










DISINVESTMENT PLAN

Company	Stake %	Amount R\$ mn	Status
Realized			
 taesa	9.86%	717	Sale completed
 RANSMINEIRA	25%	80	Transfer, to Taesa, completed
TOTAL		797	
In progress			
 CEMIG TELECOM	100%	367 ¹	Absorbed by Cemig, on March 31, 2018. Tender for sale of assets: by May 25. Auction: July 2018.
 RENOVA ENERGIA	-	440	Restructuring with sale of assets for settlement of pre-payments under PPA.
 Light	48.86%	1,353 ²	Decision on new timetable and structure for disposal.
 Santo Antônio	18%	1,117 ³	Negotiations with potential purchaser resumed.
 CENTROESTE	51%	48 ⁴	Non-binding proposal from Taesa for transfer of 51% position.
 GAMIG	Up to 49%	1,180 ³	Structuring of sale model.
Gas exploration concessions	24.50%	21 ³	Tender for sale of assets published May 24, 2018. Auction in July 2018.
 norte ENERGIA	12%	1,443 ³	Negotiations between private stockholders for sale of 51%.
Cachoeirão, Pipoca, Paracambi	49%	125 ³	Transaction postponed to 2019.
TOTAL		6,094	

Notes:

- (1) Minimum price established for the auction.
- (2) Market value (BM&F Bovespa) on May 18, 2018: R\$ 13.58/share.
- (3) Book value.
- (4) Valuation by the Company.

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Expansion of Brazil's Free Market

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Proposal for expansion of the Free Market (CP 33) Group A ¹

Captive clients group A	MW mn in the category	# consumers
Over 3 MW	5,739	245
Between 2 and 3 MW		236
Between 1 and 2 MW		1,295
Between 0.5 and 1 MW		5,180
Between 0.3 and 0.5 MW	4,840	175,637
Below 0.3 MW		
Total	10,579	182,593

Incentive-bearing market in 2017: 4,158

Total eligible remaining without change in the law: 1,581

¹ – Figures for end of 2017.

2017 A-4 'New-build' (LEN) Auction

Projects pre-qualified

Source	No. of projects	Power (MW)	GF (MW average)
Photovoltaic	315	14,029	3,507
Wind	315	8,908	3,118
Thermal – Biomass	20	742	371
Small Hydro Plants	36	563	310
<1MW Plants ('CGHs')	22	57	31
TOTAL	708	24,299	7,337

AUCTION RESULTS

	Result			Price (R\$/MWh)	
	Projects	Power (MW)	GF (MW average)	Negotiated	Opening
Photovoltaic	20	791	173	145.68	329.00
Wind	2	64	38	116.32	276.00
Thermal – Biomass	1	25	9	234.92	329.00
SHPs – Small Hydroelectric Plants	2	12	9.5	181.63	281.00
<1MW plants (CGHs)	0	0	0	-	
	25	892	229	145.84	

Sources: EPE, CCEE.

2018 A-4 'New-build' (LEN) Auction

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Projects pre-qualified

Source	Enterprises	Power (MW)	GF (MW average)
Wind	553	15,760	5,516
Photovoltaic	522	13,380	3,345
Thermal – Biomass	18	625	313
Small Hydro Plants	46	622	342
<1MW Plants (CGHs)	17	45	25
TOTAL	1,156	30,432	9,541

Auction results

	Result			Price (R\$/MWh)	
	Projects	Power (MW)	GF (MW average)	Negotiated	Opening
Photovoltaic	29	807	241	118.06	312.00
Wind	4	114	58	77.30	225.00
Thermal – Biomass	2	62	35	224.93	329.00
SHPs – Small Hydroelectric Plants	2	35	18	198.11	291.00
<1MW plants – CGHs	2	7	6	198.10	291.00
	39	1,025	358	127.08	

Sources: EPE, CCEE.

Cemig Purchase Auction – Window of opportunity

- Revision of the sector model, with ending of discount on TUSD for renewable sources.
 - Projects authorized up to Dec. 2020 will still have the 50% discount on transport.
- Solar energy will be directed toward Distributed Generation projects, due to better prices.
- Various companies registered for the New-build auctions were frustrated by the low demand at the Regulated Market Auctions (2017 and 2018).
- The 2018 A-6 auction will not contract any solar-source supply.
- Projects qualified for auctions already have financial and technical structuring for their construction.
- Purchase of 15 energy will increase Cemig's competitiveness in the Free Market.

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Cemig Purchase Auction – the risks considered

- I. Construction / Performance Risk
- II. Verified generation risk
- III. Sub-market risk
- IV. Market risk

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Five-year Tariff Review of Cemig Distribution 2018

The mechanisms for tariff adjustment are set by contract

As from 1995, each concession contract for Brazil's electricity distributors specified initial tariffs, and the following 3 mechanisms for their alteration:

- The Annual Tariff Adjustment;
- Extraordinary Tariff Reviews; and
- the Periodic Tariff Review.

Periodic Tariff Reviews are currently every five years.

In December 2015 the concession contract of Cemig Distribuição ('Cemig D') was extended to be in effect until December 2045.

