

Forluz Pension plan (a Supplementary retirement pension plan)

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

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

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

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

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

Amortization of the actuarial obligations and recognition in the financial statements

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

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

Independent Actuarial Information

The consolidated actuarial information is as follows:

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

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

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

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Defined-benefit obligation on December 31,2013	**7,352**	**1,012**	**28**	**600**	**8,992**
Cost of current service	6	6	-	4	16
Interest on the actuarial obligation	869	125	4	73	1,071
Actuarial losses (gains) recognized					
Due to changes in financial assumptions	241	38	1	33	313
Due to adjustments based on experience	329	12	1	(19)	323
	570	50	2	14	636
Benefits paid	(673)	(73)	(2)	(11)	(759)
Defined-benefit obligation on December 31,2014	**8,124**	**1,120**	**32**	**680**	**9,956**
Cost of current service	6	7	1	3	17
Interest on the actuarial obligation	934	135	3	81	1,153
Actuarial losses (gains) recognized					
Due to changes in demographic assumptions	8	43	1	(71)	(19)
Due to changes in financial assumptions	(822)	128	(1)	(122)	(817)
Due to adjustments based on experience	533	(33)	(4)	69	565
	(281)	138	(4)	(124)	(271)
Plan amendment - Past service	-	-	-	(74)	(74)
Benefits paid	(734)	(77)	(2)	(12)	(825)
Defined-benefit obligation on December 31,2015	**8,049**	**1,323**	**30**	**554**	**9,956**
Cost of current service	5	9	0	3	17
Interest on the actuarial obligation	1,013	174	4	72	1,263
Actuarial losses (gains) recognized	0	0	0	0	0
Due to changes in demographic assumptions	(1)	0	0	0	(1)
Due to changes in financial assumptions	1,253	391	9	175	1,828
Due to adjustments based on experience	231	(87)	(3)	21	162
	1,483	304	6	196	1,989
Benefits paid	(807)	(99)	(2)	(11)	(919)
Defined-benefit obligation on December 31, 2016	**9,743**	**1,711**	**38**	**814**	**12,306**

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

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

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

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

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

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

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

Changes in net liabilities:

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

			2016	**2015**	**2014**
Current liabilities			199	167	153
Non-current liabilities			4,043	3,086	2,478

(*) Recognized directly in Equity

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

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

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

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

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Estimate of payments of benefits	843	104	2	11	960

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

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

Pension and retirement supplement plans		Health Plan	Dental Plan	Life insurance
Plan A	Plan B			
9.58	11.83	13.38	13.38	11.83

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

	2016	2015
Shares of Brazilian companies	3.84%	6.90%
Fixed income securities	74.96%	66.38%
Real estate property	8.14%	9.66%
Other	13.06%	17.06%
Total	**100.00%**	**100.00%**

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

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

This table gives the main actuarial assumptions:

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

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

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

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

23. PROVISIONS

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

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

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

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

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

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

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

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

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

Employment-law cases

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

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

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

Consumer relations

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

Other civil cases

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

Tax

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

Environmental

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

Regulatory

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

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

Corporate

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

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

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

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

Other legal actions in the normal course of business

Breach of contract – provision of services of cleaning power line paths and accesses

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

Other legal actions

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

Contingent liabilities – for cases in which the chances of loss are assessed as 'possible', and the Company believes it has arguments of merit for legal defense

<u>Tax and similar charges</u>

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

Indemnity of the employees' future benefit – the 'Anuênio'

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

Social Security contributions

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

Non-homologation of offsetting of tax credit

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

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

Corporate tax return – restitution and offsetting

The Company is a party in an administrative case involving requests for restitution and compensation of credits arising from tax carryforward balances indicated in the tax returns (DIPJs) for the calendar years from 1997 to 2000, and also for excess payments identified by the corresponding tax payment receipts (DARFs and DCTFs). Due to completion of all appeals in the administrative sphere, an ordinary legal action has been filed, for the approximate total amount of R$ 535 (R$ 482 on December 31, 2015). The chances of loss in this action are assessed as 'possible', due to nullities in the conduct of the administrative proceedings and mistaken assumptions made by the inspectors in the administrative judgment, and also based on analysis of the Company's argument and documents of proof.

