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REPORT OF MANAGEMENT FOR 2019

Dear Shareholders,

Companhia Energética de Minas Gerais (‘Cemig’ or ‘the Company’) submits for your consideration the Report of Management, the Financial Statements, the Opinion of the Audit Board and the Report of the Company’s external auditors on the business year ended December 31, 2019, together with the statements of the executive officers who have reviewed the financial statements and the related report of the external auditors.

MESSAGE FROM MANAGEMENT

Looking back on 2019 we see with great satisfaction the very significant progress we have made in the various dimensions of the business. We have presented increasing results in comparison with the previous years, not only in terms of financial results, but in operational efficiency and the focus on service to clients.

In the Company’s renewed environment, we have reviewed and revised Cemig’s strategic planning, with participation by senior management and the whole management body, analyzing the main global trends in the energy sector, and Cemig’s strategic positioning in this environment, with its challenges and opportunities.

Among the strategic directives established, we highlight the commitment to significant investment in our core business, appropriate financial leverage, and our improvements in operational efficiency, guaranteeing excellence in the service to our clients and regulatory requirements.

The involvement, commitment and talent of our employees is a fundamental contribution for our success, and we have established specific targets and indicators so that all can accompany the strategic map and perceive their individual contribution in the execution of the strategy.

Cemig’s results, which were already on a growth trend, increased significantly in 2019. Our 2019 net profit was R$3,127 million, a significant increase of 84% over the previous year, when we reported profit of R$1,700 million. Similarly, our cash flow, measured by Ebitda, was 15.74% higher in 2019, at R$4,376 million, compared to R$3,781 million in 2018.

Another important achievement is the significant reduction of our indebtedness. In 2017 our financial leverage, as measured by Debt/Ebitda, was 3.52, and by the end of 2019 this had been reduced to 3.08, with outlook for further reduction in 2020. Cemig, favored by the capital market reopening, concentrated its efforts on debt management, reducing the costs. The reduction in our debt, associated with the lengthening of our debt profile, converges to our objective of having the highest credit quality, reflected in the best ratings, and consequently, reduction of Cemig’s cost of capital.

In 2019, one of the factors that most contributed to our success was the new level of efficiency and profitability of the distribution company – Cemig D – which had posted losses in 2016 and 2017. Due to our actions to achieve greater discipline management of costs, higher operational efficiency, and prudent investment – ratified in the most recent tariff review – Cemig D reports profit of R$1,644 million for 2019, with Ebitda of R$2,200 million. The profit is 207.44% more than in 2018, on Ebitda 43.42% higher. Among our cost reduction measures we highlight the restructuring of our organization in 2019, which reduced management positions by 25%, and implementation of our Voluntarily Dismissal Program, which was accepted by 458 employees.

Among the measures we have taken to increase revenue, we highlight those for reduction of default and non-technical losses, through a significant increase in the number of inspections of customer units, renegotiation of past due customer receivables, and enhancement of our relationship with our clients. From these, we expect significant benefits and results in 2020, with the confirmation of the process of adaptation of Cemig D to regulatory compliance.

In all this we never lose sight of the quality of service to clients. In 2019 we invested approximately R$900 million; and we have scheduled investment of R$1.7 billion – nearly twice this figure – for 2020. These significant investments will mean growth in the revenue of the distribution company, gains in client satisfaction, and reduction of expenses on operation and maintenance of our assets – ensuring continuity of provision of quality service, and efficiency, in our concession area, to the population of Minas Gerais.

In Cemig GT, one of the main developments in 2019 was our return to the public auctions for new investments in transmission. Although we did not win any of the lots offered, this represents a new reality for the Company, now with financial and competitive conditions to expand its program of investments in transmission in the coming years, either through strengthening within its concession area, approved by the regulator, or through success in forthcoming auctions.

Another significant event for the consolidated result in 2019 was our success in the final judgment (i.e. against which there is no further appeal) on the lawsuit in which we challenged the application of ICMS (state value-added) tax – both payable and paid in the past – to calculation of our tax liability for the PIS/Pasep and Cofins taxes. This result represents tax credits totaling nearly R$7 billion. Of this amount, R$3 billion is to be credited to Cemig, resulting in a significant effect of nearly R$2 billion on our net profit, after tax which, when received, will contribute even further to the accelerated reduction of our debt ratios. One of the results of this successful lawsuit is the expected release a total of R$1.4 billion which Cemig had paid into court in escrow for the action.

But the benefit also accrues to the customers of Cemig D. The result of the legal action has already reduced energy bills to its customers by an average of 1%, as from June 2019, due to the new criterion for calculating the rates for the PIS/Pasep and Cofins taxes, making an effective contribution to moderation of customer tariffs. Also, as from receipt of the tax credits and the final decision by Aneel on the criteria for reimbursement, we will begin the process of returning part of the credits – a total of more than R$4 billion – to customers.

In line with our policy of disposal of holdings that are not part of our strategic planning, we reduced our equity interest in Light from 49% to 22%, which resulted in cash inflow of R$625 million – which was immediately invested in Cemig's business.

We merged the two companies Cemig Geração Distribuída (distributed generation) and Efficientia (energy efficiency) into a single company, Cemig SIM!. This company will provide distributed generation services, from solar farms in the Minas Gerais State, and also offer energy efficiency solutions, energy storage and development of the use of electric vehicles. Investments planned for 2019 are close to R$300 million.