Components of Distribution Revenue

Portion A: Non-manageable costs

Energy supply purchased

+

Transport of electricity

+

Sector charges

Portion B: Manageable costs

Operational costs

+

Remuneration of the
investment

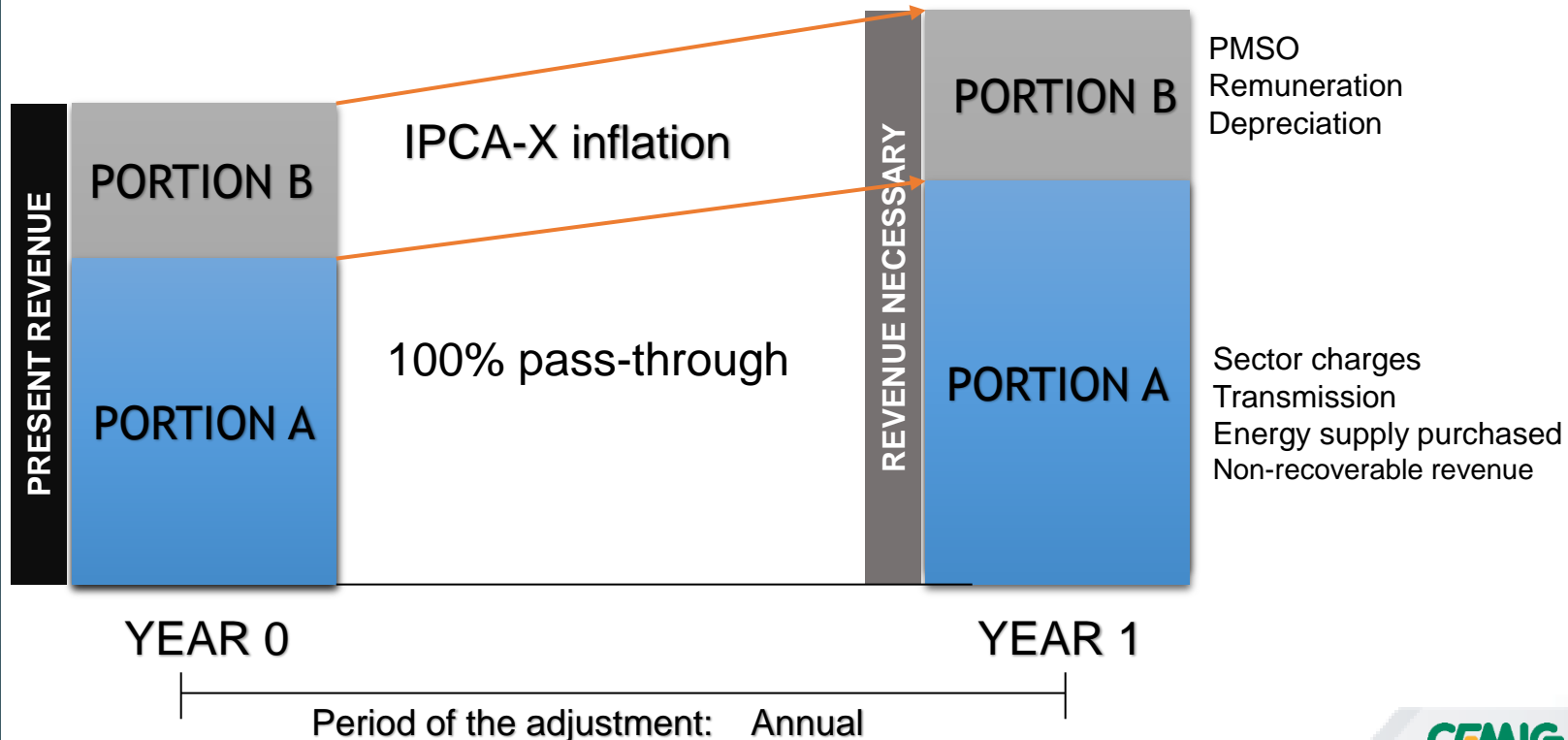
+

Depreciation of the
investment

Plus: Financial components
Adjustments relating to prior periods

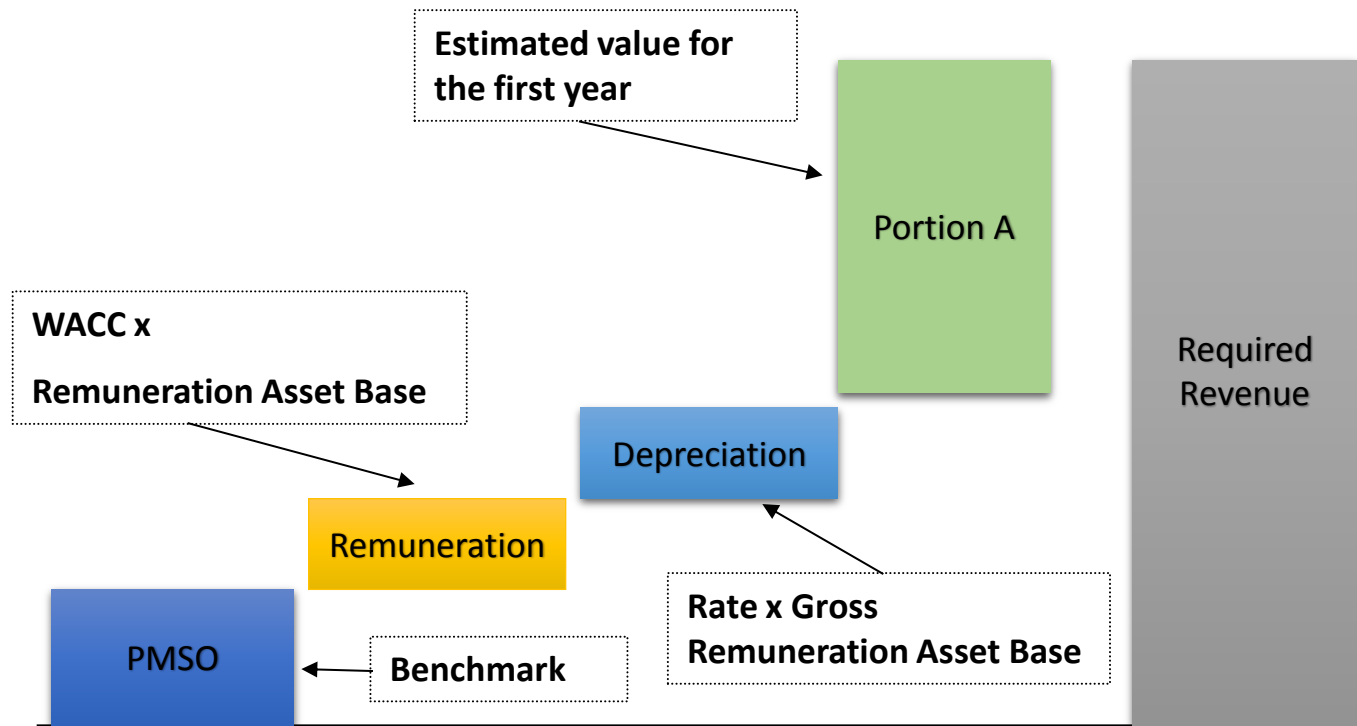
The Annual Tariff Adjustment

The objective of the Annual Tariff Adjustment is to maintain neutrality of Portion A and update the value of Portion B.



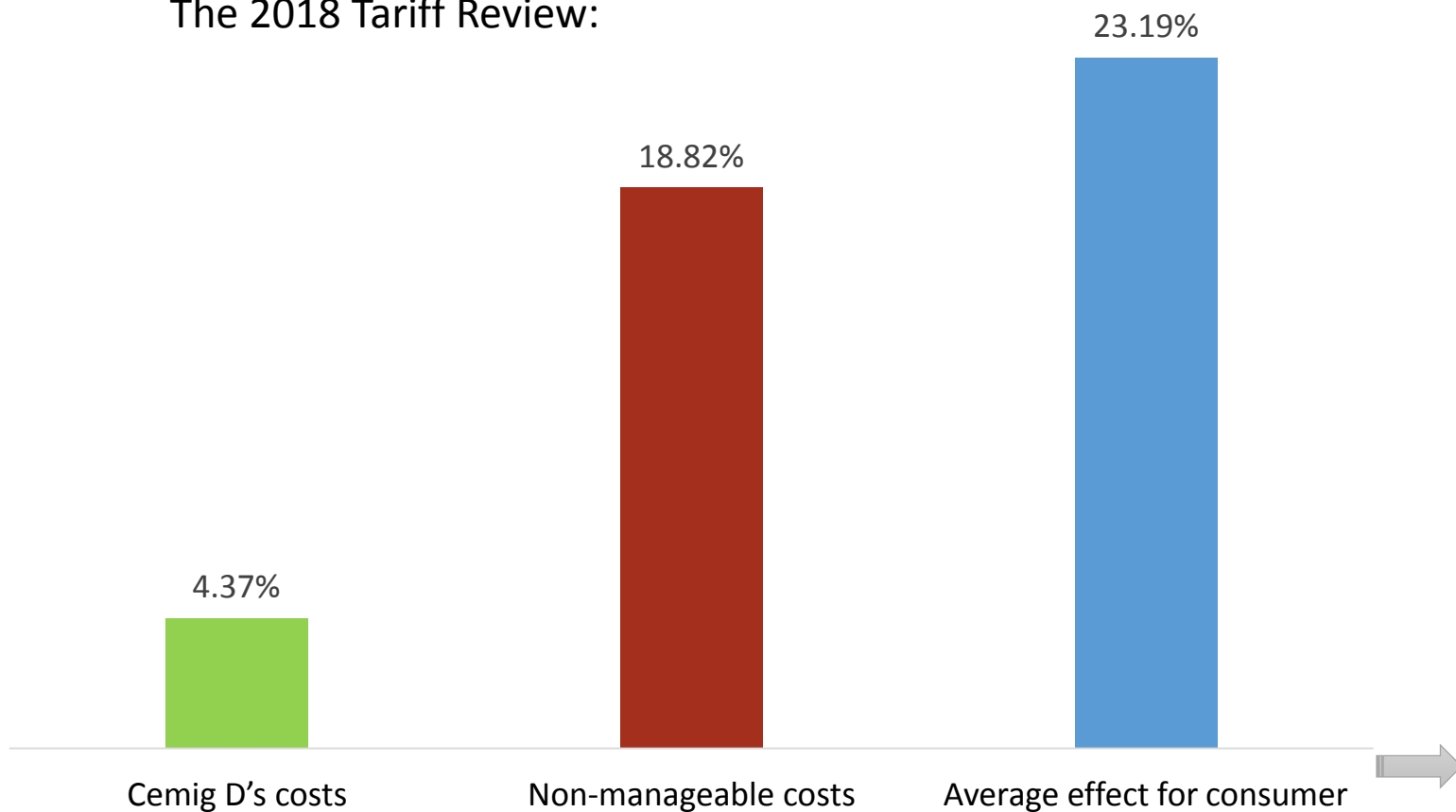
The five-year Tariff Review

Objective of the Tariff Review is to maintain the neutrality of Portion A and establish new values for Portion B.