Income tax withheld at sourced (IRRF) on capital gain in a stockholding transaction

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

Social Contribution tax ('CSLL') on net income

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

ICMS (value added) Tax

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

<u>Regulatory matters</u>

Public Lighting Contribution (CIP)

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

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

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

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

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

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

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

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

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

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

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

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

PPE assets in service

In August 2014 Aneel filed a notice of infringement alleged the Company had not met all the requirements for appropriation of costs in works and other procedures adopted and its compliance with the current legislation. This is a type of inspection relating as it does to the Electricity Sector Property Control Manual. The amount of the contingency is R$ 3 (R$ 66 on December 31, 2015). The Company has classified the chances of loss as 'possible', because it believes it has arguments of merit for legal defense, due to the regularity and legality of the Normative Acts issued by Aneel, which orient the actions of the Company, and also due to compliance with the Normative Resolutions of Aneel in relation to the requirements of law; and also the public interest in the transfer of electricity assets; and has therefore not constituted a provision for this action.

Tariff increases

Exclusion of consumers inscribed as low-income

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

Periodic Tariff Adjustment – Neutrality of 'Portion A'

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

Environmental issues

Impact arising from construction of plants

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

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

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

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

The Public Attorneys' Office of Minas Gerais State has filed class actions requiring the formation of a Permanent Preservation Area (APP) around the reservoir of the *Capim Branco* hydroelectric plant, suspension of the effects of the environmental licenses, and recovery of alleged environmental damage. Based on the opinion of its legal advisors in relation to the changes that have been made in the new Forest Code and in the case law on this subject, the Company has classified the probability of loss in this dispute as 'possible'. The estimated value of the contingency is R$ 71 (R$ 64 on December 31, 2015).

<u>Other contingent liabilities</u>

Early settlement of the CRC (Earnings Compensation) Account

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

Contractual imbalance

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

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

Irregularities in competitive tender proceedings

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

Alteration of the monetary updated index of employment-law cases

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

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

24. EQUITY AND REMUNERATION TO SHAREHOLDERS

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

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

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

(a) Earnings per share

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

Number of shares	2016	2015	2014
Common shares	420,764,708	420,764,708	420,764,708
Held in treasury	(69)	(69)	(69)
	420,764,639	**420,764,639**	**420,764,639**
Preferred shares	838,076,946	838,076,946	838,076,946
Held in treasury	(560,649)	(560,649)	(560,649)
	837,516,297	**837,516,297**	**837,516,297**
Total	**1,258,280,936**	**1,258,280,936**	**1,258,280,936**

Basic profit per share

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

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

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

Diluted profit per share

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

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

Shareholders' agreement

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

(b) Reserves

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

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

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

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

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

Legal reserve

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

Reserve under the by-laws

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

Retained Earnings reserve

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

Tax Incentives Reserve

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

(c) Dividends

Ordinary dividends

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

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

(a) 10% of their par value and
(b) 3% of the portion of equity that they represent.

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

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

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

Calculation of the Minimum Dividends required by the Bylaws for the preferred shares	2016	2015	2014
Nominal value of the preferred shares	4,190	4,190	4,190
Percentage applied to the nominal value of the preferred shares	10.00%	10.00%	10.00%
Amount of the dividends by the First payment criterion	419	419	419
Equity	12,930	12,984	11,281
Preferred shares as a percentage of Equity (net of shares held in Treasury)	66.58%	66.58%	66.58%
Portion of Equity represented by the preferred shares	8,609	8,645	7,511
Percentage applied to the portion of Equity represented by the preferred shares	3.00%	3.00%	3.00%
Amount of the dividends by the Second payment criterion	258	259	225
Calculation of the Minimum Dividends required by the Bylaws for the preferred shares	419	419	419
Obligatory Dividend			
Net profit for the year	334	2,469	3,137
Obligatory dividend – 50.00% of net income	167	1,235	1,568

