CONTENTS

REPORT OF MANAGEMENT FOR 2017

Dear Shareholders,

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

MESSAGE FROM MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BRIEF HISTORY OF CEMIG

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

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

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

Main indicators:

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

Our mission, vision and values

<u>*Mission*</u>:

"To operate in the energy sector with
profitability, quality and social responsibility."

<u>*Vision*</u>:

'To consolidate Cemig's position, over the course of this decade,
as the largest group in the Brazilian energy sector by market value,
with a presence in the natural gas market, and as a global leader in sustainability,
admired by its clients and recognized for its solidity and performance'.

<u>*Values*</u>:

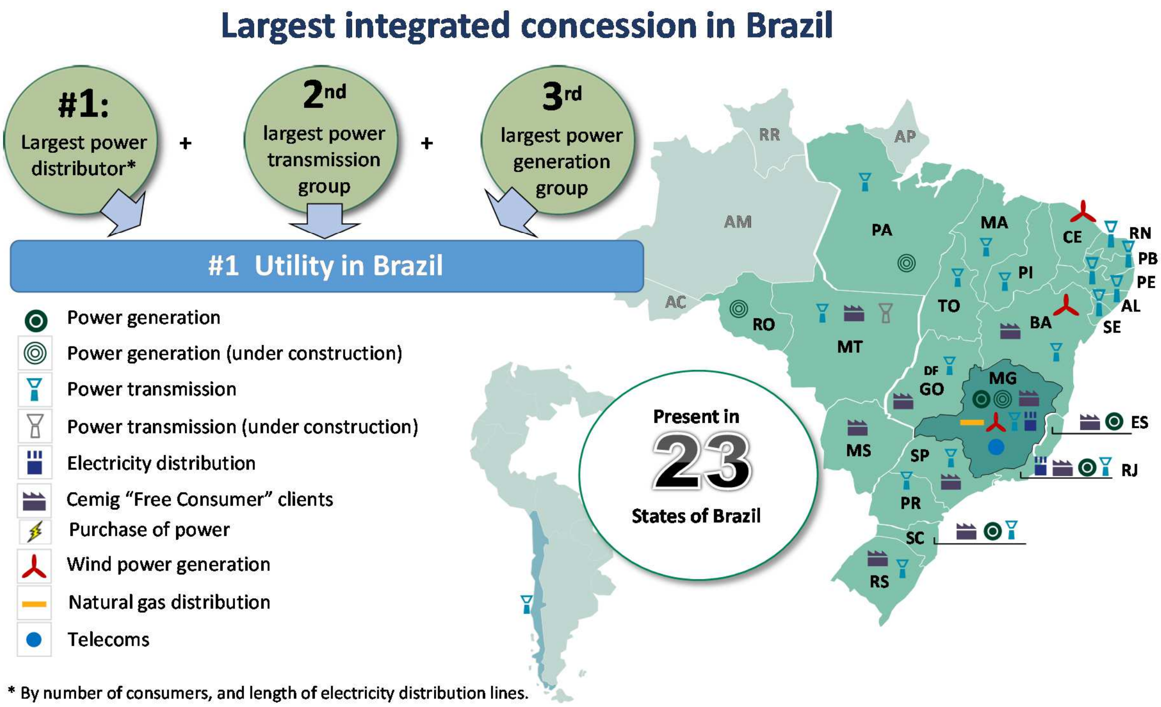
"Integrity, ethics, wealth, social responsibility,
enthusiasm for the work, and entrepreneurial spirit".

Cemig's Ethical Principles and Code of Professional Conduct

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

Area of operation

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



OUR BUSINESSES

Generation

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

Cemig plants

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

Transmission

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

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

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

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

Distribution

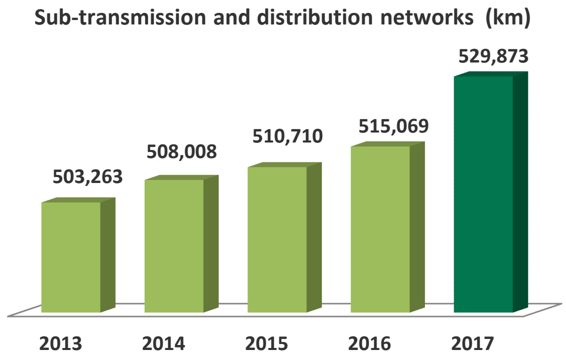
We are Brazil's largest energy distribution group, with a leading role in Minas Gerais and Rio de Janeiro, through our distribution company **Cemig D** and the jointly-controlled entity Light S.A. ('**Light**'), serving more than 11 million customers.

Cemig Distribuição

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

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

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



Trading in energy

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

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

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

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

CONSOLIDATED RESULTS

(Figures in R$ ’000 unless otherwise indicated)

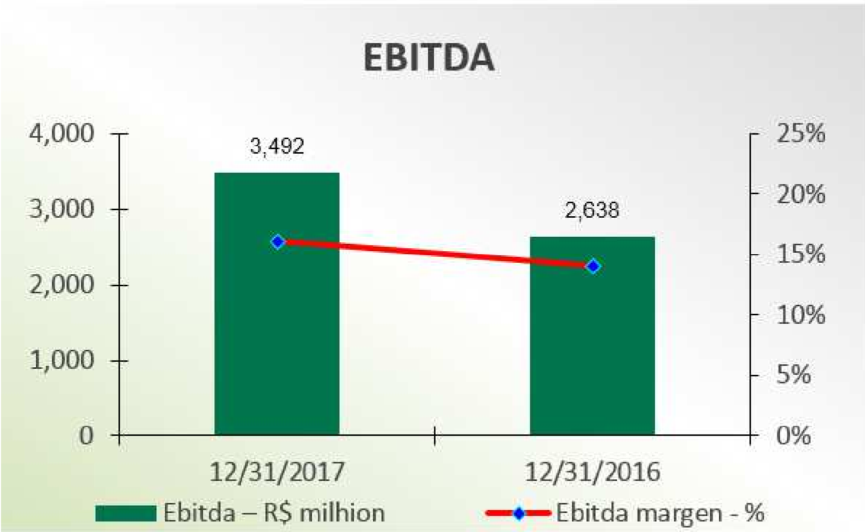
Net income for the period

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

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

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

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



Ebitda is a non-accounting measure prepared by the Company, reconciled with its financial statement in accordance with the specifications in CVM Circular SNC/SEP 01/2007 and CVM Instruction 527 of October 4, 2012. It comprises: net income adjusted for the effects of net finance income (expenses), depreciation, amortization and income tax and the Social Contribution. Ebitda is not a measure recognized by Brazilian GAAP nor by IFRS; it does not have a standard meaning; and it may be non-comparable with measures with similar titles provided by other companies. Cemig publishes Ebitda because it uses it to measure its own performance. Ebitda should not be considered in isolation or as a substitution for net income or operational income, nor as an indicator of operational performance or cash flow, nor to measure liquidity nor the capacity for payment of debt.

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

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

Revenue from supply of energy

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

Final customers

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

The main factors in this revenue were:

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

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

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

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

Cemig's energy market

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

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

(II) Free Customers in both the State of Minas Gerais and other States of Brazil, in the Free Market (*Ambiente de Contratação Livre*, or ACL);

(III) other agents of the energy sector – traders, generators and independent power producers, also in the Free Market;

(IV) Distributors, in the Regulated Market (*Ambiente de Contratação Regulada*, or ACR); and

(V) the Energy Wholesale Exchange (*Câmara de Comercialização de Energia Elétrica*, or CCEE)

– eliminating transactions between companies of the Cemig Group.

This table shows consumption itemized by type of consumer:

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

(1) Data not reviewed by external auditors.
(2) Includes Regulated Market Energy Sale Contracts (CCEARs) and 'bilateral contracts' with other agents.

One highlight factor is energy sold to the *industrial* consumer segment 8.89% lower, mainly due to migration of captive customers to the Free Market, and to a lesser extent due to the effects of lower economic activity in 2017, directly affecting energy consumption by this segment of the market.

As a counterpart to this was growth in other sectors:

- The volume of energy sold to the *commercial* segment was 14.21% higher year-on-year, mainly reflecting new clients added to the portfolio of Cemig GT.
- Volume sold to *rural* customers was 2.15% higher YoY, mainly due to more irrigation and farming activity, and growth in the number of customers.
- The volume sold to *public service* customers was 3.92% higher, due to incorporation by Cemig D of new consumer units and higher consumption by captive customers medium and higher voltage due to use for water treatment and distribution.

Revenue from Use of Distribution Systems (the TUSD charge)

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

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

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

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

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

CVA and *Other financial components* in tariff adjustment

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

There are more details in Note 15.

Transmission indemnity revenue

The transition indemnity revenue, in Cemig GT, was R$ 373 million in 2017, compared to R$ 751 million in 2016. In the previous year, as a result of the Mining and Energy Ministry setting the criteria for updating of the transmission indemnity, a posting was made, backdated to 2013, of the amount of the updating of the indemnity receivable based on the regulatory cost of own capital, which had a significant impact on the revenue reported.

We highlight the amount of R$ 149 million recorded in 2017, for the backdated difference of transmission concession assets the values of which were not included in the calculation basis for revenues in the previous tariff reviews. For more details see Note 15 – *Concession financial assets.*

Generation Indemnity Revenue

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

Revenue from transactions in the Wholesale Power Exchange (CCEE)

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

- the spot price (*Preço de Liquidação de Diferenças*, or PLD) being 244.28% higher year-on-year, at R$ 324.17/MWh in 2017, compared to R$ 91.16/MWh in 2016; and

- the higher quantity of energy available for settlement in the wholesale market in 2017.

Revenue from supply of gas

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

Construction revenue

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

Other operating revenues

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

Sector / Regulatory charges reported as Deductions from revenue

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

The Energy Development Account – CDE

The amounts of payments to the Energy Development Account (CDE) are decided by an Aneel Resolution. The purpose of the CDE is to cover costs of concession indemnities, tariff subsidies, the subsidy for balanced tariff reduction, the low-income consumer subsidy, the coal consumption subsidy, and the Fuels Consumption Account (CCC). Charges for the CDE in 2017 were R$ 1,822 million, compared to R$ 2,074 million in 2016.

This is a non-manageable cost: the difference between the amounts used as a reference for setting of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment.

Consumer charges – the 'Flag' Tariff system

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

Operational costs and expenses (excluding Financial revenue/expenses)

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

The following paragraphs comment on the main variations:

Personnel expenses

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

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

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

Energy purchased for resale

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

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

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

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

This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment. There are more details in Note 27.

Charges for use of the transmission network

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

This expense is payable by energy distribution and generation agents for use of the facilities that are components of the national grid. The amounts to be paid are set by an Aneel Resolution.

This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment.

Operating provisions

Operational provisions totaled R$ 854 million in 2017, compared to R$ 704 million in 2016. Importantly, estimated losses for doubtful receivables were lower, at R$ 248 million in 2017, compared to R$ 382 million in 2016. We also highlight the higher provisions for employment-law cases: provisions of R$ 206 million made in 2017, compared to R$ 120 million in 2016. The increase in the amount provisioned reflects re-evaluations of potential losses in various legal actions as a result of the change in the procedural phase to provisional execution, in relation to actions disputing: the basis for calculation of hazardous work remuneration; claims for equal payment for allegedly unlawful outsourcing; and subsidiary/joint liability. There is more information in Note 24.

Construction cost

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

Gas bought for resale

In 2017 the subsidiary Gasmig reported an expense of R$ 1,071 million on acquisition of gas. This was 22.06% higher than the comparable expense of R$ 877 million in 2016. This mainly reflects a volume of gas bought for resale 23.11% higher (at 1,309,459m³ in 2017, compared to 1,063,677m³ in 2016), partially offset by lower charges under the new agreement between Gasmig and Petrobras, which reduced the daily gas offtake obligation.

Post-retirement obligations

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

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

Adjustment for impairment of investments

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

Equity in earnings of unconsolidated investees

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

Net finance income (expenses)

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

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

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

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

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

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

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

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

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

Income and Social Contribution taxes

In 2017, the Company's expense on income tax and the Social Contribution tax totaled R$ 644 million, on pre-tax income of R$ 1,654 million, an effective rate of 37.80%. In 2016, the Company's expense on income tax and the Social Contribution tax totaled R$ 33 million, on pre-tax income of R$ 368 million, an effective rate of 8.97%. There is a reconciliation of these effective rates with the nominal tax rates in Note 10c.

Liquidity and capital resources

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

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

Cash and cash equivalents

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

Cash flow from operations

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

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

Cash used in investment activities

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

Cash flow in financing activities

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

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

Funding and debt management policy

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

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

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

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

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

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

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

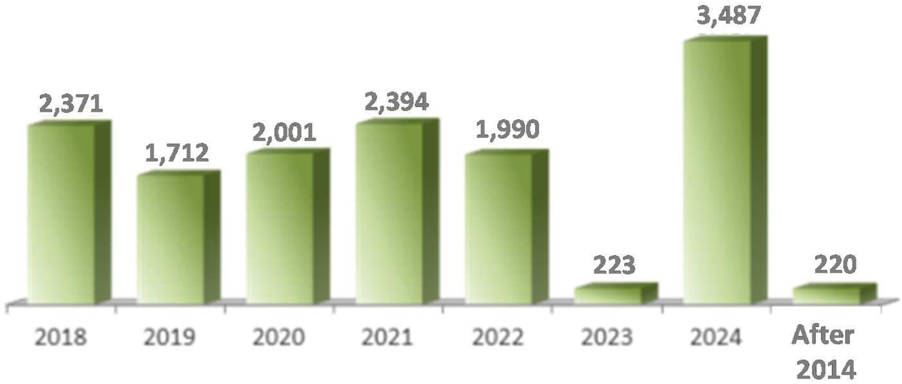
The details of funding raised, including costs and maturities, are given in Note 20.

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

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

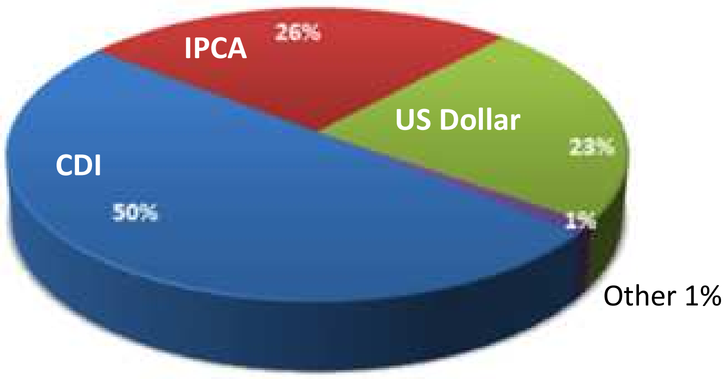
This chart shows the present amortization timetable:

Debt amortization timetable
Position at December 2017 – R$ million



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

Main indexors of debt at December 31, 2017



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

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

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

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

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

Energy generation

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

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

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

Brazil's hydrological situation

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

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

Energy distribution

Annual Tariff Adjustment – Cemig D

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

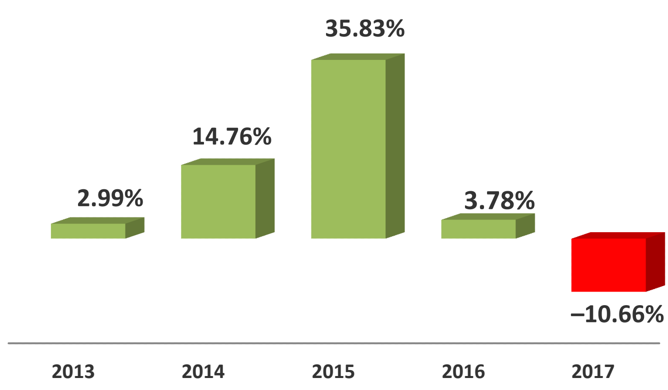
Effective from May 28, 2017 to May 7, 2018, Aneel approved a *reduction* of Cemig D's rates, by 10.66%, for this period.

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

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

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

Tariff adjustments



Management of billing

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

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

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

Management of default and revenue collection

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

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

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

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

Energy transmission

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

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

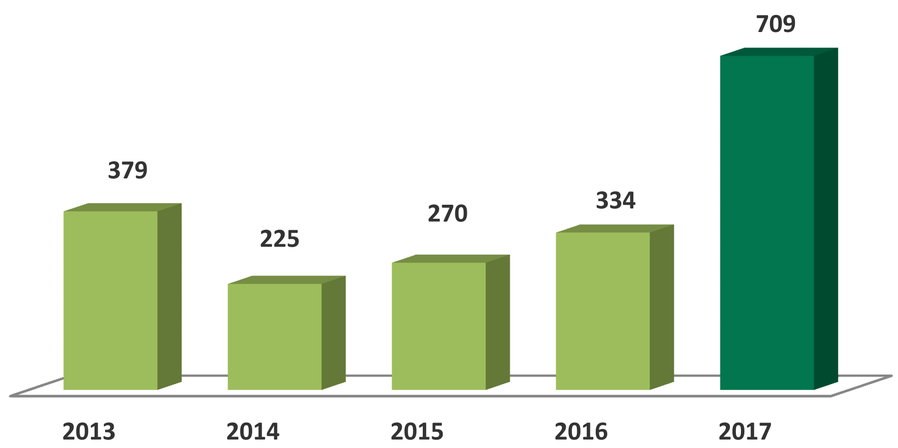
In July 2017, the RAP of Cemig GT (under contract 006/97) was adjusted upward by 131.3%, as a result of: the application of the IPCA inflation index to the previous approved revenue level; recognition of new strengthening and improvement of assets; and addition, in accordance with MME Ministerial Order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

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

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

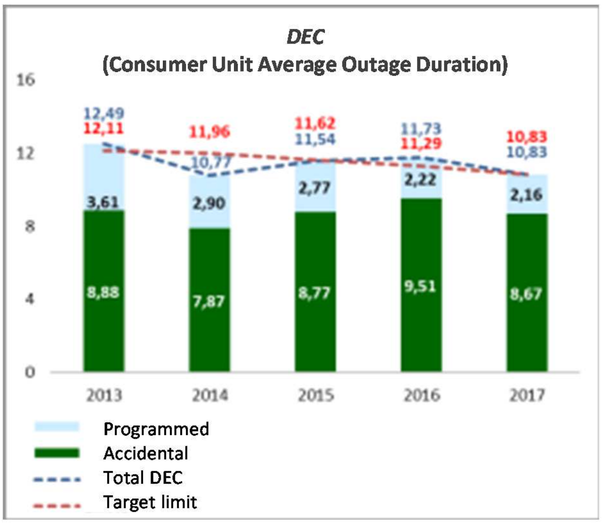
The Revenue ratified and approved for the 2017/18 period of the two concessions totals R$ 709 million, of which R$ 371 million is the cost of capital that was not previously included.

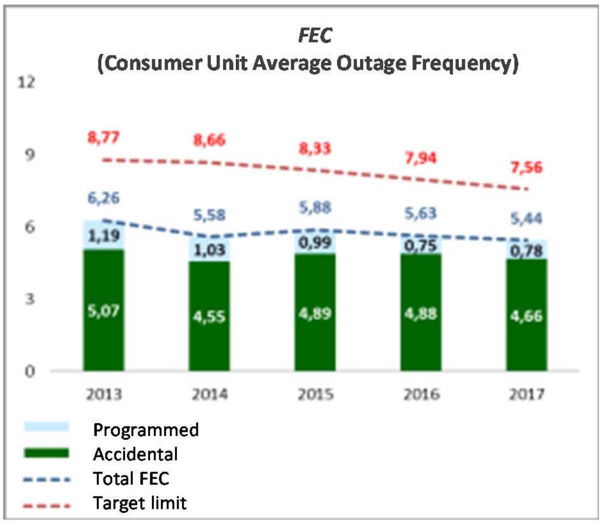
Transmission – RAP of Cemig GT, R$ mn



Quality of retail supply

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





Service policy

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

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

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

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

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

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

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

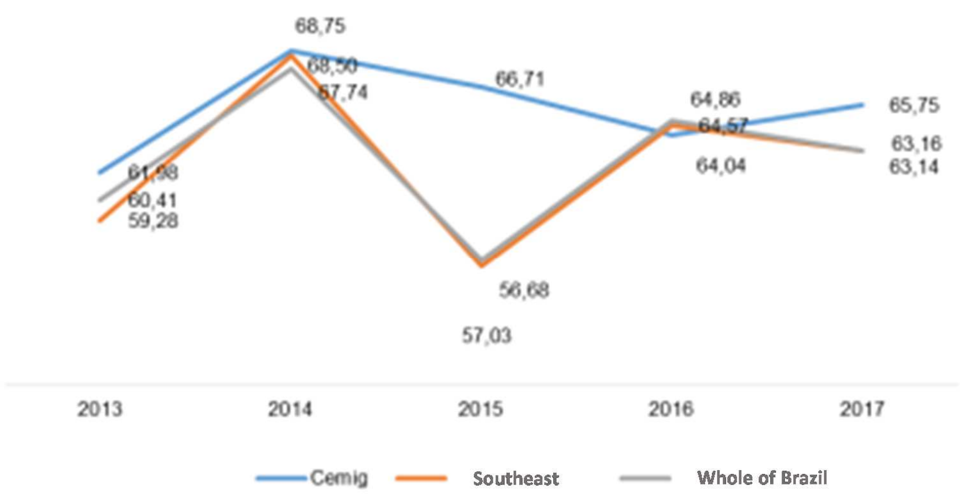
Consumer satisfaction

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

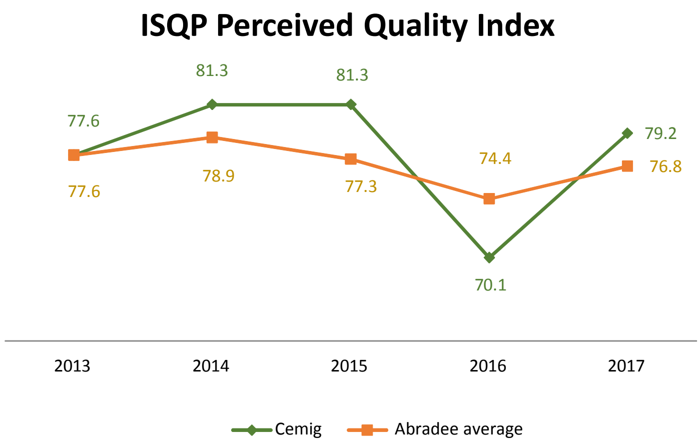
With this result Cemig was third-placed among the 10 largest energy distributors in the Southeast, rising 11 positions in the IASC Brazil-wide ranking, which researched 68 distributors taking part in this Aneel survey in 2017.

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

IASC consumer satisfaction indicator



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



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

INVESTMENTS

Investments in generation:

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

Renova Energia S.A. (‘**Renova’**)

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

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

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

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

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

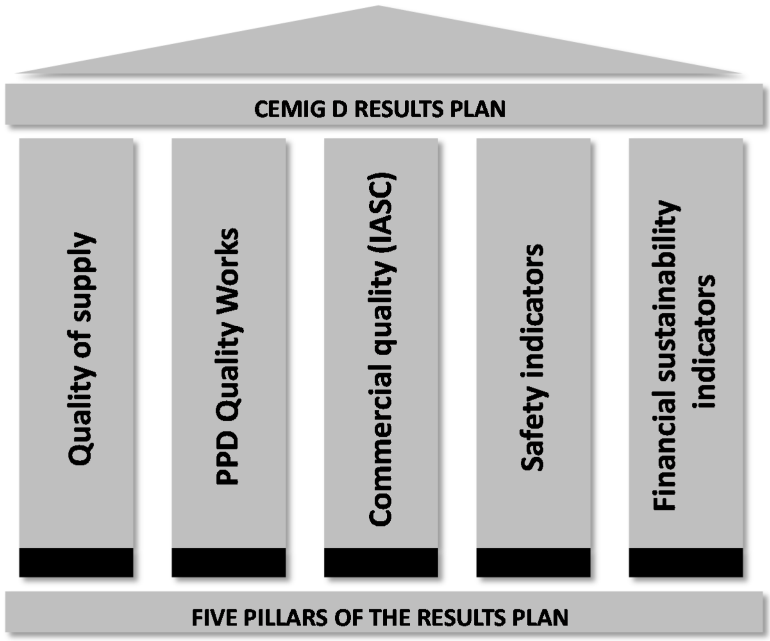
- The Umburanas I and II generation projects, with average offtake guarantee of 226 MW, was sold to Engie Brasil Energia.

Investments in transmission

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

Investments in distribution

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



Cemig D: The Distribution Development Plan (PDD)

<u>Investments in the energy system</u>

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

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

Investments in natural gas

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

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

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

THE DISINVESTMENT PROGRAM

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

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

a) assets with the highest liquidity;
b) assets that are not expected to provide returns in the short term; and
c) assets that are not strategic and/or in which Cemig has smaller holdings.

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

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

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

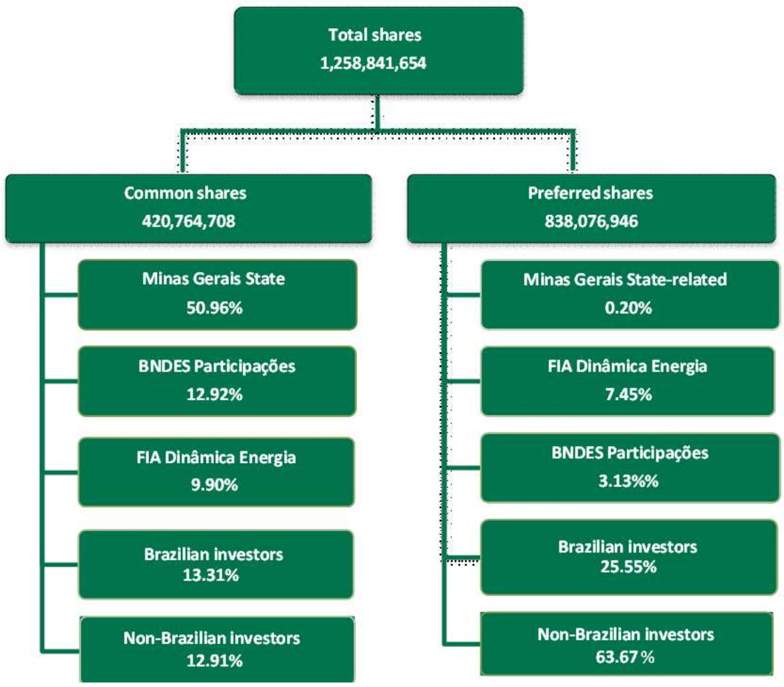
The Company continues to focus on implementation of its disinvestment program in 2018 through disposals of equity interests, for proceeds that will help reduce its leverage.

THE CAPITAL MARKET AND DIVIDENDS

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

Stockholding structure

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



Share prices

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

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

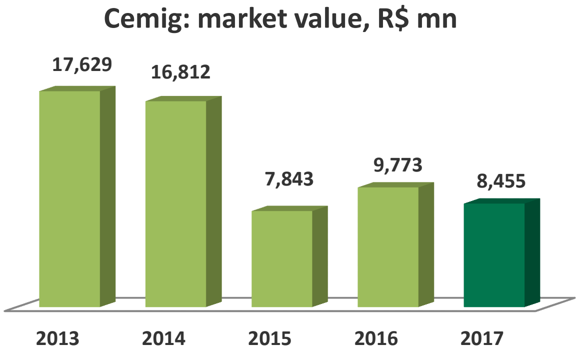
Total trading volume in the preferred shares, CMIG4, in 2017 was R$ 17.02 billion, with daily average volume of approximately R$ 69.17 million. The total volume is 26% higher than in 2016, making Cemig's preferred (PN) shares one of the most traded on the Sao Paulo stock exchange, thus offering investors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

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

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

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

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



DIVIDEND POLICY

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

PROPOSAL FOR ALLOCATION OF NET INCOME

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

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

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

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

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

CORPORATE GOVERNANCE

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

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

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

RELATIONSHIP WITH EXTERNAL AUDITORS

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

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

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

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

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

AUDITING AND MANAGEMENT OF RISKS

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

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

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

Anti-fraud Policy

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

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

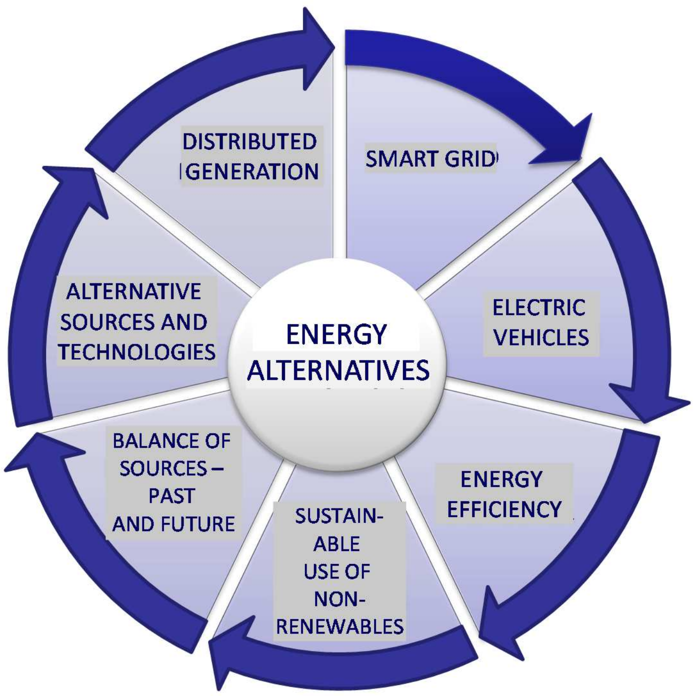
The 'Whistleblowers' Channel' preserves anonymity for those providing information, and also enables situations thought to involve discrimination to be reported.

TECHNOLOGICAL MANAGEMENT AND INNOVATION

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

Energy alternatives

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



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

- Reduction of fossil fuels, together with the reduction of greenhouse gases.
- Minimization of the load on primary sources and natural resources, with direct consequences for climate change arising from greenhouse gases.
- Development of more sustainable technologies.
- Creation of new energy configurations.
- Local and regional development.
- Creation of scientific, technical and technological competencies, with direct impacts including training, education, and qualification, scientific publications, and

development of industry chains, with consequences for industrial production and patents.

The Research and Development program

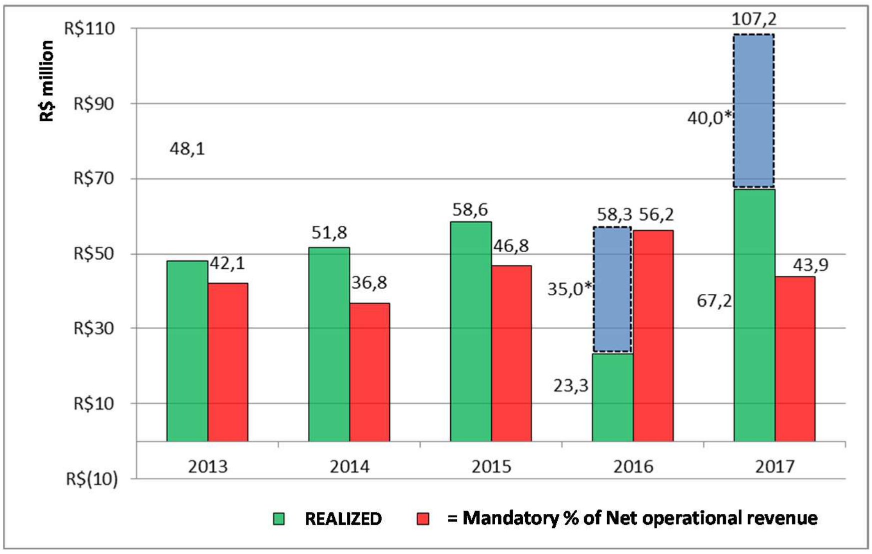
The Cemig Group currently invests approximately R$ 40 million in Research and Development Projects. For each project the intention is to enable the complete chain of an invention – to develop knowledge, and transform good ideas, successful lab experiments and quality in mathematical models into practical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

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

The Energy Efficiency Program

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

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



* Amounts made available through the Public Call for Projects.

SOCIAL RESPONSIBILITY

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

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

The following are some of the highlights of 2017:

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

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

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

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

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

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

Projects in culture, sport and health

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

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

Health

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

Sport

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

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

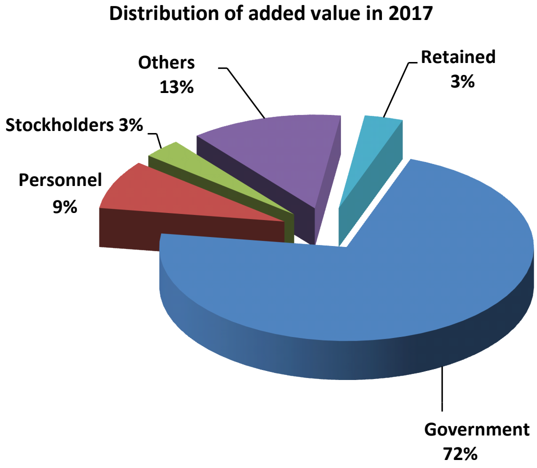
For Cemig, these projects enhance its image as a company committed to the development of healthy habits, wellbeing and development of local communities.

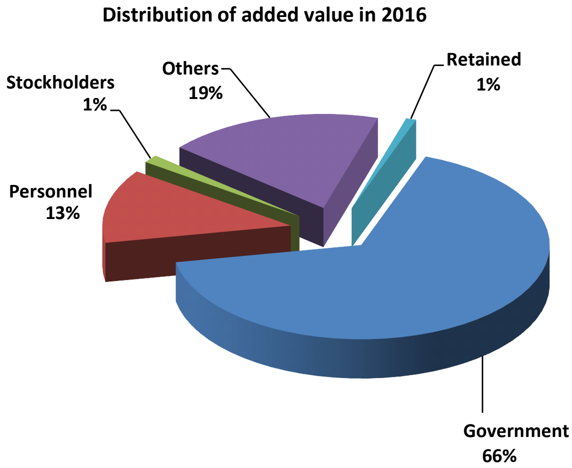
Culture

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

Value added

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



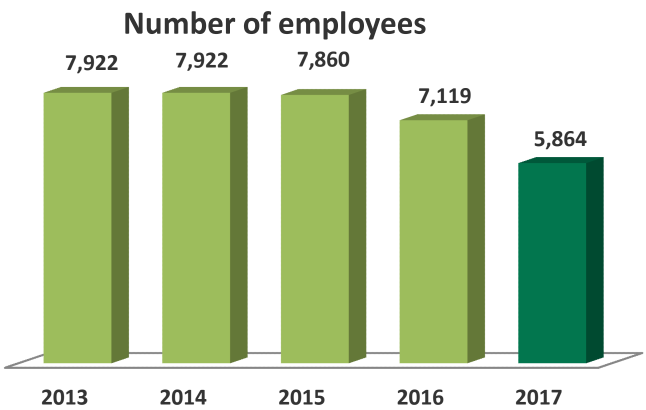


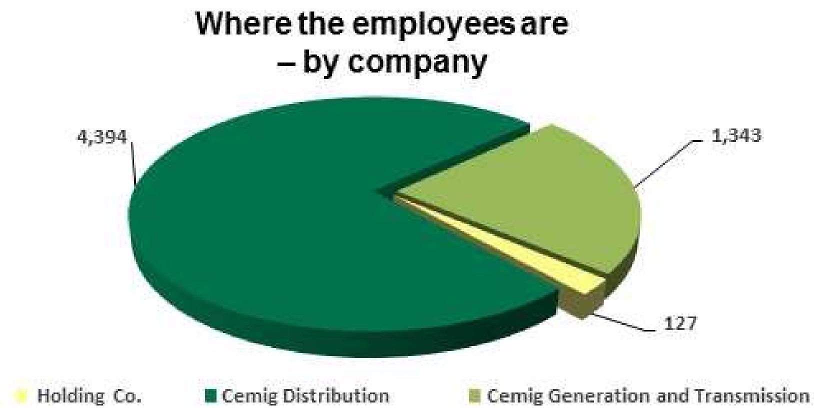
Human resources

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

Number of employees

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

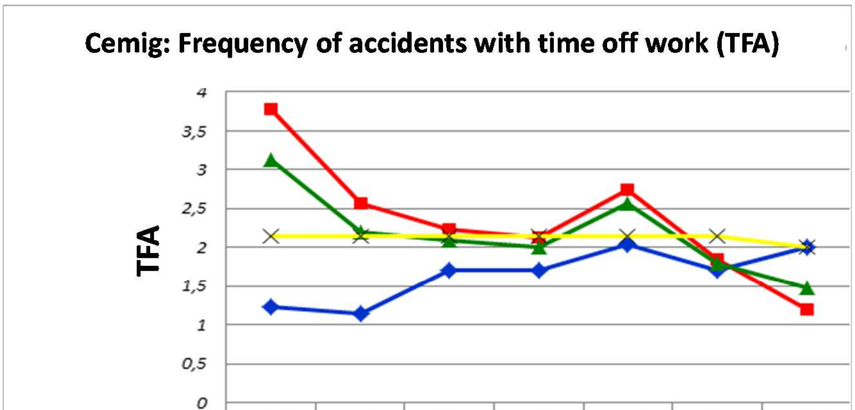




Health, Hygiene and Safety in the workplace

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

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



	2011	2012	2013	2014	2015	2016	2017
Cemig staff	1,23	1,14	1,70	1,70	2,04	1,70	2,00
Outsourced	3,78	2,56	2,24	2,13	2,74	1,84	1,20
Workforce	3,13	2,20	2,10	2,01	2,56	1,79	1,47
Target	2,14	2,14	2,14	2,14	2,14	2,14	2,00