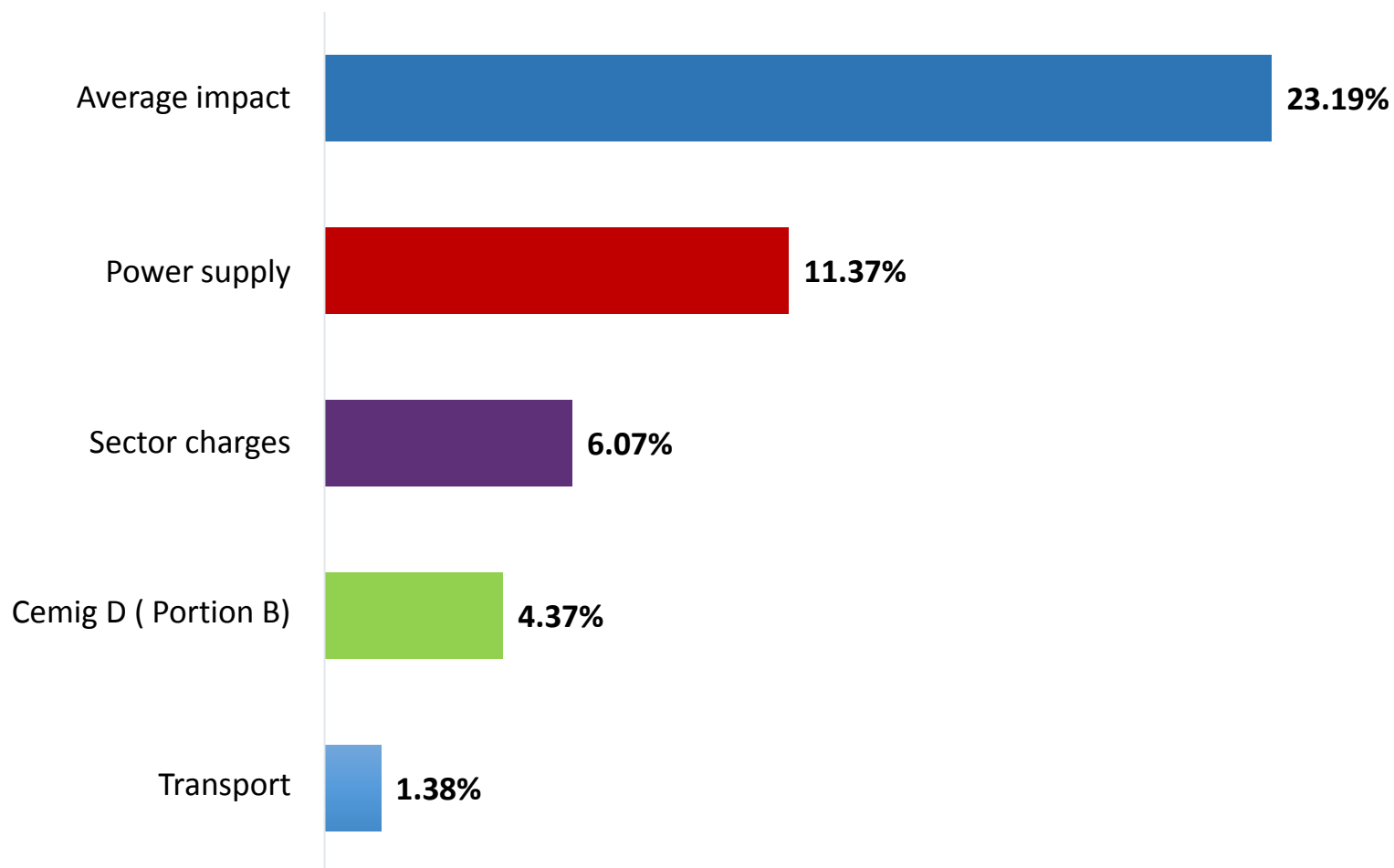


Components of Cemig D's Tariff Review increase

The 2018 Tariff Review:

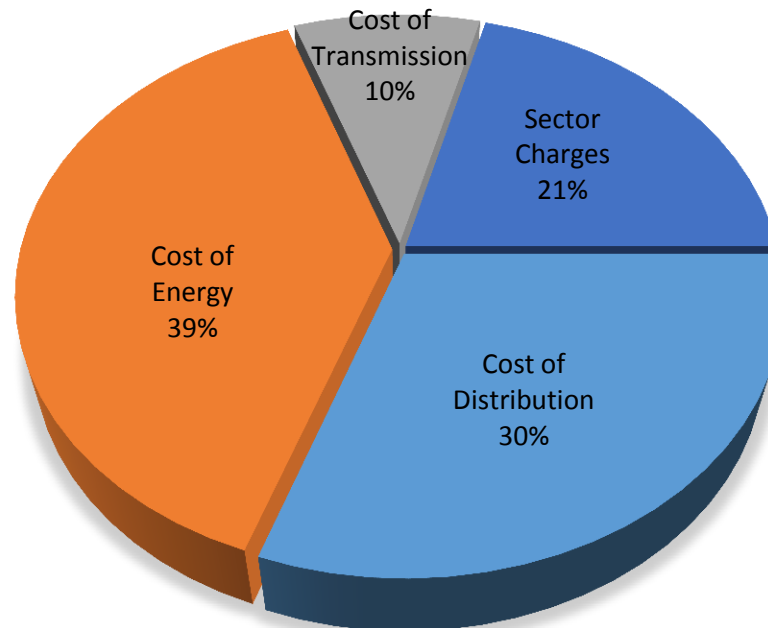


Cost items with the highest impact were: (1) Energy (2) Sector charges



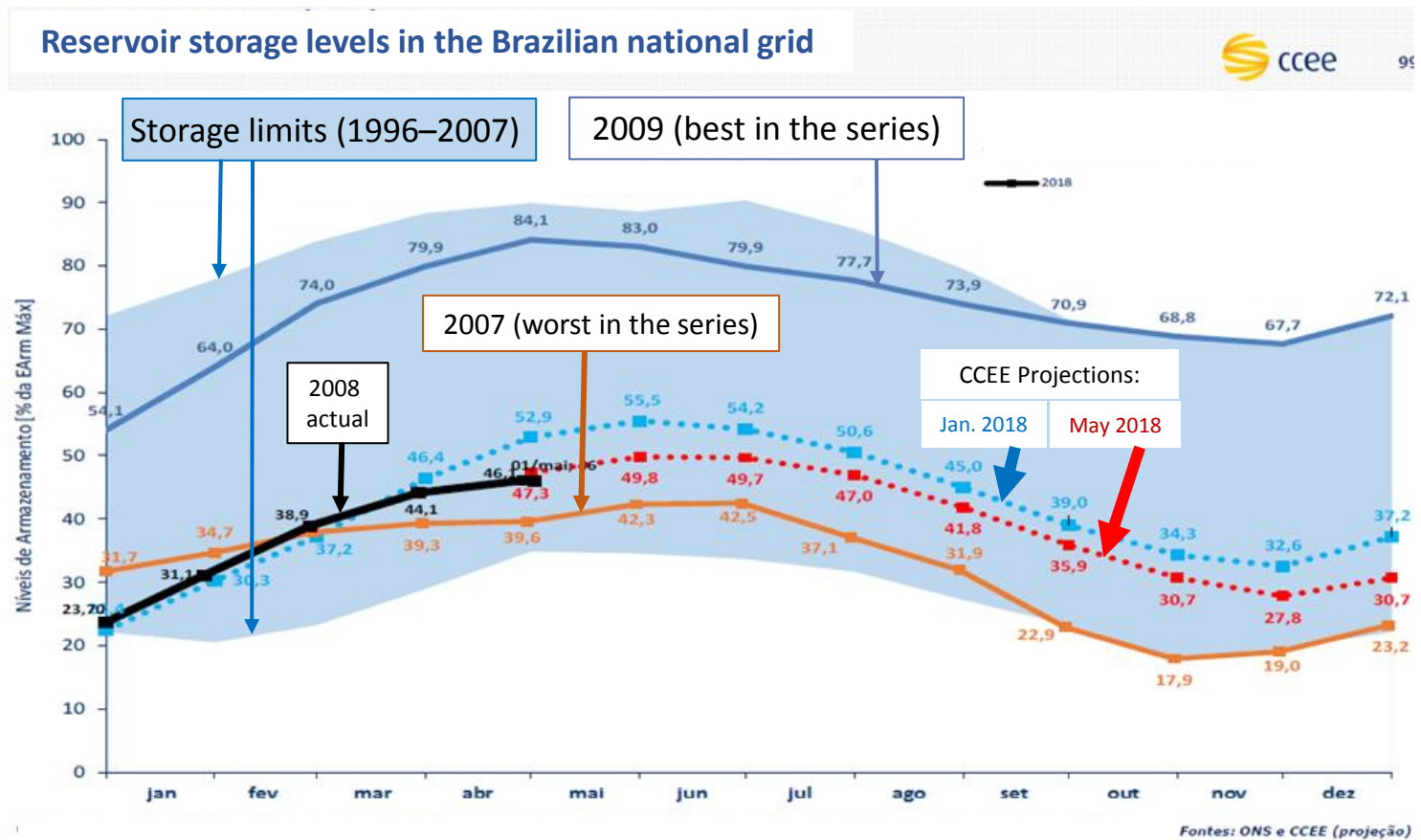
Costs associated with the distribution service are 30% of the total

Breakdown of revenue, 2018



Source: Aneel Sparta spreadsheets.