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

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

Interest on Equity	2016
Interest on Equity – preferred shares and common shares	
– Common shares	127
– Preferred shares	253
	380

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

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

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

Allocation of Net profit for 2016 – Proposal by management

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

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

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

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

(d) Accumulated Other Comprehensive Income

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

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

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

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

25. REVENUE

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

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

a) Revenue from supply of electricity

This table shows supply of electricity by type of consumer:

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

(1) Data not audited by external auditors.
(2) Includes Regulated Market Electricity Sale Contracts (CCEARs) and ‘bilateral contracts’ with other agents.

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

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

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

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

d) Transmission Concession Revenue

Transmission Revenue comprises the following:

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

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

e) Construction revenue

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

f) Gain on financial updating of the Concession Grant Fee

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

g) Transmission indemnity revenue

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

- R$ 20 relating to the difference between the amount of the Preliminary Revision made by Aneel – R$ 1,157 – on February 23, 2015, of the Opinion sent by the Company, and the Final Revision.
- R$ 44 for monetary updating of the balance of indemnity receivable by the IGP-M index, up to May 2016.
- R$ 90 representing the difference between the variations resulting from application of the IGP-M index and the IPCA index – since the Company had updated the balance receivable, up to May 2016, by the IGP-M.
- R$ 438, representing the cost of own capital, calculated on the basis of 10.44% p.a.
- R$ 159 for updating of the balance of indemnity receivable, by the IPCA index, in accordance with Mining and Energy Ministry Order 120, in the period July through December 2016.

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

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

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

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

j) Other operating revenues

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

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

k) Deductions from revenue

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

(1) As from January 1, 2016, the rate for consumers in the Commercial, services and other activities category was changed from 18% to 25% (Decree nº 46.924, of December 29, 2015).

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

26. OPERATING COSTS AND EXPENSES

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

a) Personnel expenses

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

Programmed Voluntary Retirement Plan (PDVP)

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

b) Outsourced services

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

c) Electricity purchased for resale

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

d) Operating provisions (reversals)

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

e) Construction cost

	2016	2015	2014
Personnel and managers	58	65	60
Materials	534	521	415
Outsourced services	448	504	385
Other	153	162	82
	1,193	**1,252**	**942**

f) Other operating expenses (revenues), net

	2016	2015 Restated	2014 Restated
Leasings and rentals	112	102	112
Advertising	13	11	19
Own consumption of electricity	22	21	17
Subsidies and donations	17	31	50
Paid concession	3	7	23
Insurance	9	9	9
CCEE annual charge	8	8	7
Net loss on deactivation and disposal of assets	112	30	97
Forluz – Administrative running cost	25	22	22
Gain on disposal of shares in Taesa	(181)	-	-
Gain on disposal of Transchile	(134)	-	-
Other expenses	150	185	295
	156	**426**	**651**

Operating Leases

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

27. FINANCIAL REVENUES AND EXPENSES

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

The Pasep and Cofins expenses apply to Interest on Equity.