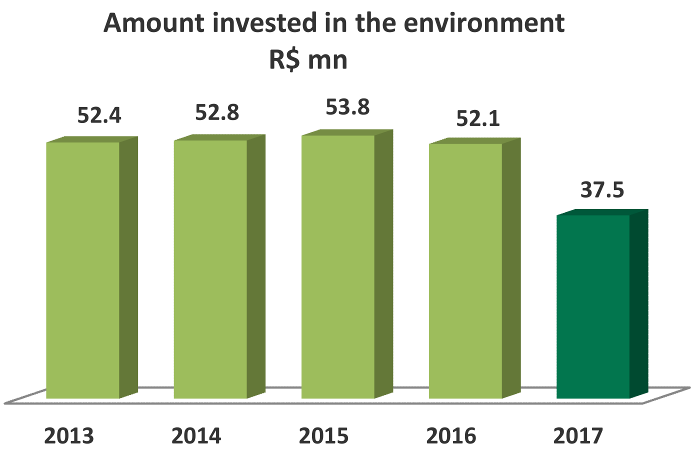
UniverCemig

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

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

Environment

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

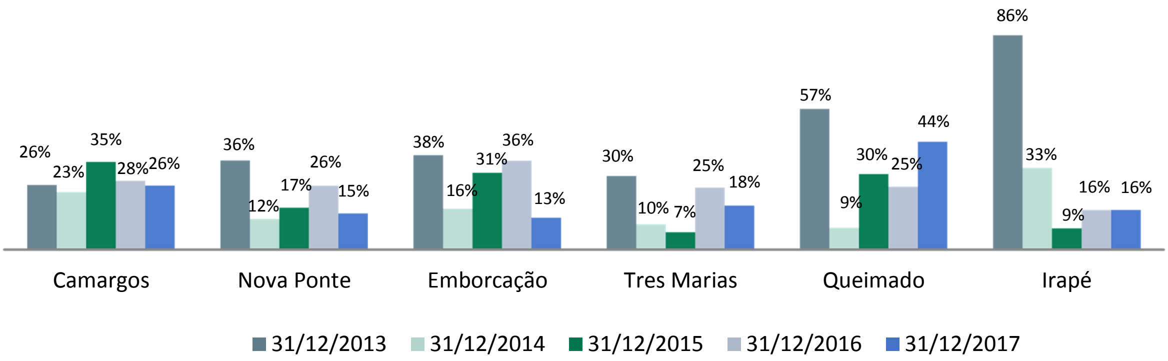


Water resources

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

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

Storage levels in Cemig's reservoirs



<u>Dam safety</u>

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

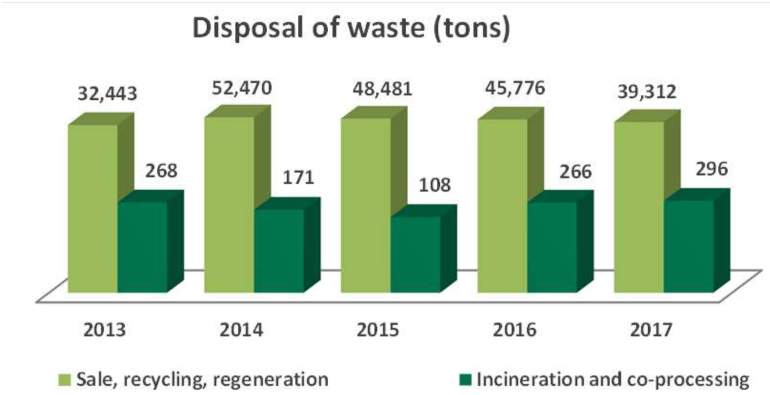
It includes field inspection procedures, collection and analysis of instrumentation data, preparation and updating of dam safety plans, planning and monitoring of maintenance services, analysis of results and classification of structures. Frequency of safety inspections and the monitoring routine is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

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

<u>Management of waste</u>

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

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



Programs for fish populations

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

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

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

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

Climate change and greenhouse gas emissions

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

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

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

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

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

Environmental licensing

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

RECOGNITION – AWARDS

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

The 'Transparency Trophy'

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

The Dow Jones Sustainability World Index

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

The São Paulo Stock Exchange ISE Corporate Sustainability Index

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

Carbon Disclosure Project – CDP

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

CDP Water

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

Top 100 Green Utilities

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

The B3/BNDES ICO2 Carbon Efficient Index

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

FINAL REMARKS

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

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

CONSOLIDATED SOCIAL STATEMENT

1) - Basis of calculations	**2017**			**2016**		
	Amount (R$ '000)			**Amount (R$ '000)**		
Net revenue (NR)	21,711,690			18,772,656		
Operational income (OP)	2,642,407			1,805,118		
Gross payroll (GP)	1,627,026			1,643,253		
2) Internal social indicators	**Amount R$ '000**	**% of GP**	**% of NR**	**Amount R$ '000**	**% of GP**	**% of NR**
Food	90,990	5.59	0.42	97,341	5.92	0.52
Mandatory charges/costs on payroll	318,975	19.60	1.47	342,269	20.83	1.82
Private pension plan	85,178	5.24	0.39	96,994	5.90	0.52
Health	52,590	3.23	0.24	56,615	3.45	0.30
Safety and medicine in the workplace	24,870	1.53	0.11	26,119	1.59	0.14
Education	87	0.01	0.00	187	0.01	0.00
Training and professional development	21,847	1.34	0.10	23,589	1.44	0.13
Provision of or assistance for day-care centers	3,272	0.20	0.02	3,034	0.18	0.02
Profit sharing	8,281	0.51	0.04	26,480	1.61	0.14
Others	15,270	0.94	0.07	14,541	0.88	0.08
Internal social indicators – Total	621,360	38.19	2.86	687,170	41.82	3.66
3) External social indicators	**Amount R$ '000**	**% of OP**	**% of NR**	**Amount R$ '000**	**% of OP**	**% of NR**
Education	1,176	0.04	0.01	2,300	0.10	0.01
Culture	16,369	0.62	0.08	10,985	0.46	0.06
	416	0.02	0.00	-	-	-
Sport	3,313	0.13	0.02	1,222	0.05	0.01
Other donations/subsidies / ASIN project / Sport	2,063	0.08	0.01	2,131	0.09	0.01
Total contributions to society	**23,337**	**0.88**	**0.11**	**16,638**	**0.70**	**0.09**
Taxes (excluding mandatory charges on payroll)	9,920,165	375.42	45.69	10,053,044	423.59	53.55
External social indicators – Total	**9,943,502**	**376.30**	**45.80**	**10,069,682**	**424.29**	**53.64**
4) Environmental indicators	**Amount R$ '000**	**% of OP**	**% of NR**	**Amount R$ '000**	**% of OP**	**% of NR**
Related to the company's operations	38,311	1.45	0.18	52,116	2.20	0.28
Investments in external programs/projects	-	-	-	-	**2.20**	-
Total investment in the environment	**38,311**	**1.45**	**0.18**	**52,116**	2.20	**0.28**
As to setting of annual targets to minimize toxic waste and consumption in general during operations, and increase efficacy of use of natural resources, the company:	(X) has no targets ( ) meets 0–50% of targets	( ) meets 51–75% of targets ( ) meets 76–100% of targets		(X) has no targets ( ) meets 0–50% of targets	( ) meets 51–75% of targets ( ) meets 76–100% of targets	
5) Workforce indicators	**2017**			**2016**		
Number of employees at end of period	5,864			7,119		
Number of hirings during period	27			77		
Number of outsourced employees	333			269		
Number of interns	227			277		
Employees' levels of schooling				-		
- University and university extension	1,352			1,553		
- Secondary	4,371			5,513		
- Primary	141			53		
Number of employees over 45 years old	3,027			3,779		
Number of women employed	752			939		
% of supervisory positions held by women	39,66%			36,09		
Number of African-Brazilian employees	290			340		
% of supervisory positions held by African-Brazilians	3,68%			1,17		
Number of employees with disabilities	74			192		

6) Corporate citizenship	2016			Targets for 2017		
Ratio of highest to lowest compensation			26,44		26,44	
Total number of work accidents to employees			225		225	
Who selects the company's social and environmental projects?	( ) senior management	(X) senior management and line managers	( ) all the employees	( ) senior management	(X) senior management and line managers	( ) all the employees
Who decides the company's work environment health and safety standards?	( ) senior management and line managers	(X) all employees	( ) All + Accident Prevention Committee	( ) senior management and line managers	(X) all employees	( ) All + Accident Prevention Committee
In relation to labor union freedom, the right to collective bargaining and/or internal employee representation, the company	( ) doesn't get involved	(X) follows the ILO guidelines	( ) encourages and follows the ILO	( ) will not get involved	(x) will follow ILO guidelines	( ) will encourage and follow ILO
The company pension plan covers:	( ) senior management	( ) senior management and line managers	(X) all employees	( ) senior management	( ) senior management and line managers	(X) all employees
The profit-sharing program covers:	( ) senior management	( ) senior management and line managers	(X) all employees	( ) senior management	( ) senior management and line managers	(X) all employees
In selecting suppliers, the company's standards of ethics and social and environmental responsibility:	( ) are not considered	( ) are suggested	(X) are required	( ) will not be considered	( ) will be suggested	(X) will be required
As to employees' participation in voluntary work programs, the company:	( ) doesn't get involved	( ) supports	(X) organizes and encourages	( ) will not get involved	( ) will support	(X) will organize and encourage
Total number of consumer complaints and criticisms:	In the company ND	Via Procon ND	In the courts ND	In the company ND	Via Procon ND	In the courts ND
% of complaints and criticisms met or solved:	In the company ND %	Via Procon ND %	In the courts ND %	In the company ND %	Via Procon ND %	In the courts ND %
Total added value distributable (R$ '000)	In 2017: 15,049,884			In 2016: 14,780,152		
Distribution of added value (DVA)	71,77% government 6,65% Shareholders 8,40% employees 13,11% others			68,02% government 3,95% Shareholders 9,00% employees 18,49% others		

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

MEMBERS OF BOARDS

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

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

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

INVESTOR RELATIONS

Investor Relations Department
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E-mail: ri@cemig.com.br

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2017 AND 2016

ASSETS
R$ ’000

	Note	Consolidated		Holding company	
		2017	2016	2017	2016
CURRENT					
Cash and cash equivalents	6	1,030,257	995,132	38,672	69,352
Securities	7	1,058,384	1,014,188	63,960	133,359
Customers and traders; Concession holders (Power transport)	8	3,885,392	3,425,018	-	-
Concession financial assets	15	847,877	730,488	-	-
Recoverable taxes	9	173,790	236,284	43	-
Income tax and Social Contribution taxes recoverable	10a	339,574	589,519	19,722	78,174
Dividends receivable		76,893	11,386	603,049	673,239
Restricted cash	11	106,227	367,474	87,872	366,568
Inventories		38,134	49,473	10	12
Advances to suppliers	29	116,050	1,059	-	-
Accounts Receivable from the State of Minas Gerais	12	235,018	-	235,018	-
Reimbursement of tariff subsidies	14	73,345	63,751	-	-
Low-income subsidy		26,660	36,261	-	-
Credits owed by Eletrobras – RGR	22	-	48,379	-	-
Credits owed by Eletrobras – CDE		4,216	90,065	-	-
Subsidies for tariffs		103,746	102,262	-	-
Other		421,740	524,731	10,473	20,435
TOTAL, CURRENT		**8,537,303**	**8,285,470**	**1,058,819**	**1,341,139**
NON-CURRENT					
Securities	7	29,753	31,040	1,737	5,959
Advances to suppliers	29	6,870	229,053	-	-
Customers and traders; Concession holders (Power transport)	8	255,328	146,367	-	-
Recoverable taxes	9	230,678	178,288	1,810	1,816
Income and Social Contribution taxes recoverable	10a	20,617	112,060	20,617	112,060
Deferred income tax and Social Contribution tax	10b	1,871,228	1,797,453	756,739	789,318
Escrow deposits in litigation	13	2,335,632	1,886,879	277,791	499,868
Derivative financial instruments - Swaps	30	8,649	-		-
Other		628,444	1,050,155	34,978	37,743
Concession Financial Assets	15	6,604,624	4,971,244	-	-
Investments	16	7,792,225	8,753,088	13,692,183	12,627,857
Property, plant and equipment	17	2,762,310	3,775,076	1,810	2,201
Intangible assets	18	11,155,928	10,819,680	2,458	1,852
TOTAL, NON-CURRENT		**33,702,286**	**33,750,383**	**14,790,123**	**14,078,674**
TOTAL ASSETS		**42,239,589**	**42,035,853**	**15,848,942**	**15,419,813**

The Notes are an integral part of the Financial Statement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2017 AND 2016

LIABILITIES
R$ ’000

	Note	Consolidated		Holding company	
		2017	2016	2017	2016
Suppliers	19	2,342,757	1,939,593	4,667	20,936
Regulatory charges	22	512,673	380,586	-	-
Employees’ and managers’ profit shares		9,089	17,814	348	899
Taxes	20a	704,572	793,587	5,841	83,634
Income and Social Contribution taxes	20b	115,296	26,866	-	-
Interest on Equity, and Dividends, payable	25	427,832	466,987	425,838	466,689
Loans, financings and debentures	21	2,370,551	4,836,923	-	-
Payroll and related charges		207,091	224,741	11,072	9,970
Post-retirement obligation	23	231,894	198,867	12,974	11,143
Concessions payable		2,987	2,977	-	-
Concession Financial liabilities	15	414,800	481,835	-	-
Derivative financial instruments - Options	30	507,232	1,149,881	507,232	1,149,881
Advances from clients	8	232,762	181,200	-	-
Derivative financial instruments - Swaps	30	12,595	-	-	-
Other obligations		570,153	745,603	6,218	6,293
TOTAL, CURRENT		**8,662,284**	**11,447,460**	**974,190**	**1,749,445**
NON-CURRENT					
Regulatory charges	22	249,817	454,625	-	-
Loans, financings and debentures	21	12,027,146	10,342,357	-	-
Taxes	20a	28,199	723,922	-	-
Deferred income tax and Social Contribution tax	10b	734,689	582,206	-	-
Provisions	24	678,113	815,017	63,194	309,995
Post-retirement obligation	23	3,954,287	4,042,544	446,523	386,321
Concessions payable		18,240	19,026	-	-
Concession Financial liabilities	15	-	323,140	-	-
Pasep and Cofins taxes to be reimbursed to customers		1,087,230	-	-	-
Derivative financial instruments - Options	30	307,792	191,587	-	-
Derivative financial instruments - Swaps	30	28,515	-	-	-
Other obligations		133,141	159,598	39,049	43,771
TOTAL, NON-CURRENT		**19,247,169**	**17,654,022**	**548,766**	**740,087**
TOTAL LIABILITIES		**27,909,453**	**29,101,482**	**1,522,956**	**2,489,532**
EQUITY	25				
Share capital		6,294,208	6,294,208	6,294,208	6,294,208
Capital reserves		1,924,503	1,924,503	1,924,503	1,924,503
Profit reserves		5,728,574	5,199,855	5,728,574	5,199,855
Equity valuation adjustments		(836,522)	(488,285)	(836,522)	(488,285)
Subscription of Shares, to be Capitalized		1,215,223	-	1,215,223	-
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**14,325,986**	**12,930,281**	**14,325,986**	**12,930,281**
NON-CONTROLLING INTERESTS		**4,150**	**4,090**	**-**	**-**
EQUITY		**14,330,136**	**12,934,371**	**14,325,986**	**12,930,281**
TOTAL LIABILITIES AND EQUITY		**42,239,589**	**42,035,853**	**15,848,942**	**15,419,813**

The Notes are an integral part of the Financial Statement.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	Note	Consolidated		Holding company	
		2017	2016	2017	2016
NET REVENUE	**26**	**21,711,690**	**18,772,656**	**325**	**665**
OPERATING COSTS					
COST OF ENERGY AND GAS	**27**				
Energy purchased for resale		(10,919,476)	(8,272,911)	-	-
Charges for use of the national grid		(1,173,923)	(947,479)	-	-
Gas bought for resale		(1,070,623)	(877,118)	-	-
		(13,164,022)	(10,097,508)	-	-
OTHER COSTS	**27**				
Personnel and managers		(1,270,188)	(1,348,203)	-	-
Materials		(72,815)	(41,308)	-	-
Outsourced services		(759,036)	(719,947)	-	-
Depreciation and amortization		(787,129)	(802,049)	-	-
Operating provisions, net		(225,504)	(171,225)	-	-
Infrastructure construction cost		(1,118,749)	(1,193,140)	-	-
Other		(89,677)	(55,450)	-	-
		(4,323,098)	(4,331,322)	-	-
TOTAL COST		**(17,487,120)**	**(14,428,830)**	**-**	**-**
GROSS PROFIT		**4,224,570**	**4,343,826**	**325**	**665**
OPERATING EXPENSES	**27**				
Selling expenses		(248,280)	(382,368)	-	-
General and administrative expenses		(763,121)	(666,577)	(51,544)	(67,447)
Operating provisions		(353,282)	(5,212)	(238,791)	83,190
Other operating revenues (expenses)		34,760	(420,016)	185,367	131,989
		(1,329,923)	(1,474,173)	(104,968)	147,732
Share of (loss) profit, net, of associates and joint ventures	16	(252,240)	(301,844)	896,002	218,347
Impairment of loss on Investments	16	-	(762,691)	-	-
Income before finance income (expenses) and taxes		**2,642,407**	**1,805,118**	**791,359**	**366,744**
Finance income	28	803,713	1,041,304	114,375	72,930
Finance expenses	28	(1,800,264)	(2,478,495)	235,541	(18,184)
Income before income tax and social contribution tax		**1,645,856**	**367,927**	**1,141,275**	**421,490**
Current income tax and Social Contribution tax	10c	(446,348)	(173,833)	(85,710)	(76,103)
Deferred income tax and Social Contribution tax	10c	(197,912)	140,660	(54,611)	(11,053)
NET INCOME FOR THE YEAR		**1,001,596**	**334,754**	**1,000,954**	**334,334**
Total of NET INCOME for the year attributed to:					
Equity holders of the parent		1,000,954	334,334	1,000,954	334,334
Non-controlling Interests		642	420	-	-
		1,001,596	**334,754**	**1,000,954**	**334,334**
Basic net earnings per preferred share	**25**	**0.84**	**0.35**	**0.84**	**0.35**
Basic earnings per common share	**25**	**0.37**	**0.10**	**0.37**	**0.10**
Diluted net earnings per preferred share	**25**	**0.84**	**0.32**	**0.84**	**0.32**
Diluted net earnings per common share	**25**	**0.37**	**0.07**	**0.37**	**0.07**

The Notes are an integral part of the Financial Statement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

R$ ’000

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

The Notes are an integral part of the Financial Statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017
R$ '000 – except where otherwise stated

	Share capital	Subscription of shares, to be capitalized	Capital reserves	Profit reserves	Equity valuation adjustments	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling Interests	Total of Equity
BALANCES ON DECEMBER 31, 2016	**6,294,208**	**-**	**1,924,503**	**5,199,855**	**(488,285)**	**-**	**12,930,281**	**4,090**	**12,934,371**
Net Income for the year	-	-	-	-	-	1,000,954	1,000,954	642	1,001,596
Other comprehensive income									
Remeasurement of obligations of the defined benefit plans, net of taxes	-	-	-	-	(260,480)	-	(260,480)	-	(260,480)
Equity gain (loss) on Other comprehensive income in subsidiary and jointly-controlled entity	-	-	-	-	(40,936)	-	(40,936)	-	(40,936)
Total comprehensive income for the period	**-**	-	**-**	**-**	**(301,416)**	**1,000,954**	**699,538**	**642**	**700,180**
Subscription of shares, to be capitalized	-	1,215,223	-	-	-	-	1,215,223	-	1,215,223
Other changes in Equity:									
Additional dividends proposed, non-controlling interests	-	-	-	-	-	-	-	(582)	(582)
Dividends under the by-laws (R$ 0.51 per share)	-	-	-	-	-	(500,477)	(500,477)	-	(500,477)
Constitution of reserves									
Tax incentives reserve	-	-	-	712	-	(712)	-	-	-
Appropriation of retain earnings to profit reserves	-	-	-	528,007	-	(528,007)	-	-	-
Realization of reserves									
Realization of deemed cost of PP&E	-	-	-	-	(46,821)	28,242	(18,579)	-	(18,579)
BALANCES ON DECEMBER 31, 2017	**6,294,208**	**1,215,223**	**1,924,503**	**5,728,574**	**(836,522)**	**-**	**14,325,986**	**4,150**	**14,330,136**
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**6,294,208**	**1,215,223**	**1,924,503**	**5,728,574**	**(836,522)**	**-**	**14,325,986**	**4,150**	**14,330,136**
NON-CONTROLLING INTERESTS	**6,294,208**	**1,215,223**	**1,924,503**	**5,728,574**	**(836,522)**	**-**	**14,325,986**	**4,150**	**14,330,136**

The Notes are an integral part of the Financial Statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016
R$ '000 – except where otherwise stated

	Share capital	Capital reserves	Profit reserves	Equity valuation adjustments	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling Interests	Total of Equity
BALANCES ON DECEMBER 31, 2015	**6,294,208**	**1,924,503**	**4,662,723**	**102,264**	**-**	**12,983,698**	**3,978**	**12,987,676**
Net Income for the year	-	-	-	-	334,334	334,334	420	334,754
Other comprehensive income								
Remeasurement of obligations of the defined benefit plans, net of taxes	-	-	-	(514,998)	-	(514,998)	-	(514,998)
Equity gain (loss) on Other comprehensive income in subsidiary and jointly-controlled entity	-	-	-	(38,283)	-	(38,283)	-	(38,283)
Conversion adjustment on transactions outside Brazil	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive income for the period	**-**	**-**	**-**	**(553,291)**	**334,334**	**(218,957)**	**420**	**(218,537)**
Other changes in Equity:								
Additional dividends proposed, non-controlling interests	-	-	-	-	-	-	(10)	(10)
Reserve for mandatory dividends not distributed	-	-	622,530	-	-	622,530	-	622,530
Dividends under the by-laws (R$ 0.16 per share)	-	-	126,996	-	(203,986)	(76,990)	(298)	(77,288)
Interest on Equity (R$ 0.30 per share)	-	-	(380,000)	-	-	(380,000)	-	(380,000)
Constitution of reserves								
Tax incentives reserve	-	-	7,068	-	(7,068)	-	-	-
Appropriation of retain earnings to profit reserves	-	-	160,538	-	(160,538)	-	-	-
Realization of reserves								
Realization of deemed cost of PP&E	-	-	-	(37,258)	37,258	-	-	-
BALANCES ON DECEMBER 31, 2016	**6,294,208**	**1,924,503**	**5,199,855**	**(488,285)**	**-**	**12,930,281**	**4,090**	**12,934,371**
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**-**	**-**	**-**	**-**	**-**	**-**	**4,090**	**4,090**
NON-CONTROLLING INTERESTS	**6,294,208**	**1,924,503**	**5,199,855**	**(488,285)**	**-**	**12,930,281**	**-**	**12,934,371**

The Notes are an integral part of the Financial Statement.

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
R$ ’000

	Note	Consolidated		Holding company	
		2017	2016	2017	2016
CASH FLOW FROM OPERATIONS					
Net Income for the year		1,001,596	334,754	1,000,954	334,334
Adjustments to reconcile net income to net cash flows:					
Income tax and Social Contribution tax		644,260	33,173	140,321	87,156
Depreciation and amortization	27	849,768	834,291	488	520
Loss on write off of residual value of unrecoverable Concession Financial Assets, PP&E and Intangible assets		48,299	109,199	2	10,698
Gain on sale of investments		(197,233)	(314,659)	(197,233)	(314,659)
Adjustment for losses on investments	16	-	762,691	-	-
Generation Indemnity Revenue	15	(271,607)	-	-	-
Adjustment to BRR for transmission assets	15	(74,627)	-	-	-
Share of loss (profit) of associates and joint ventures	16	252,240	301,844	(896,002)	(218,347)
Interest and monetary variation		801,883	741,314	(47,971)	(37,385)
Appropriation of transaction costs	21	66,856	68,401	-	-
Gain in accounts receivable from the MG State Govt. - AFAC	12	(239,445)	-	(239,445)	-
Operating provisions	27	853,668	703,979	238,791	66,570
Derivative financial instruments - Swap		32,462	-	-	-
CVA (*Portion A items Compensation*) Account and *Other financial components* in tariff adjustments	26	(988,260)	1,455,057	-	-
Tax Amnesty Program (PRCT)	20	282,876	-	-	-
Post-retirement obligation	23	(163,273)	447,155	12,697	41,944
		2,899,463	5,477,199	12,602	(29,169)
(Increase) / decrease in assets					
Customers and Traders		(817,615)	(55,585)	-	-
Accounts Receivable from the State of Minas Gerais	12	46,291	-	46,291	-
CVA and *Other financial components* in tariff adjustments	15	585,527	341,244	-	-
Funding from Energy Development Account (CDE)		(9,594)	7,944	-	-
Recoverable taxes		10,104	18,609	(37)	9,575
Income and Social Contribution taxes recoverable		(62,470)	(61,524)	(24,651)	37,063
Escrow deposits in litigation		(4,061)	(27,814)	(13,338)	(8,727)
Dividends received from equity holdings		354,388	682,549	834,984	1,055,007
Concession Financial assets		398,220	(1,940,907)	-	-
Advances to suppliers		(116,045)	(119,583)	-	-
Gas drawing rights		537,113	(192,682)	-	-
Others		120,820	103,589	12,725	4,303
		1,042,678	(1,244,160)	855,974	1,097,221
Increase (reduction) in liabilities					
Suppliers		403,164	38,440	(16,269)	12,171
Taxes		(248,478)	37,685	13,124	30,511
Income tax and Social Contribution tax payable		13,623	24,466	-	(19,939)
Payroll and related charges		(17,650)	4,168	1,102	(412)
Regulatory charges		(72,721)	91,815	-	-
Advances from clients		51,562	-	-	-
Post-retirement obligation	23	(282,492)	(239,241)	(15,465)	(13,115)
Derivative financial instruments – Options	30	(830,217)	(149,760)	(830,217)	(149,760)
Others		(356,186)	(168,865)	(6,930)	(29,857)
		(1,339,395)	(361,292)	(854,655)	(170,401)
Cash from operations		**2,602,746**	**3,871,747**	**13,921**	**897,651**
Interest paid on loans and financings		(1,796,874)	(2,369,244)	-	-
Income tax and Social Contribution tax paid		(226,297)	(289,120)	-	(56,164)
NET CASH FROM OPERATIONS		**579,575**	**1,213,383**	**13,921**	**841,487**

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

The Notes are an integral part of the Financial Statement.

STATEMENT OF ADDED VALUE
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
R$ '000

	Consolidated				Holding company			
	2017		2016		2017		2016	
REVENUES								
Sales of energy, gas and services	30,779,384		27,017,968		358		733	
Distribution construction revenue	1,093,921		1,139,316		-		-	
Transmission construction revenue	24,827		53,824		-		-	
Gain on financial updating of the Concession Grant Fee	316,880		299,537		-		-	
Adjustment to expectation of cash flow from the indemnifiable Financial assets of the distribution concession	2,659		7,582		-		-	
Transmission indemnity revenue	373,217		751,101		-		-	
Generation indemnity revenue	271,607		-		-		-	
Investments in PP&E	36,334		79,358		-		-	
Other revenues	17,106		21,574		-		-	
Estimated loss on doubtful receivables	(248,280)		(382,368)		-		-	
	32,667,655		**28,987,892**		**358**		**733**	
INPUTS ACQUIRED FROM THIRD PARTIES								
Energy purchased for resale	(11,972,360)		(9,094,921)		-		-	
Charges for use of national grid	(1,308,928)		(1,054,333)		-		-	
Outsourced services	(1,386,258)		(1,309,061)		(18,221)		(31,263)	
Gas bought for resale	(1,070,623)		(877,118)		-		-	
Materials	(665,700)		(669,278)		(365)		(89)	
Other operational costs	(915,607)		(411,292)		(37,864)		211,319	
	(17,319,476)		**(13,416,003)**		**(56,450)**		**179,967**	
GROSS VALUE ADDED	**15,348,179**		**15,571,889**		**(56,092)**		**180,700**	
RETENTIONS								
Depreciation and amortization	(849,768)		(834,291)		(488)		(520)	
NET ADDED VALUE PRODUCED BY THE COMPANY	**14,498,411**		**14,737,598**		**(56,580)**		**180,180**	
ADDED VALUE RECEIVED BY TRANSFER								
Equity method gains in non-consolidated investees	(252,240)		(301,844)		896,002		218,347	
Financial revenues	803,713		1,080,751		114,375		112,377	
Adjustment for reduction in value of investments	-		(762,691)		-		-	
ADDED VALUE TO BE DISTRIBUTED	**15,049,884**		**14,753,814**		**953,797**		**510,904**	
DISTRIBUTION OF ADDED VALUE								
		%		%		%		%
Employees	**1,274,097**	**8.47**	**1,872,310**	**12.69**	**40,134**	**4.21**	**65,130**	**12.75**
Direct remuneration	1,068,094	7.10	1,177,430	7.98	20,420	2.14	18,951	3.71
Post-employment obligations and Other benefits	(73,500)	(0.49)	512,272	3.47	11,475	1.20	38,892	7.61
FGTS fund	65,932	0.44	89,689	0.61	1,679	0.18	1,964	0.38
Employee retirement program	213,571	1.42	92,919	0.63	6,560	0.69	5,323	1.05
Taxes	**10,800,655**	**71.77**	**9,813,465**	**66.51**	**143,704**	**15.07**	**90,873**	**17.79**
Federal	4,938,320	32.81	4,587,671	31.09	142,798	14.97	90,555	17.72
State	5,849,795	38.87	5,214,089	35.34	752	0.08	95	0.02
Municipal	12,540	0.08	11,705	0.08	154	0.02	223	0.05
Remuneration of external capital	**1,973,536**	**13.11**	**2,733,285**	**18.53**	**(230,995)**	**(24.22)**	**20,567**	**4.03**
Interest	1,864,489	12.39	2,616,066	17.74	(235,541)	(24.70)	18,184	3.56
Rentals	109,047	0.72	117,219	0.79	4,546	0.48	2,383	0.47
Remuneration of own capital	**1,001,596**	**6.65**	**334,754**	**2.27**	**1,000,954**	**104.94**	**334,334**	**65.44**
Dividends	500,477	3.33	203,986	1.38	**500,477**	52.47	203,986	39.93
Retained earnings	500,477	3.33	130,348	0.89	500,477	52.47	130,348	25.51
Non-controlling shareholders' interest in Retained earnings	642	-	420	-	-	-	-	-
	15,049,884	**100.00**	**14,753,814**	**100.00**	**953,797**	**100.00**	**510,904**	**100.00**

The Notes are an integral part of the Financial Statement.

NOTES TO THE FINANCIAL STATEMENT

AT DECEMBER 31, 2017 AND 2016

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

1. OPERATING CONTEXT

a) The Company

Companhia Energética de Minas Gerais (‘Cemig’, ‘Parent company’, ‘Holding company’ or ‘the Company’) is a listed corporation, registered in the Brazilian Registry of Corporate Taxpayers (CNPJ) under number 17.155.730/0001-64, with shares traded on the São Paulo Stock Exchange) (‘B3’) at Corporate Governance Level 1; through ADRs on the New York Stock Exchange (‘NYSE’); and on the stock exchange of Madrid (‘Latibex’). It is domiciled in Brazil, with head office at Avenida Barbacena 1200, Belo Horizonte, Minas Gerais. It operates exclusively as a holding company, with interests in subsidiaries or jointly controlled entities, which are engaged in the activities of the construction and operation of infrastructure used in the for generation, transformation, transmission, distribution and sale of energy, and also activities in the various fields of energy, for the purpose of commercial operation.

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

Current assets of the parent company exceeded current liabilities by R$ 84,629. Management monitors the Company’s cash flow, and for this purpose assesses measures to adjust the present situation of its financial assets and liabilities to the levels considered appropriate to meet its needs. The parent company (holding company) has reported positive operational cash flow of R$ 13,921 in 2017, and R$ 841,487 in 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Retiro Baixo Energética S.A. ('RBE')** (Jointly-controlled entity): RBE holds the concession to operate the *Retiro Baixo* hydroelectric plant, on the Paraopeba River, in the São Francisco river basin, in the municipalities of Curvelo and Pompeu, in Minas Gerais State.

- **Aliança Norte Energia Participações S.A. ('Aliança Norte')** (Jointly-controlled): This is a special-purpose company (SPC) created by Cemig GT (49.9% ownership) and Vale S.A. (50.1%), for acquisition of an interest of 9% in Norte Energia S.A. ('Nesa'), the company holding the concession for the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the State of Pará.

- **Amazônia Energia Participações S.A. ('Amazônia Energia')** (Jointly-controlled): This is a special-purpose company created by Cemig GT (74.50% ownership) and Light (25.50%), for acquisition of an interest of 9.77% in Norte Energia S.A. ('Nesa'), the company holding the concession for the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the State of Pará.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Light S.A. ('Light')** (Jointly controlled): Holds direct or indirect interests in other companies and directly or indirectly operates energy services, including generation, transmission, trading or distribution, and other related services.

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

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

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

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

  - **Usina Térmica Ipatinga S.A. ('Ipatinga')** (Subsidiary): Currently without operational activity.

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

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

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

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

- **Cemig Comercializadora de Energia Incentivada S.A.** (previously named Central Termelétrica de Cogeração S.A.) (Subsidiary): Production and sale of energy as an independent power producer, in future projects.

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

- **Empresa de Serviços e Comercialização de Energia Elétrica S.A.** (Subsidiary): Production and sale of energy as an independent power producer, in future projects.

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

- **UTE Barreiro S.A.** (‘Barreiro’) (Subsidiary): Production and sale of thermally generated energy, as an independent producer, through construction and operation of the *UTE Barreiro* thermal generation plant, located on the premises of V&M do Brasil S.A., in the State of Minas Gerais.
- **Cemig Trading S.A.** (‘Cemig Trading’) (Subsidiary): Sale and intermediation of business transactions related to energy.

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

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

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

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

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

2.2 Bases of measurement

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

2.3 Functional currency and currency of presentation

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

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

2.4 Use of estimates and judgments

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

Estimates and assumptions are periodically reviewed, using as a reference to both historic experience, and any significant change in scenarios that could affect Company's financial position or its results in the applicable items. Revisions in relation to accounting estimates are recognized in the period in which the estimates are reviewed, and in any future periods affected.

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

- Adjustments for loss on doubtful accounts – see Note 8.
- Deferred income and social contribution taxes – see Note 10.
- Financial assets and liabilities of the concession – see Note 15.
- Investments – see Note 16.
- Property, plant and equipment – see Note 17.
- Intangible assets – see Note 18.
- Depreciation – see Note 17.
- Useful lives of assets – see Note 18.
- Employee post-retirement obligation – See Note 23.
- Provisions – See Note 24.
- Energy supply unbilled – see Note 26.
- Financial Instruments – see Note 30.
- Measurement at fair value – Note 31.

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

2.5 Standards issued that were effective on January 1, 2017

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

- Amendments to IAS 12/CPC 32 – *Recognition of deferred tax assets for non-realized losses*.
- *Disclosure Initiative* (Amendments to IAS 7) – Alters IAS 7/CPC 03 (R2) – *Statement of cash flows*, to clarify that entities to provide disclosures that enable users of financial statement to evaluate changes in liabilities arising from financing activities.

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

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

Effective starting from January 1, 2018:

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

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

- IFRS 9/CPC 48 – *Financial instruments*

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

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

Classification and measurement

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

Impairment

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

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

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

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

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

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

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

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

1. Identify the contracts signed with its customers;
2. Identify the performance obligations in each type of contract;
3. Determine the price of each type of transaction;
4. Allocate the price and obligations contained in the contract; and
5. Recognize the revenue when (or to the extent that) the entity satisfies each obligation of the contract.

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

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

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

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

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

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

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

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

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

c) *Supply of gas*

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

d) *Other operating revenues*

Provision of service:

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

Sharing of infrastructure:

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

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

e) *Other revenues*

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

g) *Requirements for presentation and disclosure*

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

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

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

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

2.7 Summary of significant policies

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

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

a) Financial instruments

Derivative financial instruments (put options): The options to sell units in FIP Melbourne and FIP Malbec ('the SAAG Put') and the options to sell shares in RME ('the Parati Put') have been measured at fair value using the Black-Scholes-Merton (BSM) model. The Company and its subsidiary Cemig GT have calculated the fair value of these options having as a reference their respective prices obtained by the BSM model, valued on the closing date of the financial statement for the 2017 business year.

Derivative financial instruments (swap transactions): Cemig GT maintains derivative hedge instruments to mitigate its exposure to the risk of changes in exchange rates. Derivatives are recognized initially at their fair value and the attributable transaction costs are recognized in the Profit and loss account when they are incurred. After the initial recognition, derivatives are measured at fair value and changes in fair value are accounted for in the Statement of income.

Share capital: The rights to minimum dividends which preferred shares are entitled to are described in Note 25 to the consolidated financial statements.

Financial instruments available for sale: As from December 31, 2012, assets in this category include the financial assets of the transmission and distribution concession that were subject to Law 12,783 (of January 11, 2013). They are measured at New Replacement Value (*Valor Novo de Reposição*, or VNR), equivalent to fair value on the date of these financial statement. The Company and its subsidiaries recognizes a financial asset resulting from a concession contract when it has an unconditional contractual right to receive cash or another financial asset from, or under the direction of, the concession grantor for the services of construction or improvement provided.

Loans and receivables: Loans and receivables include: cash equivalents, credits payable by customers and traders, and concession holders (transport of energy), tied funds, escrow deposits, concession financial assets, amounts receivable from related parties, and *CVA* credits and *Other financial components* in tariff adjustments. The Company and its subsidiaries recognizes a financial asset resulting from a concession contract when it has an unconditional contractual right to receive cash or another financial asset from, or under the direction of, the Concession grantor for the services of construction or improvement provided.

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

b) <u>Customers and traders; Concession holders (power transport); and Traders – transactions in 'Free Energy'</u>

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

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

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

c) Investments

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

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

d) Concession assets

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

The amortization reflects the pattern of consumption of the rights acquired. It is calculated on the balance of the assets linked to the concession, by the straight-line method, based on the application of the rates set by Aneel for the energy distribution activity, which are taken into consideration by the regulator during the process of tariff review.

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

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

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

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

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

Since the transmission contracts determine that the concession holders have an unconditional right to receive cash or another financial asset directly from, or in the name of, the Concession-grantor, for the new transmission concessions Cemig GT records a financial asset, during the period of construction of lines, for the transmission revenue to be received during the whole period of the concession, at fair value, as specified ICPC 01 (R1) / IFRIC 12 – *Concession contracts*.

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

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

In counterpart to acceptance of the terms of renewal of the old transmission concessions, as described in more detail in Note 4, the greater part of the transmission assets of the old concessions will be the subject of indemnity by the Concession grantor, having already been written down on December 31, 2012, and an item in Accounts receivable having been posted corresponding to the estimated indemnity to be received in the period of eight years. The remaining portion will be received through the RAP.

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

The amortization reflects the pattern of consumption of the rights acquired. It is calculated on the balance of the assets linked to the concession, by the straight-line method.

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

New assets are recorded initially in Intangible assets, valued at acquisition cost, including capitalized borrowing costs. When they start operation they are split into financial assets and intangible assets, according to the criterion mentioned in the previous paragraphs: The portion of the assets that is recorded in financial assets is valued based on the New Replacement Value, having as a reference the amounts homologated by Aneel for the Remuneration Base of Assets in the processes of tariff review. The book value of assets substituted is written down, with counterpart in the Profit and loss account, and taken into consideration by the regulator in the next tariff review cycle.

e) Intangible assets

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

f) Property, plant and equipment

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

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

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

g) Impairment

In assessing impairment of financial assets, the Company uses historic trends of the probability of default, timing of recovery and the amounts of loss incurred, adjusted to reflect management’s judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historic trends.

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

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

h) Employees benefits

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

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

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

i) Income tax and Social Contribution tax

Current

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

Deferred

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

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

j) Operating revenue

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

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

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

For the transmission concessions, the fair value of the operation and maintenance of the transmission lines and the remuneration of the financial asset are recorded as revenue in the Profit and loss account each month.

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

The 'Portion A' revenue and the Other financial items related to tariff adjustments are recognized in the Profit and Loss account when the costs effectively incurred are different from those incorporated into the energy distribution tariff. For more details, see Note 15.

The gain on adjustment of expectation of cash flow from the indemnifiable financial asset of the distribution concession arising from the variation in the fair value of the Remuneration Asset Base is presented as operating revenue, together with the other revenues related to the Company's end-activity of Cemig D.

k) Finance income and expenses

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

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

l) Segment reporting

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

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

Segment capital expenditure is the total cost incurred during the year to acquire: the Concession Financial assets, Intangible assets, and Property, plant and equipment.