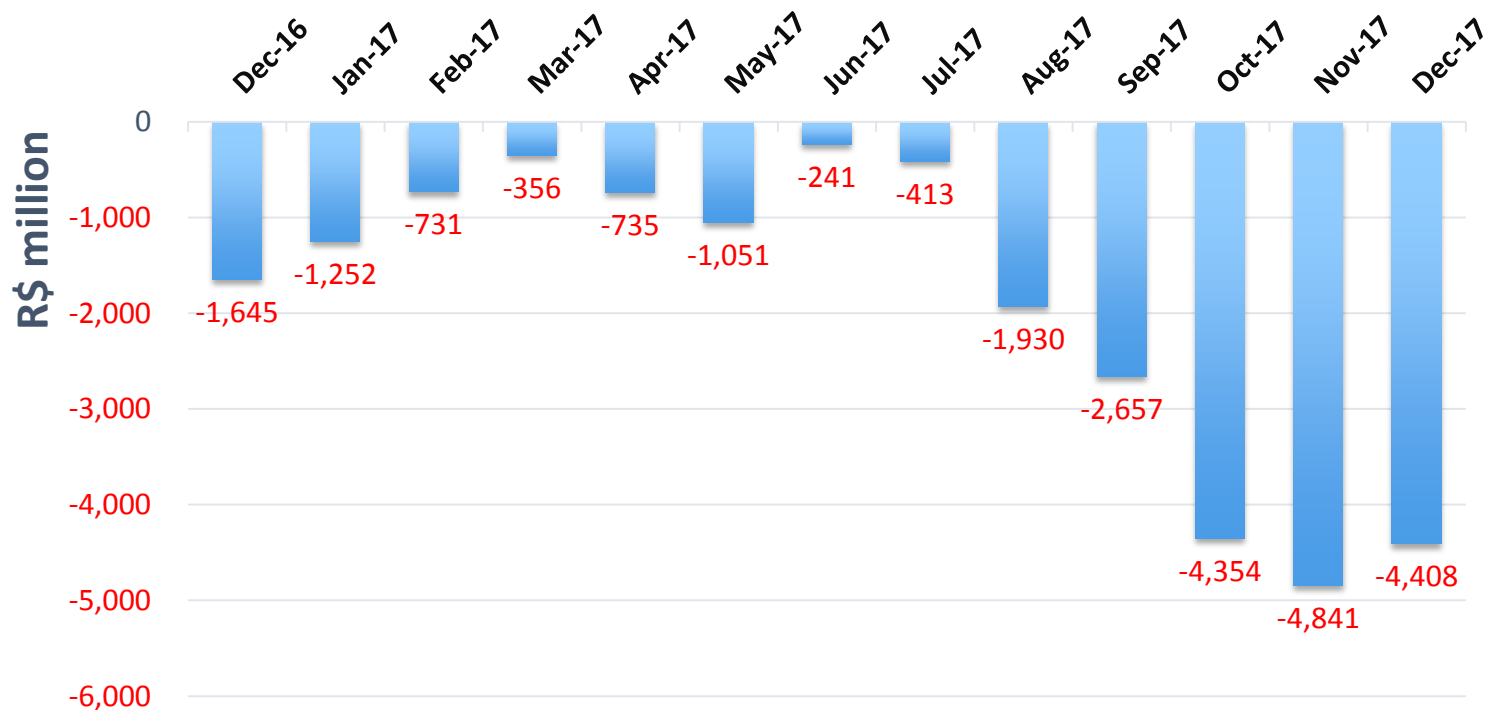
Hydrology in 2017 was very adverse



* Criterion for choice of best and worst years: level of storage at end-November (end of dry season).

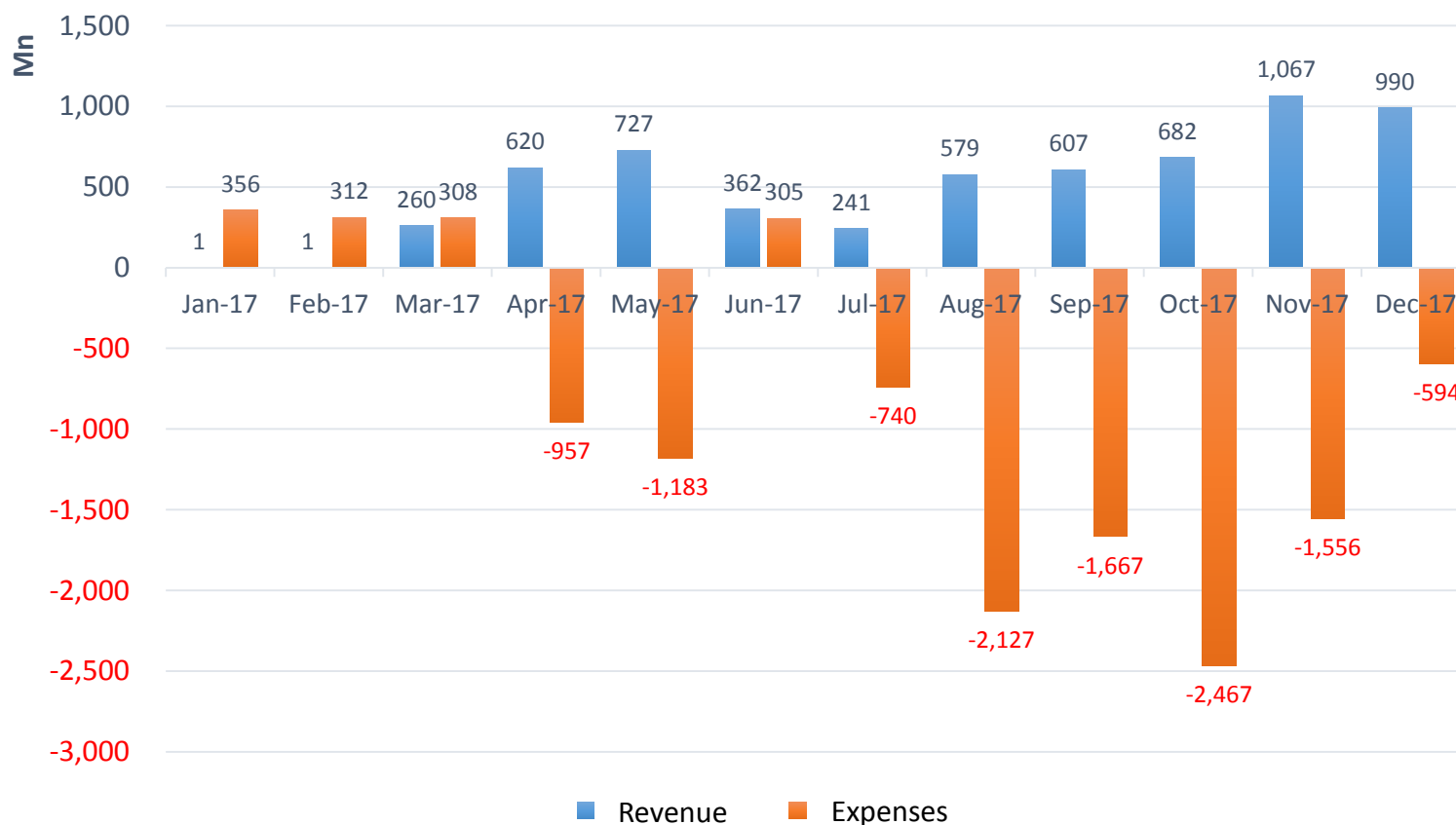
Tariffs not sufficient to pay for purchase of supply

Balance on 'Flag' Accounts – all Brazil



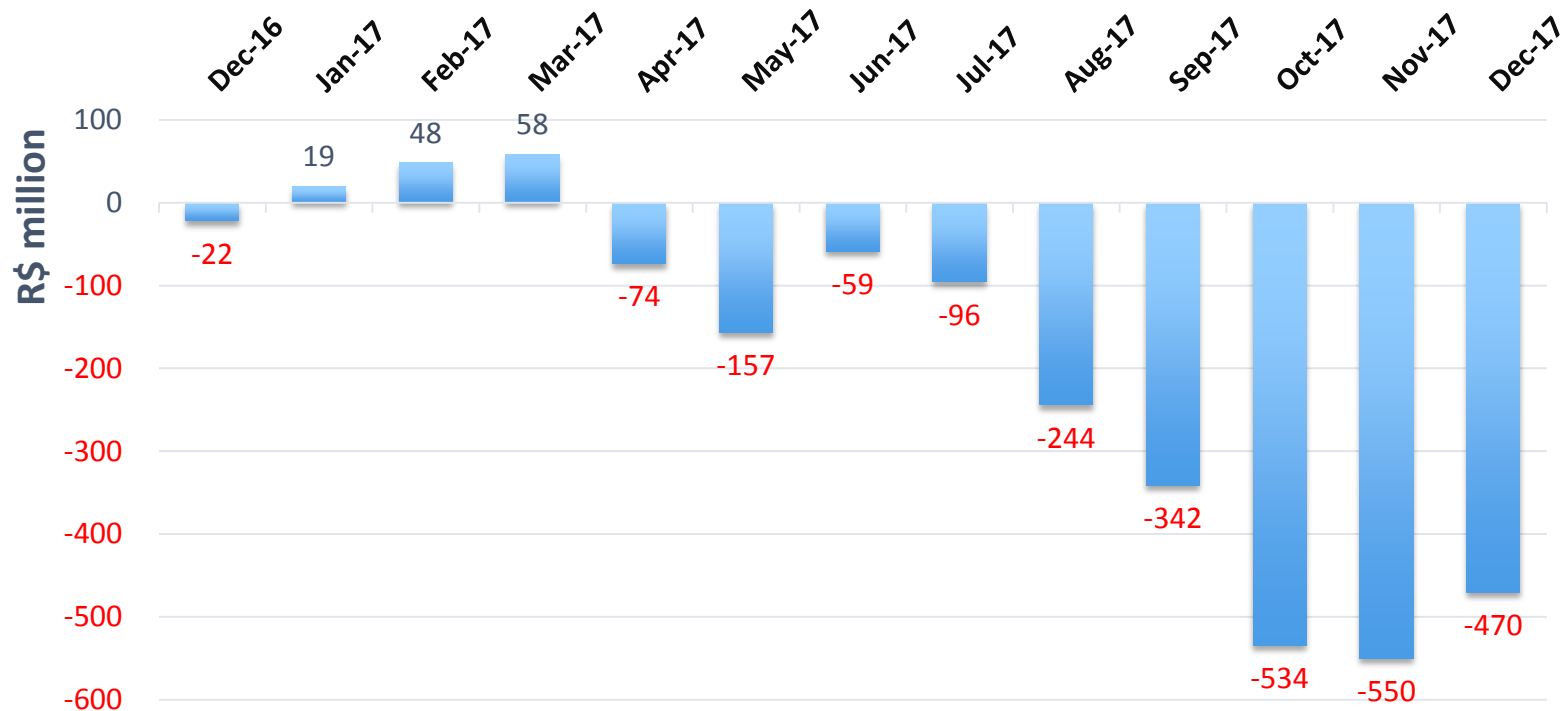
Hydrological risk was the main item of cost