28. RELATED PARTY TRANSACTIONS

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

COMPANY	ASSETS		LIABILITIES		REVENUE			EXPENSES		
	2016	2015	2016	2015	2016	2015	2014	2016	2015	2014
Controlling shareholder										
MINAS GERAIS STATE GOVT.										
Current										
Consumers and Traders (1)	71	19	-	-	152	150	105	-	-	-
Financings – BDMG	-	-	4	9	-	-	-	(1)	(2)	(1)
Debentures (2)	-	-	-	-	-	-	-	-	-	(30)
Non-current										
Financings – BDMG	-	-	23	50	-	-	-	-	-	-
Jointly-controlled entities										
Aliança Geração										
Current										
Transactions in electricity (2)	-	-	7	11	-	-	-	(142)	(106)	-
Provision of services (3)	4	-	-	-	14	6	-	-	-	-
Baguari Energia										
Current										
Transactions in electricity (2)	-	-	1	1	-	-	-	(7)	(6)	(6)
Interest on Equity, and dividends	-	6	-	-	-	-	-	-	-	-
Madeira Energia										
Current										
Transactions in electricity (2)	-	-	18	16	8	-	-	(574)	(638)	(124)
Advance against future electricity supply (4)	-	87	-	-	-	12	-	-	-	-
Norte Energia										
Current										
Transactions in electricity (2)	-	-	4	-	2	-	-	(49)	-	-
Pipoca										
Current										
Transactions in electricity (2)	-	-	1	1	-	-	-	(16)	(11)	-
Interest on Equity, and dividends	-	1	-	-	-	-	-	-	-	-
Retiro Baixo										
Current										
Dividends, and Interest on Equity	2	-	-	-	-	-	-	-	-	-
Guanhães Energia										
Current										
Adjustment for losses (5)	-	-	59	-	-	-	-	-	-	-
Renova										
Current										
Transactions in electricity (2)	-	-	-	2	-	-	-	(159)	(12)	(12)
Non-current										
Accounts receivable (6)	74	-	-	-	14	-	-	-	-	-
Advance for future delivery of power supply (7)	229	60	-	-	17	-	-	-	-	-
TAESA										
Current										
Transactions in electricity (2)	-	-	10	11	-	-	-	(110)	(94)	(33)
Empresa Amazonense de Transmissão de Energia -EATE										
Current										
Transactions in electricity (2)	-	-	3	3	-	-	-	(25)	(28)	(6)
Light										
Current										
Transactions in electricity (2)	-	1	-	-	59	47	9	(1)	(1)	-
Interest on Equity, and dividends	7	44	-	-	-	-	-	-	-	-
Parati										
Current										
Interest on Equity, and dividends	-	9	-	-	-	-	-	-	-	-
Axxiom										
Current										
Provision of services (8)	-	-	7	6	-	-	-	-	-	-

COMPANY	ASSETS		LIABILITIES		REVENUE			EXPENSES		
	2016	2015	2016	2015	2016	2015	2014	2016	2015	2014
Other related parties										
FIC Pampulha										
Current										
Securities	1,455	1,031	-	-	197	115	181	-	-	-
(-) Securities issued by subsidiary companies of Cemig (9)	(49)	-	-	-	-	-	-	-	-	-
Non-current										
Securities	46	17	-	-	-	-	-	-	-	-
(-) Securities issued by subsidiary companies of Cemig (9)	(15)	-	-	-	-	-	-	-	-	-
FORLUZ										
Current										
Post-retirement obligations (10)	-	-	86	76	-	-	-	(186)	(129)	(99)
Personnel expenses (11)	-	-	-	-	-	-	-	(100)	(85)	(80)
Administrative running costs (12)	-	-	-	-	-	-	-	(25)	(22)	(22)
Operational leasing (13)	-	-	10	2	-	-	-	(39)	(18)	(17)
Non-current										
Post-retirement obligations (10)	-	-	1,593	1,270	-	-	-	-	-	-
CEMIG SAÚDE (HEALTH)										
Current										
Health Plan and Dental Plan (14)	-	-	102	79	-	-	-	(187)	(146)	(135)
Non-current										
Health Plan and Dental Plan (14)	-	-	1,647	1,275	-	-	-	-	-	-

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

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

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

Guarantees and sureties for loans, financings and debentures

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

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

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

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

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

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

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

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

Issuer of security	Type	Annual contractual conditions	Maturity	Cemig Holding Company 10.12%	Cemig GT 20.86%	Cemig D 24.94%	Other subsidiaries 22.39% *	Total 2016
Axxiom	Debentures	109.00% of CDI Rate	1/29/2017	1	1	1	1	4
ETAU	Debentures	108.00% of CDI	12/1/2019	1	2	3	2	8
				2	**3**	**4**	**3**	**12**