3. PRINCIPLES OF CONSOLIDATION

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

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

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

a) Subsidiaries and jointly-controlled entities

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

The financial information of the jointly-controlled entities is recognized by the equity method of accounting.

b) Consortia

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

c) Transactions eliminated in consolidation

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

4. CONCESSIONS AND AUTHORIZATIONS

Cemig and its subsidies hold the following concessions or authorizations:

	Company holding concession or authorization	Concession or authorization contract	Expiration date
POWER GENERATION			
Hydroelectric plants			
Emborcação	Cemig GT	07/1997	07/2025
Nova Ponte (1)	Cemig GT	07/1997	07/2025
Santa Luzia (1)	Cemig GT	07/1997	02/2026
Sá Carvalho (1)	Sá Carvalho	01/2004	12/2024
Rosal (1)	Rosal Energia	01/1997	05/2032
Machado Mineiro (1)	Horizontes Energia	Resolution 331/2002	07/2025
Salto Voltão (1)			10/2030
Salto Paraopeba (1)			10/2030
Salto do Passo Velho (1)			10/2030
PCH Pai Joaquim (1)	Cemig PCH	Authorizing Resolution 377/2005	04/2032
Irapé (1)	Cemig GT	14/2000	02/2035
Queimado (Consortium) (1)	Cemig GT	06/1997	01/2033
Salto Morais (1)	Cemig GT	02/2013	07/2020
Rio de Pedras (1)	Cemig GT	02/2013	09/2024
Luiz Dias (1)	Cemig GT	02/2013	08/2025
Poço Fundo (1)	Cemig GT	02/2013	08/2025
São Bernardo (1)	Cemig GT	02/2013	08/2025
Xicão (1)	Cemig GT	02/2013	08/2025
Três Marias (2)	Cemig Geração Três Marias S.A.	08/2016	01/2046
Salto Grande (2)	Cemig Geração Salto Grande	09/2016	01/2046
Itutinga (2)	Cemig Geração Itutinga	10/2016	01/2046
Camargos (2)	Cemig Geração Camargos	11/2016	01/2046
Coronel Domiciano, Joasal, Marmelos, Paciência e Piau (2)	Cemig Geração Sul	12/2016 and 13/2016	01/2046
Dona Rita, Ervália, Neblina, Peti, Sinceridade and Tronqueiras (2)	Cemig Geração Leste	14/2016 and 15/2016	01/2046
Cajurú, Gafanhoto and Martins (2)	Cemig Geração Oeste S.A.	16/2016	01/2046
Thermal plants			
Igarapé (1)	Cemig GT	07/1997	08/2024
POWER TRANSMISSION			
National grid (3)	Cemig GT	006/1997	07/2015
Itajubá Substation (3)	Cemig GT	79/2000	10/2030
ENERGY DISTRIBUTION (4)	Cemig D	002/1997 003/1997 004/1997 005/1997	12/2045
GAS DISTRIBUTION (4)	Gasmig	State Law 11,021/1993	01/2053

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

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

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

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

Generation concessions

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

(1) through auctions, to distributors to meet the demands of their captive markets; and
(2) to Free Customers in the Free Market (*Ambiente de Contratação Livre*, or ACL).

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

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

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

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

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

Believing that it had the right to renewal of the concessions of the Jaguara, São Simão and Miranda plants, based on the original terms of the Concession Contract, Cemig GT filed administrative and court proceedings requiring their extension for the related renewal periods. These applications, however, were rejected by the Mining and Energy Ministry, on the view that the request was made out of time in relation to the period/rules set by Law 12,783/13.

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

In spite of the fact that there were court proceedings still pending, involving the São Simão, Jaguara and Miranda plants, on September 27, 2017 the federal government auctioned the concessions for the São Simão, Jaguara, Miranda and Volta Grande plants. The latter had a concession contract expiry in February 2017. Together, these plants, previously belonging to

Cemig GT, have total generation capacity of 2,922 MW, and the sale was made for a total of R$ 12,130,784. The parties that won these concessions are not related to Cemig.

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

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

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

As of August 3, 2017 Mining and Energy Ministry Order 291/17 established the values of indemnity, payable to Cemig GT, for the investments made in the São Simão and Miranda plants that have not been amortized up to the end of the contract. The total amount of the indemnity is R$ 1,027,751, of which R$ 243,599 relates to indemnity for the São Simão Plant, and R$ 784,152 is for indemnity for the Miranda Plant – these figures being expressed in September 2015 and December 2016 currency, respectively. The amounts are being updated, *pro rata die*, by the Selic rate for federal securities, with updating revenues being recognized in the year, in the amount of R$ 271,607 (more details in Notes 15 and 26). On December 31, 2017, these updated indemnities were in the amount of R$ 1,084,346, and are recorded in Concession financial assets.

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

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

Power transmission concessions

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

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

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

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

For the transmission concessions, the portion of the asset that will not be amortized during the concession is recorded as a financial asset, since there is an unconditional right to receive cash or other financial assets directly from the grantor at the end of the concession agreement period.

Onerous concessions

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

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

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

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

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

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

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

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

Power distribution concessions

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

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

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

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

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

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

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

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

<u>Renewal of the distribution concessions</u>

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

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

- The annual tariff adjustment will occur on May 28 of each year, starting in 2016; for this repositioning the rules specified in the previous concession contract were to be applied. For the subsequent tariff adjustments the rules set for in Clause 6 of the Amendment will be applied.

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

- Requirement for injections of capital from Company's equity holder in an amount sufficient to meet the minimum conditions for economic and financial sustainability.

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

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

- Operational cash generation (–) QRR[1] (–) interest on the debt[2] ≥ 0;
- Ebitda[3] ≥ 0 (by end of 2017, then maintained in 2018, 2019 and 2020);
- [Ebitda (–) QRR] ≥ 0 (by end-2018, maintained in 2019 and 2020);
- {Net debt[4] / [Ebitda (–) QRR]} ≤ 1 / (80% of the Selic rate) (by the end of 2019); and,

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

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

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

Gas distribution concessions

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

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

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

5. OPERATING SEGMENTS

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

The Company also operates in the markets of gas and telecommunications, through its subsidiaries Gasmig and Cemig Telecom (see Note 1), and other businesses with less impact on the results of its operations. These segments are reflected in the Company's management, organizational structure, and monitoring of results. In accordance with the regulatory framework of the Brazilian energy sector, there is no segmentation by geographical area.

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

INFORMATION BY SEGMENT ON DECEMBER 31, 2017 – R$ '000

	ENERGY			TELECOMS	GAS	OTHER	ELIMINATIONS	TOTAL
	GENERATION	TRANSMISSION	DISTRIBUTION					
SEGMENT ASSETS	**14,365,635**	**3,954,921**	**20,021,054**	**347,344**	**2,000,287**	**1,582,372**	**(32,024)**	**42,239,589**
INVESTMENT IN AFFILIATES AND JOINTLY-CONTROLLED ENTITIES	4,723,336	1,122,046	1,917,527	-	-	29,316	-	7,792,225
ADDITIONS TO THE SEGMENT	**307,794**	**-**	**1,082,877**	**46,687**	**56,619**	**778**	**-**	**1,494,755**
ADDITIONS TO FINANCIAL ASSETS	**-**	**174,082**	**145,283**	**-**	**-**	**-**	**-**	**319,365**
NET REVENUE	**7,190,105**	**776,960**	**12,312,331**	**127,291**	**1,481,990**	**111,272**	**(288,259)**	**21,711,690**
COST OF ENERGY AND GAS								
Energy purchased for resale	(4,209,271)	-	(6,782,988)	-	-	(8)	72,791	(10,919,476)
Charges for use of the national grid	(352,455)	-	(1,002,452)	-	-	-	180,984	(1,173,923)
Gas bought for resale	-	-	-	-	(1,070,623)	-	-	(1,070,623)
Operational costs, total	**(4,561,726)**	**-**	**(7,785,440)**	**-**	**(1,070,623)**	**(8)**	**253,775**	**(13,164,022)**
OPERATING COSTS AND EXPENSES								
Personnel	(281,120)	(106,285)	(1,123,026)	(20,249)	(55,434)	(40,912)	-	(1,627,026)
Employees' and managers' profit sharing	(1,278)	(59)	(2,657)	(380)	-	(266)	-	(4,640)
Post-retirement obligations	39,235	19,316	179,589	-	-	(9,480)	-	228,660
Materials	(11,097)	(3,595)	(43,267)	(255)	(1,962)	(400)	20	(60,556)
Raw materials and inputs for production of energy	(10,371)	-	-	-	-	-	-	(10,371)
Outsourced services	(126,805)	(31,471)	(784,654)	(28,146)	(16,640)	(16,815)	30,574	(973,957)
Depreciation and amortization	(176,177)	-	(566,578)	(35,136)	(71,348)	(529)	-	(849,768)
Operating provisions (reversals)	(139,285)	(10,076)	(468,857)	(1,105)	(1,975)	(232,370)	-	(853,668)
Construction costs	-	(24,827)	(1,044,682)	-	(49,240)	-	-	(1,118,749)
Other operating expenses, net	(117,052)	(10,712)	(408,392)	(23,201)	(14,963)	187,484	3,890	(382,946)
Total cost of operation	**(823,950)**	**(167,709)**	**(4,262,524)**	**(108,472)**	**(211,562)**	**(113,288)**	**34,484**	**(5,653,021)**
OPERATING COSTS AND EXPENSES	**(5,385,676)**	**(167,709)**	**(12,047,964)**	**(108,472)**	**(1,282,185)**	**(113,296)**	**288,259**	**(18,817,043)**
OPERATING INCOME BEFORE EQUITY GAINS (LOSSES) AND FINANCIAL REVENUE (EXPENSES)	**1,804,429**	**609,251**	**264,367**	**18,819**	**199,805**	**(2,024)**	**-**	**2,894,647**
Share of (loss) profit of associates and joint ventures, net	(519,024)	234,533	41,648	(2,295)	-	(7,102)	-	(252,240)
Finance income	225,856	8,968	397,277	3,059	48,400	120,153	-	803,713
Finance expenses	(1,161,112)	(3,443)	(815,025)	(13,635)	(42,657)	235,608	-	(1,800,264)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION TAXES	**350,149**	**849,309**	**(111,733)**	**5,948**	**205,548**	**346,635**	**-**	**1,645,856**
Income and Social Contribution taxes	(256,648)	(188,831)	30,711	(3,274)	(71,533)	(154,685)	-	(644,260)
NET INCOME (LOSS) FOR THE YEAR	**93,501**	**660,478**	**(81,022)**	**2,674**	**134,015**	**191,950**	**-**	**1,001,596**
Equity holders of the parent	**93,501**	**660,478**	**(81,022)**	**2,674**	**133,373**	**191,950**	**-**	**1,000,954**
Non-controlling interests	**-**	**-**	**-**	**-**	**642**	**-**	**-**	**642**
	93,501	**660,478**	**(81,022)**	**2,674**	**134,015**	**191,950**	**-**	**1,001,596**

INFORMATION BY SEGMENT ON DECEMBER 31, 2016 – R$ ’000

		TRANSMISSION	DISTRIBUTION	TELECOMS	GAS	OTHER	ELIMINATIONS	TOTAL
SEGMENT ASSETS	14,414,449	4,267,418	18,165,610	337,745	2,737,182	2,388,972	(275,523)	42,035,853
ADDITIONS TO THE SEGMENT	909,459	-	1,464,313	162,014	51,806	-	-	2,587,592
ADDITIONS TO FINANCIAL ASSETS	2,216,888	53,823	-	-	-	-	-	2,270,711
INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES	5,291,892	1,669,849	1,754,342	17,741	-	19,264	-	8,753,088
NET REVENUE	5,874,926	1,112,853	10,596,503	125,170	1,180,537	116,210	(233,543)	18,772,656
COST OF ENERGY AND GAS								
Energy purchased for resale	(3,071,153)	-	(5,260,411)	-	-	(3)	58,656	(8,272,911)
Charges for use of the national grid	(320,917)	(336)	(759,929)	-	-	-	133,703	(947,479)
Gas bought for resale	-	-	-	-	(877,118)	-	-	(877,118)
Operating costs, total	**(3,392,070)**	**(336)**	**(6,020,340)**	**-**	**(877,118)**	**(3)**	**192,359**	**(10,097,508)**
OPERATING COSTS AND EXPENSES								
Personnel	(271,462)	(111,070)	(1,146,685)	(22,811)	(46,666)	(44,559)	-	(1,643,253)
Employees’ and managers’ profit sharing	(585)	(208)	(9,790)	(640)	-	3,896	-	(7,327)
Post-retirement obligations	(54,387)	(22,647)	(230,630)	-	-	(36,895)	-	(344,559)
Materials	(11,248)	(2,845)	(41,820)	(94)	(1,858)	(122)	32	(57,955)
Outsourced services	(129,250)	(30,354)	(673,823)	(22,997)	(15,987)	(31,881)	36,922	(867,370)
Depreciation and amortization	(201,871)	-	(524,584)	(37,742)	(54,308)	(15,786)	-	(834,291)
Operating provisions (reversals)	(88,144)	(9,973)	(544,090)	(4,373)	-	(66,571)	-	(713,151)
Construction costs	-	(53,824)	(1,101,966)	-	(37,350)	-	-	(1,193,140)
Other operating expenses, net	(57,492)	(12,950)	(394,628)	10,740	(7,755)	313,406	4,230	(144,449)
Total cost of operation	**(814,439)**	**(243,871)**	**(4,668,016)**	**(77,917)**	**(163,924)**	**121,488**	**41,184**	**(5,805,495)**
OPERATING COSTS AND EXPENSES	**(4,206,509)**	**(244,207)**	**(10,688,356)**	**(77,917)**	**(1,041,042)**	**121,485**	**233,543**	**(15,903,003)**
OPERATING INCOME BEFORE EQUITY GAINS (LOSSES) AND FINANCIAL REVENUE (EXPENSES)	**1,668,417**	**868,646**	**(91,853)**	**47,253**	**139,495**	**237,695**	**-**	**2,869,653**
Share of (loss) profit of associates and joint ventures, net	(447,714)	362,286	(180,464)	(31,424)	-	(4,528)	-	(301,844)
Adjustment for loss of value in Investments	(762,691)	-	-	-	-	-	-	(762,691)
Fair value result of corporate transaction	-	-	-	-	-	-	-	-
Finance income	190,338	6,659	742,972	3,999	14,987	82,349	-	1,041,304
Finance expenses	(1,320,422)	(3,773)	(1,077,899)	(9,066)	(49,112)	(18,223)	-	(2,478,495)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION TAXES	**(672,072)**	**1,233,818**	**(607,244)**	**10,762**	**105,370**	**297,293**	**-**	**367,927**
Income and Social Contribution taxes	(24,269)	4,760	102,829	(5,929)	(7,680)	(102,884)	-	(33,173)
NET INCOME (LOSS) FOR THE YEAR	**(696,341)**	**1,238,578**	**(504,415)**	**4,833**	**97,690**	**194,409**	**-**	**334,754**
Equity holders of the parent	(696,341)	1,238,578	(504,415)	4,833	97,270	194,409	-	334,334
Non-controlling interests	-	-	-	-	420	-	-	420
	(696,341)	**1,238,578**	**(504,415)**	**4,833**	**97,690**	**194,409**	**-**	**334,754**

6. CASH AND CASH EQUIVALENTS

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

(1) *Bank Certificates of Deposit* (*Certificados de Depósito Bancário*, or CBDs), are remunerated at a percentage, which has varied from 50% to 106%, in 2017 (75% to 106.5% in 2016), of the CDI Rate (Interbank Rate for Interbank Certificates of Deposit or *Certificados de Depósito Inter-bancário* – CDIs) published by the Custody and Settlement Chamber (*Câmara de Custódia e Liquidação*, or Cetip). For these CDBs, the Company has repo transactions which state, on their trading notes, the bank's commitment to repurchase the security, at sight, on the maturity date of the transaction, or earlier, at the client's option.

(2) *Overnight* transactions are repos available for redemption on the following day. They are usually backed by Treasury Bills, Notes or Bonds and referenced to a pre-fixed rate of 6.89%, in 2017 (13.64% in 2016). Their purpose is to settle the Company's short-term obligations, or be used in the purchase of other assets with better remuneration to replenish the portfolio.

7. SECURITIES

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Cash investments				
Current				
Bank certificates of deposit (CDBs) (1)	2,652	46,011	144	4,238
Financial Notes (LFs) – Banks (2)	303,355	728,293	17,706	94,156
Treasury Financial Notes (LFTs) (3)	739,945	192,995	43,189	24,951
Debentures (4)	10,663	45,289	2,142	9,403
Others	1,769	1,600	779	611
	1,058,384	**1,014,188**	**63,960**	**133,359**
Non-current				
Financial Notes – Banks	-	14,134	-	1,820
Debentures	29,753	16,906	1,737	4,139
	29,753	**31,040**	**1,737**	**5,959**
	1,088,137	**1,045,228**	**65,697**	**139,318**

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

(2) *Bank Financial Notes* (*Letras Financeiras*, or LFs) are fixed-rate fixed-income securities, issued by banks and remunerated at a percentage of the CDI rate published by Cetip. The LFs in Cemig GT's portfolio have a remuneration rate varying between 102.01% and 112% of the CDI rate on December 31, 2017 (104.25% to 112.7% at December 31, 2016).

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

(4) *Debentures* are medium- and long-term debt securities, which give their holders a right of credit against the issuing company. The debentures have remuneration varying from 104.25% to 161.54% of the CDI rate in 2017 (104.25% to 113% in 2016).

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

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

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

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

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

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

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

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

Advances from clients

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

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

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

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

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

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

9. RECOVERABLE TAXES

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

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

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

10. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Income and Social Contribution taxes recoverable

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

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Current				
Income tax	223,539	436,167	19,124	78,174
Social contribution tax	116,035	153,352	598	-
	339,574	**589,519**	**19,722**	**78,174**
Non-current				
Income tax	6,685	98,132	6,685	98,132
Social contribution tax	13,932	13,928	13,932	13,928
	20,617	**112,060**	**20,617**	**112,060**
	360,191	**701,579**	**43,339**	**190,234**

b) Deferred income tax and Social Contribution tax

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

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

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

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

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

Under the current Brazilian tax legislation deductible temporary differences and accumulated tax losses do not expire by limitation of time. Deferred tax assets have been recognized in relation to these items, because it is probable that the future taxable profits will be available for the Company to be able to use the benefits of these items. The utilization of tax loss and negative tax-balance carryforwards is limited to 30% of the tax net income in each business year.

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

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

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:

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Profit before income and Social Contribution taxes	**1,645,856**	**367,927**	**1,141,275**	**421,490**
Income tax and Social Contribution tax – nominal expense	(559,591)	(125,095)	(388,034)	(143,307)
Tax effects applicable to:				
Gain (loss) in subsidiaries by equity method (net of effects of Interest on Equity)	(128,769)	(132,192)	279,329	(88,332)
Interest on Equity	-	129,200	-	129,200
Gain on dilution of an equity interest	7,686	-	-	-
Deduction – Intangible assets of concession amortized – capital gain – Taesa	-	20,233	-	20,233
Non-deductible contributions and donations	(6,118)	(3,867)	(592)	(684)
Tax incentives	10,534	2,831	2,028	2,345
Provision for voluntary retirement program	242	-	242	
Tax credits not recognized	-	4,523	-	-
Difference between Presumed Profit and Real Profit	80,750	126,304	-	-
Non-deductible penalties	(13,559)	(15,775)	(11)	(19)
Excess reactive power and demand	(2,030)	(12,369)	-	-
Write-down of part of estimated losses for doubtful debtors	-	(21,581)	-	-
Others	(33,405)	(5,385)	(33,283)	(6,592)
Income tax and Social Contribution – effective gain (expense)	**(644,260)**	**(33,173)**	**(140,321)**	**(87,156)**
Current tax	(446,348)	(173,833)	(85,710)	(76,103)
Deferred tax	(197,912)	140,660	(54,611)	(11,053)
	(644,260)	**(33,173)**	**(140,321)**	**(87,156)**
Effective rate	**(37.80%)**	**(9.02%)**	**(12.12%)**	**(20.68%)**

11. RESTRICTED CASH

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

12. ACCOUNTS RECEIVABLE FROM THE STATE OF MINAS GERAIS

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

The Debt Recognition Undertaking signed between the parties specifies return by Minas Gerais State of R$ 281,309, of which R$ 239,445 relates to the historical amount of the deposit, and R$ 41,864 relates to its monetary updating to December 31, 2017, paid in 12 consecutive monthly installments, each updated by the IGP–M index up to the date of actual payment, the first becoming on November 10, 2017. Further, Clause 3 of the Undertaking states that, in the event of arrears or default by the State in payment of the agreed consecutive monthly installments, Cemig is authorized to retain dividends or Interest on Equity distributable to the State in proportion to the State's equity interest, for as long as the arrears and/or default continues. Up to December 31, 2017, a total of R$ 46,291 had been received, and a balance receivable of R$ 235,018 remained.

13. ESCROW DEPOSITS

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

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

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Labor claims	**303,699**	**259,415**	**35,270**	**31,231**
Tax contingencies				
Income tax on Interest on Equity	26,861	24,130	244	510
Pasep and Cofins taxes (1)	1,337,086	746,340	-	-
ICMS (VAT) credits on PP&E	-	36,657	-	-
Donations and legacy tax (ITCD)	48,981	45,620	48,541	45,181
Urban property tax (IPTU)	79,505	80,345	68,675	65,694
Finsocial tax	37,170	37,399	37,170	37,399
Income and Social Contr. Tax on indemnity for employees' 'Anuênio' benefit	267,432	255,127	12,853	12,262
Others	116,585	59,247	31,252	28,702
	1,913,620	**1,284,865**	**198,735**	**189,748**
Others				
Monetary updating on AFAC – Minas Gerais state government (3)	-	239,445	-	239,445
Regulatory	60,243	60,227	29,589	27,374
Third party	16,094	13,484	5,811	6,015
Consumer relations	6,204	5,598	1,561	1,548
Court embargo	14,358	7,877	5,515	3,118
Others	21,414	15,968	1,310	1,389
	118,313	**342,599**	**43,786**	**278,889**
	2,335,632	**1,886,879**	**277,791**	**499,868**

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

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

(3) Administrative deposit in the case seeking suspension of enforceability of the credit charged by the Minas Gerais State Government for a difference in the monetary updating on the Advance for Future Capital Increase (*Adiantamento contra Futuro Aumento de Capital*, or AFAC). For more details please see Notes 12 and 24.

14. REIMBURSEMENT OF TARIFF SUBSIDIES

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

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

15. CONCESSION FINANCIAL ASSETS AND LIABILITIES

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

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

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

R$ '000	Transmission	Generation	Distribution	Consolidated
Balances at December 31, 2015	**1,501,441**	**546,424**	**135,983**	**2,183,848**
Additions	53,823	534	-	54,357
Addition – Grant Fee – Plants	-	2,216,353	-	2,216,353
Disposals	(2,943)	(334)	(349)	(3,626)
Amounts received	(15,482)	(314,321)	-	(329,803)
Transfers between PP&E, Financial assets and Intangible Assets	(429)	-	72,891	72,462
Updating of the Concession Grant Fee	-	351,733	-	351,733
Adjustment of expectation of cash flow from the Concession financial assets	-	-	7,582	7,582
Monetary updating	751,101	-	-	751,101
Balances at December 31, 2016	**2,287,511**	**2,800,389**	**216,107**	**5,304,007**
Additions	24,827	-	-	24,827
Transfers of indemnity – plants not renewed	-	1,082,526	-	1,082,526
Amounts received	(264,164)	(233,511)	-	(497,675)
Transfers between PP&E, Financial assets and Intangible assets	1,830	-	145,283	147,113
Monetary updating	223,962	316,881	-	540,843
Adjustment of expectation of cash flow from the Concession financial assets	54,358	-	8,587	62,945
Disposals	(1,741)	-	(215)	(1,956)
Adjustment of BRR of Transmission Assets (Note 26)	149,255	-	-	149,255
Adjustment on indemnities of plants not renewed (Ministerial Order 291) – including financial updating	-	271,607	-	271,607
Balances at December 31, 2017	**2,475,838**	**4,237,892**	**369,762**	**7,083,492**

1) Assets related to infrastructure

The energy distribution and transmission and the gas distribution contracts of the subsidies are within the criteria for application of Technical Interpretation ICPC 01 (IFRIC 12), which governs accounting of concessions. They refer to the investment made in infrastructure that will be the subject of indemnity by the concession grantor, during the period and at the end of the concessions, as specified in the regulations of the energy sector and in the concession contracts signed by Cemig and its subsidiaries with the related concession grantors.

1.1) Transmission – Indemnity receivable

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

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

On April 22, 2016 the Mining and Energy Ministry (*Ministério de Minas e Energia*, or MME) published its Ministerial Order 120, setting the deadline and method of payment for the remaining amount of the indemnity. The Ministerial Order determined that the amounts homologated by Aneel should become part of the Regulatory Remuneration Asset Base (*Base de Remuneração Regulatória*, or BRR) and that the cost of capital should be added to the related Permitted Annual Revenues ('RAP').

On August 16, 2016 Aneel, by its Dispatch 2,181, homologated the amount of R$ 892,050, in currency of November 2012, for the portion of the reversible assets not yet amortized, for the purposes of indemnity to Cemig GT. This was recorded as a financial asset, with specific maturity and interest rate, in accordance with its characteristics.

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

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

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

Indemnity of transmission assets – injunction awarded to industrial customers

On April 10, 2017, an interim court remedy was granted to the Brazilian Large Free Customers' Association (*Associação Brasileira de Grandes Consumidores Livres*), the Brazilian Auto Glass Industry Technical Association (*Associação Técnica Brasileira das Indústrias Automáticas de Vidro*) and the Brazilian Ferro-alloys and Silicon Metal Producers' Association (*Associação Brasileira dos Produtores de Ferroligas e de Silicio Metálico*) in their legal action against Aneel and the federal government requesting suspension of the effects on their tariffs of payment of the indemnity for transmission assets payable to agents of the energy sector who accepted the terms of Law 12,783/2013.

The preventive remedy was partial, with effects related to suspension of the inclusion in the consumer tariffs paid by these associations of the portion of the indemnity corresponding to the remuneration at cost of capital included since the date of extension of the concessions – this amounts to R$ 316,138 at December 31, 2017.

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

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

In the tariff review processes of Cemig GT, ratified on June 23, 2009 (with effects since July 1, 2005) and on June 8, 2010 (with effects backdated to July 1, 2009), the benefit of addition of certain conducting cables, which have been the subject of an application by Cemig GT, was not included in the tariff calculation. Cemig GT applied for inclusion of these assets in the Remuneration Assets Base and, consequently, for reconsidering the amounts not included in the prior tariff reviews.

Aneel ruled in favor of Cemig GT's application, and calculated the differences between the amounts of revenue ratified in the above-mentioned tariff reviews and the new values calculated for inclusion of the said conducting cables in the Remuneration Assets Base for the period from July 2005 to December 2012. Updated, these amounts were calculated to total R$ 149,255, at June 2017 prices, to be received by Cemig GT in 12 months, via RAP. At December 31, 2017, the amount receivable was R$ 74,627.

Remaining balance to be received through RAP

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

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

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

1.2) Transmission – Assets remunerated by tariff

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

Under the *Proret*, the revenue established in the Resolutions is payable to the transmission companies as from the date of start of commercial operation of the facilities. In the periods between reviews, the revenues associated with the improvements and strengthening of facilities are provisional. They are then definitively decided in the review immediately subsequent to the start of commercial operation of the facilities; this review then has effect since the date of start of commercial operation. At December 31, 2017, the amount receivable by the subsidiary Cemig GT is R$ 547,800.

1.3) Generation – Indemnity receivable

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

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

Generation plant	Concession expiration date	Installed capacity (MW)	Net balance of assets based on historic cost R$ '000	Net balance of assets based on deemed cost R$ '000
Lot D:				
Três Marias Hydroelectric Plant	July 2015	396	71,694	413,450
Salto Grande Hydroelectric Plant	July 2015	102	10,835	39,379
Itutinga Hydroelectric Plant	July 2015	52	3,671	6,589
Camargos Hydroelectric Plant	July 2015	46	7,818	23,095
Piau Small Hydroelectric Plant	July 2015	18.01	1,531	9,005
Gafanhoto Small Hydroelectric Plant	July 2015	14	1,232	10,262
Peti Small Hydroelectric Plant	July 2015	9.4	1,346	7,871
Dona Rita Small Hydroelectric Plant	Sep. 2013	2.41	534	534
Tronqueiras Small Hydroelectric Plant	July 2015	8.5	1,908	12,323
Joasal Small Hydroelectric Plant	July 2015	8.4	1,379	7,622
Martins Small Hydroelectric Plant	July 2015	7.7	2,132	4,041
Cajuru Small Hydroelectric Plant	July 2015	7.2	3,576	4,252
Paciência Small Hydroelectric Plant	July 2015	4.08	728	3,936
Marmelos Small Hydroelectric Plant	July 2015	4	616	4,265
Others:				
Volta Grande Hydroelectric Plant	Feb. 2017	380	25,621	70,118
Miranda Hydroelectric Plant	Dec. 2016	408	26,710	22,546
Jaguara Hydroelectric Plant	Aug. 2013	424	40,452	174,203
São Simão Hydroelectric Plant	Jan. 2015	1,710	2,258	2,920
		3,601.70	**204,041**	**816,411**

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

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

Miranda *and* São Simão *plants*

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

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

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

Further details are in Note 4.

1.3) Concession grant fee – Generation concessions

In June 2016, the Concession Contracts 08 to 16/2016, relating to 18 hydroelectric plants of Lot D of Aneel Auction 12/2015, won by Cemig GT, was transferred to the related specific-purpose entities (SPEs), wholly-owned subsidiaries of Cemig GT, as follows (R$ ’000):

SPE	Plants R$ ’000	Balance at 2016	Monetary updating	Amounts received	Balance at 2017
Cemig Geração Três Marias S.A.	Três Marias	1,283,197	172,402	(125,465)	1,330,134
Cemig Geração Salto Grande S.A.	Salto Grande	402,639	54,322	(39,568)	417,393
Cemig Geração Itutinga S.A.	Itutinga	149,904	22,512	(16,822)	155,594
Cemig Geração Camargos S.A.	Camargos	112,447	16,786	(12,523)	116,710
Cemig Geração Sul S.A.	Coronel Domiciano, Joasal, Marmelos, Paciência, Piau	146,553	23,237	(17,620)	152,170
Cemig Geração Leste S.A.	Dona Rita, Ervália, Neblina, Peti, Sinceridade, Tronqueiras	99,315	17,198	(13,380)	103,133
Cemig Geração Oeste S.A.	Cajurú, Gafanhoto, Martins	59,710	10,424	(8,133)	62,001
Total		**2,253,765**	**316,881**	**(233,511)**	**2,337,135**

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

Cemig’s offer for acquisition of grant of the 30-year concession for the 18 hydroelectric plants was R$ 2,216,353. Of this fee, 65% was paid on January 4, 2016, and the remaining 35% (initially R$ 775,724) was paid on July 1, 2016 (updated by the Selic rate to a total payment of R$ 827,921). The amount of the concession grant fee was recognized as a financial asset, due to Cemig GT having the unconditional right to receive the amount paid, plus updated by the IPCA Index and remuneratory interest, during the period of the concession.

In 2016, all of the output of the plants was sold in the Regulated Market under the Physical Guarantee Quotas system. Starting in 2017, the second phase of the contract came into effect: 70% of the energy produced by these plants was sold in the Regulated Market and 30% in the Free Market.

2) Account for compensation of variation of portion A items (CVA) and Other financial comand Other financial components in tariff adjustments

The Amendment that extended the period of the concession of Cemig D guarantees that, in the event of extinction of the concession, for any reason, the remaining balances (assets and liabilities) of any shortfall in payment or reimbursement through the tariff must also be included by the Concession grantor in the total of the indemnity. The balances on (i) the CVA (*Compensation for Variation of Portion A items*) Account, (ii) the account for Neutrality of Sector Charges, and (iii) *Other financial components* in the tariff calculation, refer to the positive and negative differences between the estimate of the Company's non-manageable costs and the payments actually made.

The variations are subject of monetary updating based on the Selic rate and compensated in the subsequent tariff adjustments.

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

Balance sheet R$ '000	2017			2016		
	Amounts ratified by Aneel in the last tariff adjustment	Amounts to be ratified by Aneel in the next tariff adjustments	Total	Amounts ratified by Aneel in the last tariff adjustment	Amounts to be ratified by Aneel in the next tariff adjustments	Total
Assets	**381,588**	**2,330,978**	**2,712,566**	**1,443,964**	**924,914**	**2,368,878**
Current assets	381,588	1,379,162	1,760,750	1,443,964	547,241	1,991,205
Non-current assets	-	951,816	951,816	-	377,673	377,673
Liabilities	**(796,388)**	**(1,961,968)**	**(2,758,356)**	**(1,046,239)**	**(1,729,889)**	**(2,776,128)**
Current liabilities	(796,388)	(1,220,637)	(2,017,025)	(1,046,239)	(1,029,076)	(2,075,315)
Non-current liabilities	-	(741,331)	(741,331)	-	(700,813)	(700,813)
Total current, net	(414,800)	158,525	(256,275)	397,725	(481,835)	(84,110)
Total non-current, net	-	210,485	210,485	-	(323,140)	(323,140)
Total, net	**(414,800)**	**369,010**	**(45,790)**	**397,725**	**(804,975)**	**(407,250)**

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

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

(2) Due to unfavorable hydrology condition since July 2017, there has been less hydroelectric generation and as a result more dispatching of thermal plants, increasing the spot price (PLD), and affecting the level of reduction of the physical power offtake guarantee of the hydroelectric plants. For the distributors, this results in higher costs of CCEAR (Regulated Market) contracts with thermal plants, and higher hydrology risk costs for the Itaipu plant, for those that trade power supply under Physical Guarantee Quotas, and for those that sold CCEARs and renegotiated the hydrology risk. In view of these factors, the difference from the cost taken into account in setting the tariff is greater, resulting in an increase in the deferred asset related to purchase of power supply on December 31, 2017.

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

(4) Under Proret 2.1A, from this point onward amounts of excess of demand and excess of reactive power were appropriated to sector financial liabilities, and will be amortized only at the time of homologation of the 5th periodic tariff review cycle.

Changes in balances of financial assets and liabilities:

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

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

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

Payments from the Flag Tariff Centralizing Account

The 'Flag Account' (*Conta Centralizadora de Recursos de Bandeiras Tarifárias* – CCRBT or '*Conta Bandeira*') manages the funds that are collected from captive customers of distribution concession and permission holders operating in the national grid, and are paid, on behalf of the CDE, directly to the Flag Account. The resulting funds are passed through by the Wholesale Trading Chamber (CCEE) to distribution agents, based on the difference between the realized amounts of costs of thermal generation and the exposure to short term market prices, and the amount covered by the tariff in force.