The 'Flag Tariff' account: Monthly revenues and expenses – whole of Brazil



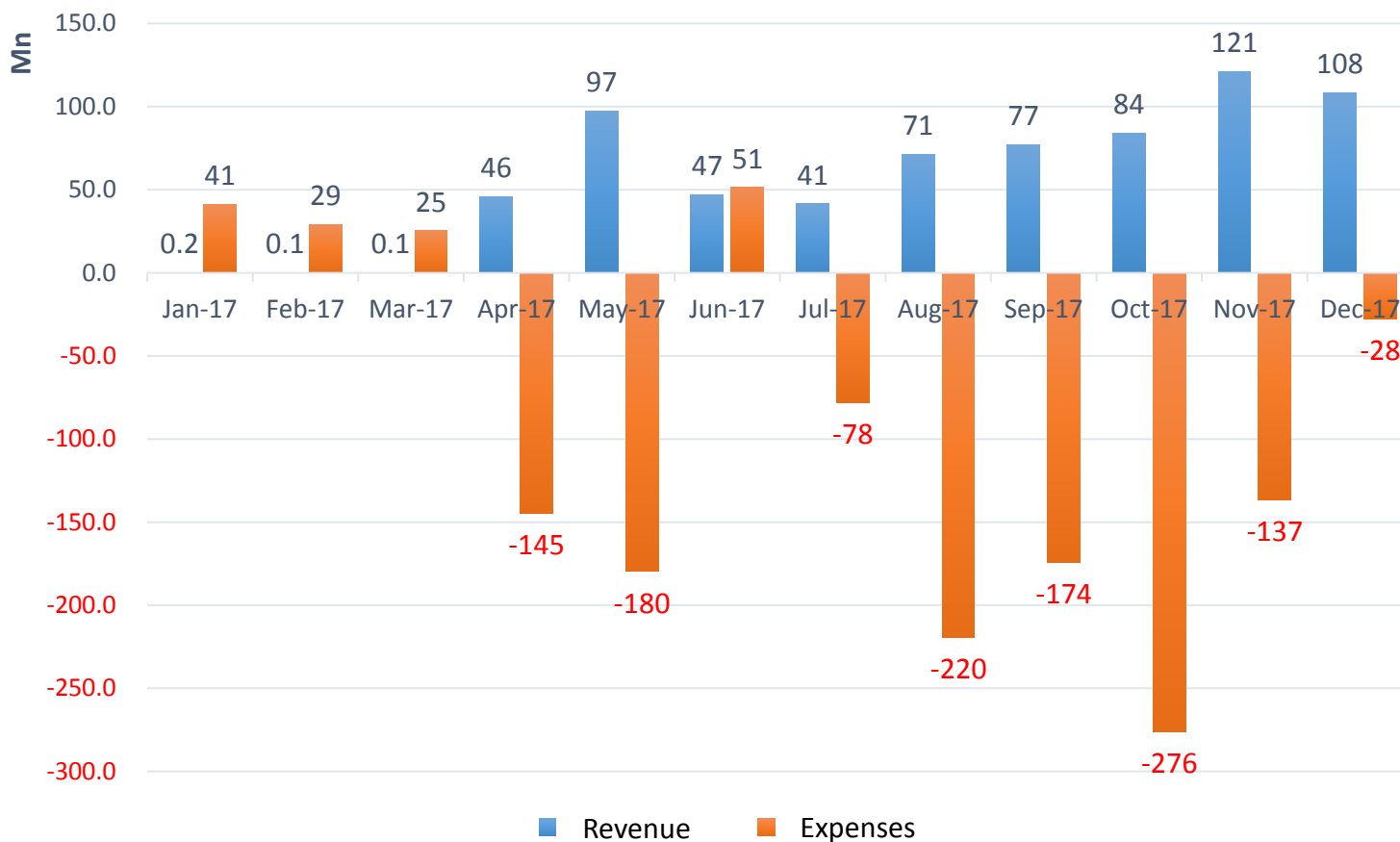
Tariffs not sufficient to pay for purchase of supply