We are recognized as a sustainable company, concerned with the impact of its actions on the environment and on society. Our sole generation plant burning fuel oil is being de-activated and we will be generating power from 100% renewable sources. At the same time we are the company that most invests in culture in the state of Minas Gerais. We were once again included in the São Paulo Stock Exchange's Corporate Sustainability Index, and in the Dow Jones Sustainability Index (in which we have been included since 1999). We are signatories of the UN Global Compact, and we have leading positions in several international and Brazilian sustainability ratings – all representing recognition of the value of our shares from the point of view of sustainability.

The Brazilian macroeconomic scenario, after a period of recession and low growth, is beginning to show signs of recovery. A higher GDP growth rate is expected in 2020 than in recent years, and we expect this certainly to have positive impacts on our results.

In conclusion, we have good reasons for being optimistic about the future. Cemig's Board of Directors, Executive Board and managers, and its highly qualified group of employees, are committed and motivated to ensure progress and sustainability of our operations, providing appropriate returns to shareholders, and meeting the expectations of the other stakeholders.

We wish to express our thanks for the commitment and talent of our employees, shareholders and other stakeholders, in jointly sustaining the recognition of Cemig as an outstanding company and a leader in the Brazilian power industry.

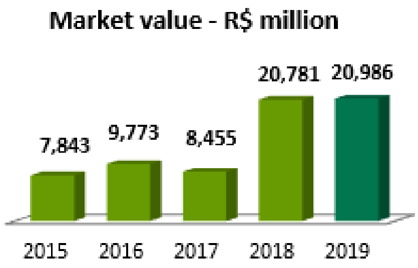
BRIEF HISTORY OF CEMIG

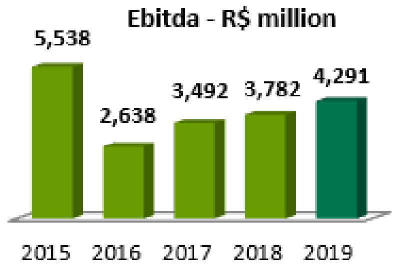
Companhia Energética de Minas Gerais ('Cemig') is a listed company of mixed public- and private-sector ownership, controlled by the government of the Brazilian state of Minas Gerais. Its shares are traded on the exchanges of São Paulo, New York and Madrid (Latibex). Its market valuation at the end of 2019 was approximately R$21 billion. For the 20th year running, Cemig has been included in the Dow Jones Sustainability World Index (the 'DJSI World'), for period 2019–20 – reflecting its established position as one of the world's most sustainable companies. It 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.

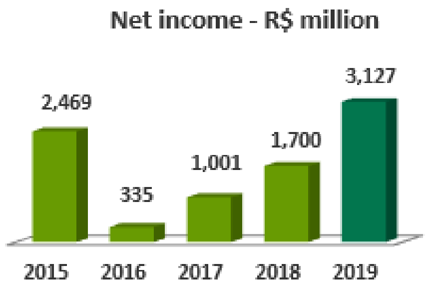
Cemig operates in generation, transmission, distribution and sale of energy, energy solutions, technology solutions, telecommunications, data center services and natural gas distribution. The Cemig Group comprises: the holding company, Cemig, its wholly-owned subsidiaries Cemig Geração e Transmissão S.A. ('Cemig GT') and Cemig Distribuição S.A. ('Cemig D'), and other entities – totaling 176 companies, 14 consortia and 2 FIPs (Equity Investment Funds), with assets and businesses in numerous states of Brazil.

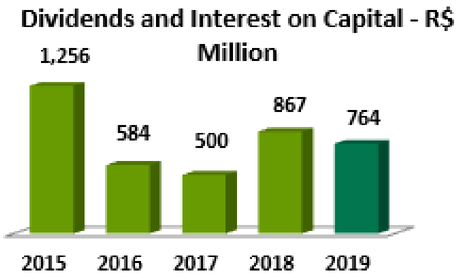
Cemig monitors and supervises management and activities of the subsidiaries and affiliates, through active participation in their governance bodies, always applying the criteria of good governance and supporting the efforts for them to achieve the aims of their business plans.

Main indicators:









Other indicators:

Description	2015	2016	2017	2018	2019
GWh billed	46,072	43,083	42,499	43,563	43,597
Revenue (R$ '000)	21,868	18,773	21,711	22,266	25,390
Earnings per share – R$	1.96	0.35	0.84	1.17	2.14
Number of customers billed	8,080	8,260	8,347	8,409	8,514
Number of employees	7,860	7,119	5,864	6,083	5,596

Our mission, vision and values

<u>Mission</u>

To provide the public with integrated solutions for clean and accessible energy in a way that is innovative, sustainable and competitive.

Vision

To be among the three best integrated energy groups in Brazil in terms of governance, financial health, performance of assets and satisfaction of clients.