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

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

16. INVESTMENTS

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

R$ '000	Control	Consolidated		Holding company	
		2017	2016	2017	2016
Cemig Geração e Transmissão	Subsidiary	-	-	4,793,832	4,583,195
Hidrelétrica Cachoeirão	Jointly-controlled	57,957	50,411	-	-
Guanhães Energia	Jointly-controlled	25,018	-	-	-
Hidrelétrica Pipoca	Jointly-controlled	26,023	31,809	-	-
Retiro Baixo	Jointly-controlled	157,773	161,848	-	-
Aliança Norte (Belo Monte plant)	Jointly-controlled	576,704	527,498	-	-
Madeira Energia (Santo Antônio plant)	Affiliated	534,761	643,890	-	-
FIP Melbourne (Santo Antônio plant)	Affiliated	582,504	677,182	-	-
Lightger	Jointly-controlled	40,832	41,543	-	-
Baguari Energia	Jointly-controlled	148,422	162,106	-	-
Renova	Jointly-controlled	282,524	688,625	-	-
Aliança Geração	Jointly-controlled	1,242,170	1,319,055	-	-
Central Eólica Praias de Parajuru	Jointly-controlled	60,101	63,307	-	-
Central Eólica Volta do Rio	Jointly-controlled	67,725	81,228	-	-
Central Eólica Praias de Morgado	Jointly-controlled	50,569	59,586	-	-
Amazônia Energia (Belo Monte Plant)	Jointly-controlled	866,554	781,022	-	-
Usina Hidrelétrica Itaocara S.A.	Jointly-controlled	3,699	2,782	-	-
Cemig Distribuição	Subsidiary	-	-	3,737,310	2,499,867
Light	Jointly-controlled	1,534,294	1,070,477	1,083,140	1,070,477
Taesa	Jointly-controlled	1,101,462	1,582,633	1,101,462	1,582,633
CemigTelecom	Subsidiary	-	-	247,313	191,515
Ativas Data Center	Affiliated	17,450	17,741	-	-
Gasmig	Subsidiary	-	-	1,418,271	1,419,492
Rosal Energia	Subsidiary	-	-	106,897	141,038
Sá Carvalho	Subsidiary	-	-	102,536	106,111
Horizontes Energia	Subsidiary	-	-	53,165	52,396
Usina Térmica Ipatinga	Subsidiary	-	-	4,932	4,009
Cemig PCH	Subsidiary	-	-	96,944	91,969
LEPSA (1)	Subsidiary	-	343,802	455,861	343,802
RME	Jointly-controlled	383,233	340,063	383,233	340,063
Companhia Transleste de Transmissão	Jointly-controlled	-	21,588	-	21,588
UTE Barreiro	Subsidiary	-	-	17,982	39,266
Companhia Transudeste de Transmissão	Jointly-controlled	-	20,505	-	20,505
Empresa de Comercialização de Energia Elétrica	Subsidiary	-	-	18,403	20,154
Companhia Transirapé de Transmissão	Jointly-controlled	-	23,952	-	23,952
Efficientia	Subsidiary	-	-	7,084	4,868
Cemig Comercializadora de Energia Incentivada	Subsidiary	-	-	2,004	1,867
Companhia de Transmissão Centroeste de Minas	Jointly-controlled	20,584	21,171	20,584	21,171
Cemig Trading	Subsidiary	-	-	29,206	28,635
Axxiom Soluções Tecnológicas	Jointly-controlled	11,866	19,264	11,866	19,264
Cemig Overseas	Subsidiary	-	-	158	20
Total of investments		**7,792,225**	**8,753,088**	**13,692,183**	**12,627,857**
Guanhães – Uncovered liabilities of jointly-controlled entity	Jointly-controlled	-	(59,071)	-	-
Total		**7,792,225**	**8,694,017**	**13,692,183**	**12,627,857**

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

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

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

a) Right to exploitation of the regulated activity

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

Holding company R$ '000	2015	Addition	Amortiz-ation	Written off	2016	Addition	Amortiz-ation	Written off	2017
Cemig Geração e Transmissão	1,123,096	-	(56,468)	(762,691)	303,937	-	(13,701)	(4,468)	285,768
Renova (1)	805,458	-	(42,767)	(762,691)	-		-	-	-
Retiro Baixo	30,706	-	(1,181)	-	29,525	-	(1,181)	-	28,344
Central Eólica Praias de Parajuru	20,868	-	(1,527)	-	19,341	-	(1,527)	(1,311)	16,503
Central Eólica Volta do Rio	14,818	-	(1,011)	-	13,807	-	(1,010)	(1,762)	11,035
Central Eólica Praias de Morgado	29,461	-	(2,055)	-	27,406	-	(2,055)	(1,395)	23,956
Madeira Energia (Santo Antônio plant)	163,296	-	(5,956)	-	157,340	-	(5,956)	-	151,384
Aliança Norte (Belo Monte plant)	58,489	-	(1,971)	-	56,518	-	(1,972)	-	54,546
Taesa	414,774	-	(17,371)	(109,257)	288,146	-	(13,207)	(86,194)	188,745
Light	231,163	-	(22,363)	-	208,800	-	(22,363)	-	186,437
Gasmig	215,410	-	(7,912)	-	207,498	-	(7,912)	-	199,586
Lepsa	-	49,695	(1,266)	-	48,429	-	(5,357)	(43,072)	-
RME	-	49,694	(1,265)	-	48,429	-	(5,064)	-	43,365
OVERALL TOTAL	**1,984,443**	**99,389**	**(106,645)**	**(871,948)**	**1,105,239**	**-**	**(67,604)**	**(133,734)**	**903,901**

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

Consolidated R$ '000	2015	Addition	Amortization	Written off	2016	Addition	Amortization	Written off	2017
Taesa	414,774	-	(17,371)	(109,257)	288,146	-	(13,207)	(86,194)	188,745
Light	231,163	-	(22,363)	-	208,800	-	(22,363)	-	186,437
Gasmig	215,410	-	(7,912)	-	207,498	-	(7,912)	-	199,586
Lepsa	-	49,695	(1,266)	-	48,429	-	(5,357)	(43,072)	-
RME	-	49,694	(1,265)	-	48,429	-	(5,064)	-	43,365
TOTAL	**861,347**	**99,389**	**(50,177)**	**(109,257)**	**801,302**	**-**	**(53,903)**	**(129,266)**	**618,133**

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

Holding company R$ '000	2016	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Loss	Others	2017
Cemig Geração e Transmissão	4,583,195	428,458	(103,591)	(214,230)	100,000	-	-	-	4,793,832
Cemig Distribuição	2,499,867	(117,313)	(145,244)	-	1,500,000	-	-	-	3,737,310
CemigTelecom	191,515	5,821	(680)	-	50,657	-	-	-	247,313
Rosal Energia	141,038	15,079	(18,252)	(30,968)	-	-	-	-	106,897
Sá Carvalho	106,111	25,056	-	(28,631)	-	-	-	-	102,536
Gasmig	1,419,492	133,374	-	(134,595)	-	-	-	-	1,418,271
Horizontes Energia	52,396	19,562	-	(18,793)	-	-	-	-	53,165
Usina Térmica Ipatinga	4,009	1,258	-	(335)	-	-	-	-	4,932
Cemig PCH	91,969	28,344	-	(23,369)	-	-	-	-	96,944
Lepsa	343,802	9,970	(2,002)	-	147,163	-	(43,072)	-	455,861
RME	340,063	6,841	(1,942)	-	38,195	-	-	76	383,233
Companhia Transleste de Transmissão	21,588	4,985	-	(6,656)	-	(19,917)	-	-	-
UTE Barreiro	39,266	(1,749)	-	(5,535)	-	-	-	(14,000)	17,982
Companhia Transudeste de Transmissão	20,505	3,709	-	(11,849)	-	(12,365)	-	-	-
Empresa de Comercialização de Energia Elétrica	20,154	35,696	-	(37,447)	-	-	-	-	18,403
Companhia Transirapé de Transmissão	23,952	4,451	-	(6,687)	-	(21,716)	-	-	-
Efficientia	4,868	3,388	-	(1,171)	-	-	-	(1)	7,084
Cemig Comercializadora de Energia Incentivada	1,867	779	-	(642)	-	-	-	-	2,004
Companhia de Transmissão Centroeste de Minas	21,171	5,058	-	(5,644)	-	-	-	(1)	20,584
Light	1,070,477	18,176	(5,513)	-	-	-	-	-	1,083,140
Cemig Trading	28,635	56,127	-	(55,555)	-	-	-	(1)	29,206
Axxiom Soluções Tecnológicas	19,264	(7,398)	-	-	-	-	-	-	11,866
Taesa	1,582,633	216,330	-	(182,687)	-	(514,814)	-	-	1,101,462
Cemig Overseas	20	-	-	-	138	-	-	-	158
	12,627,857	**896,002**	**(277,224)**	**(764,794)**	**1,836,153**	**(568,812)**	**(43,072)**	**(13,927)**	**13,692,183**

Advance against future capital increase, in Cemig D

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

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

Consolidated R$ '000	2016	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Others	2017
Companhia Transleste de Transmissão	21,588	4,985	-	(6,656)	-	(19,917)	-	-
Companhia Transudeste de Transmissão	20,505	3,709	-	(11,849)	-	(12,365)	-	-
Companhia Transirapé de Transmissão	23,952	4,451	-	(6,687)	-	(21,716)	-	-
Companhia de Transmissão Centroeste de Minas	21,171	5,058	-	(5,644)	-	-	(1)	20,584
Light	1,070,477	34,807	(5,513)	-	-	-	434,523	1,534,294
Axxiom Soluções Tecnológicas	19,264	(7,398)	-	-	-	-	-	11,866
Lepsa	343,802	295	(2,002)	-	-	-	(342,095)	-
RME	340,063	6,841	(1,942)	-	38,195	-	76	383,233
Hidrelétrica Cachoeirão	50,411	10,187	-	(2,641)	-	-	-	57,957
Guanhães Energia (1)	-	(13,099)	-	-	97,188	-	(59,071)	25,018
Hidrelétrica Pipoca	31,809	2,292	-	(8,078)	-	-	-	26,023
Madeira Energia (Santo Antônio plant)	643,890	(109,129)	-	-	-	-	-	534,761
FIP Melbourne (Santo Antônio plant)	677,182	(94,678)	-	-	-	-	-	582,504
Lightger	41,543	1,858	-	(2,569)	-	-	-	40,832
Baguari Energia	162,106	16,590	-	(30,274)	-	-	-	148,422
Central Eólica Praias de Parajuru	63,307	(1,489)	-	(406)	-	-	(1,311)	60,101
Central Eólica Volta do Rio	81,228	(11,741)	-	-	-	-	(1,762)	67,725
Central Eólica Praias de Morgado	59,586	(7,622)	-	-	-	-	(1,395)	50,569
Amazônia Energia (Belo Monte Plant)	781,022	705	-	-	84,827	-	-	866,554
Ativas Data Center	17,741	(2,294)	-	-	-	-	2,003	17,450
Taesa	1,582,633	216,330	-	(182,687)	-	(514,814)	-	1,101,462
Renova	688,625	(390,249)	(33,852)	-	18,000	-	-	282,524
Usina Hidrelétrica Itaocara S.A.	2,782	(1,741)	-	-	2,658	-	-	3,699
Aliança Geração	1,319,055	71,756	-	(148,641)	-	-	-	1,242,170
Aliança Norte (Belo Monte plant)	527,498	(2,352)	-	-	51,558	-	-	576,704
Retiro Baixo	161,848	9,688	-	(13,763)	-	-	-	157,773
Total of investments	**8,753,088**	**(252,240)**	**(43,309)**	**(419,895)**	**292,426**	**(568,812)**	**30,967**	**7,792,225**

(1) Uncovered liability reversed through injection of capital.

Holding company	2015	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Capital injections	Sales	Absorption	Others	2016
Cemig Geração e Transmissão	4,683,812	69,867	(72,526)	(97,958)	-	-	-	-	4,583,195
Cemig Distribuição	2,695,848	(323,950)	(379,834)	97,803	410,000	-	-	-	2,499,867
CemigTelecom	169,006	5,965	(115)	-	16,660	-	-	(1)	191,515
Rosal Energia	121,822	43,669	-	(24,452)	-	-	-	(1)	141,038
Sá Carvalho	102,926	28,236	-	(25,051)	-	-	-	-	106,111
Gasmig	1,406,371	82,015	-	(68,894)	-	-	-	-	1,419,492
Horizontes Energia	70,539	11,033	-	(4,176)	-	-	-	(25,000)	52,396
Usina Térmica Ipatinga	3,898	447	-	(336)	-	-	-	-	4,009
Cemig PCH	84,956	13,779	-	(6,766)	-	-	-	-	91,969
Lepsa	-	(17,890)	513	(57,185)	251,977	-	166,387	-	343,802
RME	-	(17,757)	510	(58,763)	247,941	-	168,132	-	340,063
Companhia Transleste de Transmissão	18,307	5,325	-	(2,044)	-	-	-	-	21,588
UTE Barreiro	29,703	12,167	-	(2,604)	-	-	-	-	39,266
Companhia Transudeste de Transmissão	17,536	3,783	-	(813)	-	-	-	(1)	20,505
Empresa de Comercialização de Energia Elétrica	9,120	37,997	-	(26,963)	-	-	-	-	20,154
Companhia Transirapé de Transmissão	19,298	4,654	-	-	-	-	-	-	23,952
Transchile	108,230	1,776	(22,988)	-	-	(87,018)	-	-	-
Efficientia	5,511	(643)	-	-	-	-	-	-	4,868
Cemig Comercializadora de Energia Incentivada	6,284	111	-	(528)	-	-	-	(4,000)	1,867
Companhia de Transmissão Centroeste de Minas	17,528	5,667	-	(2,024)	-	-	-	-	21,171
Light	1,187,722	(120,512)	2,948	320	-	-	-	(1)	1,070,477
Cemig Trading	29,840	60,374	-	(61,579)	-	-	-	-	28,635
Axxiom Soluções Tecnológicas	23,840	(4,527)	-	(49)	-	-	-	-	19,264
Parati	357,753	(24,305)	850	221	-	-	(334,519)	-	-
Taesa	2,242,186	341,081	-	(381,609)	-	(619,025)	-	-	1,582,633
Cemig Overseas	45	(15)	(10)	-	-	-	-	-	20
	13,412,081	**218,347**	**(470,652)**	**(723,450)**	**926,578**	**(706,043)**	**-**	**(29,004)**	**12,627,857**

Consolidated	2015	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Injections / acquisitions	Sales	Absorption	Others	2016
Companhia Transleste de Transmissão	18,307	5,325	-	(2,044)	-	-	-	-	21,588
Companhia Transudeste de Transmissão	17,536	3,783	-	(813)	-	-	-	(1)	20,505
Companhia Transirapé de Transmissão	19,298	4,654	-	-	-	-	-	-	23,952
Transchile	108,230	1,776	(22,988)	-	-	(87,018)	-	-	-
Companhia de Transmissão Centroeste de Minas	17,528	5,667	-	(2,024)	-	-	-	-	21,171
Light	1,187,722	(120,512)	2,948	320	-	-	-	(1)	1,070,477
Axxiom Soluções Tecnológicas	23,840	(4,528)	-	(49)	-	-	-	1	19,264
Lepsa	-	(17,890)	513	(57,185)	251,977	-	166,387	-	343,802
RME	-	(17,757)	510	(58,763)	247,941	-	168,132	-	340,063
Hidrelétrica Cachoeirão	40,844	11,122	-	(1,555)	-	-	-	-	50,411
Guanhães Energia (1)	18,444	(102,108)		-	24,593	-	-	59,071	-
Hidrelétrica Pipoca	26,237	5,571	-	-	-	-	-	1	31,809
Madeira Energia (Santo Antônio plant)	675,983	(71,093)	-	-	39,000	-	-	-	643,890
FIP Melbourne (Santo Antônio plant)	703,403	(63,755)	-	-	40,214	-	-	(2,680)	677,182
Lightger	37,454	4,088	-	-	-	-	-	1	41,543
Baguari Energia	187,227	41,037	-	(14,118)	-	-	-	(52,040)	162,106
Central Eólica Praias de Parajuru	63,045	287	-	(25)	-	-	-	-	63,307
Central Eólica Volta do Rio	85,101	(3,838)	-	(35)	-	-	-	-	81,228
Central Eólica Praias de Morgado	62,071	(2,440)	-	(45)	-	-	-	-	59,586
Amazônia Energia (Belo Monte Plant)	495,768	(6,659)	-	-	291,913	-	-	-	781,022
Ativas Data Center (2)	-	(31,424)	-	-	98,900	-	-	(49,735)	17,741
Parati	357,753	(24,305)	850	221	-	-	(334,519)	-	-
Taesa	2,242,186	341,081	-	(381,609)	-	(619,025)	-	-	1,582,633
Renova (3)	1,527,435	(373,313)	19,330	-	277,864	-	-	(762,691)	688,625
Usina Hidrelétrica Itaocara S.A.	-	-	-	-	2,782	-	-	-	2,782
Aliança Geração	1,327,246	103,849	-	(112,040)	-	-	-	-	1,319,055
Aliança Norte (Belo Monte Plant)	354,284	(6,551)	-	-	179,765	-	-	-	527,498
Retiro Baixo	147,905	16,089	-	(2,146)	-	-	-	-	161,848
Total of investments	**9,744,847**	**(301,844)**	**1,163**	**(631,910)**	**1,454,949**	**(706,043)**	**-**	**(808,074)**	**8,753,088**
Ativas Data Center – Uncovered liabilities of jointly-controlled entity	(27,769)	-	-	-	-	-	-	27,769	-
Guanhães – Uncovered liabilities of jointly-controlled entity	-	-	-	-	-	-	-	(59,071)	(59,071)
Total	**9,717,078**	**(301,844)**	**1,163**	**(631,910)**	**1,454,949**	**(706,043)**	**-**	**(839,376)**	**8,694,017**

(1) Transfer to uncovered liabilities.

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

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

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

Company	Number of shares	2017			2016		
		Cemig interest %	Share capital	Shareholders' equity	Cemig interest %	Share capital	Shareholders' equity
Cemig Geração e Transmissão	2,896,785,358	100.00	1,837,710	4,793,832	100.00	1,837,710	4,583,195
Hidrelétrica Cachoeirão	35,000,000	49.00	35,000	118,280	49.00	35,000	102,880
Guanhães Energia	330,536,000	49.00	330,536	51,058	49.00	185,647	-
Hidrelétrica Pipoca	41,360,000	49.00	41,360	53,108	49.00	41,360	64,916
Retiro Baixo	222,850,000	49.90	222,850	257,880	49.90	222,850	263,680
Aliança Norte (Belo Monte Plant)	3,622,440,125	49.00	1,119,255	1,065,628	49.00	1,014,111	1,076,527
Madeira Energia (Santo Antônio Plant)	9,730,201,137	18.13	9,546,672	5,327,114	18.13	10,151,952	6,418,617
Lightger	79,078,937	49.00	79,232	83,331	49.00	79,232	84,781
Baguari Energia S.A. (1)	26,157,300,278	69.39	186,573	213,895	69.39	186,573	247,662
Renova (2)	417,197,244	36.23	2,919,019	779,808	34.15	2,856,255	1,955,598
Aliança Geração	1,291,582,500	45.00	1,291,488	1,857,905	45.00	1,291,488	1,972,519
Central Eólica Praias de Parajuru	70,560,000	49.00	70,560	88,976	49.00	70,560	88,897
Central Eólica Volta do Rio	117,230,000	49.00	117,230	115,694	49.00	117,230	136,886
Central Eólica Praias de Morgado	52,960,000	49.00	52,960	54,312	49.00	52,960	65,128
Amazônia Energia (1) (Belo Monte Plant)	1,229,600,123	74.50	1,229,600	1,163,160	74.50	1,115,739	1,048,351
Usina Hidrelétrica Itaocara S.A.	11,102,420	49.00	11,102	7,549	49.00	5,677	5,677
Cemig Distribuição	2,359,113,452	100.00	2,771,998	3,737,310	100.00	2,361,998	2,499,867
Light	203,934,060	26.06	2,225,822	3,461,971	26.06	2,225,822	3,353,796
CemigTelecom	448,340,822	100.00	292,399	247,313	100.00	241,742	191,515
Rosal Energia	46,944,467	100.00	46,944	106,897	100.00	46,944	141,038
Sá Carvalho	361,200,000	100.00	36,833	102,536	100.00	36,833	106,111
Gasmig	409,255,483	99.57	665,429	1,223,948	99.57	665,429	1,425,622
Horizontes Energia	39,257,563	100.00	39,258	53,165	100.00	39,258	52,396
Usina Térmica Ipatinga	174,281	100.00	174	4,932	100.00	174	4,009
Cemig PCH	35,952,000	100.00	35,952	96,944	100.00	35,952	91,969
Lepsa	1,379,839,905	100.00	406,341	455,861	66.62	437,638	443,370
RME	1,365,421,406	75.00	403,040	453,157	66.27	433,770	440,069
Companhia Transleste de Transmissão	49,569,000	-	49,569	-	25.00	49,569	81,293
UTE Barreiro		100.00	16,902	17,982	100.00	30,902	39,266
Companhia Transudeste de Transmissão	30,000,000	-	30,000	-	24.00	30,000	85,438
Empresa de Comercialização de Energia Elétrica	486,000	100.00	486	18,403	100.00	486	20,154
Companhia Transirapé de Transmissão	22,340,490	-	22,340	-	24.50	22,340	97,763
Efficientia	6,051,994	100.00	6,052	7,084	100.00	6,052	4,868
Cemig Comercializadora de Energia Incentivada	1,000,000	100.00	1,000	2,004	100.00	1,000	1,867
Companhia de Transmissão Centroeste de Minas	28,000,000	51.00	28,000	40,361	51.00	28,000	41,512
Cemig Trading	1,000,000	100.00	1,000	29,206	100.00	1,000	28,635
Axxiom Soluções Tecnológicas	17,200,000	49.00	46,600	24,216	49.00	46,600	39,314
Taesa	1,033,496,721	21.68	3,042,034	4,346,746	31.54	3,042,034	4,307,588

(1) Control shared under a Shareholders' Agreement.

On December 31, 2017, the current liabilities of some jointly-controlled entities were higher than their current assets, as follows:

Light: On December 31, 2017, Light had consolidated negative working capital of R$ 1,355,157 (R$ 1,258,928 on December 31, 2016). The management of Light has been negotiating renewal of short-term loans and financings, and is in the process of lengthening its debt profile in 2018 through new issues of debt instruments. It believes that success in this lengthening of debts will reverse the current situation of negative net working capital.

Madeira Energia ('Mesa'): The excess of current liabilities over current assets, equal to R$ 1,473,596, arises mainly from the account lines Suppliers, Other liabilities and Loans and financings. To resolve its situation of negative working capital, Mesa expects adjustment of the flow of its debt servicing payments to the BNDES and the onlending banks, and release of funds from the reserve account to be allocated to these payments, which will be replaced by a bank guarantee and operational cash generation.

Renova Energia: In 2017, Renova Energia reported accumulated losses of R$ 2,194,590, and current liabilities R$ 1,607,398 in excess of current assets. It needs to obtain capital to comply with the construction commitments of wind and solar generating plants.

For this purpose it has taken several measures to rebalance its liquidity and cash flow structure through sale of assets, using the funds to pay suppliers and amortize debt, as well as optimizing the portfolio, with sale of projects and/or operational assets.

The management of Renova Energia believes that with the success of these measures it will be possible to recover the company's economic and financial equilibrium, and liquidity.

Management has analyzed the indications of impairment referred to above and, based on the available information, believes that there is no material uncertainty as continuation of the operations of these investees.

The balances of account lines for the affiliated companies and jointly-controlled entities, at December 31, 2017 and 2016, are as follows:

2017	Centroeste	RME	Light	Taesa	Axxiom	Aliança Norte	Itaocara	Lightger	Amazônia Energia	Aliança Geração
Assets										
Current	56,176	2,042	4,250,667	1,970,698	46,288	516	4,954	50,552	97	621,660
Cash and cash equivalents	16,793	959	342,276	2,495	3,428	455	4,895	1,201	70	467,542
Non-current	635	451,155	11,180,641	6,607,614	11,110	1,065,355	11,135	142,146	1,163,092	2,398,524
Total assets	**56,811**	**453,197**	**15,431,308**	**8,578,312**	**57,398**	**1,065,871**	**16,089**	**192,698**	**1,163,189**	**3,020,184**
Liabilities										
Current	3,917	40	5,575,770	737,012	29,370	243	1,182	30,340	29	448,128
Suppliers	33	11	2,022,507	47,549	1,497	-	1,047	19,809	-	43,582
Loans and financings – Current	3,002	-	1,372,932	-	5,477	-	-	-	-	84,409
Non-current	12,535	-	6,393,567	3,494,554	3,812	-	7,358	79,027	-	714,151
Shareholders' equity	40,359	453,157	3,461,971	4,346,746	24,216	1,065,628	7,549	83,331	1,163,160	1,857,905
Total liabilities	**56,811**	**453,197**	**15,431,308**	**8,578,312**	**57,398**	**1,065,871**	**16,089**	**192,698**	**1,163,189**	**3,020,184**
Statement of income										
Net sales revenue	15,214	-	11,314,559	1,104,092	43,340	-	-	41,727	-	919,788
Cost of sales	(4,069)	-	-	(209,107)	(54,807)	-	(3,844)	(28,341)	-	(554,751)
Depreciation and amortization	(1,421)	-	-	(708)	(1,584)	-	-	(10,564)	-	(126,553)
Gross income (loss)	**11,145**	**-**	**11,314,559**	**894,985**	**(11,467)**	-	(3,844)	13,386	-	365,037
General and administrative expenses		(1,181)	(9,940,607)	(124,447)	(7,094)	(855)	-	(1,665)	(642)	(10,530)
Finance income	2,332	16,413	136,324	368,375	753	85	291	3,837	1,595	29,596
Finance expenses	(2,294)	(2)	(1,211,798)	(433,843)	(1,089)	(6)	-	(9,121)	(5)	(64,844)
Operational income (loss)	**11,183**	**15,230**	**298,478**	**705,070**	**(18,897)**	**(776)**	**(3,553)**	6,437	947	319,259
Income and Social Contribution taxes	(1,266)	(52)	(174,257)	(57,590)	6,301	-	-	(2,614)	(1)	(103,559)
Net income (loss) for the period	**9,917**	**15,178**	**124,221**	**647,480**	**(12,596)**	**(776)**	**(3,553)**	**3,823**	**947**	**215,700**
Comprehensive income (loss) for the period										
Net income (loss) for the period	**9,917**	**15,178**	**124,221**	**648,480**	**(12,596)**	**(776)**	**(3,553)**	3,823	947	215,700
Gain on conversion of financial statement	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
Actuarial gains (losses)	-	-	-	-	-	-	-			-
Comprehensive income (loss) for the period	**9,917**	**15,178**	**124,221**	**648,480**	**(12,596)**	**(776)**	**(3,553)**	**3,823**	**947**	**215,700**

The Transmineiras companies were removed from the table for 2017, due to their sale in November 2017.
Luce is not presented in the 2017 table due to the fact that it has been under the Company's control since November 2017.

2017	Hidrelétrica Cachoeirão	Baguari Energia	Guanhães Energia	Madeira Energia	Hidrelétrica Pipoca	Retiro Baixo	Renova	Central Eólica de Parajuru	Central Eólica de Morgado	Central Eólica Volta do Rio
Assets										
Current	50,434	29,429	10,630	556,738	14,822	23,875	31,242	41,204	11,044	16,135
Cash and cash equivalents	46,397	5,449	7,428	54,517	5,834	14,256	342	35,373	6,595	4,704
Non-current	87,278	208,511	42,442	23,593,860	94,764	365,562	1,679,389	120,747	135,773	232,818
Total assets	**137,712**	**237,940**	**53,072**	**24,150,598**	**109,586**	**389,437**	**1,710,631**	**161,951**	**146,817**	**248,953**
Liabilities										
Current	9,854	18,338	1,970	2,030,334	17,448	27,182	395,295	26,105	89,522	126,180
Suppliers	1,423	9,705	252	202,503	5,668	2,898	25,220	573	2,173	873
Non-current	9,578	5,707	44	16,793,149	39,030	104,375	535,528	46,870	2,983	7,079
Equity	118,280	213,895	51,058	5,327,115	53,108	257,880	779,808	88,976	54,312	115,694
Total liabilities	**137,712**	**237,940**	**53,072**	**24,150,598**	**109,586**	**389,437**	**1,710,631**	**161,951**	**146,817**	**248,953**
Statement of income										
Net sales revenue	39,156	63,778	-	2,971,019	28,903	67,204	-	20,582	14,331	22,482
Cost of sales	(17,796)	(36,151)	(637)	(1,857,730)	(18,564)	(33,369)	(4,484)	(15,609)	(17,372)	(29,139)
Depreciation and amortization	(3,513)	(8,826)	-		(3,094)	(10,099)	(4,484)	(9,521)	(10,004)	(16,819)
Gross income	21,360	27,627	(637)	1,113,289	10,339	33,835	(4,484)	4,973	(3,041)	(6,657)
General and administrative expenses	-	-	-	(817,254)	(983)	-		(1,975)	(967)	(3,356)
Provision for loss	-	-	(22,468)	-	-	-	-	-	-	-
Financel revenues	4,135	6,179	929	114,973	1,836	2,816	3,817	3,471	1,857	3,116
Financel expenses	(1,945)	(709)	(3,021)	(1,551,186)	(4,586)	(12,344)	(1,260,283)	(6,095)	(7,943)	(11,649)
Operational income (loss)	23,550	33,097	(25,197)	(1,140,178)	6,606	24,307	(1,260,950)	374	(10,094)	(18,546)
Income and Social Contribution taxes	(2,759)	(10,758)	-	48,676	(1,590)	(2,526)	121,415	(274)	(723)	(2,644)
Net income (loss) for the period	**20,791**	**22,339**	**(25,197)**	**(1,091,502)**	**5,016**	**21,781**	**(1,139,535)**	**100**	**(10,817)**	**(21,190)**
Comprehensive income(loss) for the period										
Net income (loss) for the period	20,791	22,339	(25,197)	(1,091,502)	5,016	21,781	(1,139,535)	100	(10,817)	(21,190)
Gain on conversion of financial statement	-	-	-	-	-	-	-	-	-	-
Comprehensive income(loss) for the period	**20,791**	**22,339**	**(25,197)**	**(1,091,502)**	**5,016**	**21,781**	**(1,139,535)**	**100**	**(10,817)**	**(21,190)**

2016	Parati	Transleste	Transirapé	Centroeste	Transudeste	Luce	RME	Light	Taesa	Axxiom	Aliança Norte
Assets											
Current	11,612	50,167	40,893	61,031	32,271	6,257	3,086	3,612,477	1,954,878	65,829	1,853
Cash and cash equivalents	7,851	3,034	2,297	19,846	4,123	20	6	668,304	101,505	9,041	1,812
Non-current	1,327,798	122,568	122,559	634	78,107	437,188	437,110	10,717,752	6,455,739	13,480	1,075,009
Total assets	**1,339,410**	**172,735**	**163,452**	**61,665**	**110,378**	**443,445**	**440,196**	**14,330,229**	**8,410,617**	**79,309**	**1,076,862**
Liabilities											
Current	142	27,971	32,546	4,970	21,748	75	127	4,871,405	1,074,367	32,316	335
Suppliers	79	190	395	88	122	18	85	1,341,800	36,991	908	96
Loans and financings – Current	-	18,196	19,467	3,040	19,067	-	-	1,5567,738	9,147	9,769	-
Non-current	-	63,471	33,143	15,183	3,192	-	-	6,105,028	3,028,662	7,679	-
Equity	1,339,268	81,293	97,763	41,512	85,438	443,370	440,069	3,353,796	4,307,588	39,314	1,076,527
Total liabilities	1,339,410	172,735	163,452	61,665	110,378	443,445	440,196	14,330,229	8,410,617	79,309	1,076,862
Statement of income											
Net sales revenue	-	34,011	44,729	13,387	22,325	-	-	9,645,237	1,391,074	57,217	-
Cost of sales	-	(2,095)	(18,642)	(2,457)	(1,332)	-	-	(8,042,026)	(149,196)	(63,842)	-
Depreciation and amortization	-	-	-	(1,422)		-	-	(452,260)	(706)	(1,783)	-
Gross income	-	31,916	26,087	**10,930**	20,993	-	-	**1,603,211**	**1,241,878**	**(6,625)**	-
General and administrative expenses	(5,511)	(329)	(1,090)	-	(808)	(741)	(1,170)	(752,243)	(106,492)	(7,853)	(2,554)
Financel revenues	3,716	1,547	736	4,296	877	179	1,217	147,533	58,364	616	182
Financel expenses	(60,642)	(10,196)	(5,089)	(2,961)	(4,284)	(41,380)	(41,386)	(1,281,476)	(223,412)	-	(6,942)
Operational income (loss)	**(62,437)**	22,938	20,644	**12,265**	16,778	(41,942)	**(41,339)**	**(282,975)**	**970,338**	**(13,862)**	**(9,314)**
Income and Social Contribution taxes	228	(1,636)	(1,650)	(1,153)	(1,017)	(78)	(78)	(29,962)	(108,272)	4,621	-
Net income (loss) for the period	(62,209)	21,302	18,994	11,112	15,761	(42,020)	(41,417)	(312,937)	862,066	(9,241)	(9,314)
Comprehensive income (loss) for the period											
Net income (loss) for the period	**(62,209)**	**21,302**	**18,994**	**11,112**	**15,761**	**(42,020)**	**(41,417)**	**(312,937)**	**862,066**	**(9,241)**	**(9,314)**
Gain on conversion of financial statement	-	-	-	-	-	-	-	**(85,872)**	-	-	-
Actuarial gains (losses)	-	-	-	-	-	-	-	-	-	-	-
Comprehensive income (loss) for the period	(62,209)	21,302	18,994	11,112	15,761	(42,020)	(41,417)	(398,809)	862,066	(9,241)	(9,314)

2016	Hidrelétrica Cachoeirão	Baguari Energia	Guanhães Energia	Madeira Energia	Hidrelétrica Pipoca	Retiro Baixo	Renova	Central Eólica de Parajuru	Central Eólica de Morgado	Central Eólica Volta do Rio	Lightger	Amazônia Energia	Aliança Geração
Assets													
Current	43,367	45,076	15,923	1,519,965	20,175	30,220	135,860	38,546	23,976	36,630	34,912	77	388,100
Cash and cash equivalents	39,620	11,110	1,185	57,974	17,311	19,222	35,786	17,748	17,385	26,568	31,817	51	146,601
Non-current	86,131	219,998	65,142	23,557,118	97,855	376,648	5,765,276	127,585	142,499	244,961	152,301	1,048,369	2,511,543
Total assets	**129,498**	**265,074**	**81,065**	**25,077,083**	**118,030**	**406,868**	**5,901,136**	**166,131**	**166,475**	**281,591**	**187,213**	**1,048,446**	**2,899,643**
Liabilities													
Current	10,038	12,225	190,672	3,131,026	8,150	24,743	3,346,901	19,137	27,248	36,761	16,019	95	592,394
Suppliers	1,660	6,212	261	661,726	67	745	546,911	804	526	801	5,611	-	100,640
Non-current	16,580	5,187	10,946	15,527,440	44,964	118,445	598,637	58,097	74,099	107,944	86,413	-	334,730
Equity	102,880	247,662	(120,553)	6,418,617	64,916	263,680	1,955,598	88,897	65,128	136,886	84,781	1,048,351	1,972,519
Total liabilities	**129,498**	**265,074**	**81,065**	**25,077,083**	**118,030**	**406,868**	**5,901,136**	**166,131**	**166,475**	**281,591**	**187,213**	**1,048,446**	**2,899,643**
Statement of income													
Net sales revenue	33,469	64,985	-	2,802,554	24,714	61,985	483,137	27,276	22,268	28,617	35,600	-	803,732
Cost of sales	(9,562)	(11,652)	-	(1,844,691)	(6,164)	(29,225)	(453,613)	(16,794)	(16,997)	(26,981)	(16,884)	-	(313,518)
Depreciation and amortization	(2,658)	(8,808)	-	(673,009)	(3,081)	(9,406)	(93,459)	(9,505)	(9,997)	(16,820)	(10,510)	-	(124,704)
Gross income	23,907	53,333	-	957,863	18,550	32,760	29,524	10,482	5,271	1,636	18,716	-	490,214
General and administrative expenses	(134)	(1,160)	-	(145,908)	(2,067)	-	(40,558)	(797)	(877)	(2,016)	(1,619)	(1,435)	(57,976)
Impairment of fixed assets	-	-	-	-	-	-	(281,030)	-	-	-	-	-	-
Adjustment for losses on investment	-	-	-	-	-	-	(455,427)	-	-	-	-	-	-
Financel revenues	4,183	14,765	261	146,200	1,845	1,922	16,170	2,790	2,659	4,618	3,489	20	46,252
Financel expenses	(2,672)	(681)	(208,645)	(1,551,719)	(5,503)	(14,802)	(423,784)	(7,217)	(9,668)	(14,062)	(9,931)	(7,523)	(58,588)
Operational income (loss)	25,284	66,257	(208,384)	(593,564)	12,825	19,880	(1,155,105)	5,258	(2,615)	(9,824)	10,655	(8,938)	419,902
Income and Social Contribution taxes	(2,586)	(7,117)	-	(23,636)	(1,455)	(2,680)	53,633	(1,769)	896	3,049	(2,312)	-	(127,214)
Net income (Loss) for the period	**22,698**	**59,140**	**(208,384)**	**(617,200)**	**11,370**	**17,200**	**(1,101,472)**	**3,489**	**(1,719)**	**(6,775)**	**8,343**	**(8,938)**	**292,688**
Comprehensive income (loss) for the period													
Net income (Loss) for the period	22,698	59,140	(208,384)	(617,200)	11,370	17,200	(1,101,472)	3,489	(1,719)	(6,775)	8,343	(8,938)	292,688
Gain on conversion of financial statement	-	-	-	-	-	-	(182,011)	-	-	-	-	-	-
Comprehensive income (loss) for the period	**22,698**	**59,140**	**(208,384)**	**(617,200)**	**11,370**	**17,200**	**(1,283,483)**	**3,489**	**(1,719)**	**(6,775)**	**8,343**	**(8,938)**	**292,688**

Investment in the *Santo Antônio* hydroelectric plant, through Madeira Energia S.A. (‘Mesa’) and FIP Melbourne

The Company has direct and indirect investments, of 10% and 8.13% respectively, in **Madeira Energia S.A.** (which holds an investment in **Santo Antônio Energia S.A.**), of R$ 1,117,265 at December 31, 2017 (R$ 1,321,072 at December 31, 2016).

Madeira Energia S.A. (‘Mesa’) and its subsidiary Santo Antônio Energia S.A. (‘Saesa’) are incurring establishment costs related to the construction of the *Santo Antônio* hydroelectric plant. The assets – PP&E, and intangible assets – constituted by these expenditures totaled R$ 21,610,727 (Mesa, consolidated) on December 31, 2017, and this amount, according to financial projections prepared by its management, is being absorbed by revenues from operations as all the entity’s generating units are now in 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. In this context, the Federal Public Attorneys have started investigations into irregularities involving contractors and suppliers of Mesa and of its other shareholders. These investigations are in progress. In response to allegations of possible illegal activities, the investee and its other shareholders have started an independent internal investigation. At the present moment it is not possible to determine the results of these investigations, or the developments arising from them, which may at some time in the future have consequences for the investee.

The effects of any alterations to the existing scenario will be reflected, appropriately, in the financial statement of the Company and its subsidiary Cemig GT.

Arbitration proceedings

In 2014, Cemig GT and SAAG Investimentos S.A. (SAAG), a vehicle through which Cemig GT holds an indirect equity interest in Mesa, 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$ 750,000 partially to be allocated to payment of the claims by the Santo Antonio Construction Consortium (‘CCSA’), based on absence of quantification of the amounts supposedly owed, and absence of prior approval by the Board of Directors, as required by the bylaws and 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$ 750,000, relating to certain credits owed to Mesa by CCSA, on the grounds that those credits are owed in their totality by express provision of contract.

In 2016 the arbitration judgment by the Market Arbitration Chamber recognized the right of Cemig GT and SAAG in full, and ordered annulment of the acts being impugned. As a consequence of this decision, Mesa reversed the impairment, and posted a provision for receivables in the amount of R$ 678,551 in its financial statements at December 31, 2017.

To resolve the question of the liability of the CCSA consortium to reimburse the costs of re-establishment of the collateral and use of the contractual limiting factor, the affiliated company opened arbitration proceedings with the International Chamber of Commerce (ICC) against CCSA, which are in progress. Under the Arbitration Regulations of the ICC, this procedure is taking place *in camera*.

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

Amazônia Energia and Aliança Norte are shareholders in Norte Energia S.A. ('Nesa'), which holds the concession to operate the Belo Monte Hydroelectric Plant, on the Xingu River, in the State of Pará, and manages that interest. Through the jointly-controlled entities referred to above, Cemig GT owns an indirect equity interest in Nesa of 11.74%.

Nesa will still require significant funds for costs of organization, development and pre-operating 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 "not to apply any penalties or sanctions in relation to the Belo Monte Hydroelectric Plant not coming into operation on the date established in the original timetable for the project, including those specified in Aneel Normative Resolution 595/2013 and in the Concession Contract 01/2010-MME, of the Belo Monte Hydroelectric Plant". The legal advisers of Nesa have classified the probability of loss as 'possible' and estimated the potential loss in Belo Monte up to December 31, 2017 is R$ 285,696.

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. In this context, the Federal Public Attorneys have started investigations into irregularities involving contractors and suppliers of Nesa and of its other shareholders, which are still in progress. At present it is not possible to determine the outcome of these investigations, and their possible consequences. These might at some time in the future include consequences for the investee, and also, based on the results of the independent internal investigation conducted by Nesa and its other shareholders, a write-down of the value of the infrastructure of Nesa, by R$ 183,000 was already recorded.

The effects of any alterations to the existing scenario will be reflected, appropriately, in the financial statement of the Company and its subsidiary Cemig GT.

Investment in Renova Energia S.A. (‘Renova’)

Investment in TerraForm

The indirectly jointly-controlled entity Renova had investments in TerraForm Global Inc., designated as financial assets available for sale, recorded at fair value, based on the quoted market price of the shares of TerraForm on a stock exchange (NASDAQ), of which the gain arising from the change in quoted price of the shares (fair value), in the amount of R$ 73,224, was posted directly in Equity of the jointly-controlled entity, in Other comprehensive income.

On May 15, 2017, Renova sold to Brookfield Asset Management (‘Brookfield’) the investment that it had held in TerraForm Global Inc. (‘TerraForm Global’), for R$ 305,766, and reclassified the accumulated positive adjustments previously posted in Other comprehensive income, in the amount of R$ 172,243 (of which the impact on Cemig GT was R$ 60,285), to the Profit and Loss account.

In June 2017 Renova further signed an agreement with TerraForm Global in which the parties agreed to terminate the arbitration proceedings that were in existence between the parties, through financial compensation to Renova of R$ 48,559. This was paid jointly with the financial settlement of the sale of the shares in TerraForm.

Adjustment for impairment

In 2017 and 2016 Renova posted impairments of its PP&E, resulting in provisions for losses of R$ 786,544, in 2017 (the impact on Cemig GT being R$ 284,965), and R$ 264,246 in 2016 (impact on Cemig GT: R$ 90,240).

Sale of assets – Umburanas wind complex

On August 23, 2017 Renova signed, with Engie Brasil S.A. (‘Engie’), the *Contract for Assignment of Rights and Obligations of the Umburanas Wind Power Complex*, with total installed capacity of 605 MW. The base price of the transaction was R$ 15,000.

The transfer of the Umburanas Complex to Engie was approved on October 24, 2017, at the 40th Public Meeting of the Council of Aneel.