Balance of 'Flag' Account – Cemig-D

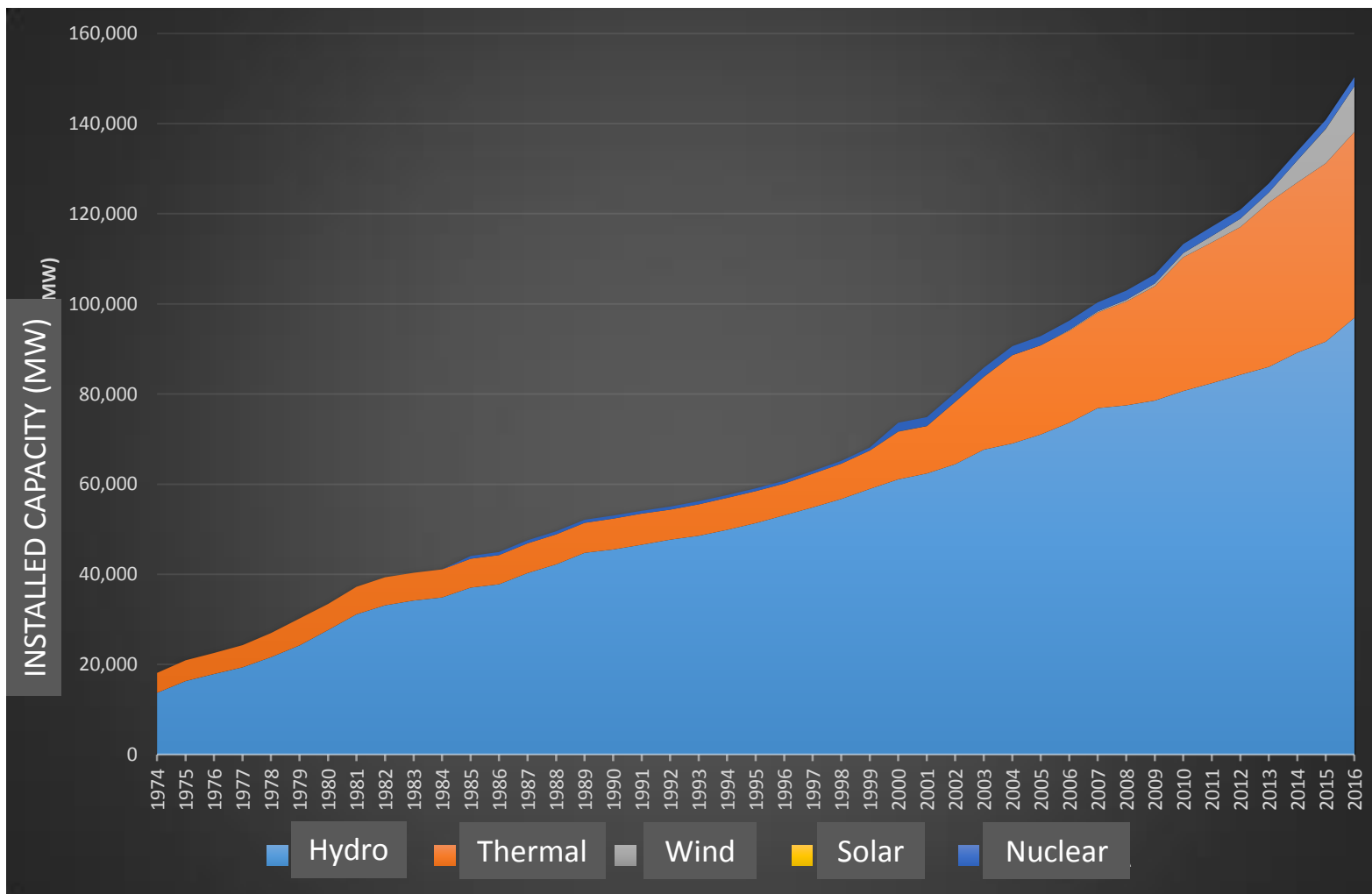


Hydrological risk was the main item of cost

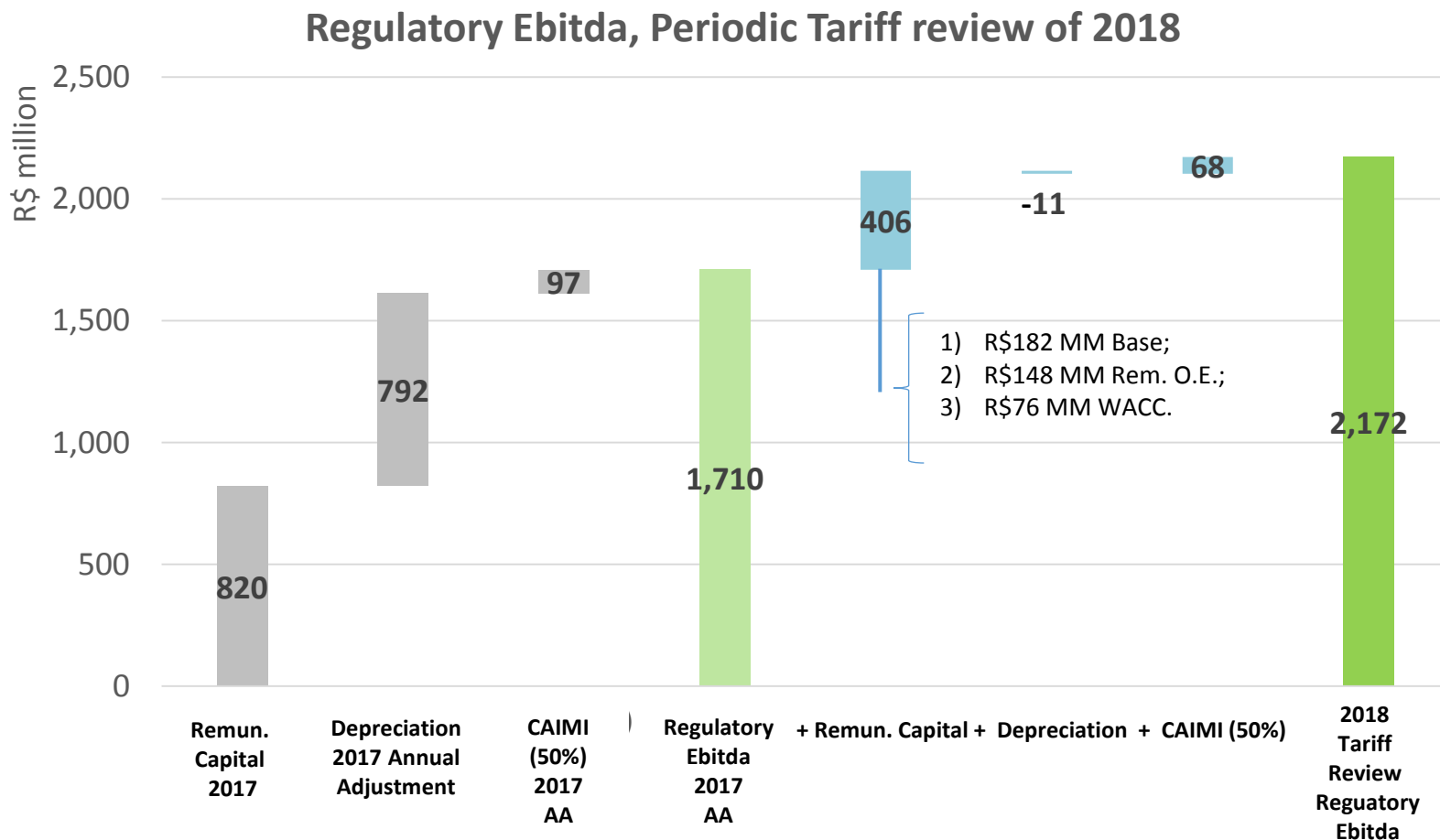
The 'Flag Tariff' account: Monthly revenues and expenses – of Cemig D



Installed capacity, by source – 1974-2016

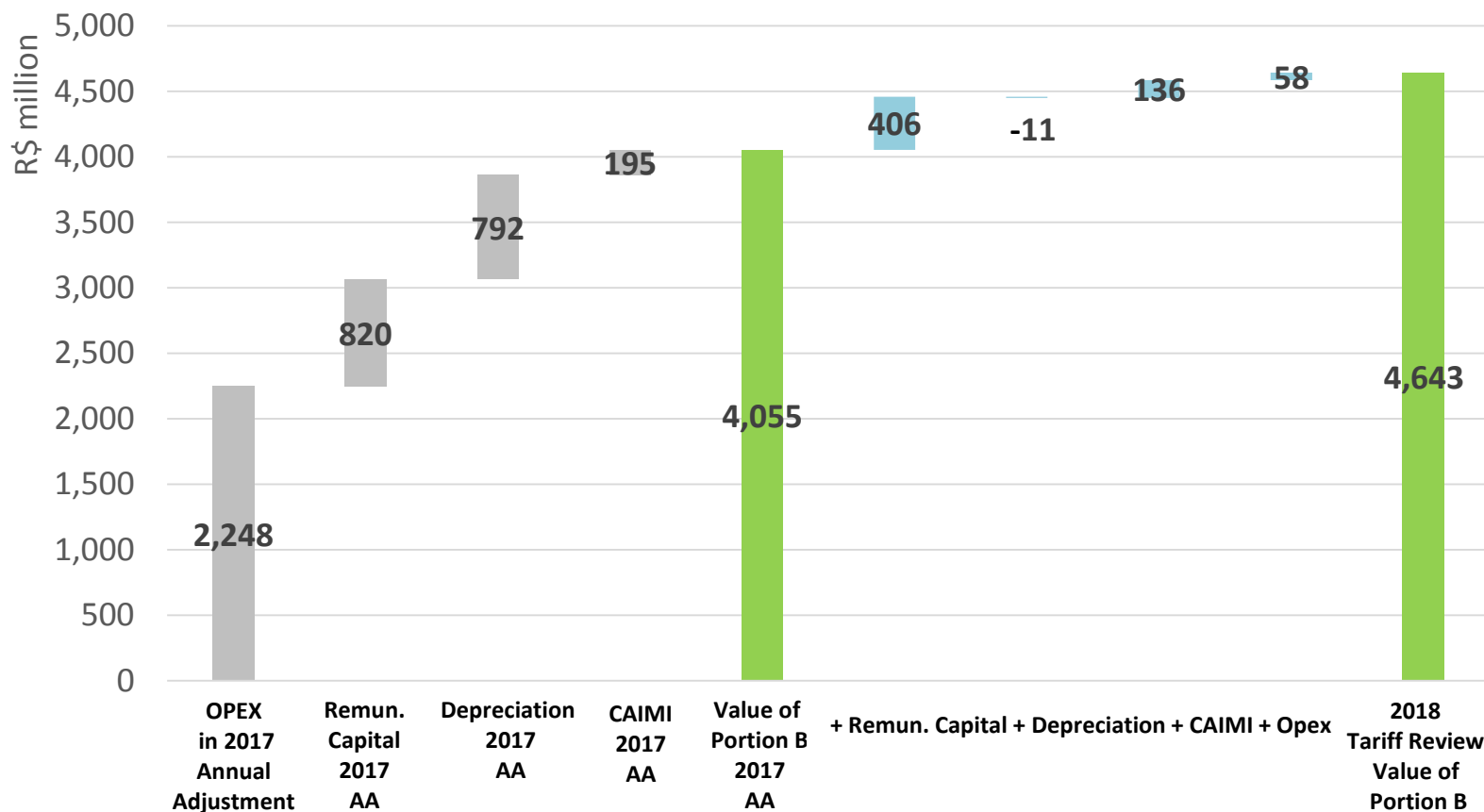


Regulatory Ebitda grew by R\$ 462.6 million



Value of Portion B grew by R\$ 588.7 million by 2018

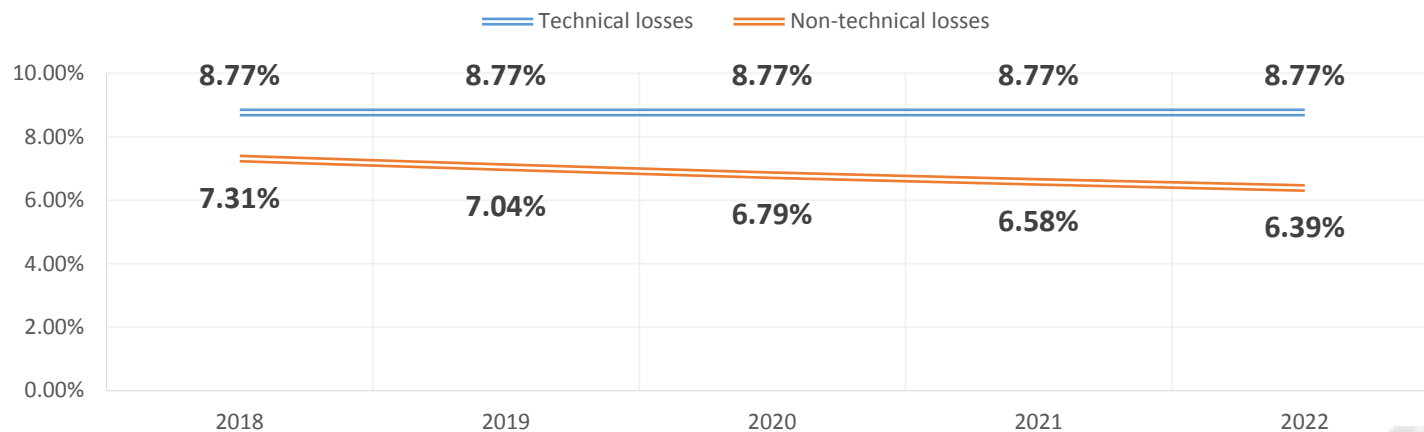
Value of Portion B – Periodic Tariff review of 2018