Values

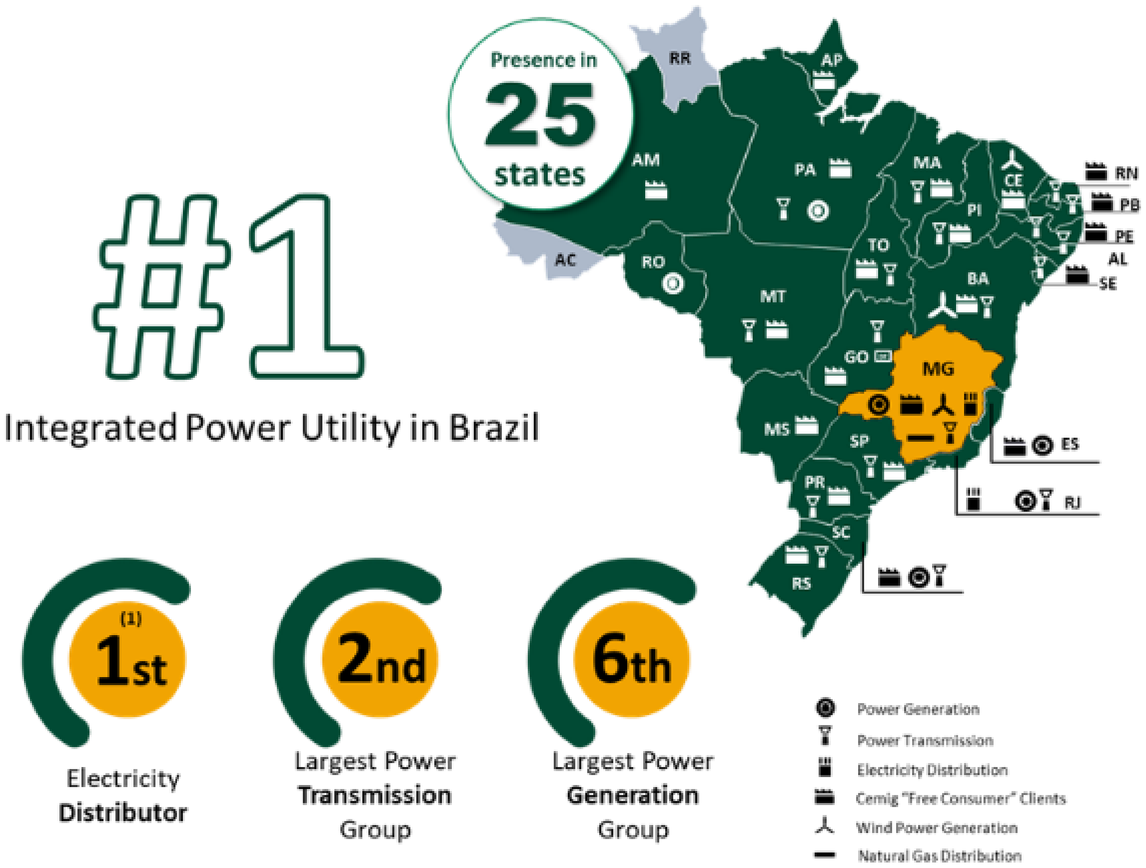
Respect for life; integrity; generation of value; sustainability and social responsibility; commitment and innovation.

Ethical Principles and Code of Professional Conduct

To provide a background of discipline for professional behavior, actions and decisions, Cemig has, since 2004, adopted its Statement of Ethical Principles and Code of Professional Conduct, which is available at http://www.cemig.com.br . This brings together 11 principles setting out the ethical conduct and values that are incorporated into our culture.

Area of operation

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

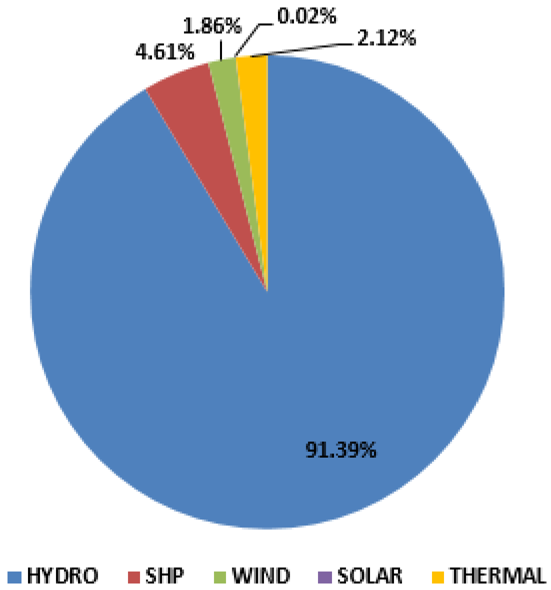


(1) In terms of length of electricity distribution lines – January, 2020

OUR BUSINESSES

Generation

Historically, the great majority of Cemig's generation plants have always used renewable energy sources. In 2019, renewable-source plants provided 6,182 MW of the group's total installed capacity of 6,051 MW – i.e. clean energy was 97% of the total produced.



Including its subsidiaries, jointly-controlled entities and affiliated companies, on December 31, 2019, Cemig had 90 plants in operation, with installed capacity of 6.2 GW.

Cemig plants

Generating plant	Installed capacity (MW)
Emborcação	1,192
Nova Ponte	510
Irapé	399
Aimorés	148.5
Santo Antônio	553.4
Belo Monte	1,376.2
Geração Light	270
Eólicas	115.2
Thermal plants	131
Other	807
Três Marias	396
Salto Grande	102
Itutinga	52
Camargos	46
Piau Small	18
Gafanhoto Small	14
Peti Small	9.4
Dona Rita Small	2.4
Tronqueiras Small	8.5
Joasal Small	8.4
Martins Small	7.7
Cajuru Small	7.2
Paciência Small	4.1
Marmelos Small	4
	6,182

Transmission

In 2019, the subsidiary Cemig operated and maintained 38 substations and 4,930 km of transmission lines, operating at 230kV, 345kV and 500kV, as part of Brazil's National Grid system.

Cemig GT operates and maintains transmission assets of 15 other companies, with whom it has operation and maintenance contracts, in 18 substations (of which four are not substations of Cemig GT), and 365 km of transmission lines.