Grant of exclusivity

On February 23, 2018, Renova received a binding offer from Brookfield Energia Renovável S.A. (‘BER’) for acquisition of the assets of the whole of the Alto Sertão III Complex (‘ASIII Complex’), and also approximately 1.1 GW in certain wind projects under development. The value presented for the ASIII Complex was R$ 650,000, to be paid on completion of the transaction, this amount being subject to usual post-closing adjustments (‘the Price’). The Price may be increased by an earn-out of up to R$ 150,000 linked to future generation by the ASIII Complex, to be calculated after 5 years from its start of operation, plus R$ 187 per MW of installed capacity for the wind projects in development. On February 27, 2018 the Board of Directors of Renova approved the proposal received and granted BER exclusivity for a further 30 days, automatically renewable for 30 additional days, for finalization of the documents of the transaction. The proceeds from the transaction will be prioritized for payment of suppliers and creditors of the Alto Sertão III project.

Risks related to compliance with laws and regulations

On January 19, 2018, Renova responded to a formal statement by the Civil Police of Minas Gerais State received in November 2017, relating to the investigation being carried out by that Police Force related to certain injections of capital made by the equity holders of the parent of Renova, and injections of capital made by it in certain projects under development in previous years. As a consequence of this matter, the governance bodies of Renova requested the opening of an internal investigation on this subject, which is being conducted by an independent company.

The work of the internal investigation is in progress, and it is not at present possible to determine any effects of this investigation, nor any impacts on the financial statement of Renova, of the Company, or of its subsidiary Cemig GT for the year ended December 31, 2017.

Binding proposal by Cemig presented to Renova

On March 27, 2018 Cemig (the equity holder of Cemig GT) presented a binding proposal to the jointly-controlled entity Renova, for acquisition of 100% of the shares in Chipley SP Participações S.A. (‘Chipley’) held by Renova, or 51% of the shares in Brasil PCH S.A. held by Chipley.

This proposal relates to the recent changes in the negotiations for capitalization of Renova, Renova’s interest in bringing forward revenues from power purchase agreements, and execution of Cemig’s disinvestment program.

Cemig’s intention is that Renova should sell its interest in Brasil PCH to a third party, or to Cemig itself or to any of its affiliated companies, in the terms of the Proposal, to make possible payment of the amounts owed to Cemig GT.

Conclusion of this transaction, if accepted by Renova, will depend on precedent conditions, specified in the Proposal, that are usual for this type of transaction.

In view of the above, Cemig GT has recused itself from decisions and debate in the governance bodies of Renova on decisions relating to the binding proposal.

Interest in RME and Lepsa

On November 30, 2017, the Company made an additional acquisition of an interest in RME, acquiring control of that company as a result of partial exercise of the put option held by the other shareholders, as descried in more detail in Note 30 – *Financial Instruments and Risk Management*.

On that date Cemig acquired the totality of the shares in Lepsa, and the totality of the preferred shares in RME, held by BB-BI, BV Financeira and Santander, which corresponded to fair value of R$ 185,358, comprising R$ 147,163 in Lepsa and R$ 38,195 in RME.

With this acquisition, Cemig increased its stockholding position in RME from 66.27 to 75% of the total capital, while continuing to own a 50% interest in the voting stock of RME; and increased in stockholding position in Lepsa from 66.62% to 100% of the total and voting.

Based on the studies made, the fair value of the assets acquired resulted in a fair value for the companies, as follows:

Lepsa			RME		
	ASSETS	LIABILITIES + S.E.		ASSETS	LIABILITIES + S.E.
Fair value, current	4,460	48	Fair value, current	2,153	42
Fair value, current	427,819	-	Fair value, current	427,819	-
Fair value, equity	-	432,231	Fair value, equity	-	429,930
Total	**432,279**	**432,279**	**Total**	**429,972**	**429,972**

Considering its acquisition of control of Lepsa, Cemig measured its original participation in the investment at fair value, posting a loss of R$ 72,352 during the 2017 in the statement of income for the year ended December 31, 2017.

Merger of CemigTelecom

On February 28, 2018, Company stockholders' Meeting aproved the merger of Cemig Telecom that was completed on March 31, 2018.

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

Disposal of Taesa's units

In November 2017 the Company sold part of its equity interest in the jointly-controlled entity Taesa in an auction and raised R$ 717.4 million . The Company sold 34 million Units in Taesa at the price of R$ 21.10 per Unit. With the sale, the Company's holding in the share capital of Taesa was reduced from 31.54% to 21.68%.

The shares that were sold are not part of the controlling stockholding block of Taesa, and as a result Cemig continues to be in the controlling block of Taesa.

Sale of the Transmineiras to Taesa

In november 2017, Cemig completed the stockholding restructuring involving transfer to Taesa of the equity interests held by Cemig GT in the following transmission concession holders:

- Companhia Transleste de Transmissão S.A. (‘Transleste’),
- Companhia Transudeste de Transmissão S.A. (‘Transudeste’), and
- Companhia Transirapé de Transmissão S.A. (‘Transirapé’)

(‘the Transmineiras Companies’). The amount received by Cemig was R$ 56.1 million.

17. PROPERTY, PLANT AND EQUIPMENT

Consolidated R$ ’000	2017			2016		
	Historical cost	Accumulated depreciation	Net value	Historical cost	Accumulated depreciation	Net value
In service	224,924	(13,652)	211,272	286,368	(7,718)	278,650
Land	3,284,948	(2,051,372)	1,233,576	5,347,448	(3,586,435)	1,761,013
Reservoirs, dams and watercourses	1,116,990	(785,628)	331,362	1,789,111	(1,370,631)	418,480
Buildings, works and improvements	2,935,643	(2,062,092)	873,551	4,518,403	(3,347,214)	1,171,189
Machinery and equipment	28,816	(25,711)	3,105	28,816	(24,586)	4,230
Vehicles	16,109	(12,714)	3,395	15,781	(12,373)	3,408
Furniture and utensils	**7,607,430**	**(4,951,169)**	**2,656,261**	**11,985,927**	**(8,348,957)**	**3,636,970**
	106,049	-	106,049	138,106	-	138,106
In progress	**7,713,479**	**(4,951,169)**	**2,762,310**	**12,124,033**	**(8,348,957)**	**3,775,076**
Net property, plant and equipment						

This table shows the changes in PP&E:

Consolidated R$ ’000	Balance at 2016	Addition	Jaguara, Miranda and Volta Grande Plants (1)	Disposals	Depreciation	Transfers / capitalizations	Balance at 2017
In service							
Land	278,650	-	(60,938)	(507)	(5,933)	-	211,272
Reservoirs, dams and watercourses	1,761,013	-	(440,923)	(4,094)	(85,423)	3,003	1,233,576
Buildings, works and improvements	418,480	39	(68,657)	-	(19,626)	1,126	331,362
Machinery and equipment	1,171,189	257	(305,231)	(5,591)	(92,358)	105,285	873,551
Vehicles	4,230	-	-	-	(1,125)	-	3,105
Furniture and utensils	3,408	58	-	-	(350)	279	3,395
	3,636,970	**354**	**(875,749)**	**(10,192)**	**(204,815)**	**109,693**	**2,656,261**
In progress	138,106	82,712	(130)	(17,001)	-	(97,638)	106,049
Net property, plant and equipment	**3,775,076**	**83,066**	**(875,879)**	**(27,193)**	**(204,815)**	**12,055**	**2,762,310**

(1) Transferred to Concession financial assets, in relation to the *Jaguara, Miranda* and *Volta Grande* Plants (more details in Note 15).

Consolidated R$ ’000	Balance at 2015	Addition	Disposals	Depreciation	Transfers / capitalizations	Balance at 2016
In service						
Land	278,609	-	(356)	306	91	278,650
Reservoirs, dams and watercourses	1,830,045	-	(3)	(98,567)	29,538	1,761,013
Buildings, works and improvements	437,311	-	(734)	(23,137)	5,040	418,480
Machinery and equipment	1,192,099	-	(42,343)	(110,202)	131,635	1,171,189
Vehicles	8,082	-	(58)	(2,277)	(1,517)	4,230
Furniture and utensils	4,473	-	(4)	(398)	(663)	3,408
	3,750,619	**-**	**(43,498)**	**(234,275)**	**164,124**	**3,636,970**
In progress	189,704	119,843	(12,862)		(158,579)	138,106
Net property, plant and	**3,940,323**	**119,843**	**(56,360)**	**(234,275)**	**5,545**	**3,775,076**

equipment						

The average annual depreciation rate for the year 2017 is 3.14% (cf. 3.51% in 2016). The main annual depreciation rates, which take into account the expected useful life of the assets, are revised annually by Management.

The Company and its subsidiaries have not identified any evidence of impairment of its Property, plant and equipment assets. The generation concession contracts provide that at the end of each concession the grantor must determine the amount to be indemnified to Cemig GT. Management believes that the indemnity of these assets will be greater than the amount of their historical cost after depreciation over their useful lives.

The net residual value of the assets is the remaining balance of the assets at the end of the concession, because, as established in the contract signed between the Company and the Grantor, at the end of the concession the assets will revert to the Grantor, which in turn will indemnify Cemig GT 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 term.

Consortium

Cemig GT is a partner in the energy generation consortium for the *Queimado* plant, for which no separate company with independent legal existence was formed to manage the object of the concession, whose controls are being kept in Fixed assets and Intangible assets. Cemig GT's portion in the consortium is recorded and controlled separately in the respective categories of PP&E and Intangible assets.

Consolidated and Holding company R$ '000	Interest in power output, %	Average annual depreciation rate %	2017	2016
In service				
Queimado plant	82.5	4.05	217,109	217,061
Accumulated depreciation	-	-	(90,649)	(90,524)
Total in operation			**126,460**	**126,537**
Under construction				
Queimado plant	82.5	-	340	233
Total under construction			**340**	**233**

18. INTANGIBLE ASSETS

Concession assets

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 customers ('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 energy sector, periodically establishing a review in the valuation of these rates. The rates established by Aneel are used in the processes of reviewing tariffs and calculation of the indemnity due at the end of the concession period, and are recognized as a reasonable estimation of the useful life of the concession assets . These rates, therefore, were used as the basis for valuation and amortization of the intangible assets, which reflect the consumption pattern expected of them.

a) Composition of the balance at December 31, 2017 and 2016

Consolidated R$ '000	2017			2016		
	Historical cost	Accumulated amortization	Residual value	Historical cost	Accumulated amortization	Residual value
In service						
Useful life defined						
Temporary easements	11,749	(1,990)	9,759	11,749	(1,315)	10,434
Paid concession	19,169	(11,251)	7,918	19,169	(10,572)	8,597
Assets of concession	17,837,687	(7,402,296)	10,435,391	16,287,763	(7,039,840)	9,247,923
Others	81,721	(64,533)	17,188	76,864	(59,434)	17,430
	17,950,326	**(7,480,070)**	**10,470,256**	**16,395,545**	**(7,111,161)**	**9,284,384**
In progress	685,672	-	685,672	1,535,296	-	1,535,296
Net intangible assets	**18,635,998**	**(7,480,070)**	**11,155,928**	**17,930,841**	**(7,111,161)**	**10,819,680**

Holding company R$ '000	Average amortization rate	2017			2016		
		Historical cost	Accumulated amortization	Residual value	Historical cost	Accumulated amortization	Residual value
In service							
Useful life defined							
Software use rights	20%	3,789	(3,748)	41	3,789	(3,649)	140
Brands and patents	10%	9	(7)	2	9	(7)	2
		3,798	**(3,755)**	**43**	**3,798**	**(3,656)**	**142**
In progress		2,414	-	2,414	1,710	-	1,710
Net intangible assets		**6,212**	**(3,755)**	**2,457**	**5,508**	**(3,656)**	**1,852**

b) Changes in Intangible assets

Consolidated R$ '000	Balance at 2016	Addition	Jaguara, Volta Grande and Miranda Plants	Disposals	Amortization	Transfer (1)	Balance at 2017
In service							
Useful life defined							
Temporary easements	10,434	-	-	-	(675)	-	9,759
Paid concession	8,597	-	-	-	(679)	-	7,918
Assets of concession	9,247,923	-		(10,843)	(637,828)	1,836,139	10,435,391
Others	17,430	-	(80)	-	(5,771)	5,609	17,188
	9,284,384	**-**	**(80)**	**(10,843)**	**(644,953)**	**1,841,748**	**10,470,256**
In progress	1,535,296	1,104,848	-	(8,307)	-	(1,946,165)	685,672
Net intangible assets – Consolidated	**10,819,680**	**1,104,848**	**(80)**	**(19,150)**	**(644,953)**	**(104,417)**	**11,155,928**

(1) The residual balance of the transfers refers to the balances transferred to Financial assets.

Consolidated R$ '000	Balance at 2015	Addition	Special obligations – write-down (1)	Disposals	Amortization	Transfer (2)	Balance at 2016
In service							
Useful life defined							
Temporary easements	10,434	-	-	-	-	-	10,434
Paid concession	9,275	-	-	-	(678)	-	8,597
Assets of concession	8,965,474	5,412	98,236	(31,878)	(593,399)	804,078	9,247,923
Others	15,290	-	-	-	(5,939)	8,079	17,430
	9,000,473	**5,412**	**98,236**	**(31,878)**	**(600,016)**	**812,157**	**9,284,384**
In progress	1,274,631	1,157,466	-	(6,637)	-	(890,164)	1,535,296
Net intangible assets – Consolidated	**10,275,104**	**1,162,878**	**98,236**	**(38,515)**	**(600,016)**	**(78,007)**	**10,819,680**

(1) The 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 All) program, with funds from the CDE account, and return of funds related to the Global Reversion Reserve (RGR).

(2) The residual balance of the transfers refers to the balances transferred to Financial assets.

The intangible asset Easements, onerous concessions, assets of concession, and Others, are amortizable by the straight-line method and taking into account the consumption pattern of these rights. The Company and its subsidiaries have not identified any evidence of impairment of its Property, plant and equipment assets. The Company and its subsidiaries have no intangible assets with non-defined useful life. The amount of additions in 2017, R$ 1,142,964, includes R$ 70,913 (R$ 142,014 in 2016) of capitalized borrowing costs, as presented in Note 21.

The annual average amortization rate is 3.85%. The main amortization rates, take into consideration the useful life that management expects for the asset, and reflect the expected pattern of their consumption, are as follows:

Under the regulations of the energy sector, goods and facilities used in the distribution are linked to these services, and cannot be withdrawn, disposed of, assigned or given in mortgage guarantee without the prior express authorization of the Regulator. Undoing of that link, for assets of an energy concession requires that the proceeds of the disposal are used for purposes of the concession.

On December 31, 2017 Cemig D has recorded as Intangible assets the gross book value of R$ 2,367,627 (R$ 2,242,966 at December 31, 2016) relating to assets fully amortized but still in operation. These assets are not taken into account for determination of the tariffs of Cemig D.

19. SUPPLIERS

R$ '000	Consolidated	
	2017	2016
Energy on spot market – CCEE (1)	468,216	167,860
Charges for use of energy network (2)	153,146	78,407
Energy purchased for resale	870,654	676,563
Itaipu Binacional	240,220	206,827
Gas bought for resale (3)	186,401	461,589
Materials and services	424,120	348,347
	2,342,757	**1,939,593**

(1) The balance payable to the CCEE refers basically to the hydrological risk of quotas for Itaipu. The increase in the balance payable, due to the hydrological risk, and also of the CCEARs, is associated with the adverse hydrological context.

(2) The charges payable by distribution and generation agents for use of the facilities that are components of the national grid. The amounts to be paid are set by an Aneel Resolution.

(3) In 2017 the Company reported higher expenses of energy due to the higher cost of supply in the wholesale market, arising from the low level of reservoirs, which resulted in lower output of power by the hydroelectric plants.

20. TAXES, INCOME TAX AND SOCIAL CONTRIBUTION

a) Taxes

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Current				
ICMS (I)	496,916	501,535	-	-
Cofins	126,065	128,030	2,484	32,332
Pasep	27,154	27,701	484	6,987
Social security contributions	19,522	24,865	1,913	1,933
Others	34,915	111,456	960	42,382
	704,572	**793,587**	**5,841**	**83,634**
Non-current				
Cofins (II)	24,216	594,866	-	-
Pasep (II)	3,983	129,056	-	-
	28,199	**723,922**	**-**	**-**
	732,771	**1,517,509**	**5,841**	**83,634**
Amounts to be restituted to customers				
Non-current				
Pasep and Cofins (II)	1,087,230	-	-	-
	1,087,230			

(I) The Tax Amnesty Program (PRCT).

In 2017 the subsidiaries Cemig D and Cemig GT joined and accepted the terms of the Minas Gerais State Tax Amnesty Program (*Plano de Regularização de Créditos Tributários*, or PRCT), for payment of ICMS tax by installments, updated and net of the reductions of penalty payments and interest as specified in State Law 22,549, and subsequent decrees that specified the conditions for payment of tax debits by installments.

The main tax issues that led to the decision of Cemig D to subscribe to the PRCT relate to ICMS on the CDE subvention in the period January 2013 to October 2016, and also to the classification of residential condominiums in the *commercial* category, which has a different ICMS rate, generating disagreement with the tax authority on interpretation, over the period 2013 to 2015. The amount included in the PRCT for Cemig D, in the amount of R$ 557,673, net of the reduction in interest and penalty payments by 90%, will be paid in 6 (six) installments, updated at 50% of the Selic rate.

By December 31, 2017 Cemig D had settled 3 (three) installments in the amount of R$ 281,877, with a balance of R$ 282,876 to be settled by March 2018.

The tax issue that led to Cemig GT adopting the PRCT relates to payment of ICMS tax on transfer of power supply received from a Consortium, where there was a difference in understanding between the Company and the tax authority in relation to the moment of payment. The amount of R$ 29,951, net of the 95% reduction in interest and penalties, was settled on October 31, 2017.

The total effects of acceptance of the PRCT, in the total amount of R$ 594,704, were recognized in the profit and loss account for the year ended December 31, 2017.

Additionally, on December 31, 2017 the Company and its subsidiaries had a balance of ICMS tax payable, of R$ 214,040, arising from their operations.

(II) On December 31, 2016 the long-term obligations for the Pasep and Cofins included the amounts relating to the Court challenge of the constitutionality of inclusion of the amount of ICMS tax within the base amount on which these contributions are calculated. The subsidiaries Cemig D and Cemig GT obtain interim relief from the Court allowing them not to make the payment and authorizing payment of the deposits into court (starting in 2008), and maintained this procedure until August 2011. After that date, while continuing to challenge the basis of the calculation in court, they opted to pay the taxes monthly.

In October 2017, the Federal Supreme Court (STF) published its Joint Judgment on the Extraordinary Appeal, on the basis of setting a global precedent, in favor of the argument of the two subsidiaries. Based on the opinion of its legal advisers, the subsidiaries adopted the following procedures:

- Cemig GT reversed the provision in the amount of R$ 101,233, with effect on Net income for 2017, posting it as a reversal of deductions on revenue.

- Cemig D wrote down the liabilities relating to these contributions, constituting a liability to its customers in the amount of R$ 1,087,230, which is of an equivalent level to the updated amount of the escrow deposits already made which total R$ 1,110,376, net of the Pasep and Cofins taxes incident on its revenue from updating, in the amount of R$ 23,146. This liability was recorded considering that the subsidiary passes to its customers the tax effects incident upon its energy bill, maintaining the neutrality of tariffs. The restitution to customers will depend upon the court escrow deposit being lifted and a decision by Aneel on the mechanisms to be adopted. The net effect arising from the postings in question on the net income for the year, was null.

b) Income tax and Social Contribution

	Consolidated	
	2017	2016
Current		
Income	88,152	18,380
Social contribution	27,144	8,486
	115,296	**26,866**

21. LOANS, FINANCINGS AND DEBENTURES

Financing source	Principal maturity	Annual financial cost %	Currency	Consolidated – R$ '000			
				2017			2016
				Current	Non-current	Total	Total
FOREIGN CURRENCY							
KfW	2019	1,78	Euros	4,178	205	4,383	7,416
Eurobonds	2024	9.25%	USD	25,149	3,308,000	3,333,149	-
Banco do Brasil: Various Bonds (1)	2024	Various	US$	1,455	21,478	22,933	23,049
(-) Transaction costs				-	(15,400)	(15,400)	-
(-) Interest paid in advance				-	(47,690)	(47,690)	-
Debt in foreign currency				**30,782**	**3,266,593**	**3,297,375**	**30,465**
BRAZILIAN CURRENCY							
Banco do Brasil	2017	108.33% of the CDI Rate	R$	-	-	-	72,549
Banco do Brasil	2017	108.00% of CDI	R$	-	-	-	150,683
Banco do Brasil	2017	111.00% of CDI	R$	-	-	-	50,683
Banco do Brasil	2021	140.00% of CDI	R$	1,100	741,264	742,364	1,156,368
Banco do Brasil	2022	146.50% of CDI	R$	193	500,000	500,193	510,289
BNDES	2017	TJLP+2.34%	R$	-	-	-	74,095
Caixa Econômica Federal	2018	119.00% of CDI	R$	8,346	-	8,346	108,792
Caixa Econômica Federal	2022	146.50% of CDI	R$	1,165	625,502	626,667	697,800
Eletrobras	2023	UFIR; RGR + 6.00 to 8.00%	R$	16,619	33,170	49,789	68,043
Large customers	2024	Various	R$	1,965	2,339	4,304	6,317
Finep	2018	TJLP + 5% and TJLP + 8%	R$	2,359	-	2,359	5,505
Pipoca Consortium	2018	IPCA	R$	185	-	185	185
Promissory Notes – 7th Issue	2017	128.00% of CDI	R$	-	-	-	674,196
Banco da Amazônia S.A.	2018	CDI + 1.90%	R$	121,470	-	121,470	122,596
Sonda (2)	2021	110.00% of CDI	R$	-	41,993	41,993	83,238
(-) Transaction costs				(2,477)	(23,958)	(26,435)	(52,627)
Debt in Brazilian currency				**150,925**	**1,920,310**	**2,071,235**	**3,728,712**
Total of loans and financings				**181,707**	**5,186,903**	**5,368,610**	**3,759,177**
Debentures – 3rd Issue, 1st series (3)	2017	CDI + 0.90%	R$	-	-	-	543,214
Debentures – 3rd Issue, 2nd Series (3)	2019	IPCA + 6.00%	R$	157,866	143,199	301,065	293,153
Debentures – 3rd Issue, 3rd Series (3)	2022	IPCA + 6.20%	R$	50,766	959,436	1,010,202	983,679
Debentures – 5th Issue, 1st series (3)	2018	CDI + 1.70%	R$	703,021	-	703,021	1,411,295
Debentures – 6th Issue, 1st series (3)	2018	CDI + 1.60%	R$	507,692	-	507,692	1,040,715
Debentures – 6th Issue, 2nd series (3)	2020	IPCA +8.07%	R$	1,107	30,986	32,093	31,223
Debentures – 7th Issue, 1st series (3)	2021	140.00% of CDI	R$	47,319	1,636,238	1,683,557	2,241,592
Debentures – 2nd Issue (3)	2017	IPCA + 7.96%	R$	-	-	-	235,136
Debentures – 3rd Issue, 1st series (4)	2018	CDI + 0.69%	R$	447,114	-	447,114	464,072
Debentures – 3rd Issue, 2nd series (4)	2021	IPCA + 4.70%	R$	59,337	1,477,810	1,537,147	1,496,274
Debentures – 3rd Issue, 3rd series (4)	2025	IPCA + 5.10%	R$	38,409	881,788	920,197	895,829
Debentures – 4th Issue, single series (4)	2018	CDI + 4.05%	R$	20,008	-	20,008	1,626,851
Debentures – 5th Issue, single series (4)	2022	146.50% of CDI	R$	1,220	1,575,000	1,576,220	-
Debentures (5)	2018	CDI + 1.60%	R$	100,328	-	100,328	100,629
Debentures (5)	2018	CDI + 0.74%	R$	33,350	-	33,350	66,706
Debentures (5)	2022	TJLP+1.82% (75%); Selic+1.82% (25%)	R$	33,070	122,307	155,377	133,502
Debentures (5)	2019	116.50% of CDI	R$	330	50,000	50,330	-
Debentures (2)	2019	128.50% of CDI	R$	15,352	11,200	26,552	-
(–) FIC Pampulha: Securities of subsidiary companies (6)				(25,492)	-	(25,492)	(64,528)
(-) Transaction costs				(1,953)	(47,721)	(49,674)	(79,239)
Total, debentures				**2,188,844**	**6,840,243**	**9,029,087**	**11,420,103**
Overall total – Consolidated				**2,370,551**	**12,027,146**	**14,397,697**	**15,179,280**

(1) Net balance of the Restructured Debt comprising bonds at par and discounted, with balance of R$ 149,169, less the amounts given as Deposits in guarantee, with balance of R$ 126,236. Interest rates vary – from 2 to 8% p.a.; six-month Libor plus spread of 0.81% to 0.88% p.a.

(2) CemigTelecom

(3) Cemig Geração e Transmissão

(4) Cemig Distribuição

(5) Gasmig

(6) FIC Pampulha has financial investments in securities issued by subsidiaries of the Company. For more information on this fund, see Note 30.

Guarantees

The guarantees of the debtor balance on loans and financings, on December 31, 2017, were as follows:

R$ '000	2017
Promissory Notes and Sureties	8,849,765
Receivables	3,962,696
Shares	1,389,712
Without guarantee	195,524
TOTAL	**14,397,697**

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

Consolidated	2018	2019	2020	2021	2022	2023	2024	After 2024	Total
Currency									
Euros	4,178	205	-	-	-	-	-	-	4,383
US dollar	26,604	-	-	-	-	-	3,329,478	-	3,356,082
Total, currency denominated	**30,782**	**205**	**-**	**-**	**-**	**-**	**3,329,478**	**-**	**3,360,465**
Indexors									
IPCA index (1)	307,670	646,372	819,783	819,068	546,655	220,447	220,447	220,447	3,800,889
Ufir / RGR (2)	16,619	12,910	11,210	3,407	3,264	2,379	-	-	49,789
CDI Rate (3)	1,990,784	1,043,836	1,164,970	1,570,827	1,432,141	-	-	-	7,202,558
URTJ / TJLP (4)	27,161	22,965	23,111	22,777	22,877	-	-	-	118,891
IGP–DI (5)	1,965	383	612	54	516	516	258	-	4,304
Total governed by indexors	**2,344,199**	**1,726,466**	**2,019,686**	**2,416,133**	**2,005,453**	**223,342**	**220,705**	**220,447**	**11,176,431**
(-) Transaction costs	(4,430)	(14,661)	(18,654)	(22,468)	(15,296)	(200)	(15,600)	(200)	(91,509)
(-) Interest paid in advance	-	-	-	-	-	-	(47,690)	-	(47,690)
Overall total	**2,370,551**	**1,712,010**	**2,001,032**	**2,393,665**	**1,990,157**	**223,142**	**3,486,893**	**220,247**	**14,397,697**

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

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

Currency	Acumulated Change 2017, %	Acumulated Change 2016, %	Indexor	Acumulated Change 2017, %	Acumulated Change 2016, %
US dollar	1.50	(16.54)	IPCA	2.95	6.29
Euros	15.41	(19.10)	CDI	9.93	14.06

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

R$ '000	Consolidated
Balance on December 31, 2015	**15,166,537**
Loans and financings obtained	5,878,054
(-) Transaction costs	(141,278)
Financings obtained, net	**5,736,776**
Monetary and exchange rate variation	230,859
Financial charges provisioned	2,002,010
Amortization of transaction cost	68,401
Financial charges paid	(2,369,244)
Amortization of financings	(5,591,531)
Subtotal	**15,243,808**
(–) FIC Pampulha: Securities of subsidiary companies	(64,528)
Balance at December 31, 2016	**15,179,280**
Loans and financings obtained	3,363,244
(–) Transaction costs (1)	(16,292)
(–) Interest paid in advance (1)	(48,097)
Financings obtained, net	**3,298,855**
Transaction costs (2)	(10,971)
Monetary and exchange rate variation	165,378
Financial charges provisioned	1,537,221
Amortization of transaction cost	66,856
Amortization of interest paid in advance	406
Financial charges paid	(1,746,950)
Amortization of financings	(4,131,411)
Subtotal	**14,358,664**
(–) FIC Pampulha: Securities of subsidiary companies	39,033
Balance on December 31, 2017	**14,397,697**

(1) Includes taxes with no cash effect, of R$ 9,573.
(2) Transaction costs arising from the 5th issue of debentures by Cemig D, as per table of funds raised below.

Borrowing costs, capitalized

Costs of loans directly related to acquisition, construction or production of an asset which necessarily requires a significant time to be concluded for the purpose of use or sale are capitalized as part of the cost of the corresponding asset. 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. All other costs of loans are recorded in Expenses in the period in which they are incurred. Costs of loans include interest and other costs incurred by the Company in relation to the loan.

The subsidiaries Cemig D and Gasmig transferred to Intangible assets the costs of loans and financings linked to working in progress, as follows:

R$ '000	2017	2016
Costs of loans and financings	1,604,483	2,070,411
Financing costs on Intangible assets	(70,913)	(142,014)
Net effect in Income or loss	**1,533,570**	**1,928,397**

The amounts of the capitalized borrowing costs have been excluded from the Statement of cash flow, in the additions to cash flow of investing activities, because they do 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 work in progress was 14.28% at December 31, 2017, and 18.02% at December 31, 2016.

Funding raised

This table gives the consolidated totals of funds raised in 2017:

Financing source	Signature date	Principal maturity	Annual financing cost – %	Amount (*) R$ '000
Foreign currency				
Eurobonds	12/05/2017	2024	9.25%	3,252,374
(–) Transaction costs (*)				(15,530)
Interest paid in advance (*)				(48,097)
Brazilian currency				
Debentures (1)	11/04/2013	2022	CDI + 0.74%	33,870
Debentures (2)	04/22/2017	2019	128.50% of CDI	26,238
Debentures – 5th Issue, single series (3)	12/14/2017	2022	146.50% of CDI	1,575,000
(–) Transaction costs (3)				(10,971)
Total raised				**4,812,884**

(*) Includes taxes without cash effect, of R$ 9,573.
(1) Subscription by BNDESPar of Gasmig's fourth debentures Issue, in June 2017, to support the plan for investment in expansion of the gas distribution network.
(2) CemigTelecom completed its second issue of non-convertible debentures in May 2017 with real guarantees and additional surety, in a single series, to roll over debt and strengthen cash position.
(3) On December 14, 2017 Cemig Telecom made its 5th issue of non-convertible debentures, with maturity 4.5 years, annual remuneration of 146.50% of the CDI, to be amortized in 36 monthly installments becoming due as from July 2019. Payment for subscription of the Debentures of the 5th issue was made with the debentures of the 4th issue – thus there was no cash effect in the Company.

Issue of Eurobonds

In December 2017 Cemig GT issued Eurobonds in the international market for a total of US$ 1 billion, with six-monthly coupon, at 9.25% p.a. The 7-year issue has maturity in December 2024, with an option for prepayment, without premium after six years from issue.

The issue had a surety guarantee from the Company, and proceeds were used to amortize short-term debt. Fitch and Standard&Poors gave the issue the rating 'B'.

To protect against foreign exchange variation, concomitantly with the receipt of proceeds on December 5, 2017, Cemig GT made a hedge transaction, at the cost of 150.5% of the variation arising from the CDI rate, for the total amount including the interest, through a combination of interest rate swap and call spread on the principal (i.e. in which Cemig GT accepts that the protection is up to an agreed price level). The issue deed had restrictive covenants and specified default events, which could generate early maturity of the debt. The package of covenants contains restrictions on investment, on indebtedness, on payment of dividends, and real guarantees, among other items, thus providing a combination of operational and financial flexibility for the issue and protection for investors. The covenants were decided according to the commonly accepted covenants for High Yield issues, and will cease to apply if and when Cemig GT is rated 'investment grade' by two rating agencies.

Debentures

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

Issuer	Type of guarantee	Annual cost, %	Maturity	2017	2016
Cemig GT – 3rd Issue – 1st Series	Unsecured	CDI Rate + 0.90%	2017	-	543,214
Cemig GT – 3rd Issue – 2nd Series	Unsecured	IPCA + 6.00%	2019	301,065	293,153
Cemig GT – 3rd Issue – 3rd Series	Unsecured	IPCA + 6.20%	2022	1,010,202	983,679
Cemig GT – 5th Issue, 1st Series	Unsecured	CDI + 1.70%	2018	703,021	1,411,295
Cemig GT– 6th Issue – 1st Series	Surety	CDI + 1.60%	2018	507,692	1,040,715
Cemig GT – 6th Issue – 2nd Series	Surety	IPCA +8.07%	2020	32,093	31,223
Cemig GT– 7th Issue – 1st Series	Receivables (Revenue)	140.00% of CDI	2021	1,683,557	2,241,592
Cemig D – 2nd Issue	None	IPCA + 7.96%	2017	-	235,136
Cemig D – 3rd Issue – 1st Series	Surety	CDI + 0.69%	2018	447,114	464,072
Cemig D – 3rd Issue – 2nd Series	Surety	IPCA + 4.70%	2021	1,537,147	1,496,274
Cemig D – 3rd Issue – 3rd Series	Surety	IPCA + 5.10%	2025	920,197	895,829
Cemig D – 4th Issue – single Series	Surety	CDI + 4.05%	2018	20,008	1,626,851
Cemig D – 5th Issue – single Series	Surety / Receivables	146.50% of CDI	2022	1,576,220	-
Gasmig	Unsecured	CDI + 1.60%	2018	100,328	100,629
Gasmig	Unsecured	CDI + 0.74%	2018	33,350	66,706
Gasmig	Unsecured	TJLP+1.82% (75%); Selic+1.82% (25%)	2022	155,377	133,502
Gasmig	Unsecured	116.50% of CDI	2019	50,330	-
CemigTelecom	Receivables	128.50% of CDI	2019	26,552	-
(–) FIC Pampulha: Securities of subsidiary companies				(25,492)	(64,528)
(–) Transaction costs				(49,674)	(79,239)
TOTAL				**9,029,087**	**11,420,103**

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

Restrictive covenants

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

Title	Parameter	Ratio required – Issuer	Ratio required – Cemig (Guarantor)	Compliance required
Banco do Brasil: Bank Credit Notes, and Fixed Credit Cemig GT (1)	Net debt / (Ebitda + Dividends received)	The following, or less: 5.5 on June 30, 2018 5.0 on December 31, 2018 5.0 on June 30, 2019 4.5 on December 31, 2019 4.5 on June 30, 2020 3.0 on December 31, 2020 3.0 on June 30, 2021 2.5 on / after Dec. 31, 2021	The following, or less: 4.5 on June 30, 2018 4.25 on December 31, 2018 4.25 on June 30, 2019 3.5 on December 31, 2019 3.5 on June 30, 2020 3.0 on December 31, 2020 3.0 on June 30, 2021 2.5 on / after Dec. 31, 2021	Half-yearly
7th Debenture Issue Cemig GT (2)	Net debt / (Ebitda + Dividends received)	The following, or less: 5.5 in 2017 5.0 in 2018 4.5 in 2019 3.0 in 2020 2.5 in 2021	The following, or less: 4.5 in 2017 4.25 in 2018 3.5 in 2019 3.0 in 2020 2.5 in 2021	Half-yearly
Eurobonds Cemig GT (3)	Net debt / Ebitda adjusted for the Covenant	The following, or less: 5.5 on December 31, 2017 5.5 on June 30, 2018 5.0 on December 31, 2018 5.0 on June 30, 2019 4.5 on December 31, 2019 4.5 on June 30, 2020 3.0 on December 31, 2020 3.0 on June 30, 2021 2.5 on /after Dec. 31, 2021	The following, or less: 5.0 on December 31, 2017 5.0 on June 30, 2018 4.25 on December 31, 2018 4.25 on June 30, 2019 3.5 on December 31, 2019 3.5 on June 30, 2020 3.0 on December 31, 2020 3.0 on June 30, 2021 3.0 on and after Dec. 31, 2021	Half-yearly
Bank Credit Notes of Banco do Brasil and Caixa Econômica Federal; and 5th Debenture Issue CEMIG D (4)	Net debt / (Ebitda + Dividends received)	The following, or less: 7.5 on December 31, 2017 7.5 on June 30, 2018 4.5 on December 31, 2018 3.8 on June 30, 2019 3.8 on December 31, 2019 3.3 on June 30, 2020 3.3 on December 31, 2020 3.3 on June 30, 2021 3.3 on /after Dec. 31, 2021	The following, or less: 4.5 on December 31, 2017 4.5 on June 30, 2018 4.25 on December 31, 2018 4.25 on June 30, 2019 3.5 on December 31, 2019 3.5 on June 30, 2020 3.0 on December 31, 2020 3.0 on June 30, 2021 2.5 on / after Dec. 31, 2021	Half-yearly
	Current liquidity	0.6x on /after Dec. 31, 2021	0.6x on / after Dec. 31, 2021	
Gasmig – Debentures (5)	Overall indebtedness (Total liabilities/Total assets)	Less than 0.6	-	Annual
	Ebitda / Debt servicing	1.3 or more	-	Annual
	Ebitda / Net finance income (expenses)	2.5 or more	-	Annual
	Net debt / Ebitda	2.5 or more	-	Annual

(1) Through contractual amendments, a further early maturity clause was added to Cemig GT's Bank Credit Notes and Fixed Credit Line with Banco do Brasil, requiring compliance with a financial ratio similar to that required by the 7th Debenture Issue.
(2) 7th Issue of Debentures by Cemig GT, in December 2016, of R$ 2,240,000.
(3) There is also an obligation to comply with a 'maintenance' covenant – which requires that the debt in Cemig Consolidated (as per financial statement), shall have asset guarantee for debt of 1.75x Ebitda (2.0 in December 2017); and a 'damage' covenant, requiring real guarantee for debt in Cemig GT of 1.5x Ebitda. In the event that 'maintenance financial covenants' are exceeded at any time, the interest rate will automatically be increased by 2% p.a. as long as the excess continues.
(4) The Bank Credit Notes of Banco do Brasil and Caixa Econômica Federal were amended in December 2017, to include requirement for 6-monthly compliance with covenants as described above. The 5th Debenture Issue included demand ability of compliance with the Covenants.
(5) If Gasmig does not achieve the required covenants, Gasmig must, within 120 days from the date of notice in writing from BNDES or BNDESPar, constitute guarantees acceptable to the debenture holders for the total amount of the debt, subject to the rules of the National Monetary Council (CMN), unless the required ratios are restored within that period. Cross-default: Certain contractually specified situations can cause early maturity of other debts.

The covenants requiring annual and half-yearly compliance were compliant on December 31, 2017.

22. REGULATORY CHARGES

R$ '000	Consolidated	
	2017	2016
Assets		
Receivables from Eletrobras (1)	-	48,379
Liabilities		
Global Reversion Reserve (RGR)	36,591	34,659
Energy Development Account (CDE)	206,022	189,330
Aneel inspection charge	2,154	2,877
Energy Efficiency	223,768	287,571
Research and development	233,396	233,560
Energy System Expansion Research	2,696	2,724
National Scientific and Technological Development Fund	5,066	5,146
Proinfa – Alternative Energy Program	6,612	7,720
Royalties for use of water resources	15,172	23,404
Emergency capacity charge	30,997	30,996
Consumer charges – 'Tariff flag' amounts	16	17,224
	762,490	**835,211**
Current liabilities	**512,673**	**380,586**
Non-current liabilities	**249,817**	**454,625**

(1) Cemig GT requested from Aneel a review of the amounts paid for the RGR Contribution in previous business years, due to the basis of calculation used at the time for calculation of the charge. Cemig GT recognized the right to recover the amount paid in excess, to be offset against RGR payable, only after the conclusion, in 2016, of a judgment by Aneel, as per Aneel Technical Note 162/2016, which accepted Cemig GT's claim. As per decision by Aneel, management of the RGR became the responsibility of Eletrobras.