Coverage of losses improved

Item	%	Base	Base (MWh)*	% Energy injected
Losses in national grid	1.60%	Energy injected	49,185,830	1.60%
Cemig D Regulatory Technical Losses	8.77	Energy injected	49,185,830	8.77%
Cemig D Regulatory Non-technical Losses	7.31%	Low voltage market	18,841,135	2.82%

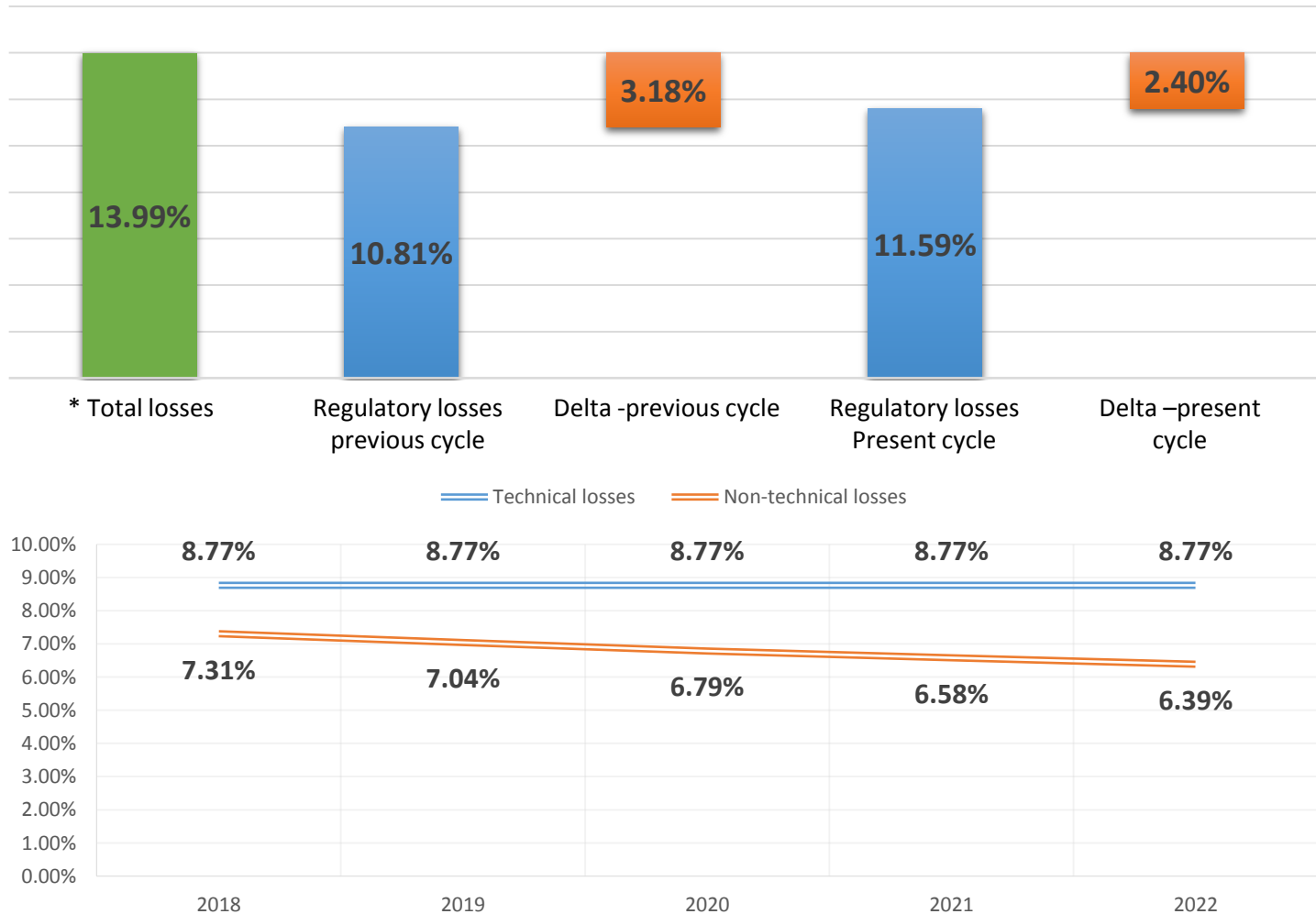
* Basis of calculation uses 'Test Year' May 2017 – Apr 2018.



The tariff review has reduced the gap

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* All calculations are based on 'Test Year' May 2017 – Apr 2018.

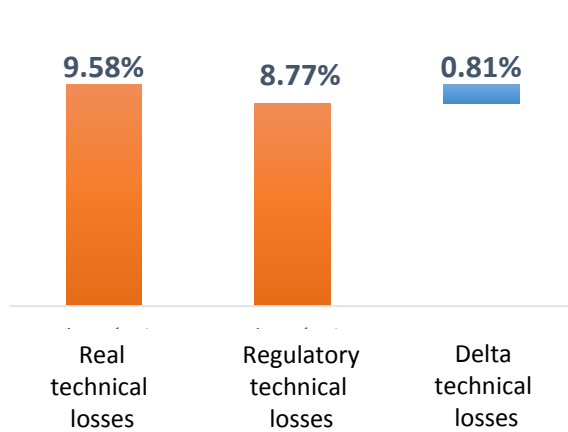
The tariff review has reduced the gap

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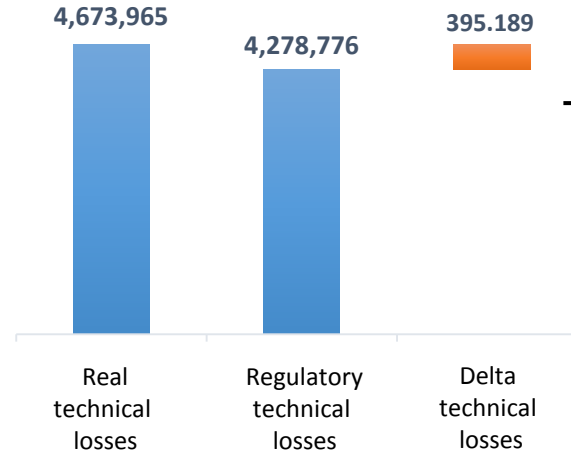
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Amounts* – R\$

Technical losses (%)

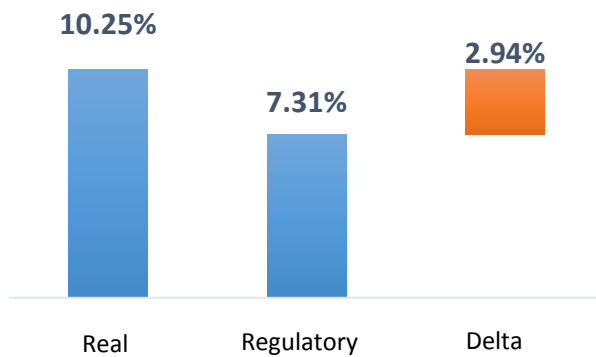


Non-technical losses (MWh)

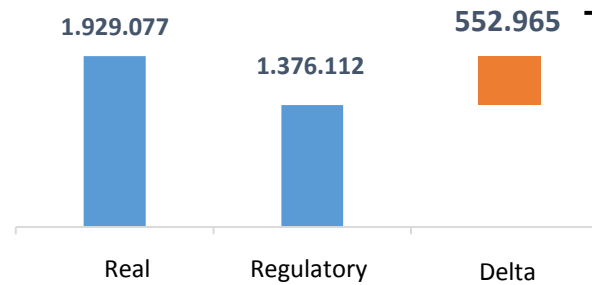


R\$ 74.05 million

Non-technical losses (%)



Non-technical losses (MWh)