A significant event for the Company's activity in transmission, conclued on January, 2020, of 49% of the transmission company Companhia de Transmissão Centroeste de Minas Gerais ('Centroeste'), which resulted in Cemig now holding 100% of the share capital of that investee. Centroeste operates a 75km transmission line in Minas Gerais, the concession for which was auctioned in 2004 and is in force until 2035. There is more information on this in Note 17 to the Company's 2019 financial statements.

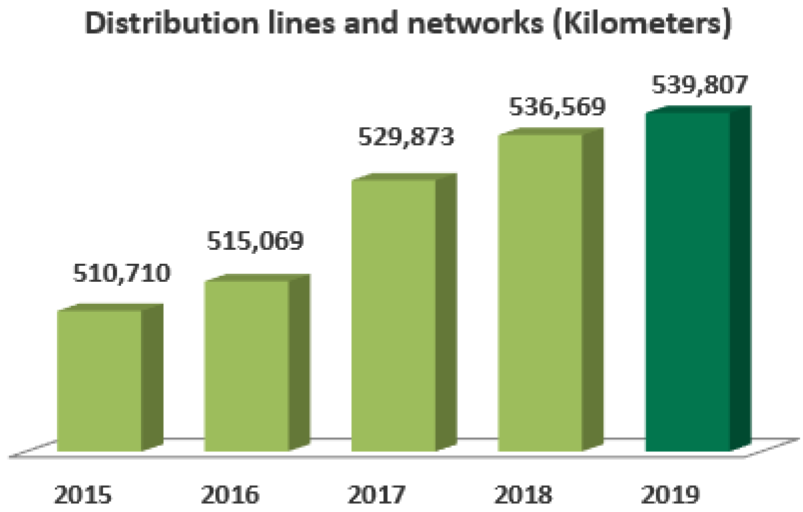
Distribution

Cemig D is one of Brazil's leading electricity operators. Its concession area covers 567,478 km², comprising approximately 96% of the State of Minas Gerais, serving a market of approximately 8.4 million customer units, in 774 counties (municipalities) of the state.

It is the largest distribution company in Latin America, with 539,807 km of distribution networks comprising 109,054 km in urban areas and 413,312 km in rural areas, and 17,441 km of distribution lines, with 8.514 million customers invoiced in 2019.

Cemig D also has the country's highest percentage of low-income customers benefiting from the Brazilian Social Tariff – serving an average of 666,601 qualifying customers with this profile, or 9.57% of its total of customers in the residential category.

Changes in Cemig D's sub-transmission and distribution line in the last five years.



Energy trading

The companies of the Cemig group are the leaders in serving the 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.

In service to large Free Clients, Cemig's leadership arises from a volume of sales equivalent to 18.27% of the entire Free Market.

Cemig's position in serving clients referred to as 'special clients' has increased each year, at an average of 15% p.a. over the last four years. Currently we have a 18% share of the market for incentive-bearing energy supply.

Sale and distribution of gas

Cemig also operates in sales and distribution of natural gas through its subsidiary Gasmig, which is the exclusive distributor for piped natural gas in the whole of the State of Minas Gerais. In 2019, Gasmig sold a total of 1,129,652,727 m^3 of gas: 67% to industrial customers; 26% for thermal generation; and 7% to the automotive, residential and other sectors.

CONSOLIDATED RESULTS

(In Brazilian Reais)

Net income for the year

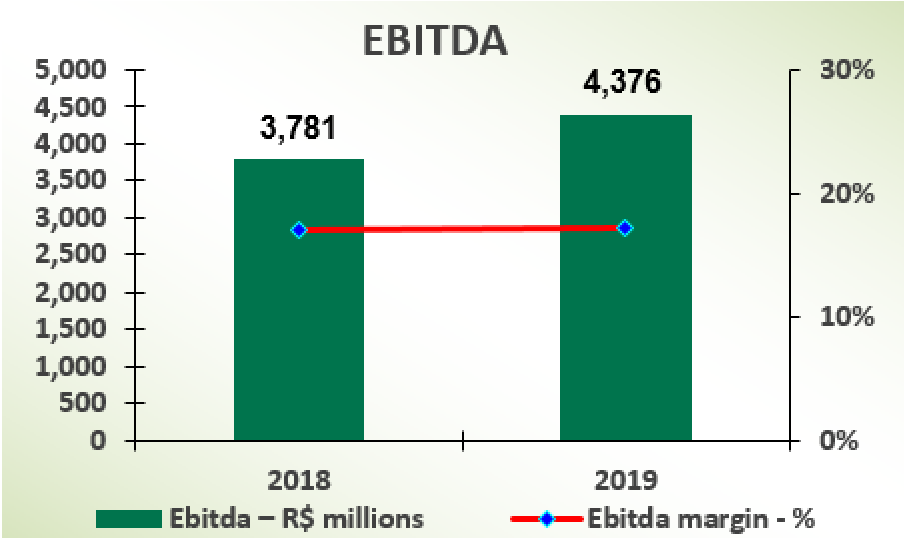
Cemig reports net income of R$3,127 million for 2019, compared to net income of R$1,700 million in 2018 – a year-on-year increase of 83.95%. The following items describe the main variations between the two periods in revenues, costs, expenses and financial items.

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

Cemig's Ebitda was 15.74% higher year-on-year in 2019. Ebitda margin was not significantly different in the two years: 17.24% in 2019, compared to 16.98% in 2018.