23. POST-RETIREMENT OBLIGATION

The 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 finance income to complement retirement and pension, in accordance with the pension plan that they are subscribed in.

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

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

Funded Benefit 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 statement

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 terms of CPC Technical Pronouncement 33 R1/IAS 19 (*Employee Benefits*), and the independent actuarial opinion issued as of December 31, 2017.

The Company and its subsidiaries have recognized an obligation for past actuarial deficits relating to the pension fund in the amount of R$ 720,498 on December 31, 2017 (R$ 787,003 on December 31, 2016). This amount has been recognized as an obligation payable by Cemig, its subsidiaries, 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 Finance income (expenses) in the Statement of income.

Agreement to cover the deficit on Forluz Pension Plan 'A'

In May 2017 Forluz and the sponsors Cemig, Cemig GT and Cemig D signed an Instrument of Assumption of Debt for Coverage of Deficit in accordance with the deficit solution plan for Plan A (the Retirement Benefits Balances Plan) approved by the Governing Council of Forluz on December 15, 2016. On December 31, 2017 the total amount payable by Cemig and its subsidiaries Cemig D and Cemig GT as a result of the deficit found in Plan A is R$ 283,291 with monthly amortizations up to June 2031, calculated by the system of constant installments (known as the 'Price Table'). Remuneratory interest applicable to the outstanding balance is 6% p.a., plus the effect of the IPCA (Expanded National Consumer Price) index published by the IBGE.

In February 2018 the Board of Directors of Cemig authorized signature of a new Debt Assumption Instrument between Forluz and the sponsors Cemig, Cemig GT and Cemig D, in accordance with a plan for coverage of the deficit of Plan A of Forluz. The total amount to be paid by Cemig and its subsidiaries as a result of the deficit found in Plan A is R$ 99,176, through 167 monthly installments. Remuneratory interest applicable to the outstanding balance is 6% p.a., plus the effect of the IPCA (Expanded National Consumer Price) index published by the IBGE. If the plan reaches actuarial surplus before the full period of amortization of the contract, the Company and its subsidiaries will not be required to pay the remaining installments and the contract will be extinguished.

Actuarial information

The consolidated actuarial information is as follows:

Consolidated R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Present value of funded obligations	10,545,473	1,809,441	38,505	269,880	12,663,299
Fair value of plan assets	(8,546,329)	-	-	-	(8,546,329)
Initial net liabilities	**1,999,144**	**1,809,441**	**38,505**	**269,880**	**4,116,970**
Adjustment to asset ceiling	69,211	-	-	-	69,211
Net liabilities in the Statement of financial position	**2,068,355**	**1,809,441**	**38,505**	**269,880**	**4,186,181**

The *asset ceiling* is the present value of any economic benefits available in the form of restitutions coming from the plan or reductions in future contributions to the plan.

The present value of the liabilities of the pension plan is adjusted to the asset ceiling, which corresponds to the surplus result of Plan B, which has a specific destination allocation under the regulations of the National Private Pension Plans Council (CNPC).

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

Consolidated	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Defined-benefit obligation on December 31, 2015	**8,048,867**	**1,323,516**	**30,090**	**553,377**	**9,955,850**
Cost of current service	5,372	8,520	194	2,628	16,714
Interest on the actuarial obligation	1,013,091	173,886	3,953	72,252	1,263,182
Actuarial losses (gains):					
Due to changes in demographic assumptions	(920)	-	-	53	(867)
Due to changes in financial assumptions	1,253,472	390,951	8,806	174,832	1,828,061
Due to adjustments based on experience	230,666	(86,909)	(3,422)	21,608	161,943
	1,483,218	304,042	5,384	196,493	1,989,137
Benefits paid	(806,990)	(99,177)	(2,072)	(10,829)	(919,068)
Defined-benefit obligation on December 31, 2016	**9,743,558**	**1,710,787**	**37,549**	**813,921**	**12,305,815**
Cost of current service	4,480	11,268	264	3,760	19,772
Interest on the actuarial obligation	979,746	177,994	3,908	84,869	1,246,517
Actuarial losses (gains):					
Due to changes in demographic assumptions	190,523	-	-	20	190,543
Due to changes in financial assumptions	414,980	65,515	1,699	54,207	536,401
Due to adjustments based on experience	53,054	(43,507)	(2,485)	(59,593)	(52,531)
	658,557	22,008	(786)	(5,366)	674,413
Plan amendment – Past service	-	-	-	(619,297)	(619,297)
Benefits paid	(840,868)	(112,616)	(2,430)	(8,007)	(963,921)
Defined-benefit obligation on December 31, 2017	**10,545,473**	**1,809,441**	**38,505**	**269,880**	**12,663,299**

The Company and its subsidiaries have made changes to life insurance, resulting in reduction of the capital insured of retirees by 20% at each 5-year interval, from aged 60, down to a minimum of 20%. These changes resulted in a reduction of R$ 619,297 in the post-retirement obligation reported on December 31, 2017, with counterpart in the Consolidated statement of Income.

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

Consolidated R$ '000	Pension plans and retirement supplement plans
Fair value of the plan assets at December 31, 2015	**6,702,479**
Real return on the investments	2,105,599
Contributions from the employer	127,163
Benefits paid	(806,990)
Fair value of the plan assets at December 31, 2016	**8,128,251**
Real return on the investments	1,099,507
Contributions from the employer	159,439
Benefits paid	(840,868)
Fair value of the plan assets at December 31, 2017	**8,546,329**

The amounts recognized in the 2017 and 2016 Income and loss account are as follows:

Consolidated – 2017 R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Cost of current service	4,480	11,268	264	3,760	19,772
Interest on the actuarial obligation	979,746	177,994	3,908	84,869	1,246,517
Expected return on the assets of the Plan	(810,265)	-	-	-	(810,265)
Past service cost	-	-	-	(619,297)	(619,297)
Expense (recovery of expense) in 2017 according to actuarial calculation	**173,961**	**189,262**	**4,172**	**(530,668)**	**(163,273)**

Consolidated -- 2016 R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Cost of current service	5,372	8,520	194	2,628	16,714
Interest on the actuarial obligation	1,013,091	173,886	3,953	72,252	1,263,182
Expected return on the assets of the Plan	(832,741)	-	-	-	(832,741)
Total expense in 2016 according to actuarial calculation	**185,722**	**182,406**	**4,147**	**74,880**	**447,155**

Changes in net liabilities were as follows:

Holding company R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Net liabilities on December 31, 2015	**199,183**	**74,034**	**1,958**	**28,016**	**303,191**
Expense recognized in Income and loss account	27,756	10,138	275	3,775	41,944
Contributions paid	(6,255)	(6,116)	(131)	(612)	(13,114)
Actuarial losses (gains) (*)	37,249	17,599	350	10,245	65,443
Net liabilities on December 31, 2016	**257,933**	**95,655**	**2,452**	**41,424**	**397,464**
Expense recognized in Income and loss account	27,119	10,437	276	4,653	42,485
Contributions paid	(7,846)	(7,101)	(157)	(361)	(15,465)
Plan amendment – Past service	-	-	-	(29,788)	(29,788)
Actuarial losses (gains) (*)	56,278	12,577	88	(4,142)	64,801
Net liabilities on December 31, 2017	**333,484**	**111,568**	**2,659**	**11,786**	**459,497**

	2017	2016
Current liabilities	12,974	11,143
Non-current liabilities	446,523	386,321

(*) Recognized directly in Comprehensive income.

Consolidated R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Net liabilities on December 31, 2015	**1,346,388**	**1,323,516**	**30,090**	**553,377**	**3,253,371**
Expense recognized in Income and loss account	185,722	182,406	4,147	74,880	447,155
Contributions paid	(127,163)	(99,177)	(2,072)	(10,829)	(239,241)
Actuarial losses (gains) (*)	274,207	304,042	5,384	196,493	780,126
Net liabilities on December 31, 2016	**1,679,154**	**1,710,787**	**37,549**	**813,921**	**4,241,411**
Expense recognized in Income and loss account	173,961	189,262	4,172	88,629	456,024
Contributions paid	(159,439)	(112,616)	(2,430)	(8,007)	(282,492)
Plan amendment – Past service	-	-	-	(619,297)	(619,297)
Actuarial losses (gains) (*)	374,679	22,008	(786)	(5,366)	390,535
Net liabilities on December 31, 2017	**2,068,355**	**1,809,441**	**38,505**	**269,880**	**4,186,181**
				2017	**2016**
Current liabilities				231,894	198,867
Non-current liabilities				3,954,287	4,042,544

(*) Recognized directly in Comprehensive income.

The amounts reported as 'Expense recognized in the income and loss account' refer to the costs of post-employment obligations, totaling R$ 390,637 in 2017 (R$ 344,599 in 2016), plus the financial costs and monetary updating on the debt agreed with Forluz, in the amounts of R$ 65,387 in 2017, and R$102,596 in 2016. Further, due to the alterations in the life insurance, a recovery of expense, of R$ 619,297, was posted in the income and loss account in 2017.

The independent actuary's estimation for the expense to be recognized for 2018 is as follows:

Consolidated – 2018 R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Cost of current service	3,522	9,702	231	1,592	15,047
Interest on the actuarial obligation	959,279	172,621	3,581	25,448	1,160,929
Expected return on the assets of the Plan	(770,865)	-	-	-	(770,865)
Total expense in 2018 as per actuarial opinion	**191,936**	**182,323**	**3,812**	**27,040**	**405,111**

The expectation for payment of benefits for 2018 is as follows:

Consolidated R$ '000	Pension plans and retirement supplement plans – Forluz	Health Plan	Dental Plan	Life insurance	Total
Estimate of payment of benefits	874,503	117,121	2,527	8,367	1,002,518

The Company and its subsidiaries Cemig GT and Cemig D have expectation of making contributions to the pension plan in 2018 of R$ 165,817 for amortization of the deficit of Plan A, and R$ 85,509 for the Defined Contribution Plan (recorded directly in the consolidated statement of Income for the year).

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

Pension plans and retirement supplement plans		Health Plan	Dental Plan	Life insurance
Plan A	Plan B			
9.28	11.55	13.68	13.68	11.55

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

	Cemig, Cemig GT and Cemig D	
	2017	2016
Shares in Brazilian companies	6.63%	3.84%
Fixed income securities	74.12%	74.96%
Real estate property	8.05%	8.14%
Others	11.20%	13.06%
Total	**100.00%**	**100.00%**

The following assets of the pension plan, valued at fair value, are related to the Company:

R$ '000	2017	2016
Non-convertible debentures issued by the Company and its subsidiaries	363,616	397,443
Shares issued by the Sponsor	9,826	6,642
Real estate properties of the Foundation, occupied by the Company and its subsidiaries	725,000	710,000
	1,098,442	**1,114,085**

This table gives the main actuarial assumptions:

	Cemig, Cemig GT and Cemig D	
	2017	2016
Annual discount rate for present value of the actuarial obligation	9.48%	10.50%
Annual expected return on plan assets	9.48%	10.50%
Long-term annual inflation rate	4.00%	4.50%
Estimated future annual salary increases	6.08%	6.59%
General mortality rate table	AT-2000 D10%	AT-2000
Disability table	Not adopted	Álvaro Vindas
Disabled mortality table	AT 49	AT 49

Below is a sensitivity analysis of the effects of changes in the main actuarial assumptions used to determine the defined-benefit obligation on December 31, 2017:

Effects on the defined-benefit obligation – Consolidated R$ '000	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Reduction of one year in the mortality table	273,203	35,702	599	(15,929)	293,575
Increase of one year in the mortality table.	-	-	-	15,251	15,251
Reduction of 1% in the discount rate	1,103,406	243,821	4,979	42,539	1,394,745

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 ended December 31, 2017 and 2016.

24. PROVISIONS

The Company and its subsidiaries are involved 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.

Actions in which the Company is defendant

The Company and its subsidiaries recorded 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. an outflow of funds to settle the obligation will be necessary), as follows:

R$ '000	Consolidated				
	2016	Additions	Reversals	Settled	2017
Labor claims	349,273	210,129	(3,524)	(82,004)	473,874
Civil cases					
Consumer relations	14,741	21,549	(1,704)	(15,954)	18,632
Other civil actions	40,443	9,824	(2,471)	(4,691)	43,105
	55,184	**31,373**	**(4,175)**	**(20,645)**	**61,737**
Tax	69,922	8,346	(2,546)	(18,674)	57,048
Environmental	39	6	-	-	45
Regulatory	43,100	14,818	(17,225)	(881)	39,812
Corporate	239,445	-	(239,445)	-	-
Other	58,054	13,797	(19,349)	(6,905)	45,597
Total	**815,017**	**278,469**	**(286,264)**	**(129,109)**	**678,113**

R$ '000	Consolidated				
	2015	Additions	Reversals	Settled	2016
Labor claims	289,841	124,706	(4,811)	(60,463)	349,273
Civil cases					
Consumer relations	17,378	14,779	(2,640)	(14,776)	14,741
Other civil actions	28,792	18,116	(114)	(6,351)	40,443
	46,170	**32,895**	**(2,754)**	**(21,127)**	**55,184**
Tax	69,014	2,981	(1,310)	(763)	69,922
Environmental	60	39	(60)	-	39
Regulatory	45,180	2,633	(2,702)	(2,011)	43,100
Corporate	268,953	-	(29,508)	-	239,445
Other	35,355	35,560	(3,920)	(8,941)	58,054
Total	**754,573**	**198,814**	**(45,065)**	**(93,305)**	**815,017**

R$ '000	Holding company				
	2016	Additions	Reversals	Settled	2017
Labor claims	34,928	16,641	(3,016)	(9,950)	38,603
Civil cases					-
Consumer relations	1,435	45	(411)	(45)	1,024
Other civil actions	3,238	301	(2,359)	(222)	958
	4,673	**346**	**(2,770)**	**(267)**	**1,982**
Tax	8,869	3,093	(1,732)	(2,757)	7,473
Regulatory	21,614	-	(7,655)	-	13,959
Corporate	239,445	-	(239,445)	-	-
Other	466	1,314	(77)	(526)	1,177
Total	**309,995**	**21,394**	**(254,695)**	**(13,500)**	**63,194**

R$ '000	Holding company				
	2015	Additions	Reversals	Settled	2016
Labor claims	29,169	12,505	-	(6,746)	34,928
Civil cases					
Consumer relations	3,294	14	(1,863)	(10)	1,435
Other civil actions	1,289	2,181	(114)	(118)	3,238
	4,583	2,195	(1,977)	(128)	4,673
Tax	10,306	416	(1,172)	(681)	8,869
Regulatory	21,696	89	(88)	(83)	21,614
Corporate	268,953	-	(29,508)	-	239,445
Other	427	78	(14)	(25)	466
Total	**335,134**	**15,283**	**(32,759)**	**(7,663)**	**309,995**

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 statement about the time when any cash outflows, or any possibility of reimbursements, might occur. 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, with the best estimation 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'.

<u>Labor claims</u>

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

The aggregate amount of the contingency is approximately R$ 1,854,257 (R$ 1,543,946 on December 31, 2016), of which R$ 473,874 (R$ 349,273 on December 31, 2016) has been provisioned – the amount estimated as probably necessary for settlement of these disputes.

<u>Consumer relations</u>

The Company and its subsidiaries are involved in various civil actions relating to indemnity for moral and 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$ 56,017 (R$ 33,178 on December 31, 2016), of which R$ 18,632 (R$ 14,741 on December 31, 2016) has been provisioned – this being the probable estimate for funds needed to settle these disputes.

Other civil cases

Cemig and its subsidiaries are involved 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$ 218,455 (R$ 227,043 on December 31, 2016), of which R$ 43,105 (R$ 40,443 on December 31, 2016) has been provisioned – the amount estimated as probably necessary for settlement of these disputes.

Tax

The Company and its subsidiaries are involved in numerous administrative and judicial claims 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 (*Imposto de Renda Pessoa Jurídica*, or IRPJ); the Social Contribution Tax (*Contribuição Social sobre o Lucro Líquido*, or CSLL); and motions to tax enforcement. The aggregate amount of this contingency is approximately R$ 159,109 (R$ 200,437 on December 31, 2016), of which R$ 43,970 (R$ 57,020 on December 31, 2016) has been provisioned – the amount estimated as probably necessary for settlement of these disputes.

In addition to the issues above the Company and its subsidiaries are involved in various proceedings on the applicability of the IPTU Urban Land Tax to real estate properties that are in use for providing public services. The aggregate amount of the contingency is approximately R$ 121,948 (R$ 94,936 on December 31, 2016). Of this total, R$ 13,078 has been recognized (R$ 12,902 on December 31, 2016) – this being the amount estimated as probably necessary for settlement of 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$ 68,097 (R$ 34,031 on December 31, 2016), of which R$ 45 (R$ 39 on December 31, 2016) has been provisioned – the amount estimated as probably necessary for settlement of these disputes.

Regulatory

The Company and its subsidiaries are involved in numerous administrative and judicial proceedings, challenging, principally: (i) tariff charges in invoices for use of the distribution system by a self-producer; (ii) alleged violation of targets for continuity indicators in retail supply of energy; and (iii) the tariff increase made during the federal government's economic stabilization plan referred to as the 'Cruzado Plan', in 1986. The aggregate amount of the contingency is approximately R$ 222,434 (R$ 235,886 on December 31, 2016), of which R$ 39,812 (R$ 43,100 on December 31, 2016) has been recognized as provision – the amount estimated as probably necessary for settlement of these disputes.

Corporate

Difference of monetary updating on the Advance for 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 for 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).

The Company's management held negotiations with the government of the State of Minas Gerais, and obtained the approvals requested by its governance bodies to sign a Debt Recognition Agreement with Minas Gerais State, through its Tax Office, under which the State undertook to return to the Company the total amount deposited, after monetary updating by the IGP-M index. This was signed on October 25, 2017. With this new scenario the chances of loss in this action were re-assessed to 'remote', and as a result the Company has reversed the provision of R$ 239,445, due to the expectation that there will be no future disbursement to liquidate this obligation, which had until then been provisioned. More details in Note 12.

Other legal actions in the normal course of business

Breach of contract – Power line pathways and accesses cleaning services contract

The Company and its subsidiaries are involved in disputes alleging losses suffered as a result of supposed breaches of contract at the time of provision of services of cleaning of power line pathways and firebreaks. The amount recorded is R$ 31,987 (R$ 28,389 at December 31, 2016), this being estimated as the likely amount of funds necessary to settle this dispute.

Other legal proceedings

The Company and its subsidiaries are involved in a lawsuit disputing the removal of residents in areas of access to transmission lines or under transmission line towers. The chance of loss in this action was re-assessed to 'remote', since in a similar action the court refused an application by the Public Attorneys. On December 31, 2016 the amount provisioned was R$ 21,407.

In addition to the proceedings described above, the Company is involved, as plaintiff or defendant, in other less significant claims, related to the normal course of its operations, with an estimated total amount of R$ 170,158 (R$ 157,952 on December 31, 2016), of which R$ 13,655 (R$ 8,297 on December 31, 2016) – the amount estimated as probably necessary for settlement of these disputes – has been provisioned. Management believes that it has appropriate defense for these proceedings, 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 income.

Contingent liabilities – whose loss are assessed as 'possible', and the company believes it has arguments of merit for legal defense

Taxes and similar contributions

The Company and its subsidiaries are involved in numerous administrative and judicial procedings in relation to taxes. Below are details of the main claims:

Indemnity of employees' future benefit (the 'Anuênio')

In 2006 the Company paid an indemnity to its employees, totaling R$ 177,686, in exchange for rights to future payments (referred to as the *Anuênio*) for time of service, which would otherwise be incorporated, in the future, into salaries. The Company and its subsidiaries did not pay income tax and Social Security contributions on this amount 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 obtained an injection, which permitted to make a escrow deposit of R$ 121,834, which updated now represents the amount of R$ 267,432 (R$ 255,127 at December 31, 2016). The updated amount of the contingency is R$ 311,138 (R$ 290,216 on December 31, 2016) and, based on the arguments above, management has classified the chance of loss as 'possible'.

Social Security contributions

The Brazilian federal tax authority (*Secretaria da Receita Federal*) has brought administrative proceedings related to various matters: employee income sharing; the Workers' Food Program (*Programa de Alimentação do Trabalhador*, or PAT); education benefit; food benefit; Special Additional Retirement payment; overtime payments; hazardous occupation payments; matters related to Sest/Senat (transport workers' support programs); and fines for non-compliance with accessory obligations. The Company and its subsidiaries have presented defenses and await judgment. The amount of the contingency is approximately R$ 1,647,343 (R$ 1,509,940 on December 31, 2016). Management has classified the chance of loss as 'possible', also taking into account assessment of the chance of loss in the judicial sphere, (the claims mentioned are in the administrative sphere), based on the evaluation of the claims and the related case law.

Non-homologation of offsetting of tax credit

The federal tax authority did not ratify the Company's declared offsetting, in Corporate income tax returns, of carry-forwards and undue or excess payment of federal taxes – IRPJ, CSLL, PIS and Cofins – identified by official tax deposit receipts ('DARFs' and 'DCTFs'). The Company and its subsidiaries are contesting the non-homologation of the amounts offset. The amount of the contingency is R$ 274,836 (R$ 317,032 on December 31, 2016) and the chance of loss was classified as 'possible', since the relevant requirements of the National Tax Code (CTN) have been complied with.

Corporate tax return – restitution and offsetting

The Company was a party in an administrative case involving requests for restitution and compensation of credits arising from tax losses carry-forward balances indicated in the corporate tax returns for the calendar years from 1997 to 2000, and also for over payments identified in 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 approximated amount of R$ 576,386 (R$ 535,465 on December 31, 2016). The chances of loss in this action are assessed as 'possible', due to nullities in the conduct of the administrative proceedings and the understanding that mistaken assumptions were used by the tax authorities in the administrative judgment, and also based on analysis of the Company's argument and documents of proof.

Income tax withheld on capital gain in a stockholding transaction

The federal tax authority issued a tax assessment on Cemig as a jointly responsible party with its jointly-controlled entity Parati S.A. Participações em Ativos de Energia Elétrica (Parati), relating to withholding income tax (*Imposto de Renda Retido na Fonte*, or IRRF) allegedly applicable to returns paid by reason of a capital gain in a stockholding transaction relating to the purchase by Parati, and sale, by Enlighted, on July 7, 2011, of 100.00% of the equity interests in Luce LLC (a company with head office in Delaware, USA), holder of 75.00% of the shares in the Luce Brasil equity investment fund (FIP Luce), which was indirect holder, through Luce Empreendimentos e Participações S.A., of approximately 13.03% of the total and voting shares of Light S.A. (Light). The amount of the contingency is approximately R$ 212,393 (R$ 197,911 on December 31, 2016) and the loss has been assessed as 'possible'.

The Social Contribution tax on net income (CSLL)

The federal tax authority issued a tax assesment against the Company for the years of 2012 and 2013, alleging undue non-addition, or deduction 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 8,313/91); and (iii) fines for various alleged infringements. The amount of this contingency is R$ 322,196 (R$ 279,914 on December 31, 2016). The Company has classified the chances of loss as 'possible', in accordance with the analysis of the case law on the subject.

ICMS (value added)

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 customers in the years 2011 through 2015.

The cases have been dismissed in view of Cemig's acceptance of the terms of the Minas Gerais State Tax Amnesty Program (PRCT), in which the settlement included the amounts involved in these cases. The amount of this contingency was R$ 82,130 at December 31, 2016.

Regulatory matters

Public Lighting Contribution (CIP)

Cemig and Cemig D are defendants in several public civil claims (class actions) requesting nullity of the clause in the Energy Supply Contracts for public illumination signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed error by Cemig in the estimation of the period of time that was used in calculation of the consumption of energy for public illumination, funded by the Public Lighting Contribution (*Contribuição para Iluminação Pública*, or CIP).

The Company and its subsidiaries believe there are 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$ 1,224,274 (R$ 1,304,705 on December 31, 2016). The Company has assessed the chances of loss in this action as 'possible', due to the Consumer Defense Code (*Código de Defesa do Consumidor*, or CDC) not being applicable, because the matter is governed by the specific regulation of the energy sector, and because Cemig complied with Aneel Resolutions 414 and 456, which deal with the subject.

Accounting of energy sale transactions in the Energy Trading Chamber (CCEE)

In a claim dating from August 2002, AES Sul Distribuidora challenged in the courts the criteria for accounting of energy sale transactions in the wholesale energy market (*Mercado Atacadista de Energia*, or MAE) (predecessor of the present Wholesale Energy Exchange Chamber – *Câmara de Comercialização de Energia Elétrica*, or CCEE), during the period of rationing. It obtained a favorable interim judgment 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, not considering Aneel's Dispatch 288 of 2002. This should take effect in the CCEE as from November 2008, resulting in an additional disbursement for Cemig GT, related to the expense on purchase of energy in the spot market on the CCEE, in the approximate amount of R$ 287,515 (R$ 263,847 on December 31, 2016). On November 9, 2008 Cemig GT obtained an interim decision in the Regional Federal Appeal Court (*Tribunal Regional Federal*, or TRF) suspending the mandatory nature of the requirement to pay into court the amount that would have been owed under the Special Financial Settlement made by the CCEE.

Cemig GT has classified the chance of loss as 'possible', since this action deals with the General Agreement for the Energy 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 the National Energy Policy Council (*Conselho Nacional de Política Energética*, or CNPE) of March 6, 2013 established new criteria for the prorating of the cost of additional dispatch of thermal plants. Under the new criteria, the costs of the System Service Charges for Energy Security (*Encargos do Serviço do Sistema*, or ESS), which were previously prorated in full between free Customers 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 Energy Producers' Association (*Associação Brasileira dos Produtores Independentes de Energia Elétrica*, or Apine), of which Cemig GT is a member, obtained an interim court decision suspending the effects of Articles 2 and 3 of Resolution CNPE 3, exempting generators from payment of the ESS under that Resolution.

As a result of the interim decision, the CCEE carried out the financial settlement for transactions in April through December 2013 using the criteria prior to the said Resolution. As a result, Cemig GT recorded the costs of the ESS in accordance with the criteria for financial settlement published by the CCEE, without the effects of CNPE Resolution 3.

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

The amount of the contingency is approximately R$ 201,586 (R$ 182,232 on December 31, 2016). In spite of the successful judgment at first instance, the Association's legal advisers still considered the chances of loss of this contingency as 'possible'. The Company agrees with this, since there are not yet elements to make it possible to foresee the outcome of the Appeal filed by the Federal Government.

<u>Tariff increases</u>

Exclusion of customers classified as low-income

The Federal Public Attorneys' Office filed a class action against the Company and Aneel, to avoid exclusion of customers from classification in the *Low-income residential tariff* sub-category, requesting an order for Cemig D to pay twice the amount allegedly paid in excess by customers. Judgment was given in favor of the plaintiffs, but the Company and Aneel have filed an interlocutory appeal and await judgment. The amount of the contingency is approximately R$ 275,458 (R$ 253,731 on December 31, 2016). Cemig D has classified the chances of loss as 'possible' due to other favorable decision on this matter.

Periodic Tariff Adjustment – Neutrality of 'Portion A'

The Municipal Association for Protection of the Consumer and the Environment (*Associação Municipal de Proteção ao Consumidor e ao Meio Ambiente*, or Amprocom) filed a class action against Cemig D and Aneel, requiring identification of all customers allegedly damaged in the processes of Periodic Review and Annual Adjustment of tariffs in the period from 2002 to 2009, and restitution, through credits on energy bills, of any amounts unduly charged arising from non-inclusion from the distributor's non-manageable costs components ('Portion A' costs) of the impact of future variations in consumer energy demand, and the allegedly undue inclusion of these gains in the distributor's manageable costs ('Portion B' costs), causing economic/financial imbalance of the contract. This is an action that could affect all distribution concession holders, which could thus lead to a new Energy Sector Agreement.

As a result of Cemig D's favorable decision, and no appeal filed against this decision, the provision for this case has been reversed (on December 31, 2016 the amount of the action was R$ 316,675).

Environmental claims

Impact arising from construction of power plants

The Public Attorneys of Minas Gerais State, together with an association and individuals, have brought class actions requiring the Company to invest at least 0.5% of the annual gross operating revenue of the *Emborcação, Pissarrão, Funil, Volta Grande, Poquim, Paraúna, Miranda, Nova Ponte, Rio de Pedras* and *Peti* plants in environmental protection and preservation of the water tables of the counties where these power plants are located, and proportional indemnity for allegedly irrecoverable environmental damage caused, arising from omission to comply with Minas Gerais State Law 12,503/1997. Cemig GT has filed appeals to the Higher Appeal Court (STJ) and the Federal Supreme Court (STF). Based on the opinions of its legal advisers, Cemig GT believes that this is a matter involving legislation at infra-constitutional level (there is a Federal Lalw with an analogous object) and thus a constitutional matter, on the issue of whether the state law is constitutional or not, so that the final decision is one for the national Higher Appeal Court (STJ) and the Federal Supreme Court (STF). No provision has been made, since based on the opinion of its legal advisers management has classified the chance of loss as 'possible'. The amount of the contingency is R$ 126,664 (R$ 112,704 on December 31, 2016).

The Public Attorneys' Office of Minas Gerais State has filed class actions requiring the formation of a Permanent Preservation Area (APP) around the reservoir of the *Capim Branco* hydroelectric plant, suspension of the effects of the environmental licenses, and recovery of alleged environmental damage. Based on the opinion of its legal advisers in relation to the changes that have been made in the new Forest Code and in the case law on this subject, Cemig GT has classified the chance of loss in this dispute as 'possible'. The estimated value of the contingency is R$ 79,378 (R$ 73,169 on December 31, 2016).

Other contingent liabilities

Early settlement of the CRC (Earnings Compensation) Account

The Company is involved in an administrative proceeding at 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$ 397,897 (R$ 390,307 on December 31, 2016), and, based on the Opinion of the Public Attorneys' Office of the Audit Board of the State of Minas Gerais, the Company believes that it has met the legal requirements. Thus, it has assessed the chances of loss as 'possible', since it believes that the adjustment was made in faithful obedience to the legislation applicable to the case.

Contractual imbalance

Cemig D is a party in disputes alleging losses suffered by third parties as a result of supposed breach of contract at the time of implementation of part of the rural electrification program known as *Luz Para Todos* ('*Light for All*). The estimated amount is R$ 261,281 (R$ 236,703 on December 31, 2016) and no provision has been made. Cemig D has classified the chances of loss as 'possible' as a result of the analysis that has been made of the argument and documentation used by the contracted involved in attempting to make the Company liable for any losses that allegedly occurred.

The Parent company is also a party in other disputes arising from alleged non-compliance with contracts in the normal course of business, for an estimated total of R$ 79,985 (R$ 71,396 on December 31, 2016). Cemig D has classified the chance of loss as 'possible', after analysis of the case law on this subject.

Irregularities in competitive tender proceedings

Cemig D is a party in a dispute alleging irregularities in competitive tender proceedings, governed by an online invitation to bid. The estimated amount is R$ 26,149 (R$ 25,650 on December 31, 2016) and no provision has been made. Cemig D has classified the chance of loss as 'possible', after analysis of the case law on this subject.

Alteration of the monetary updating index of employment-law cases

The Higher Labor 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 labor claims not yet decided that discuss debts subsequent to June 30, 2009 should be updated based on the variation of the IPCA-E (Expanded National Consumer Price) Index, rather than of the TR reference interest rate. On October 16, 2015 an interim injunction was given by the STF that suspended the effects of the TST decision, on the grounds that decisions on matters of general constitutional importance should be decided exclusively by the STF.

The estimated value of the difference between the monetary updating indices of the labor claims is R$ 220,142 (R$ 175,839 on December 31, 2016). No additional provision has been made, since the Company and its subsidiaries, based on the assessment by its legal advisers, has assessed the chances of loss in the action as 'possible', as a result of the decision by the STF, and of there being no established case law, nor analysis by legal writers on the subject after the injunction given by the Federal Supreme Court.

25. EQUITY AND REMUNERATION TO SHAREHOLDERS

The Company's registered share capital on December 31, 2017 is R$ 6,294,208 represented by 420,764,708 common shares and 838,076,946 preferred shares, all with nominal value of R$ 5.00 (five Reais), as follows:

Shareholders	Number of shares on December 31, 2017					
	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
FIA Dinâmica Energia S.A.	41,635,754	10	62,469,590	7	104,105,344	8
Others						
In Brazil	110,343,209	26	237,174,007	28	347,517,216	27
Foreign shareholders	54,314,303	13	533,573,121	64	587,887,424	47
Total	**420,764,708**	**100**	**838,076,946**	**100**	**1,258,841,654**	**100**

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	-	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
Foreign shareholders	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

In view of the capital increase described in more detail in subclause 'e' of this explanatory note, the calculation of the basic and diluted earnings taking into account the new shares that will potentially be subscribed is as follows:

Number of shares	2017	2016
Common shares already paid up	420,764,708	420,764,708
Common shares to be paid up	66,849,505	-
Shares in treasury	(69)	(69)
	487,614,144	420,764,639
Common shares already paid up	838,076,946	838,076,946
Common shares to be paid up	133,061,442	-
Shares in treasury	(560,649)	(560,649)
	970,577,739	837,516,297
Total	**1,458,191,883**	**1,258,280,936**

Basic earnings per share

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

The calculation of basic earnings per share is as follows:

R$ '000	2017	2016
Net income for the year	1,000,954	334,334
Minimum mandatory dividend for preferred shares from income for the period (item c)	485,569	203,986
Income not distributed arising from the income for the period – preferred shares	333,119	86,760
Total of the earnings for the preferred shares (A)	818,688	290,746
Minimum mandatory dividend for the common shares	14,908	-
Income not distributed arising from the income for the period – common shares	167,358	43,588
Total earnings for the common shares (B)	182,266	43,588
Basic earnings per preferred share (A / number of preferred shares)	0.84	0.35
Basic earnings per common share (B / number of common shares)	0.37	0.10

Diluted income per share

The call and put options in shares of investees, described in more detail in Note 30, have potential to dilute the Company's shares. The following shows the calculation of diluted income per share:

R$ '000	2017	2016
Net income for the year	1,000,954	334,334
Total basic earnings for the preferred shares	818,688	290,746
Dilution effect related to the RME/Lepsa Option	-	(21,627)
Dilution effect related to the Ativas Option	-	(4,682)
Diluted earnings for the preferred shares (C)	818,688	264,437
Total earnings for the year for the common shares (B)	182,266	43,588
Dilution effect related to the RME/Lepsa Option	-	(10,866)
Dilution effect related to the Ativas Option	-	(2,352)
Diluted earnings for the common shares (D)	182,266	30,370
Diluted earnings per preferred share (C / No. of preferred shares)	0.84	0.32
Diluted earnings per common share (D / No. of common shares)	0.37	0.07

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 maintained the State of Minas Gerais as dominant, sole and sovereign equity holder 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. On September 7, 2017 AGC Energia unilaterally resiled the shareholders' agreement.

(b) Reserves

The Capital reserves and Income reserves are made up as follows:

Capital reserves and shares in Treasury R$ '000	2017	2016
Investment-related subsidies	1,856,628	1,856,628
Goodwill on issuance of shares	69,230	69,230
Monetary updating of capital	7	7
Shares in treasury	(1,362)	(1,362)
	1,924,503	**1,924,503**

The Reserve for investment-related donations and subsidies basically refers to the compensation by the federal government for the difference between the incomeability 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.

Income reserves R$ '000	2017	2016
Legal reserve	853,018	853,018
Statutory Reserve	57,215	57,214
Retained Earnings reserve	3,340,949	2,812,943
Incentives tax reserve	57,546	56,834
Reserve for mandatory dividends not distributed	1,419,846	1,419,846
	5,728,574	**5,199,855**

Legal Reserve

Constitution of the Legal Reserve is mandatory, 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 record Legal Reserve due to that reserve having reached its legal limit.

Statutory Reserve

The Statutory Reserve 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 incomes not distributed in prior years, to guarantee execution of the Company's Investment Program, and amortizations of loans and financings planned for 2018. The retentions are supported by capital budgets approved by the Board of Directors in the related periods.

Incentives tax reserve

The federal tax authority ('*Receita Federal*') recognized the right of the subsidiaries Cemig D and Cemig GT to reduction of 75% in income tax, including the tax paid at the additional rate, calculated on the basis of the operating income in the region of Sudene (the

Development Agency for the Northeast), for 10 years starting in 2014. The amount of the incentive recognized in the income and loss account was R$ 945 in 2017 (R$ 7,068 in 2016) and it was subsequently transferred to the Incentives Tax reserve. The amount of the Tax incentives reserve on December 31, 2017 was R$ 57,546 (R$ 56,834 at December 31, 2016). This reserve cannot be used for payment of dividends.

(c) Dividends

Reserve for mandatory dividends not distributed

R$ '000	2017
Dividends withheld, arising from the net income for 2015	622,530
Dividends withheld, arising from the net income for 2014	797,316
	1,419,846

These dividends were retained in Equity in 2015 and 2014, in the account Reserve for mandatory dividends not distributed; and as per the proposal approved in the Annual General Meetings of 2016 and 2015, the dividends retained will be paid as soon as the Company's financial situation permits.

Common dividends

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

The preferred shares have preference in the event of reimbursement of capital and participate in incomes on the same conditions as the common shares. They have the right, when there is income, 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 its by-laws, Cemig's shares held by private individuals and issued up to August 5, 2004 have the right to a minimum dividend of 6% per year on their par value in all years when Cemig does not obtain sufficient incomes 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 by State Law 15,290 of August 4, 2004.

Under the by-laws, if the Company is able to pay dividends higher than the mandatory minimum dividends required for the preferred shareholders, and the remaining net income 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 income to which they refer. The Executive Board decides the location and processes of payment, subject to these periods.

Under the proposal for capital increase approved by the General Meeting of October 26, 2017 it was decided that the subscribed shares (described in more detail in subclause 'e' of this Note) have the full right to all benefits, including dividends and/or Interest on Equity, that are declared by the Company; and the calculations of the minimum dividends proposed for distribution to shareholders already takes into account the full capitalization of the new preferred shares originating from the capital increase, to be assessed and completed finally on the occasion of the Extraordinary General Meeting to be called for ratification of the capital increase.

The calculation of the minimum dividends proposed for distribution to shareholders as a result of the 2017, as mentioned in the previous paragraph, is as follows:

R$ '000	Holding company 2017	Holding company 2016
Calculation of Minimum Dividends required by the By-laws for the preferred shares		
Nominal value of the preferred shares	4,190,385	4,190,385
Nominal value of the preferred shares to be capitalized	665,307	-
	4,855,692	4,190,385
Percentage applied to the nominal value of the preferred shares	10,00%	10,00%
Amount of the dividends by the First payment criterion	485,569	419,039
Equity	14,325,986	12,930,281
Preferred shares as a percentage of Equity (net of shares held in Treasury)	66,58%	66,58%
Portion of Equity represented by the preferred shares	9,538,241	8,608,981
Percentage applied to the portion of Equity represented by the preferred shares	3,00%	3,00%
Amount of the dividends by the Second payment criterion	286,147	258,269
Minimum Dividends required by the Bylaws for the preferred shares	485,569	419,039
Calculation of the Minimum Dividend under the by-laws based on the net income for the period		
Mandatory dividend		
Net income for the year	1,000,954	334,334
Mandatory dividend – 50% of Net income	500,477	167,167

In 2017 the mandatory minimum dividends under the by-laws for the preferred shares is R$ 485,569.