Issuer of security	Type	Annual contractual conditions	Maturity	Cemig Holding Company 10.12%	Cemig GT 20.86%	Cemig D 24.94%	Other subsidiaries 22.39% *	Total 2015
Axxiom	Debentures	109.00% of CDI Rate	1/29/2017	1	3	3	4	11
Ativas	Debentures	CDI + 3.50%	7/1/2017	2	7	5	8	22
Ativas	Debentures	CDI + 3.50%	7/1/2017	3	8	6	10	27
ETAU	Debentures	108.00% of CDI Rate	12/1/2019	1	3	2	4	10
Brasnorte	Debentures	108.00% of CDI Rate	6/22/2016	-	1	1	1	3
				7	**22**	**17**	**27**	**73**

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

Remuneration of key management personnel

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

	2016	2015	2014
Remuneration	25	19	11
Profit shares (reversals)	(1)	2	3
Assistance benefits	2	1	1
	26	**22**	**15**

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

a) Risk management

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

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

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

Exchange rate risk

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

This table gives the net exposure to exchange rates:

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

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

<u>Sensitivity analysis</u>

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

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

Interest rate risk

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

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

Exposure to domestic interest rate changes	2016	2015
Assets		
Cash equivalents – Short-term investments (Note 6)	894	873
Securities (Note 7)	1,045	2,511
Restricted cash	367	-
CVA and Other financial components in tariffs – Selic rate * (Note 14)	398	1,350
Credits owed by Eletrobras	138	-
	2,842	4,734
Liabilities		
Loans. financings and debentures – CDI rate (Note 20)	(10,928)	(10,734)
Loans. financings and debentures – TJLP (Note 20)	(213)	(283)
CVA and Other financial components in tariffs – Selic rate * (Note 14)	(805)	-
	(11,946)	(11,017)
Net liabilities exposed	**(9,104)**	**(6,283)**

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

<u>Sensitivity analysis</u>

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

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

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

Risk of increase in inflation

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

Exposure to increase in inflation	2016	2015
Assets		
Financial assets of the concession related to infrastructure –Distribution – IPCA Index (Note 14)	128	121
Financial assets of the concession related to infrastructure Transmission– IPCA index (note 14)*	1,805	1,054
Concession Grant Fee – IPCA (Note 14)	2,254	-
	4,187	1,175
Liabilities		
Loans, financings and debentures – IPCA index (Note 20)	(3,933)	(3,910)
Debt agreed with pension fund (Forluz) – IPCA	(787)	(812)
	(4,720)	(4,722)
Net assets (liabilities) exposed	**(533)**	**(3,547)**

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

Sensitivity analysis

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

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

Liquidity risk

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

The Company manages liquidity risk with a group of methods, procedures and instruments that are coherent with the complexity of the business, and applied in permanent control of the financial processes, to guarantee appropriate risk management.
Cemig manages liquidity risk by permanently monitoring its cash flow in a conservative, budget-oriented manner. Balances are projected monthly, for each one of the companies, over a period of 12 months, and daily liquidity is projected over 180 days.

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

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

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

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

Please refer to note 1 about the Company's several initiatives designed to increase liquidity through entering into new contracts for financing or for the re-financing of its existing obligations and potential divestitures of non-core assets. Any further lowering of credit ratings may have adverse consequences on CEMIG ability to obtain financing or may impact the cost of financing, also making it more difficult and/or costly to refinance maturing obligations. Any financing or refinancing of the CEMIG indebtedness could be at higher interest rates and may require the Company to comply with more onerous covenants, which could further restrict business operations.