Ebitda - R$ mil	2019	2018	Charge %
Net income for the period	3,127	1,700	83.94
+ Income tax and Social Contribution tax*	1,651	728	126.79
+ Net financial revenue (expenses)	(1,360)	518	-
+ Depreciation and amortization	958	835	14.73
= Ebitda	**4,376**	**3,781**	**15.74**

* The expense on income tax and the social contribution tax 2019 and 2018 includes, respectively, an items of R$85 and R$129, presented at its net value in the figure for profit/loss of discontinued activities.



Ebitda is a non-accounting measure prepared by the Company, reconciled with its consolidated financial statements 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 financial revenue (expenses), depreciation, amortization and income tax and the social contribution tax. 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 profit, nor as an indicator of operational performance or cash flow, nor to measure liquidity nor the capacity for payment of debt.

The higher total Ebitda in 2019 was due principally to the recognition of the credits for PIS, Pasep and Cofins taxes as a result of the legal action challenging the inclusion of ICMS tax amounts in their calculation: The total of this effect was R$1,428 million, which was partially offset by legal contingency provisions, currently totaling R$1,213 million, for legal actions challenging the application of social security contributions to the payment of profit shares.

Additionally, the equity method gain in non-consolidated entities was 239% higher in December, 31 2019 than 2018, due mainly to: (i) a much lower negative result in the equity method loss in the investee Madeira (37.35%); and (ii) absence of equity method impacts from the results of Renova, since the Company’s entire investment in that company was written down in December 2018.

Comments on the main variations in elements of the result:

<u>Revenue from supply of energy</u>

Total revenue from supply of energy in 2019 was R$26,928 million, 8.27% higher than in 2018 (R$24,872 million).

Final customers

Total revenue from energy sold to final customers, excluding Cemig’s own consumption, in 2019 was R$24,052 million, or 9.91% more than the figure for 2018 of R$21,882 million.

Main factors:

- The annual tariff adjustment for Cemig D, effective May 28, 2019 resulting in an average increase in customer tariffs of 8.73%;
- The annual tariff adjustment for Cemig D effective May 28, 2018, with an average *upward* effect of 23.19% on customer tariffs; and
- Higher volume of energy sold to the *commercial* customer category by Cemig GT and wholly-owned subsidiaries.

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 Wholesale Trading Exchange (*Câmara de Comercialização de Energia Elétrica* – CCEE), eliminating transactions between companies of the Cemig Group.

This table details Cemig's market and the changes in sales of energy by customer category, comparing the period from January to December, 2019 to the same period in 2018:

Revenue from supply of energy

	2019			2018			Charge %	
	MWh (2)	R$	Average price billed (R$/MWh) (1)	MWh (2)	R$	Average price billed (R$/MWh) (1)	MWh	R$
Residential	10,538,342	9,668	917.41	10,266,434	8,658	843.35	2.65	11.67
Industrial	16,024,427	4,760	297.05	17,689,182	4,893	276.60	(9.41)	(2.72)
Commercial, Services and Others	9,567,381	5,439	568.49	8,380,346	4,683	558.86	14.16	16.13
Rural	3,795,374	2,058	542.24	3,615,402	1,794	496.06	4.98	14.77
Public authorities	904,879	654	722.75	871,325	575	659.89	3.85	13.67
Public lighting	1,357,293	614	452.37	1,383,878	585	422.91	(1.92)	4.96
Public services	1,371,992	725	528.43	1,315,479	646	491.38	4.24	12.14
Subtotal	**43,559,688**	**23,918**	**549.09**	**43,522,046**	**21,834**	**501.69**	**0.08**	**9.54**
Own consumption	37,827	-	-	41,244	-	-	(8.28)	-
Unbilled retail supply, net	-	134	-	-	48	-	-	181.35
	43,597,515	**24,052**	**551.68**	**43,563,290**	**21,882**	**501.32**	**0.08**	**9.91**
Wholesale supply to other concession holders (3)	11,447,786	2,943	257.08	11,991,355	3,002	250.31	(6.52)	(1.92)
Wholesale supply not yet invoiced, net	-	(67)	-	-	(12)	-	-	471.73
Total	**55,045,301**	**26,928**	**489.20**	**55,554,645**	**24,872**	**447.70**	**(1.35)**	**8.27**

(1) The calculation of the average price does not include revenue from supply not yet billed.
(2) Data not audited by external auditors. .
(3) Inclui Includes Regulated Market Energy Sale Contracts (CCEARs) and 'bilateral contracts' with other agents.

An important feature is the 14.16% year-on-year growth in the volume of supply sold to the commercial customer category. This reflects volume billed to captive customers of Cemig D 0.5% growth in the year, and volume billed by Cemig GT and its wholly-owned subsidiaries to Free Clients in Minas Gerais and other states 36.5% higher than in 2018.

Additionally, residential consumption was 2.65% higher from January to December, 2019 than to the same period in 2018. In our assessment this can be explained as reflecting the addition of 149,331 new customer units.

In counterpart, the volume of energy sold to the industrial customer category was 9.41% lower. This result comes from: a reduction of 7.9% in the Captive Client segment, mainly due to migration of clients to the Free Market; and a reduction of 9.7% in the Free Market, due to expiry of certain power purchasing agreements.