Allocation of Net income for 2017 – Management's Proposal

The Board of Directors decided to propose to the Annual General Meeting to be held on April 30, 2018 that the income for 2018, in the amount of R$ 1,000,954, and Retained earnings, of R$ 28,242, should be allocated as follows:

- R$ 485,569 for payment of the mandatory minimum dividends to holders of preferred shares whose names are in the Company's Nominal Share Registry on the date of the AGM.

- R$ 14,908 to payment of the mandatory minimum dividends to holders of common shares whose names are in the Company's Nominal Share Registry on the date of the AGM.

- R$ 528,007 to be held in Equity in the Retained earnings reserve, to ensure the Company's consolidated investments planned for 2017 as per a capital budget.

- R$ 712 to be held in Equity in the Incentives Tax reserve, in reference to the tax incentive amounts obtained in 2017 in relation to the investments made in the region of Sudene.

(d) Equity valuation adjustments

Equity valuation adjustments R$ '000	Consolidated	
	2017	2016
Adjustments to actuarial liabilities – Employee benefits	(234,519)	(169,719)
Other comprehensive income in subsidiary and jointly-controlled entity		
Deemed cost of PP&E	638,517	685,339
Variation in fair value of financial asset available for sale in jointly-controlled entity	139	38,273
Cumulative translation adjustments	398	398
Adjustments to actuarial liabilities – Employee benefits	(1,241,144)	(1,042,663)
Cash flow hedge instruments	87	87
	(602,003)	(318,566)
Equity valuation adjustments	**(836,522)**	**(488,285)**

The amounts reported as deemed cost of the generation assets are due to the valuation of the generation assets: their fair value was defined as replacement cost in the initial adoption of IFRS on January 1, 2009. The valuation of the generation assets resulted in an increase in their value, posted in the specific line in Equity, net of the tax effects. These values are being realized based on the depreciation of the assets.

(e) Cemig's capital increase proposal

On October 26, 2017, an Extraordinary Meeting of Shareholders decided unanimously to approve the proposal by the Board of Directors for a capital increase in the amount of R$ 1,000,000, through issuance of up to 199,910,947 new shares, each with par value of R$ 5.00, comprising up to 66,849,505 common shares and up to 133,061,442 preferred shares, at the price of R$ 6.57 per share.

All the shares resulting from this subscription will carry the same rights as the shares in the same class which originated the capital increase. The increase will be by private subscription, with preference for existing shareholders to participate in proportion to their present holdings, as to 15.89% of a new share for each share they held at the end of the day that the EGM that approve the capital increase.

By December 31, 2017, R$ 1,215,223 had been subscribed by shareholders, and a total of 14,945,429 shares had not been subscribed, comprising 13,139,679 ON (common) shares and 1,815,750 PN (preferred) shares. The Company expects to sell all of the remaining shares within the first quarter of 2018, by auction.

After this sale, the Company will submit to an Extraordinary General Meeting of shareholders a proposal for verifying and ratification of increase in the Company's share capital from R$ 6,294,208 to R$ 7,293,763.

26. REVENUE

The revenue of the Company and its subsidiaries is as follows:

R$ '000	Consolidated	
	2017	2016
Revenue from supply of energy (a)	23,701,361	23,429,713
Revenue from use of the energy distribution systems (TUSD) (b)	1,610,593	1,705,420
CVA, and *Other financial components* in tariff increases (c)	988,260	(1,455,057)
Transmission revenue		
Transmission concession revenue (d)	371,066	311,889
Transmission construction revenue (e)	24,827	53,824
Transmission indemnity revenue (g)	373,217	751,101
Generation Indemnity Revenue (h)	271,607	-
Distribution construction revenue (e)	1,093,921	1,139,316
Adjustment to expectation of cash flow from indemnifiable Financial asset of distribution concession (i)	8,586	7,582
Revenue from financial updating of the Concession Grant Fee (f)*	316,880	299,537
Energy Transactions on the CCEE (i)	860,108	160,763
Supply of gas	1,758,692	1,444,166
Other operating revenues (k)	1,483,377	1,421,074
Deductions from revenue (l)	(11,150,805)	(10,496,672)
Net operating revenue	**21,711,690**	**18,772,656**

(*) In 2016, the amounts are presented net of monetary updating of the remaining portion at that time payable for the Concession Grant Fee, which was settled in July 2016.

a) Revenue from energy supply

This table shows energy supply by type of consumer:

	MWh (1)		R$ '000	
	2017	2016	2017	2016
Residential	10,008,423	9,915,807	7,841,851	7,819,174
Industrial	17,760,807	19,494,391	4,906,865	5,395,586
Commercial, Services and Others	7,507,310	6,572,980	4,341,962	4,358,938
Rural	3,651,472	3,574,724	1,628,883	1,463,470
Public authorities	865,803	885,748	531,761	544,554
Public lighting	1,366,938	1,350,405	536,788	528,378
Public services	1,301,135	1,252,043	589,451	546,763
Subtotal	**42,461,888**	**43,046,098**	**20,377,561**	**20,656,863**
Own consumption	37,477	37,140	-	-
Unbilled revenue	-	-	60,880	(198,785)
	42,499,365	**43,083,238**	**20,438,441**	**20,458,078**
Wholesale supply to other concession holders (2)	12,777,405	12,508,453	1,727,527	2,713,083
Wholesale supply unbilled, net	-	-	1,535,393	258,552
Total	**55,276,770**	**55,591,691**	**23,701,361**	**23,429,713**

(1) Data not audited by external auditors.
(2) Includes a CCEAR (Regulated Market Sales Contract), 'bilateral contracts' with other agents, and the revenues from management of generation assets (GAG) for the 18 hydroelectric plants of Lot D of Auction no 12/2015.

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

A significant part of the large industrial customers in the concession areas of Cemig D are now 'Free Customers' – energy is sold to them by the Cemig group's generation and transmission company, Cemig GT, and also by other generators. Thus, the charges for use of the distribution network ('TUSD') of these Free Customers are charged separately from the posting under this line.

c) The CVA Account, and *Other financial components*

The results from variations in (i) the CVA Account (*Portion A Costs Variation Compensation Account*), and in (ii) *Other financial components* in calculation of tariffs, refer to the positive and negative differences between the estimate of non-manageable costs of the subsidiary Cemig D and the payments actually made. The amounts recognized arise from balances recorded in the current period, homologated or to be homologated in tariff adjustment processes. For more information please see Note 15.

d) Transmission concession revenue

Transmission revenue comprises the amount received from agents of the energy sector for operation and maintenance of transmission lines of the national grid, in the form of the Permitted Annual Revenue (*Receita Anual Permitida*, or RAP), plus an adjustment for expectation of cash flow arising from the variation in the fair value of the Remuneration Assets Base.

e) Construction revenue

Entities that are within the scope of ICPC 01 (R1) – *Concession Contracts* should record construction or improvement of the infrastructure of the concession in accordance with CPC 17 (R1) – *Construction Contracts*. The costs of infrastructure construction carried out by the Company are measured reliably; the revenues and expenses corresponding to these construction services are recognized as and when they occur, up to the reporting date. Any expected loss on construction contracts is recognized immediately as an expense. Considering that the regulatory model currently in effect does not provide for specific remuneration for construction or improvement of the infrastructure of the concession; that constructions and improvements are substantially executed through specialized services of outsourced parties; and that all construction revenues are related to the construction of the infrastructure of the energy distribution services, the Company's management has decided to post all revenue arising from construction contracts with zero income margin.

f) Gain on financial updating of the Concession Grant Fee

Represents updating by the IPCA index, plus interest, on the Concession Grant Fee for the concession awarded as Lot D of Auction 12/2015. There are more details in Note 15.

g) Transmission indemnity revenue

In 2017 Cemig GT recognized revenue in the total amount of R$ 373,216, of which R$ 223,961 corresponded to updating, by the IPCA index, of the balance of indemnity receivable existing in December 2016, and R$ 149,255 for the adjustment of the BRR of the transmission assets, due to the recognition of the amounts to be paid relating to the conducting cables not being part of the calculation of transmission revenue in prior periods. There are more details in Note 13.

h) Generation indemnity revenue

In 2017 Cemig GT recognized revenue of R$ 271,607, for the adjustment to the balance of non-amortized indemnities for the concessions of the *São Simão* and *Miranda* Hydroelectric Plants, as per Ministerial Order 291/17, also taking into account the updating of the amounts. There are more details in Notes 4 and 15.

i) Revenue from energy transactions in the CCEE (Wholesale Trading Chamber)

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

j) Adjustment to expectation of cash flow from indemnifiable Financial assets of distribution concession

Income from adjustment to expectation of cash flow from the indemnifiable Financial asset of the distribution concession, due to monetary updating of the Regulatory Remuneration Asset Base.

k) Other operating revenues

R$ '000	Consolidated	
	2017	2016
Charged service	10,526	5,628
Telecoms services	148,799	137,498
Services rendered	156,308	167,272
Subsidies (*)	1,034,349	1,000,745
Rental and leasing	120,708	105,156
Other	12,687	4,775
	1,483,377	**1,421,074**

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

l) Taxes and charges reported as deductions on revenue

R$ '000	Consolidated	
	2017	2016
Taxes on revenue		
ICMS (1)	5,847,434	5,211,015
Cofins	2,236,907	2,040,659
PIS and Pasep	454,609	443,035
Others	8,144	7,528
	8,547,094	**7,702,237**
Charges to the consumer		
Global Reversion Reserve (RGR)	16,952	(17,720)
Energy Efficiency Program	55,646	58,056
Energy Development Account (CDE)	1,822,214	2,073,858
Research and Development (R&D)	37,769	47,858
National Scientific and Technological Development Fund (FNDCT)	37,769	47,858
Energy System Expansion Research (EPE of MME)	18,884	23,929
Consumer charges – Proinfa alternative sources program	39,437	42,827
Energy Services Inspection Charge	29,308	34,610
Royalties for use of water resources	91,956	123,147
Consumer charges – the 'Flag Tariff' system	453,776	360,012
	2,603,711	**2,794,435**
	11,150,805	**10,496,672**

(1) Includes the effects of acceptance of the Tax Amnesty Program (PRCT), in the amount of R$ 532,455. More details in Note 20.

27. OPERATING COSTS AND EXPENSES

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Personnel (a)	1,627,026	1,643,253	32,469	35,576
Employees' and managers' income sharing	4,640	7,327	248	(3,992)
Post-retirement benefits - *Note 23*	(228,660)	344,559	9,480	36,896
Materials	60,556	57,915	365	89
Raw materials and inputs for production of energy	10,371	40	-	-
Outsourced services (b)	973,957	867,370	18,221	31,263
Energy bought for resale (c)	10,919,476	8,272,911	-	-
Depreciation and amortization	849,768	834,291	488	520
Operating provisions (d)	853,668	703,979	238,791	66,570
Charges for use of the national grid	1,173,923	947,479	-	-
Gas bought for resale	1,070,623	877,118	-	-
Construction costs (e)	1,118,749	1,193,140	-	-
Other operating expenses, net (f)	382,946	153,621	(195,094)	(314,654)
	18,817,043	**15,903,003**	**104,968**	**(147,732)**

a) Personnel expenses

Programmed Voluntary Retirement Plan (PDVP)

In March 2017, the Company approved the 2017 Employee Voluntary Severance Program ('the 2017 PDVP'). Those eligible to take part were any employees who will have worked with Cemig for 25 years or more by December 31, 2017. The period for acceptance of the 2017 PDVP was April 3 2017, through October 17, 2017. It provided for payment of an additional premium of five monthly salaries to employees who joined in April 2017 and resigned the Company in May 2017. The premium diminished progressively depending on the month of acceptance. Thus, for employees who adhered to the program only in August 2017, for voluntary retirement in September 2017, the corresponding premium payment was only one month's salary. For those who joined as from September 1, 2017, there was no premium. The program also paid the standard legal severance payments – including: payment for the period of notice, and especially, an amount equal to the 'penalty' payment of 40% of the Base Value of the employee's FGTS fund, as well as the other payments specified by the legislation. On December 31, 2017 the amount appropriated as expense for the 2017 PDVP, including severance amounts, was R$ 213,571, corresponding to acceptance, up to that date, by 1,189 employees.

In 2016, the amount appropriated to Personnel as expense on the PDVP in effect at that time was R$ 92,919.

b) Outsourced services

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Meter reading and bill delivery	141,746	140,310	-	-
Communication	66,285	54,815	405	480
Maintenance and conservation of electrical facilities and equipment	266,327	245,552	107	67
Building conservation and cleaning	108,579	97,278	561	805
Contracted labor	15,511	12,869	25	-
Freight and airfares	7,824	7,302	1,711	2,331
Accommodation and meals	12,978	12,539	206	237
Security services	22,618	25,293	-	-
Consultancy	16,236	15,061	934	5,076
Maintenance and conservation of furniture and utensils	3,637	3,381	3	8
Information technology	61,730	49,127	1,430	1,003
Maintenance and conservation of vehicles	1,813	8,398	248	95
Disconnection and reconnection	34,814	7,417	-	-
Environment	11,288	18,534	-	-
Legal services	22,332	25,974	713	7,401
Legal procedural costs	2,905	3,591	84	57
Tree pruning	21,158	13,655	-	-
Cleaning of power line pathways	16,212	7,733	-	-
Copying and legal publications	22,957	16,139	806	176
Inspection of consumer units	621	799	-	-
Printing of tax invoices and energy bills	2,559	3,372	-	-
Other expenses	113,827	98,231	10,988	13,527
	973,957	**867,370**	**18,221**	**31,263**

c) Energy purchased for resale

R$ '000	Consolidated	
	2017	2016
Supply from Itaipu Binacional	1,243,354	1,143,974
Physical guarantee quota contracts	460,744	537,482
Quotas for Angra I and II nuclear plants	243,776	216,906
Spot market	1,498,121	761,288
Proinfa Program	302,796	323,446
'Bilateral' contracts	384,619	292,455
Energy acquired in Regulated Market auctions	3,555,541	2,540,217
Energy acquired in the Free Market	4,283,409	3,279,153
Pasep and Cofins credits	(1,052,884)	(822,010)
	10,919,476	**8,272,911**

d) Operating provisions (reversals)

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Estimated losses on doubtful credits	248,280	382,368	-	-
Estimated losses on other accounts receivable	26,600	39,843	1,715	-
Contingency provisions (reversals) (1)				
Labor claims	206,605	119,895	13,625	12,505
Civil cases	27,198	30,141	(2,424)	218
Tax	5,800	1,671	1,361	(756)
Environmental	6	(21)	-	-
Regulatory	(2,407)	(69)	(7,655)	7
Other	(5,552)	31,640	1,237	58
	231,650	183,257	6,144	12,032
	506,530	**605,468**	**7,859**	**12,032**
Adjustment for losses				
Put option – Parati (Note 30)	230,932	54,538	230,932	54,538
Put option – SAAG (Note 30)	115,421	48,559	-	-
Put option – Sonda (Note 30)	785	(4,586)	-	-
	347,138	98,511	230,932	54,538
	853,668	**703,979**	**238,791**	**66,570**

(1) The provisions for contingencies of the holding company are presented in the consolidated income and loss account for the year as operational expenses.

e) Construction cost

R$ '000	Consolidated	
	2017	2016
Personnel and managers	35,633	58,148
Materials	549,925	534,474
Outsourced services	406,049	448,370
Others	127,142	152,148
	1,118,749	**1,193,140**

f) Other operating expenses (revenues), net

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Leasing and rentals	102,432	111,629	4,215	2,199
Advertising	29,890	13,477	1,155	194
Own consumption of energy	24,106	22,170	-	-
Subsidies and donations	19,420	17,190	2,102	2,246
Paid concession	3,087	2,889	-	-
Insurance	8,231	9,425	2,161	3,689
CCEE annual charge	7,909	7,686	1	2
Net loss (gain) on deactivation and disposal of assets	192,785	112,063	-	2
Forluz – Administrative running cost	26,202	25,422	1,296	1,257
Collection agents	70,568	70,377	-	-
Gain on disposal, Taesa	(206,503)	(180,774)	(206,503)	(180,774)
Gain on disposal, Transchile	-	(133,885)	-	(133,885)
Loss on investment	8,805	-	907	-
Other expenses	96,014	75,952	(428)	(9,584)
	382,946	**153,621**	**(195,094)**	**(314,654)**

Operating leasing

The Company and its subsidiaries have operating leasing contracts relating, mainly, to vehicles and buildings used in its operating activities. Their amounts are not material in relation to the total costs of the Company and its subsidiaries.

28. FINANCE INCOME (EXPENSES)

R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
FINANCE INCOME				
Income from cash investments	205,073	317,171	51,356	65,709
Arrears fees on sale of energy	260,645	277,241	-	-
Foreign exchange variations	19,422	61,665	-	1
Monetary variations	45,781	106,005	2,153	11,934
Monetary variations – CVA	-	204,352	-	-
Monetary updating on Court escrow deposits	191,260	45,724	64,932	7,877
Pasep and Cofins charged on Finance income	(52,868)	(87,859)	(13,568)	(49,745)
Other	134,400	117,005	9,502	37,154
	803,713	**1,041,304**	**114,375**	**72,930**
FINANCE EXPENSES				
Costs of loans and financings	(1,466,714)	(1,859,996)	-	-
Cost of debt – amortization of transaction cost	(66,856)	(68,401)	-	-
Foreign exchange variations	(72,903)	(35,377)	(28)	(1,138)
Monetary updating – loans and financings	(108,913)	(245,409)	-	-
Monetary updating – onerous concessions	14	(3,383)	-	-
Charges and monetary updating on Post-retirement obligation	(65,388)	(102,596)	(3,217)	(5,048)
Losses on financial instruments	(32,462)	-	-	-
Monetary updating – CCEE obligations	-	(9,562)	-	-
Monetary updating – CVA	(41,273)	-	-	-
Monetary updating – AFAC	239,445	-	239,445	-
Monetary updating – Advance sales of power supply	(46,481)	-	-	-
Adjustment to present value	(2,320)	(107)	-	-
Other	(136,413)	(153,664)	(659)	(11,998)
	(1,800,264)	**(2,478,495)**	**235,541**	**(18,184)**
NET FINANCE INCOME (EXPENSES)	**(996,551)**	**(1,437,191)**	**349,916**	**54,746**

The Pasep and Cofins expenses apply to Interest on Equity.

29. RELATED PARTY TRANSACTIONS

Cemig's main balances and transactions with related parties and its subsidiaries and jointly-controlled entities are as follow (consolidated):

COMPANY / item R$ '000	ASSETS 2017	ASSETS 2016	LIABILITIES 2017	LIABILITIES 2016	REVENUE 2017	REVENUE 2016	EXPENSES 2017	EXPENSES 2016
Shareholder								
Minas Gerais State Govt								
Current								
Customers and Traders (1)	54,926	71,340	-	-	136,273	152,016	-	-
Public Lighting Contribution (CIP) (1)	1,220	-	-	-	-	-	-	-
Administrative deposit – AFAC (2)	235,018	-	-	-	41,864	-	-	-
Non-current								
Customers and Traders (1)	50,349	-	-	-	-	-	-	-
Public Lighting Contribution (CIP) (1)	1,119	239,445	-	-	-	-	-	-
Administrative deposit – AFAC (2)	-	-	-	-	-	-	-	-
Jointly-controlled entity								
Aliança Geração								
Current								
Transactions with energy (3)	-	-	7,105	7,037	-	-	(146,780)	(142,432)
Provision of services (4)	1,657	3,706	-	-	13,042	13,518	-	-
Interest on Equity, and dividends	72,315	-	-	-	-	-	-	-
Baguari Energia								
Current								
Transactions with energy (3)	-	-	858	710	-	-	(7,285)	(6,944)
Services (4)	211	398	-	-	864	942	-	-
Madeira Energia								
Current								
Transactions with energy (3)	-	-	56,531	17,636	27,130	7,790	(685,673)	(573,610)
Advance for future power supply (4)	66,185	-	-	-	-	-	-	-
Non-current								
Advance for future power supply (4)	6,870	86,941	-	-	-	-	-	-
Norte Energia								
Current								
Transactions with energy (3)	130	130	3,640	3,755	9,258	1,606	(122,434)	(49,346)
Lightger								
Current								
Transactions in energy (3)	-	-	-	-	-	-	(19,357)	(18,551)
Hidrelétrica Pipoca								
Current								
Transactions with energy (3)	-	-	-	1,228	-	-	(15,305)	(16,002)
Interest on Equity, and dividends	584	-	-	-	-	-	-	-
Retiro Baixo								
Current								
Transactions with energy (3)	-	1,059	528	440	-	-	(5,664)	(6,362)
Interest on Equity, and dividends	2,581	2,146	-	-	-	-	-	-
Guanhães Energia								
Current								
Adjustment for losses (6)	-	-	-	59,071	-	-	-	-
Renova								
Current								
Transactions with energy (3)	-	-	1,744	-	-	-	(178,691)	(159,368)
Non-current								
Accounts receivable (7)	350,200	73,722	-	-	-	13,722	-	-
Advance for future delivery of power supply (7)	-	229,053	-	-	-	17,053	-	-
Empresa Amazonense de Transmissão de Energia (AETE)								
Current								
Transactions with energy (3)	-	-	2,882	2,751	-	-	(26,163)	(24,667)
Light								
Current								
Transactions with energy (3)	1,128	464	483	472	54,350	58,863	(1,342)	(836)
Interest on Equity, and dividends	-	6,852	-	-	-	-	-	-
Taesa								
Current								
Transactions with energy (3)	-	-	12,105	10,326	44	-	(126,622)	(110,144)
Services (4)	404	482	-	-	1,273	793	-	-

COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2017	2016	2017	2016	2017	2016	2017	2016
Cia. Transirapé de Transmissão								
Current								
Transactions with energy (3)	-	-	964	878	-	-	(9,793)	(8,810)
Provision of services (4)	90	301	-	-	1,272	1,205	-	-
Interest on Equity, and dividends	1,413	678	-	-	-	-	-	-
Axxiom								
Current								
Provision of services (8)	-	-	2,982	6,980	-	-	-	-
Interest on Equity, and dividends	-	144	-	-	-	-	-	-
Transudeste								
Current								
Transactions with energy (3)	-	-	191	150	151	140	(1,599)	(1,364)
Provision of services (4)	175	141	-	-	644	569	-	-
Interest on Equity, and dividends	-	213	-	-	-	-	-	-
Transleste								
Current								
Transactions with energy (3)	-	-	308	243	180	128	(2,578)	(2,155)
Provision of services (4)	120	178	-	-	1,095	1,022	-	-
Interest on Equity, and dividends	-	294	-	-	-	-	-	-
Other related parties								
FIC Pampulha								
Current								
Cash and cash equivalents	1,013,062	621,203	-	-	-	-	-	-
Securities	346,784	833,849	-	-	9,006	197,092	-	-
(-) Securities issued by subsidiary companies (9)	(25,493)	(49,479)	-	-	-	-	-	-
Non-current								
Securities	30,124	46,092	-	-	-	-	-	-
(-) Securities issued by subsidiary companies (9)	-	(15,049)	-	-	-	-	-	-
Forluz								
Current								
Post-retirement obligations (10)	-	-	108,843	86,156	-	-	(173,961)	(185,722)
Administrative running costs (11)	-	-	-	-	-	-	(26,201)	(25,422)
Operational leasing (12)	-	-	4,998	9,630	-	-	(55,236)	(39,360)
Non-current								
Post-retirement obligations (10)	-	-	1,959,512	1,592,998	-	-	-	-
Cemig Saúde								
Current								
Health Plan and Dental Plan (13)	-	-	115,045	101,756	-	-	(193,434)	(186,553)
Non-current								
Health Plan and Dental Plan (13)	-	-	1,633,291	1,646,580	-	-	-	-

The main facts and factors of interest with reference to the related party transactions are:

(1) This refers to sale of power supply to the Minas Gerais State government. The price of the supply is the one set by Aneel through a resolution relating to the annual tariff adjustment of Cemig D. In 2017 the government of Minas Gerais State signed a debt recognition agreement with Cemig D for payment of debits relating to the supply of power due and unpaid, in the amount of R$ 113,032, to be settled in 24 installments, updated monthly by the variation of the IGP-M. The first portion, in the amount of R$ 5,418, was settled in December 2017, and the others have due dates as from January 2018.

(2) This refers to the recalculation of the monetary updating of amounts relating to the Advance against Future Capital Increase (AFAC), which were returned to the State of Minas Gerais. Amount transferred to Accounts Receivable from Minas Gerais State, on September 30, 2017 (see Notes 12 and 13).

(3) Transactions in energy between generators and distributors were made in auctions organized by the federal government; transactions for transport of energy, made by transmission companies, arise from the centralized operation of the National Grid carried out by the National System Operator (ONS).

(4) Refers to a contract to provide plant operation and maintenance services.

(5) In 2017, advance payments of R$ 70,100 were made to Santo Antônio Energia, subsidiary of Madeira Energia: R$ 51,874 was advanced by Cemig GT; R$ 11,917 by Sá Carvalho; and R$ 6,309 by Rosal. For the purposes of settlement invoices for energy supply to be issued by Santo Antônio Energia starting in 2018, in 12 tranches, will be used

(6) A liability was recognized in 2016 corresponding to the Company's interest in the share capital of Guanhães, due to its negative equity (see Note 1);

(7) Cemig GT has an item of R$ 272,000 receivable from Renova, as follows: (i) R$ 60,000, to be paid by an initial payment of R$ 6 million in January 2018, and 11 monthly installments, the last becoming due in December 2018, with monetary updating at 150% of the CDI rate; (ii) R$ 94,000 to be settled in 12 monthly installments over the year 2020 with updating at 155% of the CDI rate; and (iii) R$ 118,000 to be settled in 12 monthly installments over 2021 with actualization at 155% of the CDI rate. In relation to the amount of R$ 60 million, the initial payment and the first two installments were postponed to April 2018.

(8) This refers to a contract for development of management software between Cemig D and Axxiom Soluções Tecnológicas S.A., instituted in Aneel Dispatch 2,657/2017.

(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 description 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 23) and will be amortized up to the business year of 2024.

(11) 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.

(12) Rental of the Company's administrative head offices, in effect to March 2019 and May 2034, adjusted annually by IPCA inflation index.

(13) Post-employment obligations relating to the employees' health and dental plan (see Note 23).

For more information on the principal transactions, please see Notes 8, 19 and 26.

Dividends receivable from subsidiaries

Dividends receivable (1) R$ '000	Consolidated		Holding company	
	2017	2016	2017	2016
Cemig GT	-	-	673,635	**605,000**
Gasmig	-	-	-	58,560
Other	4,578	11,386	5,468	9,679
	4,578	11,386	679,103	673,239

(1) Already taken into account in table above.

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 statement because they relate to jointly-controlled entities or affiliated companies:

Related party	Relationship	Type	Objective	Maturity	2017 R$ '000
Norte Energia ('Nesa')	Affiliated	Surety	Financing	2042	2,507,421
Light (1)	Jointly-controlled entity	Counter-guarantee	Financing	2042	683,615
Santo Antônio Energia S.A. (Saesa)	Jointly-controlled entity	Surety	Financing	2034	1,945,521
Santo Antônio Energia S.A. (Saesa)	Jointly-controlled entity	Surety	Debentures	2037	783,467
Centroeste	Jointly-controlled entity	Surety	Financing	2023	7,922
					5,927,946

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

At December 31, 2017, Management believes that there is no need to recognize any provisions in the Company's financial statement for the purpose of meeting any obligations arising under these sureties and/or guarantees.

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

Cemig and its subsidiaries and affiliates invest part of their financial resources in an investment fund which has the characteristics of fixed income and obeys the Company's cash investment policy. The amounts invested by the fund at December 31, 2017 are reported in Securities in Current or Non-current assets, or presented after deduction of the account line Debentures in Current or Non-current liabilities.

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

The financial investments of the investment fund in securities of related involved are as follows:

Issuer of security	Type	Annual contractual conditions	Maturity	2017				
				Cemig 4.17%	Cemig GT 26.85%	Cemig D 19.90%	Other subsidiaries 21.36% (1)	Total 72.28%
ETAU	Debentures	108.00% of CDI	Dec. 01, 2019	420	2,706	2,005	2,152	7,283
Light	Promissory Note	CDI + 3.50%	Jan. 22, 2019	834	5,375	3,983	4,276	14,468
				1,254	**8,081**	**5,988**	**6,428**	**21,751**

Issuer of security	Type	Annual contractual conditions	Maturity	2016				
				Cemig 10.12%	Cemig GT 20.86%	Cemig D 24.94%	Other subsidiaries 22.39% (1)	Total 78.31%
Axxiom	Debentures	109.00% of CDI Rate	Jan 29, 2017	579	1,194	1,427	1,282	4,482
ETAU	Debentures	108.00% of CDI	Dec. 01, 2019	1,024	2,110	2,522	2,265	7,921
				1,603	**3,304**	**3,949**	**3,547**	**12,403**

(1) 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 personnel, comprising the Executive Board, the Fiscal Council and the Board of Directors, in the business years 2017 and 2016, are as follows:

R$ '000	2017	2016
Remuneration	32,284	25,159
Income sharing (reversal)	491	(709)
Assistance benefits	1,783	1,555
Total	**34,558**	**26,005**

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Financial instruments of the Company and its subsidiaries are: Cash and cash equivalents; Securities; Customers and Traders; Concession Holders – Energy Transport; Advance sales of power supply; Concession financial assets related to infrastructure; Low-income subsidy; Funding from Energy Development Account (CDE); Investments in infrastructure; Restricted cash; Escrow deposits in litigation; Receivables from related parties; the CVA Account; and *Other financial components*; in tariff adjustments; the Minas Gerais State Tax Amnesty Program (PRCT); Loans and financings; Obligations under debentures; Obligations under concessions; Obligations to suppliers; Debt agreed with the pension fund (Forluz); Post-retirement obligations; Put options; and Swaps. Gains and losses on transactions are reported in full in the Income and loss account for the year or in Equity, by the accrual method.

See Note 1 on the various steps taken by the Company to increase liquidity by new financing contracts, or refinancing of existing obligations, and possible sales of assets that are not part of the end-activity. Any additional lowering of credit ratings could have negative consequences for the Company's capacity to obtain financing, or could impact the cost of financing, making refinancing of maturing obligations more difficult or more costly. Any financing or refinancing of the Company's debt may be contracted on the basis of higher interest rates and could require that the Company complies with more onerous restrictive covenants, which could further restrict operational activities.

The financial instruments of the Company and its subsidiaries are classified as follows:

- Loans and receivables – this category contains: Short-term investments; Customers and traders; Concession holders (power transport); Restricted cash; Receivables from related involved; the CVA Account and *Other financial components*, in tariff adjustments; Low-income subsidy; Reimbursement of tariff subsidies; Other credits owed by Eletrobras; Escrow deposits in litigation; and Concession financial assets. They are recognized at their nominal realization value, which is similar to fair value.

- Financial instruments measured at fair value through income or loss –

  1. Securities held for trading, in the amount of R$ 1,043,893 (R$ 995,340 on December 31, 2016). They are valued at fair value and the gains or losses are recognized directly in the Income and loss account.
  2. *Derivative financial instruments (Swap transactions)*: The Company maintains derivative hedge instruments to regulate its exposure to risks of variation in exchange rates. Derivatives are recognized initially at their fair value and the attributable transaction costs are recognized in the Income and loss account when they are incurred. After the initial recognition, derivatives are measured at fair value and changes in fair value are accounted in the Income and loss account.
  3. *Derivative financial instruments (put options):* Financial liability for put option: the option to sell units in FIP Melbourne and FIP Malbec ('the SAAG Put') and the options to sell shares in RME ('the Parati Put') have been measured at fair value using the Black-Scholes-Merton (BSM) method.

- Financial instruments held to maturity: In this category are Securities, in the amount of R$ 44,846 at December 31, 2017 and R$ 49,888 on December 31, 2016, included in Note 7. There is positive intention to hold them to maturity. They are measured at amortized cost using the effective rates method. Their fair values, of R$ 44,901 on December 31, 2017, and R$ 49,738 on December 31, 2016), were measured using information of Level 2.

- Financial instruments available for sale: In this category are Concession financial assets related to distribution infrastructure. These are measured through Assets Remuneration Base of the concession, as per legislation established by the regulator (Aneel), taking into account the alterations in estimated cash flow, using as a basis factors such as the New Replacement Value (VNR) and updating by the IPCA inflation index – they are considered equivalent to fair value on the reporting date of these financial statement.

- 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; the Minas Gerais State Tax Regularization Plan (PRCT); Suppliers; and Advanced sales of power supply. 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 147.5% of the CDI rate – based on its most recent funding. For the following, the Company considered fair value to be substantially equal to book value: Loans, financings and debentures with annual rates between IPCA + 4.70% and 8.07%, and CDI + 0.69% to 5.62%. For the financings with Eletrobras, fair value is conceptually similar to book value, due to the specific characteristics of the transactions.

On December 31, 2017, the book values of the financial instruments are similar to the fair values, with the exception of Loans, financings and debentures, of which the accounting balance is R$ 14,397,697 (R$ 15,179,280 on December 31, 2016) and fair value is

R$ 15,179,280 (R$ 14,711,130 on December 31, 2016), being measured as Level 2, using similar liabilities as reference.

Derivative financial instruments:

Put options

The Company holds options to sell certain securities to it (put options) for which it has calculated the fair value based on the *Black and Scholes Merton* (BSM) model. This takes the following variables into account: exercise price of the option; closing price of the underlying asset on December 31, 2017; the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

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

On December 31, 2017 and 2016, the existing options were as follows:

Consolidated R$ '000	Balance at 2017	Balance at 2016
Put option for shares in RME and Lepsa (1)	507,231	1,149,881
Put option – SAAG	311,593	196,173
Put / call options – Ativas and Sonda	(3,801)	(4,586)
	815,023	**1,341,468**

(1) The options in Lepsa were exercised on November 30, 2017, and the Company now owns 100% of the equity in that company.

Put option – SAAG

Option contracts were signed between Cemig GT and the private pension entities that participate in the investment structure of SAAG (comprising FIP Melbourne, Parma Participações S.A. and FIP Malbec, jointly, 'the Investment Structure'), giving those entities the right to sell units in the Funds that comprise the Investment Structure, at the option of the Funds, in the 84th (eighty-fourth) month from June 2014. The exercise price of the Put Options will correspond to the amount invested by each private pension plan in the Investment Structure, updated pro rata temporis by the Expanded National Consumer Price (IPCA) index published by the IBGE, plus interest at 7% per year, less such dividends and Interest on Equity as shall have been paid by SAAG to the pension plan entities. This option was considered to be a derivative instrument, accounted at fair value through income or loss.

For measurement of the fair value of SAAG put options Cemig GT uses the Black-Scholes-Merton ('BCM') model. The assumption was made that the future expenditures of FIP Malbec and FIP Melbourne are insignificant, so that the options are valued as if they were direct equity interests in Mesa. However, neither SAAG nor Mesa are traded on a securities exchange, so that some assumptions 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, 2017 is ascertained on the basis of free cash flow to equity holders (FCFE), expressed by equivalence of the indirect 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 energy generation sector that are traded on the Bovespa.

Based on the studies made, a liability of R$ 311,593 is recorded in the Company's financial statement (R$ 196,173 on December 31, 2016), 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:

R$ '000	Consolidated	Holding company
Balance on December 31, 2015	**-**	**147,614**
Initial balance for purposes of consolidation	147,614	-
Adjustment to fair value	48,559	48,559
Balance at December 31, 2016	**196,173**	**196,173**
Variation in fair value	120,754	120,754
Reversals	(5,334)	(5,334)
Balance on December 31, 2017	**311,593**	**311,593**

Cemig GT 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 6.05% to 10.05% p.a., and for volatility between 23% and 83% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R$ 276,199 and R$ 376,787, respectively.

Put options of RME and Lepsa's shares

Cemig granted a put option to *Fundo de Participações Redentor* – which is now (following the stockholding reorganization of *Parati* S.A.) a Shareholderof *Luce Empreeendimentos e Participações* S.A. (*Lepsa*) and *Rio Minas Energia Participações* S.A. (*RME*) – the right for *Redentor* to sell all of its shares in *Parati* (now shares in *RME* and *Lepsa*), exercisable in May 2016. The exercise price of the option is calculated based on the sum of the value of the amounts injected by the Fund into Parati, plus the expenses of the fund, less Interest on Equity, and dividends, distributed by Parati.

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

RME and Lepsa own common and preferred shares of Light, and at currently exercise jointly control, with the Company, over the activities of that investee. Therefore, this option was considered to be a derivative instrument, accounted at fair value through income or loss.

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

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

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

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

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

   On November 30, 2016, Cemig paid R$ 221.8 million for the portion of BTG Pactual in RME and Lepsa, under exercise of the first 'window' of the put.

b) Second 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, 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 made the payment on November 30, 2017.

   On September 15, 2017 Cemig received Notices of Intention to Exercise Put Options, under the 'Second Exercise Window', from
   - BB–Banco de Investimento S.A. ('BB-BI'),
   - BV Financeira S.A. – Crédito, Financiamento e Investimento ('BV Financeira'), and
   - Banco Santander (Brasil) S.A. ('Santander')

   (jointly, 'the ShareholderBanks'), giving notice of irrevocable decision to exercise their right to sell to Cemig the totality of their holdings of common and preferred shares ('the Shares Subject of the Put Option'), comprising the totality of their equity interests, in RME and Lepsa.

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

   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 Shareholdermay 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.

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

On November 22, 2017 Cemig signed the First Amendment to the Shareholders' Agreement of RME – Rio Minas Energia Participações S.A. ('RME'), with: Banco Santander (Brasil) S.A. ('Santander'), BV Financeira S.A. – Crédito Financiamento e Investimento ('BV' Financeira') and BB-Banco de Investimento S.A. ('BB-BI'), (jointly, 'the Shareholderbanks') to formalize the partial postponement of the date of the Put option granted by Cemig to the ShareholderBanks, the new exercise date being moved from November 30, 2017 to November 30, 2018.

In relation to the Put option granted by Cemig to the ShareholderBanks in Lepsa, the exercise date remained unchanged, and as a result on November 30, 2017, Cemig acquired the totality of the shares in Lepsa, and the totality of the preferred shares in RME held by BB-BI, BV Financeira and Santander, as described in greater detail in Note 16.

Amount of the Company's exposure

The change in the value of the options – the difference between the estimated fair value for the assets and the corresponding exercise price, in 2017 and 2016, has been as follows:

After the acquisitions referred to above, the Company's exposure was as follows;

	R$ '000
Balance at December 31, 2016	**1,149,881**
Variation in fair value	187,568
Written down, due to exercise of Put	(830,217)
Balance on December 31, 2017	**507,232**
Balance on December 31, 2015	**1,245,103**
Variation in fair value	54,538
Reversals	(149,760)
Balance at December 31, 2016	**1,149,881**

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, 2017 (as a reference for the value of the indirect equity interest held by the direct shareholders of RME and Lepsa in Light); the risk-free interest rate; the volatility of the price of the underlying asset; and the time to maturity of the option.

The Company 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 3.5% p.a. to 11.5% p.a., and for volatility between 20.0% and 90.0% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R$ 486,821 and R$ 532,150, respectively.

Sonda options

As part of the stockholding restructuring process, 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 income 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 income 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 statement for 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 analyzes 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$785 in the income statement for 2017.