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

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk of early maturity of debt

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

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

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

Capital management

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

	2016	2015
Total liabilities	29,102	27,869
(–) Cash and cash equivalents	(995)	(925)
(–) Restricted cash	(367)	-
Net liabilities	**27,740**	**26,944**
Total of equity	**12,934**	**12,988**
Net liabilities / Equity	**2.14**	**2.07**

30. MEASUREMENT AT FAIR VALUE

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

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

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

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

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

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

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

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

Fair value calculation of financial positions

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

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

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

31. INSURANCE

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

	Cover	Dates of cover	Amount insured (**)	Annual premium (**)
Cemig Geração e Transmissão				
Air transport / Aircraft	Fuselage Third party liability	Apr. 29, 2016 to Apr. 29, 2017	US$4,675 U$14,000	US$84
Warehouse stores	Fire	Oct. 2, 2016 to Oct 2, 2017	R$ 16,921	R$ 25
Facilities in buildings	Fire	Jan. 8, 2017 to Jan. 8, 2018	R$ 451,860	R$ 98
Telecoms equipment (1)	Fire	Jan. 8, 2017 to Jan. 8, 2018	R$ 11,514	R$ 5
Operational risk	-	Dec. 7, 2016 to Dec. 7, 2017	R$ 1,438,338	R$ 1,795
Cemig D (Distribution)				
Air transport / Aircraft	Fuselage Third party liability	Apr. 29, 2016 to Apr. 29, 2017	US$3,613 U$14,000	US$60
Warehouse stores	Fire	Oct. 2, 2016 to Oct 2, 2017	R$ 94,930	R$ 143
Facilities in buildings	Fire	Jan. 8, 2017 to Jan. 8, 2018	R$ 1,073,416	R$ 232
Telecoms equipment	Fire	Jan. 8, 2017 to Jan. 8, 2018	R$ 17,208	R$ 7
Operational risk – Transformers above 15MVA and other power distribution equipment with value above R$ 1,000 (2)	Total	Dec. 7, 2016 to Dec. 7, 2017	R$ 563,637	R$ 703
Gasmig				
Gas distribution network / Third party	Third party liability	Dec. 15, 2016 to Dec. 15, 2017	R$ 60,000	R$ 429
Own vehicle fleet (Operation)	Third party only	Jul. 7, 2016 to Jul. 7, 2017	R$ 400	R$ 4
Own vehicle fleet (Directors)	Full cover	Oct. 25, 2016 to Oct. 25, 2017	R$ 100	R$ 1
Facilities – multirisk	Robbery, theft, fire	Jan. 1, 2017 to Jan. 1, 2018	R$ 41,375	R$ 50

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

(1) The new period of validity is from January 8, 2017 to January 8, 2018.
(2) The new period of validity is from December 7, 2016 to December 7, 2017.

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

32. COMMITMENTS

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

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

33. NON-CASH TRANSACTIONS

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

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

34. SUBSEQUENT EVENTS

Homologation of Annual Generation Revenue (RAG) of *Volta Grande* Hydroelectric Plant

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

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

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

Paragraph 1-C was added to Article 8 of Law 12783, of 2013, by Law 13360, of November 17, 2016, and enables the federal government to grant a concession contract for electricity generation for a period of 30 (thirty) years when there is transfer of control of a legal entity that is already providing this service (in this case, one of the subsidiaries of Cemig GT), and is under direct or indirect control of an individual State, or the Federal District, or the municipality, provided that: I – the tender, which may be by auction or by competitive bidding, is held by the controlling stockholder on or before February 28, 2018; and II – the transfer of control takes place by June 30, 2018.

The subsidiary request is made on the grounds of the spirit of conciliation and cooperation that should govern the relationship between a concession holder and the concession-granting power, and the constant quest, at all times, for alternatives that present the best solution for consumers, for the country and for the stockholders of the Company – who in this case include the people of the state of Minas Gerais. Thus, in the event that the Ministry decides to maintain its position, and if all the court judgments that have determined that Law 12783/2013 should prevail to the detriment of the provisions of the Second Subclause of Clause 4 of Contract CEMIG 007 of 1997 are maintained, Cemig GT has requested, for the benefit of one of its subsidiaries, application of the rule that is now contained in §1-C of Article 8 of Law 12783 of 2013.

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

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

Interim Injunction granted on São Simão Plant

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

According to the position report on the STJ website and STJ certificate 1783814, "... the interim injunction applied for by Cemig Geração e Transmissão S.A. is granted, until conclusion of judgment on the current application for *mandamus*, enabling the now applicant to remain in ownership of the concession for the São Simão Plant, on the initial bases of the concession contract, Nº 007/97."