Revenue from Use of Distribution Systems (the TUSD charge)

This is revenue from charging Free Customers the Tariff for Use of the Distribution System (TUSD), on the volume of energy distributed. In 2019, this was R$2,722 million, compared to R$2,045 million in 2018 - year-on-year increase of 33.11%. The higher figure reflected the increase of approximately 65.60% in the TUSD charge, in effect from May 28, 2018 (i.e. with full effect in 2019) and the annual tariff adjustment of Cemig D in effect from May 28, 2019, which resulted an average increase of 17.28% for free customers.

CVA and Other financial components in tariff adjustments

These items are the recognition of the difference between actual non-controllable costs (in which the contribution to the CDE – the Energy Development Account and energy bought for resale, are significant components) and the costs that were used in calculating rates charged to customers. The amount of this difference is passed through to customers in the next tariff adjustment of Cemig D (the distribution company).

In 2019 this represented a gain (posted in revenue) of R$58 million, whereas in the same period in 2018 it produced a revenue gain of R$1,973 million – reduction of 97.06%. The difference is, essentially, due to the way in which the CVA account is calculated: It can result in either a gain or an expense, depending on the changes in non-manageable costs incurred in the period, in comparison to those ratified by the regulator for composition of the tariff.

The difference was mainly due to lower costs of energy in 2019, as a result of the increase in the GSF – which represents lower exposure of the Company – and also the lower average spot price than in 2018, resulting in a lower financial asset to be reimbursed to the Company through the next tariff adjustment. For further details, see Note 16.

Transmission concession revenue

Cemig GT's transmission revenue comprises the sum of the revenues of all the transmission assets. The concession contracts establish the Permitted Annual Revenue (Receita Anual Permitida, or RAP) for the assets of the existing system, updated annually based on the variation in the IPCA inflation index. Whenever there is an upgrade or adaptation to an existing asset, made under specific authorization from Aneel, an addition is made to the RAP.

In 2019 this revenue was R$504 million, compared to R$411 million in 2018 – a year-on-year increase of 22.63%. The higher figure arises basically from the inflation adjustment of the annual RAP, which was applied in July 2019, plus the new revenues related to the investments authorized to be included. It also includes the adjustment for expectation of contractual cash flow from the concession.

The percentages and indices applied for the price adjustment are different for different concessions: the IPCA index is applied to the contract of Cemig GT, and the IGPM index to the contract of Cemig Itajubá. In 2019, the adjustments made to the RAP were: positive 10.53% for Cemig GT's concession contracts; and positive 14.60% for those of Cemig Itajubá. The adjustments comprised application of the inflation adjustment index, and recognition of works to upgrade and improve the facilities.

Additionally, the RAP (Permitted Annual Revenue) is made up of the sector charges, of which the most significant is the Energy Development Account (CDE) – this was 53.51% higher in 2019 than 2018.

Transmission reimbursement revenue

The revenue from reimbursements of transmission assets in 2019 was R$155 million, – or 38.00% less than the same period in 2018 (R$250 million).

As specified in the sector regulations, the Company reports in each period the amount of the inflation/monetary adjustment applicable to the amount of indemnity receivable, based on the IPCA inflation index and the average regulatory cost of capital. The amounts of the reimbursements are being received through RAP, since July 2017, over a period of 8 years.

At the beginning of the tariff cycle, which occurs in July of each year, the amounts received, plus the adjustment made for the cycle, corresponding to the amortization of the debtor balance up to the end of the period, are excluded from the remuneration base, reducing the amounts of the monetary updating and the remuneration on the remaining balance.

In July 2019 the portion of RAP referring to the cost of capital not incorporated after the renewal of the concession (early 2013), as per MME Ministerial Order 120/2016, was adjusted upward by 14.32%. Also, Aneel accepted the appeal on its Ratifying Resolution (REH) 2408/2018 submitted by Cemig, recognizing the material error in the calculation of the annual cost of the energy assets that are part of the National Grid, resulting in a higher figure of 23.93% for the increase. This results in an increase in the indemnity reimbursement amount, to be received during the tariff cycle, reducing the remaining balance of indemnity reimbursement receivable, and consequently the remuneration arising on this balance.

Another factor that contributed to the lower transmission reimbursement revenue in 9M19 than in 9M18 was the upward adjustments made in the second quarter of 2018, for compatibility of the receivable amount with the methodology of calculation established by Aneel.

For more details see Note 16 – Financial assets of the concession.

Revenue from transactions in the Wholesale Trading Chamber (CCEE)

Revenue from energy sales on the CCEE (Wholesale Energy Trading Exchange) was R$432 million in 2019, compared to R$217 million in 2018, an increase of 98.88%. The difference mainly reflects Cemig GT having a higher excess of energy in 2019, also yielding higher value due to the monthly levels of the Spot Market Price (PLD). Although the difference in the annual average of the PLD between 2018 and 2019 is not significant, the excess quantities of energy occurred in 2019 in months with high PLDs, increasing revenue earned on the CCEE in these months, and thus the expected revenue in the year.

Revenue from supply of gas

Cemig reports revenue from supply of gas totaling R$2,298 million in 2019, compared to R$1,995 million in the same period in 2018 – 15.17% higher YoY. This difference basically reflects the higher pass-through of the costs of gas acquired from Petrobras (6.74%), and the increase in the tariff in 2019.

Construction revenue

Infrastructure construction revenue in 2019 was R$1,200 million, or 33.78% more than the same period in 2018 (R$897 million). This revenue is fully offset by Construction costs, of the same amount, and corresponds to the Company's investments in assets of the concession in the period.