<u>Swap transactions</u>

Considering that part of the loans and financings of the Company's subsidiaries is denominated in foreign currency, the companies use derivative financial instruments (swap transactions) to protect the servicing associated with these debts (principal plus interest).

The derivative instruments contracted have the purpose of protecting the operations against the risks arising from foreign exchange variation and are not used for speculative purposes.

The amounts of the principal of derivative transactions are not presented in the balance sheet, since they refer to transactions that do not require cash principal payments to be made: only the gains or losses that actually occur are recorded. The net result of these transactions was negative adjustment, on December 31, 2017, of R$ 32,462, recorded in Finance income (expenses).

The Company has a Financial Risks Management Committee, created to monitor the financial risks in relation to volatility and trends of inflation indices, exchange rates and interest rates that affect its financial transactions and which could negatively affect its liquidity and profitability. The Committee implements action plans and sets guidelines for proactive control of the financial risks environment.

The table below shows the derivative instruments contracted at December 31, 2017:

Cemig's right (1)	Cemig's obligation	Maturity period	Trading market	Value of principal contracted	Unrealized gain / loss	
					Amount according to contract 2017	Fair value 2017
US$: FX variation + Rate (9.25% p.a.)	R$: 150.49% of CDI	12/2017 to 12/2024	Over the counter	US$1,000,000	50,792	(32,462)

1) For the principal, the swap operation has a floor of R$ 3.25 and ceiling of R$ 5.00.

The counterparties of the derivative transactions are the banks Bradesco, Itaú, Goldman Sachs and BTG Pactual.

The Company is guarantor of the derivative instruments contracted by Cemig GT.

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 effect on Loans and financings, Suppliers, and cash flow.

The net exposure to exchange rates is as follows:

Exposure to exchange rates R$ '000	2017		2016	
	Foreign currency	R$ '000	Foreign currency	R$ '000
US dollar				
Loans and financings (Note 21)	1,014,535	3,356,082	7,072	23,049
Suppliers (Itaipu Binacional)	73,698	240,220	62,320	206,827
	1,088,233	3,596,302	69,392	229,876
Euros				
Loans and financings – Euros (Note 21)	1,105	4,383	2,157	7,416
Net liabilities exposed		**3,600,685**		**237,292**

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

Sensitivity analysis

Based on information from its financial consultants, the Company estimates that in a probable scenario the variation of the exchange rates of foreign currencies in relation to the Real at the end of 2018 will be an appreciation of the dollar by 3.11%, to R$ 3.411/US$, and depreciation of the Euro by 1.13%, to R$ 3.922/€. The Company has made a sensitivity analysis of the effects on the Company's income arising from depreciation of the Real exchange rate by 25%, and by 50%, in relation to this 'probable' scenario.

Risk: foreign exchange rate exposure R$ '000	Base Scenario Dec. 31, 2017	'Probable' scenario US$1=R$ 3.411 EUR1=R$ 3.922	'Possible' scenario FX depreciation 25.00% US$1=R$ 4.264 EUR1=R$ 4.903	'Remote' scenario FX depreciation 50.00% US$1=R$ 5.117 EUR1=R$ 5.883
US dollar				
Loans and financings (Note 21)	3,356,082	3,460,579	4,325,977	5,191,376
Suppliers (Itaipu Binacional)	240,220	247,700	309,643	371,586
	3,596,302	3,708,279	4,635,620	5,562,962
Euros				
Loans and financings (Note 21)	4,383	4,333	5,417	6,500
Net liabilities exposed	**3,600,685**	**3,712,612**	**4,641,037**	**5,569,462**
Net effect of exchange rate variation		**111,927**	**1,040,352**	**1,968,777**

Interest rate risk

On December 31, 2017 the Company was exposed to the risk of increase in Brazilian domestic interest rates. This exposure occurs as a result of net liabilities indexed to variation in interest rates, as follows:

Risk: Exposure to domestic interest rate changes R$ '000	Consolidated 2017	2016
Assets		
Cash equivalents – Cash investments (Note 6)	916,762	893,713
Securities (Note 7)	1,088,137	1,045,228
Accounts receivable – Renova (Note 29)	350,200	74,630
Advance for future delivery of energy supply	122,920	230,112
Restricted cash	106,227	367,474
CVA and in tariffs – Selic rate * (Note 15)	369,010	397,725
Credits owed by Eletrobras	4,216	138,444
	2,957,472	**3,147,326**
Liabilities		
Loans, financings and debentures – CDI rate (Note 21)	(7,202,558)	(11,057,740)
Loans, financings and debentures – TJLP (Note 21)	(118,891)	(213,102)
Advance sales of energy supply – CDI (Note 8)	(188,344)	-
CVA and *Other financial components* in tariffs – Selic rate (Note 15)	(414,800)	(804,975)
Adherence to the Tax Amnesty Program (PRCT) *(Note 20)*	(282,876)	-
	(8,207,469)	(12,075,817)
Net liabilities exposed	**(5,249,997)**	**(8,928,491)**

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

Sensitivity analysis

In relation to the most significant interest rate risk, the Company and its subsidiaries estimate that, in a probable scenario, on December 31, 2018 the Selic and TLP rates will be 6.75% and 7.00%, respectively. The Company has made a sensitivity analysis of the effects on its income arising from increases in rates of 25% and 50% in relation to the 'probable' scenario. Variation in the CDI rate accompanies the variation in the Selic rate.

Estimation of scenarios for the path of interest rates considers the projections made by the Company and its subsidiaries, based on its financial consultants.

Risk: Increase in Brazilian interest rates R$ '000	Dec. 31, 2017	December 31, 2018		
	Book value	'Probable' scenario Selic 6.75% TJLP 6.75%	'Possible' scenario Selic 8.44% TJLP 8.44%	'Remote' scenario Selic 10.13% TJLP 10.13%
Assets				
Short-term investments	916,762	978,643	994,137	1,009,630
Securities	1,088,137	1,161,586	1,179,976	1,198,365
Accounts receivable – Renova (Note 29)	350,200	373,839	379,757	385,675
Advance for future delivery of power supply	122,920	131,217	133,294	135,372
Restricted cash	106,227	113,397	115,193	116,988
CVA and *Other financial components* in tariff adjustments – Selic rate	369,010	393,918	400,154	406,391
Credits owed by Eletrobras	4,216	4,501	4,572	4,643
	2,957,472	3,157,101	3,207,083	3,257,064
Liabilities				
Loans and financings – CDI (Note 21)	(7,202,558)	(7,688,731)	(7,810,454)	(7,932,177)
Loans and financings – TJLP (Note 21)	(118,891)	(126,916)	(128,925)	(130,935)
Advance sales of power supply - CDI (Note 8)	(188,344)	(201,057)	(204,240)	(207,423)
CVA and *Other Financial components* in tariffs (Note 15)	(414,800)	(442,799)	(449,809)	(456,819)
Adherence to Tax Amnesty Program (PRCT) *(Note 20)*	(282,876)	(301,970)	(306,751)	(311,531)
	(8,207,469)	**(8,761,473)**	**(8,900,179)**	**(9,038,885)**
Net assets (liabilities) exposed	**(5,249,997)**	**(5,604,372)**	**(5,693,096)**	**(5,781,821)**
Net effect of variation in interest rates		**(354,375)**	**(443,099)**	**(531,824)**

Risk of increase in inflation

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

Exposure to increase in inflation R$ '000	2017	2016
Assets		
Concession financial assets related to Distribution infrastructure - IPCA (Note 15)	110,832	128,071
Transmission – Indemnity receivable – IPCA (Note 15)	1,928,038	1,805,230
Generation – Indemnity receivable – IPCA (Note 15)	1,900,757	546,624
Concession Grant Fee – IPCA (Note 15)	2,337,135	2,253,765
	6,276,762	4,733,690
Liabilities		
Loans, financings and debentures – IPCA (Note 21)	(3,800,889)	(3,935,479)
Debt agreed with pension fund (Forluz) – IPCA	(720,498)	(787,003)
Forluz - deficit of pension plan	(283,291)	-
	(4,804,678)	(4,722,482)
Net assets (liabilities) exposed	**(1,472,084)**	**11,208**

Sensitivity analysis

In relation to the most significant risk of increase in inflation, the Company estimates that, in a probable scenario, on December 31, 2018 the IPCA inflation index will be 4.43%. The Company has made a sensitivity analysis of the effects on its income arising from increases in inflation of 25% and 50% in relation to the 'probable' scenario, naming these the 'possible' and 'remote' scenarios, respectively.

Risk: increase in inflation R$ '000	Dec. 31, 2017	December 31, 2018		
	Amount Book value	'Probable' scenario IPCA 4.28%	'Possible' scenario IPCA 5.35%	'Remote' scenario IPCA 6.42%
Assets				
Concession financial assets related to Distribution infrastructure – IPCA (Note 15)	110,832	115,576	116,762	117,947
Transmission – Indemnity receivable – IPCA (Note 15)	1,928,038	2,010,558	2,031,188	2,051,818
Generation – Indemnity receivable – IPCA (Note 13)	1,900,757	1,982,109	2,002,447	2,022,786
Concession Grant Fee – IPCA (Note 15)	2,337,135	2,437,164	2,462,172	2,487,179
	6,276,762	**6,545,407**	**6,612,569**	**6,679,730**
Liabilities				
Loans, financings and debentures – IPCA (Note 21)	(3,800,889)	(3,963,567)	(4,004,237)	(4,044,906)
Debt agreed with pension fund (Forluz) – IPCA	(720,498)	(751,335)	(759,045)	(766,754)
Forluz deficit of pension plan	(283,291)	(295,416)	(298,447)	(301,478)
	(4,804,678)	**(5,010,318)**	**(5,061,729)**	**(5,113,138)**
Net assets (liabilities) exposed	**1,472,084**	**1,535,089**	**1,550,840**	**1,566,592**
Net effect of variation in IPCA and IGP–M indices		**63,005**	**78,756**	**94,508**

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 through a rigid analysis of financial institutions' credit, applying operational limits for each bank, based on assessments that take into account their ratings, exposures and balance sheets. It also seeks greater returns on investments by strategically investing in securities with longer investment maturities, while bearing in mind the Company's minimum liquidity control requirements.

The greater part of the energy sold 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 energy, due to replacement by thermoelectric generation, or reduction of revenues due to reduction in consumption caused by implementation of wide-ranging programs for saving energy. Prolongation of generation by thermoelectric plants can pressure costs of acquisition energy by 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 the reporting date, the Company (holding company and consolidated) presented excess of current liabilities over current assets.

Note 1 refers to the Company's various measures taking to increase its liquidity, through: new financings, refinancing of existing obligations or, potentially, disinvestment of assets that are not part of the Company's core business. Any reduction in the Company's ratings could result in a reduction of its ability to obtain new financings and could also make refinancings of debts not yet due more difficult or more costly. In this situation, any financing or refinancing of the Company's debt could have higher interest rates or might require compliance with more onerous covenants, which could additionally cause restrictions to the operations of the business.

The flow of payments of the Company's obligation to suppliers, for debts agreed with the pension fund, loans, financings and debentures, at floating and fixed rates, including future interest up to contractual maturity dates, is shown in this table:

Consolidated R$ '000	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	42,998	1,004,708	2,230,589	11,755,264	6,488,516	**21,522,075**
Tax Amnesty Program (PRCT)	94,544	192,852	-	-	-	287,396
Onerous concessions	249	491	2,106	9,564	15,017	**27,427**
Debt agreed with pension plan (Forluz)	11,172	22,446	102,418	606,669	259,435	**1,002,140**
Solution plan for deficit of the pension plan (Forluz) *(Note 23)*	2,533	5,089	23,317	138,081	399,598	**568,618**
	151,496	**1,225,586**	**2,358,430**	**12,509,578**	**7,162,566**	**23,407,656**
- Fixed rate						
Suppliers	2,342,757	-	-	-	-	2,342,757
	2,494,253	**1,225,586**	**2,358,430**	**12,509,578**	**7,162,566**	**25,750,413**

Holding company R$ '000	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						
Debt agreed with pension fund (Forluz)	550	1,104	5,039	29,848	12,764	49,305
Solution plan for deficit of the pension fund (Forluz) *(Note 23)*	125	250	1,147	6,794	19,660	27,976
	675	**1,354**	**6,186**	**36,642**	**32,424**	**77,281**
- Fixed rate						
Suppliers	4,667	-	-	-	-	4,667
	5,342	**1,354**	**6,186**	**36,642**	**32,424**	**81,948**

Credit risk

The distribution concession contract requires levels of service on a very wide basis within the concession area, and disconnection of supply of defaulting customers is permitted. Additionally, the Company used numerous tools of communication and collection to avoid increase in default. These include: telephone contact, emails, text messages, collection letters, posting of clients with credit protection companies, and collection through the courts.

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 credit risk is also reduced by the extremely wide client base.

The allowance for doubtful debtors constituted on December 31, 2017, considered to be adequate in relation to the credits in arrears receivable by the Company and its subsidiaries, was R$ 545,918.

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 statement.

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

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

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

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

Group	Equity	Concentration	Limit per bank (% of equity)*
A1	Over R$ 3.5 billion	Minimum of 80%	Between 6% and 9%
A2	R$ 1.0 billion to R$ 3.5 billion	Maximum 20%	Between 5% and 8%
B	R$ 400 million to R$ 1.0 billion	Maximum 20%	Between 5% and 7%

* The percentage assigned to each bank depends on individual assessment of indicators, e.g. liquidity, and quality of the credit portfolio.

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

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

Risk of over-contracting and under-contracting of power supply

Sale or purchase of power supply in the spot market to cover a positive or negative exposure of supply contracted, to serve the captive market of Cemig D, is a risk inherent to the energy distribution business. The regulatory limit for 100% pass-through to customers of exposure to the spot market, valued at the difference between the distributor's average purchase price and the spot price (PLD), is only the margin between 100% and 105% of the distributor's contracted supply. Any exposure that can be proved to have arisen from factors outside the distributor's control ('involuntary exposure') may also be passed through in full to customers. The Company's Management is continually managing its contracts for purchase of power supply to mitigate the risk of exposure is to the spot market.

Risk of continuity of the concession

The risk to continuity of the distribution concession arises from the new terms included in the extension of Cemig D's concession for 30 years from January 1, 2016, as specified by Law 12,783/13. The extension brought with it changes from the previous contract. The extension, coming into force on January 1, 2016, brought changes to the present contract.

Under the new contract, continuity of the concession is conditional upon compliance by the distributor with new criteria for quality and economic-financial sustainability.

The extension is conditional on compliance with indicators contained in the contract itself, which aim to guarantee quality of the service provided and economic and financial sustainability of the company. These are determinant for actual continuation of the concession in the first five years of the contract, since non-compliance with them in two consecutive years, or in the fifth year, results in cancellation of the concession.

Additionally, as from 2021, non-compliance with the quality criteria for three consecutive years, or with the minimum parameters for economic/financial sustainability for two consecutive years, results in opening of proceedings with a view to termination of the distribution concession.

Hydrological risk

The greater part of the energy sold by the Company's subsidiaries is generated by hydroelectrical 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 energy, 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 energy. Prolongation of the generation of energy using the thermal plants potentially could lead to cost increases for the energy distributors, causing a greater need for cash, and could result in future increases in tariffs.

Risk of early maturity of debt

The Company's subsidiaries have loan contracts with restrictive covenants normally applicable to this type of transaction, related to compliance with a financial index. Non-compliance with these covenants could result in earlier maturity of debts. For more details please see Note 21.

Capital management

This table shows comparisons of the Company's consolidated net liabilities and its Equity on December 31, 2017 and 2016:

R$ '000	2017	2016
Total liabilities	27,909,453	29,101,482
(–) Cash and cash equivalents	(1,030,257)	(995,132)
(–) Restricted cash	(106,227)	(367,474)
Net liabilities	**26,772,969**	**27,738,876**
Total equity	**14,330,136**	**12,934,371**
Net liabilities / equity	**1.87**	**2.14**

31. 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 made without any preference.

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

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

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

R$ '000	Balance on December 31, 2017	Fair value at December 31, 2017		
		Active market – quoted price (Level 1)	No active market – Valuation technique (Level 2)	No active market – No observable inputs (Level 3)
Assets				
Fair value through income or loss				
Securities held for trading				
Bank certificates of deposit	2,652	-	2,652	-
Treasury Financial Notes (LFTs)	290,004	-	290,004	-
Financial Notes – Banks	739,945	739,945	-	-
Debentures	11,292	-	11,292	-
	1,043,893	739,945	303,948	-
Derivative financial instruments	8,649	-	-	8,649
	1,052,542	**739,945**	**303,948**	**8,649**
Available for sale				
Concession financial assets related to infrastructure	369,762	-	-	369,762
	369,762	**-**	**-**	**369,762**
Liabilities				
Fair value through income or loss				
Derivative financial instruments	(856,135)	-	-	(856,135)
	(856,135)	**-**	**-**	**(856,135)**
	566,169	**739,945**	**303,948**	**(477,724)**

R$ '000	Balance on December 31, 2016	Fair value at December 31, 2016		
		Active market – quoted price (Level 1)	No active market – Valuation technique (Level 2)	No active market – No observable inputs (Level 3)
Assets				
Held for trading				
Securities				
Bank certificates of deposit	32,782	-	32,782	-
Treasury Financial Notes (LFTs)	192,995	192,995	-	-
Financial Notes – Banks	724,274	-	724,274	-
Debentures	45,289	-	45,289	-
	995,340	**192,995**	**802,345**	**-**
Available for sale				
Concession financial assets related to infrastructure	216,107	-	-	216,107
	216,107	**-**	**-**	**216,107**
Liabilities				
Fair value through income or loss				
Derivative financial instruments	(1,341,468)	-	-	(1,341,468)
	(1,341,468)	**-**	**-**	**(1,341,468)**
	(130,021)	**192,995**	**802,345**	**(1,125,361)**

Fair value calculation of financial positions

Concession financial assets related to infrastructure: Measured at New Replacement Value (*Valor novo de reposição*, or VNR), according to criteria established in regulations by the Concession grantor ('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 Concession financial assets is shown in Note 15.

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

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

32. INSURANCE

The Company maintains insurance policies to cover damages to certain assets, in accordance with orientation by specialists, as listed below, taking into account the nature and the degree of risk, for amounts considered sufficient to cover any significant losses related to its assets and responsibilities. The risk assumptions adopted, due to their nature, are not part of the scope of an audit of the financial statement, and consequently were not examined by the external auditors.

	Cover	Dates of cover	Amount insured (1)	Annual premium (1)
Companhia Energética de Minas Gerais				
Facilities in buildings	Fire	01/08/2018 – 01/08/2019	R$ 53,348	R$ 12
Cemig Geração e Transmissão				
Air transport / Aircraft	Fuselage Third party	04/29/2017 – 04/29/2018	US$4,675 US$14,000	US$58
Warehouse stores	Fire	10/02/2017 – 10/02/2018	R$ 14,931	R$ 21
Facilities in buildings	Fire	01/08/2018 – 01/08/2019	R$ 454,828	R$ 98
Telecoms equipment	Fire	01/08/2018 – 01/08/2019	R$ 11,514	R$ 5
Operational risk	-	12/07/2017 – 12/07/2018	R$ 1,333,711	R$ 1,790
Cemig Distribuição				
Air transport / Aircraft / Guimbal equipment	Fuselage Third party	04/29/2017 – 04/29/2018	US$3,613 US$14,000	US$42
Warehouse stores	Fire	10/02/2017 – 10/02/2018	R$ 84,169	R$ 120
Buildings	Fire	01/08/2018 – 01/08/2019	R$ 1,003,221	R$ 217
Telecoms equipment	Fire	01/08/2018 – 01/08/2019	R$ 17,208	R$ 7
Operational risk – Transformers above 15MVA and other power distribution equipment with value above R$ 1,000 (2)	Total	12/07/2017 – 12/07/2018	R$ 471,265	R$ 633
Gasmig				
Gas distribution network / Third party	Third party	12/15/17 – 12/15/18	R$ 60,000	R$ 429
Own vehicle fleet (Operation)	Damage to third parties only	07/07/17 – 07/07/18	R$ 500	R$ 2
Own vehicle fleet (Directors)	Full cover	10/25/17 – 10/25/18	R$ 100	R$ 1
Facilities - multirisk (3)	Robbery, theft and fire	01/01/17 – 01/01/18	R$ 41,374	R$ 50

(1) Amounts expressed in R$ '000 or US$'000. (2) Maximum indemnity limit (MIL): R$ 230,661 for Cemig GT; R$ 214,035 for Cemig D.

The Company, except for its aircraft, does not have third party liability insurance covering accidents, and is not seeking proposals for this type of insurance. Additionally, the Company 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. The Company has not suffered significant losses arising from the above-mentioned risks. The Company has not suffered significant losses as a result of the above-mentioned risks.

33. CONTRACTUAL 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 energy from Itaipu and other sources, as follows:

	2018	2019	2020	2021	2022	After 2022	Total
Purchase of energy from Itaipu	1,277,725	1,331,937	1,366,963	1,339,240	1,326,075	1,298,047	7,939,987
Purchase of energy – auctions	2,837,406	2,815,256	3,178,145	3,724,275	3,898,017	4,040,071	20,493,170
Purchase of energy – 'bilateral contracts'	296,055	306,703	323,064	338,296	356,022	374,784	1,994,924
Quotas for Angra 1 and Angra 2	264,268	271,632	290,767	297,289	311,101	325,435	1,760,492
Transport of energy from Itaipu	226,825	231,921	236,130	219,593	206,384	215,877	1,336,730
Other energy purchase contracts	3,496,832	2,734,524	2,757,608	2,993,556	3,030,128	2,647,242	17,659,890
Purchase of gas for resale	546,013	559,369	586,461	611,267	639,544	669,048	3,611,702
Operating leasing transactions	97,620	76,093	60,648	63,798	67,725	71,980	437,864
Total	9,042,744	8,327,435	8,799,786	9,587,314	9,834,996	9,642,484	55,234,759

34. THE ANNUAL TARIFF ADJUSTMENT

On May 23, 2017 Aneel approved the Annual Tariff Adjustment for Cemig D. It resulted in an average *decrease* in tariffs of 10.66%, in effect May 28, 2017, through May 27, 2018.

The average negative affect of 10.66% arises from the following factors:

- Adjustment of the cost items of Portions A and B, contributing 1.29% to the average effect.
- Inclusion of the financial components calculated in the current tariff adjustment for offsetting in the subsequent 12 months, resulting in a reduction of 4.68%.
- Removal of the financial components established in the 2016 tariff adjustment process, which remained in effect up to the date of the adjustment being processed, contributing 7.28% reduction.

35. NON-CASH TRANSACTIONS

In the business years 2017 and 2016, the Company made the following transaction not involving cash, which are not reflected in the Cash flow statement:

- Capitalized financial costs of R$ 70,913 in 2017 (R$ 142,014 in 2016).
- Offsetting of CDE: Offsetting between the amounts payable and receivable, in the amount of R$ 1,238,662 in 2017 (R$ 1,099,117 in 2016).

36. SUBSEQUENT EVENTS

2018 PDVP Programmed Voluntary Retirement Plan

In March 2018, the Company approved the Programmed Voluntary Retirement Program ('the 2018 PDVP'). Those eligible to take part were any employees who will have worked with Cemig for 25 years or more by December 31, 2018. The period for joining the program will be April 2 through 30, 2018. For program offers payment of the severance amounts specified by law, including payment for the period of notice, and especially deposit of the 'penalty' amount of 40% of the FGTS Base Value, and other charges specified by the legislation, with no provision for payment of an additional premium.

Advanced payment for future delivery of energy supply

In the first quarter of 2018, Cemig GT made an advanced payment to Renova of R$ 46,550, in relation to invoices for energy supply becoming due between April and August 2018. These advances were discounted at a rate of 155% of the Interbank Deposit Certificate (CDI).

As a consequence of the process of sale of generation assets by Renova, the parties are in negotiations on the manner of payment of the amounts advanced by Cemig GT.

Binding proposal to Renova

On March 27, 2018 Cemig presented a binding proposal to Renova for acquisition of 100% of the shares in Chipley held by Renova, or 51% of the shares in Brasil PCH held by Chipley. Cemig's intention is that Renova should sell its interest in Brasil PCH to a third party, or to Cemig itself or any of its affiliated companies, in the terms of the Proposal, to make it possible for payment to be made of the amounts owed to Cemig GT. The conclusion of the transaction, if accepted by Renova, will depend on conditions present specified in the Offer of the type that are usual for this type of transaction.

Sale of remaining shares not initially subscribed in capital increase

On March 21, 2018, Cemig sold the totality of the remaining shares not subscribed in the Capital increase approved by the Extraordinary General Meeting of October 26, 2017, through a public offer of a single and indivisible lot of shares, which resulted in a financial volume of R$ 110,700. A total of 13,139,799 remaining common shares (ON) were sold for an average price of R$ 7.30, totaling R$ 95,773; and 1,815,750 remaining preferred (PN) shares were sold for an average price of R$ 8.22, for a total of R$$14,926.

* * * * * * * * * * * *

(The original is signed by the following signatories:)

Bernardo Afonso Salomão de Alvarenga,
Chief Executive Officer

Bernardo Afonso Salomão de Alvarenga,
Deputy CEO
(Interim)

Maurício Fernandes Leonardo Júnior
Chief Finance and Investor Relations Officer

Ronaldo Gomes de Abreu
Chief Distribution and Sales Officer

Franklin Moreira Gonçalves
Chief Generation and Transmission Officer

Maura Galuppo Botelho Martins
Chief Officer for Human Relations and Resources

José de Araújo Lins Neto
Chief Corporate Management Officer

Thiago de Azevedo Camargo;
Chief Institutional Relations and Communication Officer

Dimas Costa
Chief Trading Officer

Daniel Faria Costa
Chief Business Development Officer

Luciano de Araújo Ferraz
Chief Counsel

Leonardo George de Magalhães
Controller
CRC-MG 53.140

Leonardo Felipe Mesquita
Accounting Manager
Accountant – CRC-MG-85.260

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A free translation from Portuguese into English of Independent Auditor's Report on Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board – IASB

INDEPENDENT AUDITOR'S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders and Management of:
Companhia Energética de Minas Gerais
Belo Horizonte - MG

Opinion

We have audited the individual and consolidated financial statements of Companhia Energética de Minas Gerais (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Companhia Energética de Minas Gerais as at December 31, 2017, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Risks related to compliance with laws and regulations

As mentioned in Note 16 to the financial statements, the Company has indirect investments in Madeira Energia S.A., Renova Energia S.A. and Norte Energia S.A. (jointly referred to as "non-controlled investees"), which are accounted for under the equity method. Currently, investigations and other legal measures are being conducted by public authorities in connection with these non-controlled investees regarding certain expenditures and their allocations, which involve and also include some of their other shareholders and certain executives of these shareholders. At this point, it is not possible to forecast future developments arising from these investigation procedures by the public authorities, nor their possible effects on the Company's financial statements. Our opinion is not qualified in respect of this matter.

Risk regarding the ability of non-controlled investee Renova Energia S.A. to continue as a going concern

As discussed in Note 16 to the financial statements, the non-controlled indirect investee Renova Energia S.A. has incurred recurring losses and, as at December 31, 2017, has negative net working capital. These events or conditions indicate the existence of relevant uncertainty that may raise significant doubt about its ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide an individual opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Information Technology (“TI”) Environment

In view of the high volume of transactions and given the fact that the Company's operations are highly dependent on the proper operation of the IT structure and its systems, along with the complexities inherent in the nature of its business, we consider the information technology environment to be a key audit matter.

How our audit addressed this matter

Our audit procedures included, but not limited to, an evaluation of the design and operating effectiveness of IT general controls ("ITGC") implemented by the Company for the systems considered relevant to the auditing process. The evaluation of ITGCs included audit procedures to evaluate controls over logical access (manage access), manage changes and other technology-related aspects. With regard to the audit of logical access, we tested, on a sample basis, the process of authorizing and granting new user profiles, the timely removal of access of transferred or terminated employees, and the regular review of user profiles.

In addition, we reviewed passwords policies, security settings, and access to technology resources. With regard to the manage changes process, we checked whether system changes were adequately authorized and approved by the Company's Management, as well as the existence of segregation of duties. We also reviewed the operations management process, focusing on the policies to protect information and the timing for incidents resolution. We engaged our IT specialists in the performance of these procedures.

The combination of internal control deficiencies in the logical access and manage changes process represented a significant deficiency, and therefore changed our assessment of nature, timing, and extent of the planned substantive procedures to obtain sufficient and adequate audit evidence regarding the accounting records involved, including those mentioned in the matters described in the following topics.

Revenue recognition - electric power supply

As mentioned in Note 26 to the financial statements, part of the revenue recognized by the Company's subsidiaries in 2017, totaling R$ 23,701,361 thousand, is derived from electric power supply. Part of the revenue from electric power supply recognized by the subsidiaries refers to unbilled services provided to customers and final consumers ("unbilled revenue"), since billing is based on measurements and reading cycles, which in some cases occur after the accounting closing period. The balances of consolidated accounts receivable from billed and unbilled power supply totaled R$ 2,714,264 thousand and R$ 1,276,760 thousand as at December 31, 2017, respectively, and are disclosed in Note 8 to the financial statements.

Our audit focused on this matter due to the materiality of amounts involved and to the specific nature of both the billing process, which is highly dependent on computer systems, and the unbilled revenue estimation process, which consider historical data, contractual information, reports containing a large number of data obtained from the Company's systems, manual inputs, as well as judgments made by Management on the estimated consumption by customers and final consumers, in order to ensure that revenue is accounted for in the adequate accrual period.

How our audit addressed this matter

Our procedures included, but were not limited to: (i) evaluating the design and operating effectiveness of the internal controls implemented by Company to adequately account for revenue transactions; (ii) involving IT specialists to perform auditing procedures supported by computerized tools; (iii) revenue tests of detail; (iv) testing the mathematical accuracy of unbilled revenue, including understanding and documenting the estimation process, determining and reviewing Management’s assumptions; and (v) involving experienced audit professionals to define the testing strategy, to review the audit supporting documentation, and to oversee the audit procedures performed. In addition, we assessed the adequacy of the Company's disclosures on this matter.

Based on the results of the audit procedures performed, which are consistent with management's assessment, we considered the estimates prepared by Management to be acceptable, as well as the related disclosures in Notes 8 and 26 in the context of the financial statements taken as a whole.

Service concession’s infrastructure and financial assets

As described in Notes 15 and 18 to the financial statements, as at December 31, 2017, subsidiaries Cemig Distribuição S.A., Companhia de Gás de Minas Gerais and Cemig Geração e Transmissão S.A. have concession’s financial and intangible assets totaling R$ 7,083,492 thousand and R$ 11,155,928 thousand, respectively, representing the service concession’s infrastructure.

The amount of investments in infrastructure for concession services is an essential part of the methodology applied by the granting authority to define the tariff to be charged by the energy and gas distributors to final consumers, as well as to define the Annual Allowed Revenue (RAP) of the transmission companies, under the terms of the Concession Agreement. Definition of which costs are eligible and that should be capitalized as infrastructure cost is subject to Management’s judgment. During 2017, the subsidiaries recognized investments in the infrastructure assets of energy and gas distribution and transmission service concessions in the total amount of R$ 1,129,675 thousand.

Additionally, determination of costs that qualify as concession infrastructure investment also has direct impact on evaluation of concession financial assets of the electric power generation and distribution concessions, which represents the amounts invested by the subsidiaries that will not be or have not been fully amortized by the end of the concession term, and consequently will be indemnified by the granting authority.

Our audit focused on this matter due to the specific aspects of the capitalization process, the subsequent evaluation of infrastructure costs and financial assets, in addition to the relevance of amounts involved.

How our audit addressed this matter

Our audit procedures involved, but were not limited to, evaluating the design and operational effectiveness of the Company's internal controls over accounting for infrastructure investments, including the allocation of indirect costs, policies defined by the Company for such accounting and its applicability to accounting standards in force, and comparison of costs with historical data and observable industry standards.

As part of our procedures, we also recalculated the financial assets recorded by the Company, and compared the calculation-related inputs with external market information and criteria established by the granting authority, in addition to evaluating the changes in the last tariff revisions. An audit adjustment was identified indicating the need to supplement the financial assets restatement of the transmission concession, which was not adjusted by the Company due to their immateriality in relation to the financial statements taken as a whole.

In addition, we assessed the adequacy of the Company's disclosures on this matter.

Based on the results of the audit procedures performed, which are consistent with management's assessment, we considered the estimates prepared by management to be acceptable, as well as the related disclosures in Notes 15 and 18 in the context of the financial statements taken as a whole.

Post-retirement obligation

At December 31, 2017, net actuarial obligations related to post-retirement benefit plans sponsored by the Company and its subsidiaries, computed in accordance with the actuarial report issued by its consultant actuary, totaled R$ 4,186,181 thousand.

Our audit focused on this matter due to the relevance of the amounts recognized in liabilities, in addition to the level of judgment associated with the obligation measurement process, which includes complex assumptions such as long-term interest rates, yield on plan assets, salary increase, turnover, mortality and discount rates. Changes in these assumptions may have a material impact on the amounts recognized in the financial statements.

How our audit addressed this matter

During our audit, we engaged actuarial specialists to support us in evaluate the assumptions used in the calculation of the actuarial assets and liabilities of post-retirement benefit plans described in Note 23 to the financial statements. We compared these assumptions with comparable market data and benchmark standards internally developed based on independent calculations made as part of our procedures. Additionally, our actuarial specialists supported us to carry out procedures for identification of possible post-retirement benefit plans which had not been previously identified and upon evaluation of adequacy of disclosures made by the Company.

Based on the results of the audit procedures performed on post-retirement obligations, which are consistent with management's assessment, we considered that the criteria and assumptions adopted in relation to the recognition of such obligations, the identification of existing obligations, as well as the related disclosures in Note 23, are appropriate in the context of the financial statements taken as a whole.

Impairment of investments in associates and joint ventures

Pursuant to CPC 18 (R2) Investments in Associates, Subsidiaries and Joint Ventures, equivalent to IAS 28, after applying the equity method, the Company shall apply the requirements of Technical Pronouncement CPC 38 - Financial Instruments: Recognition and Measurement, equivalent to IAS 39, to determine the need to recognize any additional impairment loss on the Company's total net investment in the investee. In 2017, as a result of this analysis, the Company and its subsidiaries believed that there was no indication of impairment of their investments; therefore no impairment loss was recognized.

Monitoring this matter was considered significant for our audit, considering the relevance of Company’s and its subsidiaries’ assets account balances, especially with respect to equity method investments in the amount of R$ 7,792,225 thousand, as disclosed in Note 16 to the financial statements, and to the existence of certain specific circumstances relating to some investees and joint ventures’ delayed operation start-up and going concern risk.

How our audit addressed this matter

Our audit procedures included, but were not limited to (i) reviewing internal and external information that could indicate a significant impairment of investments accounted for under the equity method, such as the history of dividends received and the change in the value of publicly-traded shares (if applicable); (ii) reviewing the adequate application of CPC 38 by the investees and joint ventures, by checking the analysis of indications and the calculation of the net recoverable value of assets, as applicable; (iii) reviewing the process, controls and assumptions adopted by Management to identify impairment indications and the calculation of their net recoverable value, as applicable; and (iv) involving experienced audit professionals to define the testing strategy, to review the audit supporting documentation, and to oversee the audit procedures performed. In addition, we assessed the adequacy of the Company's disclosures on this matter.

Based on the results of the audit procedures performed on the balances of investments in associates and joint ventures, which are consistent with management's assessment, we considered that the criteria and assumptions relating to the impairment of investments adopted by Management, as well as the related disclosures in Note 16, are appropriate in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2017, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

Audit of corresponding figures

Company's financial statements for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on April 11, 2017, containing emphasis of matters on the issues described above and on the uncertainty of the renewal of the concession for Jaguara, São Simão and Miranda and the restatement of corresponding figures.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor’s responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s and its subsidiaries’ internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s and its subsidiaries’ ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, March 28, 2018.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Shirley Nara S. Silva
Accountant CRC-1BA022650/O-0

OPINION OF THE AUDIT BOARD

The members of the Audit Board of Companhia Energética de Minas Gerais – Cemig, undersigned, in performance of their duties under the law and the by-laws, have examined the Report of Management and the Financial Statement for 2017, and the related complementary documents. After verifying that these documents reflect the economic and financial situation of the Company, and considering also the explanations provided by the representatives of the Company's management and of its external auditors, the members of the Audit Board are unanimously in favor of their approval by the Ordinary and Extraordinary General Meetings of Shareholders to be held, concurrently, in 2018.

Belo Horizonte, March 28, 2018.

Signed: Edson Moura Soares
Camila Nunes da Cunha Pereira Paulino
Manuel Jeremias Leite Caldas
Rodrigo de Mesquita Pereira

DIRECTORS’ STATEMENT OF REVIEW OF THE FINANCIAL STATEMENT

STATEMENT

We hereby declare for the due purposes and upon the responsibility of our positions that at the 728th meeting of the Executive Board of Companhia Energética de Minas Gerais – Cemig, held on March 28, 2018, we approved completion, on March 28, 2018, of the Financial Statement of the Company for the 2017 business year; and submission to the Board of Directors, for decision and submission to the Annual General Meeting of the Report of Management, the Financial statement for the 2017 business year and the respective complementary documents.

In relation to those documents we declare that we have reviewed, discussed and agree with the said Financial Statement.

Belo Horizonte, March 28, 2018.

Signed:

Bernardo Afonso Salomão de Alvarenga,	Chief Executive Officer; interim Deputy CEO
Daniel Faria Costa	Chief Business Development Officer
Dimas Costa	Chief Trading Officer
Franklin Moreira Gonçalves	Chief Generation and Transmission Officer
José de Araújo Lins Neto	Chief Corporate Management Officer
Maura Galuppo Botelho Martins	Chief Officer for Human Relations and Resources
Maurício Fernandes Leonardo Júnior	Chief Finance and Investor Relations Officer
Ronaldo Gomes de Abreu	Chief Distribution and Sales Officer; interim Chief Counsel
Thiago de Azevedo Camargo	Chief Institutional Relations and Communication Officer

DIRECTORS’ STATEMENT OF REVIEW OF THE EXTERNAL AUDITORS' REPORT ON THE FINANCIAL STATEMENT

STATEMENT

We hereby declare for the due purposes and upon the responsibility of our positions that at the 728th meeting of the Executive Board of Companhia Energética de Minas Gerais – Cemig, held on March 28, 2018, we approved completion, on March 28, 2018, of the Financial Statement of the Company for the 2017 business year; and submission to the Board of Directors, for decision and submission to the Annual General Meeting, of the Report of Management, the Financial statement for the 2017 business year and the respective complementary documents.

In relation to those documents we declare that we have reviewed, discussed and agree with the opinion expressed by the representatives of the External Auditors.

Belo Horizonte, March 28, 2018.

Signed:

Bernardo Afonso Salomão de Alvarenga,	Chief Executive Officer; interim Deputy CEO
Daniel Faria Costa	Chief Business Development Officer
Dimas Costa	Chief Trading Officer
Franklin Moreira Gonçalves	Chief Generation and Transmission Officer
José de Araújo Lins Neto	Chief Corporate Management Officer
Maura Galuppo Botelho Martins	Chief Officer for Human Relations and Resources
Maurício Fernandes Leonardo Júnior	Chief Finance and Investor Relations Officer
Ronaldo Gomes de Abreu	Chief Distribution and Sales Officer; interim Chief Counsel
Thiago de Azevedo Camargo	Chief Institutional Relations and Communication Officer