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

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

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

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

Repeal of interim remedy – *Miranda* plant

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

Disposal of wind farms by Renova

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

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

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

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

Changes in the bylaws of Light

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

(i) Decide on changes to the bylaws; and

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

Light added the following note to its Material Announcement:

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

No security shall be sold in any state or jurisdiction, including Brazil or the United States of America, in which offering, application for or sale of such security is considered illegal before registry or qualification under the securities laws of such state or jurisdiction.

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

Payment of debentures by Cemig GT

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

PDVP Programmed Voluntary Retirement Plan (PDVP 2017)

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

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

Authorization for Cemig to exceed financial ratios specified in the bylaws

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

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

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

Amendments to contracts of Gasmig

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

- In effect from January 1, 2017, through December 2021.
- Alteration of the Daily Contracted Quantity, and the commitments for daily offtake of gas, adapting to expectations for consumption in the Minas Gerais market until December 2021.
- The Annual Take or Pay commitment will now be on monthly basis, with automatic recovery of the volume of gas paid for and not yet taken.
- Payment by installments of the Take or Pay contract for the year 2015: in up to 36 installments, which may be brought forward.
- Adjustment of the price for acquisition of the gas supplied by Petrobras
- Clauses for programming of more restricted offtake of gas.
- The Take or Pay commitment for annual minimum offtake for the year 2016 will not be calculated/paid.

Arising from the provisions of the previous contract, Gasmig reported R$ 225 in an account line *Advance to supplier – rights to offtake gas*, in Current assets, with counterpart in *Suppliers of gas*, in Current liabilities. This caused a negative impact in the net working capital of Gasmig, which posted a net negative value of R$ 354. With the signature of the new contractual amendment, the annual minimum offtake commitment for the year 2016 was extinguished.
Gasmig and Petrobras further negotiated rescission of the *Distribution Contract to Supply the Nitrogen Fertilizers Unit* (UFN-V), with no financial charge for either side.

Taesa signs concession contracts from Aneel Auction 13/2015 (2nd phase)

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

Indemnification of Transmission assets – Injunction relieve by industrial costumers

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

The injunctive relief (*tutela antecipada*) was partially granted, with its effects related to the suspension of the inclusion in the tariffs charged to the consumers that are members of those associations of the indemnification related to the remuneration of the cost of capital included since the extension of the concessions.
The Company does not expect to incur in losses in realization of transmission indemnification assets. Please refer to note 14 for more detail about the asset and the criteria for update.

Taesa Wins Principal Lot at Aneel Auction 005/2016

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

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

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

International securities issue by Cemig GT

As per the Material Announcement issued by the Company on April 28, 2017, Cemig GT is preparing a possible international issue of securities. The Board of Directors of Cemig GT has authorized such an issue in the amount of up to US$1 billion, with maturity of 7 years, the proceeds to be used to refinance existing financial obligations. Also, the Board of Directors of Cemig has made the decision to authorize a surety guarantee.

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

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

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

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(The original is signed by)

Bernardo Afonso Salomão de Alvarenga
Chief Executive Officer

Bernardo Afonso Salomão de Alvarenga
Deputy CEO

Adézio de Almeida Lima
Chief Finance and Investor Relations Officer

Luís Fernando Paroli Santos
Chief Distribution and Sales Officer

Franklin Moreira Gonçalves
Chief Generation and Transmission Officer

Maura Galuppo Botelho Martins
Chief Officer for Human Relations and Resources

José de Araújo Lins Neto
Chief Corporate Management Officer

Luís Fernando Paroli Santos
Chief Institutional Relations and Communication Officer

Dimas Costa
Chief Trading Officer

César Vaz de Melo Fernandes
Chief Business Development Officer

Raul Lycurgo Leite
Chief Counsel

Leonardo George de Magalhães
Controller
CRC-MG 53.140

Leonardo Felipe Mesquita
Accounting Manager
Accountant – CRC-MG-85.260