PIS/Pasep and Cofins taxes credits over ICMS

The credits of PIS/Pasep and Cofins taxes (previously erroneously charged to include the amounts of ICMS taxes paid or due), totaling R$1,428 million, resulted from the success in the Company's legal action questioning the inclusion of ICMS tax in these amounts, and is backdated to July 2003. For more information please see Note 10.

Other operating revenues

The Other operating revenues line for the Company and its subsidiaries in 2019 totaled R$1,723 million, compared to R$1,584 million in 2018 – 8.77% higher YoY. The higher figure for this group of amounts corresponds to the subsidies on tariffs applicable to users of distribution services, including the low-income-user subsidies – which are reimbursed by Eletrobras. See Note 29 for a breakdown of other operating revenues.

Taxes and regulatory charges reported as Deductions from revenue

The taxes and charges that are recorded as deductions from operating revenue totaled R$12,336 million in 2019, or 0.19% more than 2018 (R$12,312).

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 (reimbursements of costs of assets), tariff subsidies, and the subsidy for balanced tariff reduction, the low-income-customer subsidy, the coal consumption subsidy, and the Fuels Consumption Account (CCC). Charges for the CDE in 2019 were R$2,448 million, compared to R$2,603 million in 2018 – reduction of 5.95%.

An important feature related to this regulatory charge behavior is the increment of 40% in TUSD-CDE as of January, 2019, due to the increase in the annual quota of 2019 in relation to 2018, which incorporated the 14% avarage increase in CDE unit cost (Annual Quota/MWh) and the transfer of the 2018 budget review.

For Cemig D, the charges for the CDE totaled R$2,213 million in 2019, compared to R$2,450 million in 2018 – a year-on-year reduction of 9.66%. The lower figure reflects early settlement of the amount owed under the Regulated Market (ACR) Account in September 2019, and ending of payment of the 'CDE-Energia' quotas in March 2019.

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.

Customer charges – the 'Flag' Tariff system

Income from charges to the customer related to the 'Flag' Tariff bands was lower in 2019, at R$294 million, or 55.08% less than in 2018 (R$654 million).

The 'Flag' Tariff bands are activated as a result of low levels of water in the system's reservoirs – tariffs are temporarily increased due to scarcity of rain. The 'Red' band has two levels – Level 1 and Level 2. Level 2 comes into effect when scarcity is more intense. Activation of the flag tariffs generates an impact on billing in the subsequent month.

This reflects application of the less severe 'flag' tariff band levels to customers in 2019, as a result of a better hydrological situation in the year. In 2019 the Level 1 'Red' flag tariff band was applied in three months, whereas in 2018 the Level 1 Red band was applied in one month, and the Level 2 Red band in five months.

Other taxes and charges on revenue

The deductions and charges with the most significant impact on revenue are mainly taxes, calculated as a percentage of sales revenue. Thus their variations are, substantially, in proportion to the variations in revenue.

Operating costs and expenses (excluding financial income/expenses)

Operating costs and expenses totaled R$22,479 million in 2019, or 15.75% more than in 2018 (R$19,420 million). See more on the breakdown of Operating costs and expenses in Note 30.

The following paragraphs comment on the main variations:

Employee profit sharing

The expense on employees' and managers' profit sharing was R$263 million in 2019, compared to R$77 million in 2018. The higher figure arises from the higher consolidated profit of Cemig – the basis of calculation for profit shares (the collective agreements are unified).

Outsourced services

The expense on outsourced services in 2019 was R$ 1,239 million, or 13.98% more than the expense of R$ 1,087 million in 2018. The main impacts arise from the factors detailed below, basically prioritizing action and expenses for Cemig D, to reduce outages and improve customer service quality.

- The expense on maintenance and conservation of electrical facilities and equipment of Cemig D increased 23.55% year-on-year, from R$ 293 million in 2018 to R$ 362 million in 2019.

- Expenses on conservation and cleaning of power line pathways, access roads and firebreaks of Cemig D were 54.05% higher year-on-year, at R$ 57 million in 2019 vs. R$ 37 million in 2018.

- Expenses on tree pruning were 64.29% higher, at R$ 46 million in 2019, compared to R$ 28 million in 2018.

Energy purchased for resale

The expense on energy purchased for resale in 2019 was R$11,286 million, or 1.82% more than in 2018 (R$11,084 million). The difference is mainly due to expenses by Cemig D on spot price purchases 18.58% higher, at R$1,774 million, compared to R$1,496 million in 2018. The volume of energy transacted on the CCEE, however, was 17.87% lower , at 652,539 MWh in 2019, compared to 1,859,448 MWh in 2018.

Also, expenses on energy acquired at auction in the regulated market by Cemig D were 10.13% lower, at R$3,053 million, compared to R$3,397 million in 2018. The lower figure represents replacement, in 2019, of contracts with high prices for others with lower prices. Another important effect in Cemig D was expenses on energy acquired through physical guarantee quota contracts 8.17% higher, at R$755 million, compared to R$698 million in 2018. This basically reflects the average price per MWh 12.02% higher (at R$101.67 in 2019, vs. R$90.76 in 2018).

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. For more details please see Notes 30 and 37.

Charges for use of the transmission network

Charges for use of the transmission network in 2019 totaled R$1,426 million, compared with 2018 (R$1,479 million). These charges are 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 a Resolution from the Regulator (Aneel).
This is a non-manageable cost in the distribution activity: 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

Operating provisions in 2019 totaled R$2,401 million, or 414.13% more than 2018 (R$467 million). This arises mainly from the following factors:

- recognition of an estimated loss on realization of the receivables from Renova, in the amount of R$ 688 million, after an assessment of the investee’s credit risk.