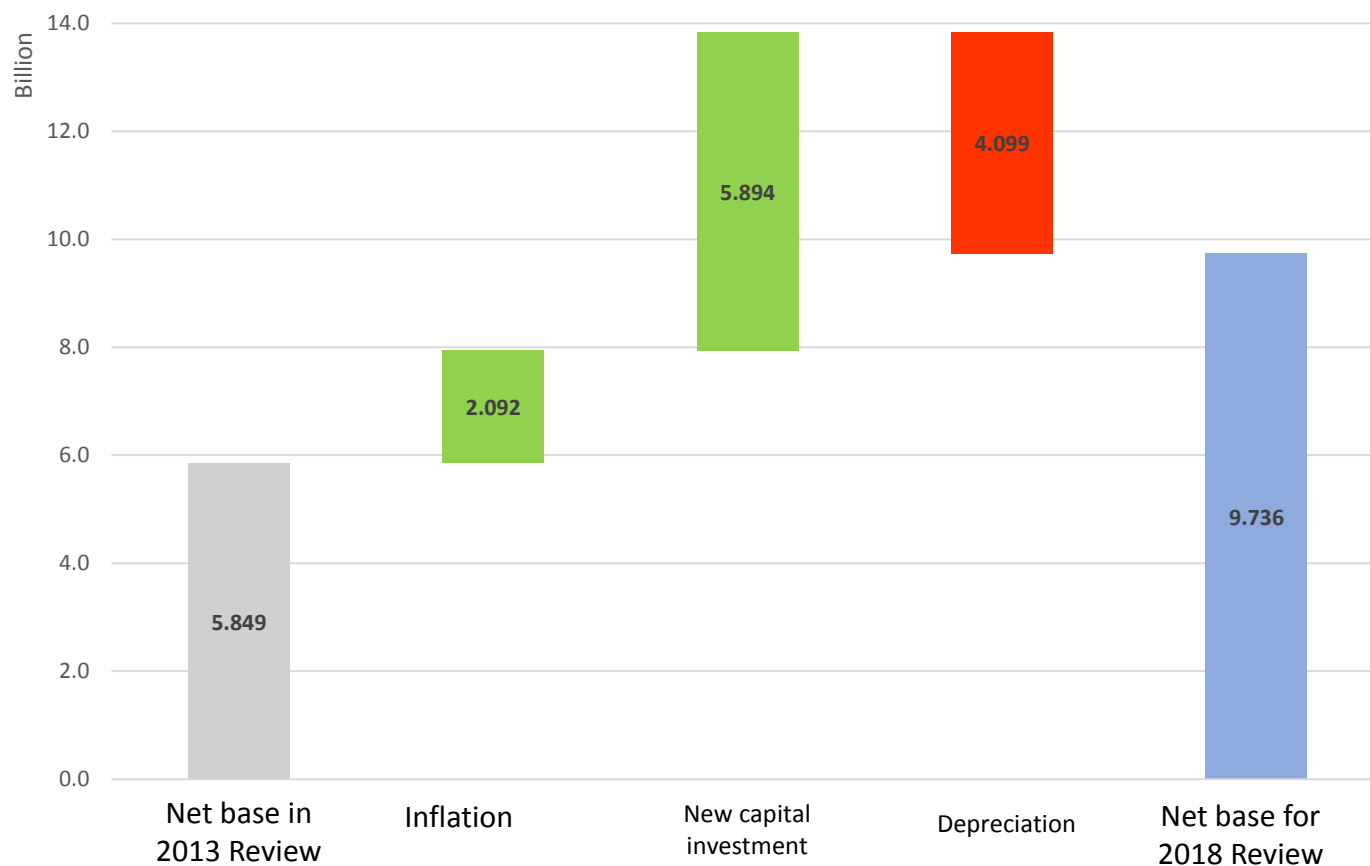
R\$ 103.61 million

* Average purchase price: R\$ 187.37/MWh

Net base of assets for remuneration ('BRL') – simplified

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X Factor was negative due to T and Q components

X Factor

Component	Value
Pd Component	1.00%
T Componente	-1.33%
Q Componente (Quality Factor)	-0.20%
X for the Review	-0.54%

X Factor

$$X \text{ Factor} = Pd + Q + T \quad (8)$$

Where:

$Pd =$ Productivity gains in the distribution activity; } \longrightarrow Ex-Post
 $Q =$ Service Quality factor; and

$T =$ Trajectory of operational costs. \longrightarrow Ex-Ante

$$P_d(i) = PTF + 0,14 \times (\Delta MWh(i) - \overline{\Delta MWh}) - 0,04 \times (\Delta UC(i) - \overline{\Delta UC}) \quad (2)$$

Where:

PTF = Average productivity of the Distribution segment = 1.53% p.a.

$\Delta MWh(i) =$ Annual variation in the market of the concession holder i , between the current tariff process and the previous one.

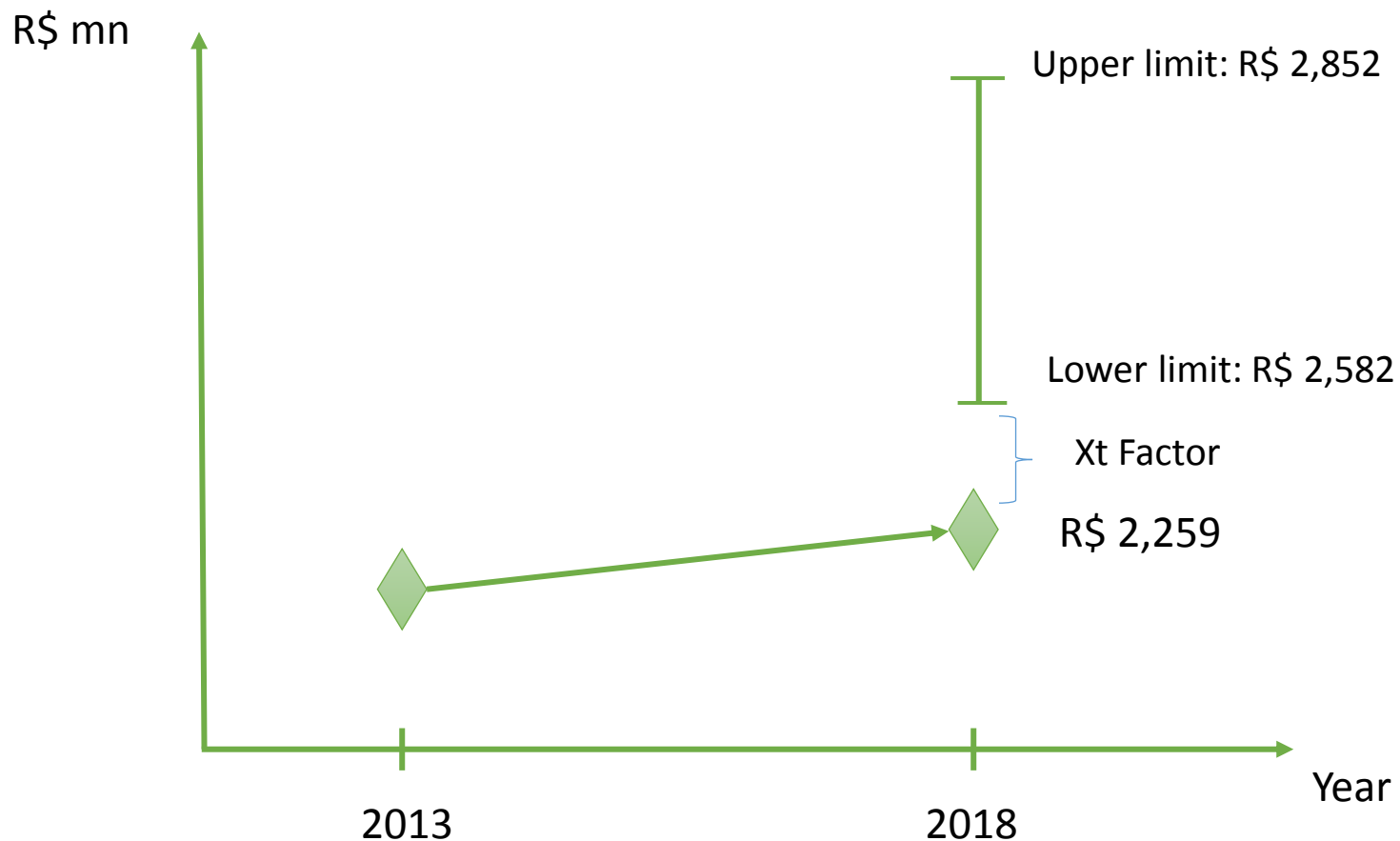
Average $\Delta MWh =$ Average annual market variation of the Distributors, of 4.65% p.a.

$\Delta UC (I) =$ Annual variation in the number of consumer units billed by the concession holder i , between the current tariff process and the previous one.

Average $\Delta UC =$ Average annual variation in the number of consumer units, of 3.39% p.a.

$$Q = 0.70 \times Q_{(\text{technical})} + 0.30 \times Q_{(\text{commercial})}$$

Coverage of operational expenses also increased.



Conclusions

- 1) Significant improvement in Ebitda.
- 2) Higher coverage of PMSO due to increased efficiency.
- 3) Improvements in regulations.
- 4) Some risk remains in relation to Portion A, especially in purchase of power supply

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