- provisions for employment-law legal actions amounting R$136 million in 2019, compared to a reversal of provisions of R$42 million in 2018. This arises mainly from new actions, or from reassessment of the chances of loss in existing actions, based on adverse court decisions taking place in the period. Also, a difference was recognized for application of the IPCA-E inflation index instead of the TR reference rate in monetary adjustment for employment-law legal actions dealing with debts arising from March 25, 2015 to November 10, 2017. These are at the advanced execution phase and now have chances of loss assessed as 'probable', due to the recent decision by the Regional Employment-law Appeal Court of the Minas Gerais region (3rd Region) to apply the decision of the Higher Employment-law Appeal Court, ordering use of the IPCA-E index. For further information, see Note 27.

- variation of provisions for taxes, which represented the recognition of R$1,228 million in 2019, compared to the reversion of R$5 million in 2018. This variation results, mainly, of the Company's reassessment, based on the opinion of its legal advisers, of the chances of loss on administrative and court proceedings opened against the Company relating to social security contributions on the payment of profit shares to its employees, alleging that Company did not previously establish clear and objective rules for the distribution of these amounts. For further details, please see Note 27.

Personnel

The expense on personnel in 2019 was R$1,272 million, or 9.79% less than 2018 (R$1,410 million). This variation results, mainly, of the reduction of 10% in the avarage number of employees in 2019 compared to 2018, 5,796 and 6,430, respectly.

Construction cost

Infrastructure construction costs in 2019 totaled R$1,200 million, or 33.78% more than 2018 (R$897 million). This line records the Company's investment in assets of the concession in the period, and is fully offset by the line Construction revenue, in the same amount. The highest year-on-year change was in transmission, 130% higher in 2019, at R$125 million. This mainly reflects most of the current projects in the Investment Program having started execution in 2019, compared to a lower expense in 2018, when the projects were at initial phases.

Gas bought for resale

In 2019, the Company recorded an expense of R$1,436 million on acquisition of gas, 15.99% more than its comparable expense of R$1,238 million in 2018. This is basically due to increase of 29.5% in the cost of gas bought from Petrobras.

Post-employment obligations

The Company's post-retirement obligations were 21.07% higher in 2019, than 2018, being R$408 million and R$337 million, respectively. This mainly reflects a higher cost for the Health Plan in 2019, due to reduction of the discount rate used in the actuarial valuation made in December 2018.

Share of (loss) profit, net, of associates and joint ventures

The result of equity method valuation of interests in non-consolidated investees was a gain of R$125 million in 2019, compared to a loss of R$104 million in 2018.

The losses recognized in 2018 were basically related to the investments in: (i) Renova, and (ii) Madeira Energia. No loss on the investment in Renova was recognized in 2019, since this had been written off in December 2018, due to that investee's uncovered liabilities. Also, the negative equity method result from the investment in Madeira Energia was 37.35% lower in 2019 than 2018.

The breakdown of the results from the investees recognized under this line is given in detail in Note 18.

Net financial revenue (expenses)

Cemig reports net financial expenses in 2019 of R$1,360 million, compared to net financial expenses of R$518 million in 2018. The main factors are:

- higher gain on the hedge transaction contracted to protect the Eurobond issue from exchange rate variation: the gain in 2019 was R$998 million, compared to a gain of R$893 million in 2018. This difference mainly reflects the downward movement of the future interest rate curve over the period of the contracts, reducing the Company's liability component, which is indexed to the DI (Interbank Deposit) rate. The increase in the fair value of the option (call spread) also contributed to the higher result from hedge transactions.
- Monetary updating of the PIS/Pasep and Cofins taxes credits over ICMS, adding up to R$ 1,580 million. For more information see Note 10.
- lower FX variation on loans in foreign currency – which in 2019 represented a financial expenses of R$226 million, compared a financial expense of R$582 million in 2018. This reduction is due to the lower exchange rate in effect in the period (4.02% in 2019, compared to 17.03% in 2018).

For a breakdown of financial revenues and expenses please see Note 31.

Income tax and social contribution tax

In 2019, the expense on income tax and the social contribution tax totaled R$1,566 million, on pre-tax profit of R$4,469 million, an effective rate of 35.04%. In 2018, the expense on income tax and the social contribution tax was R$599 million, on pre-tax profit of R$1,977 million an effective rate of 30.30%.

These effective rates are reconciled with the nominal tax rates in Note 11.

Liquidity and capital resources

Our business is capital-intensive. Historically, we have a need for capital to finance the 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 funds from financing.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2019 totaled R$536 million, compared to R$891 million on December 31, 2018. No cash nor cash equivalents were held in any other currency than the Real. The main components of this variation:

Cash flow from operations

Net cash generated by operational activities in 2019 was R$2,037 million, compared to R$1,008 million in 2018. The higher net cash from operations in 2019 was mainly due to the Company's higher profitability, and the ratio between non-manageable costs and the tariff receipts for Cemig D, expressed in the change in the 'CVA' account ('Portion A' items variation compensation) and the item *Other financial components.*

Cash used in investment activities

The Company used net cash of R$1,189 million in investment activities in 2019, compared to net cash of R$211 million in 2018. This figure results from: payment by Gasmig of the concession grant fee, of R$ 891 million, with the objective of re-establishing the economic-financial equilibrium of the concession contract, and its extension up to 2053. This amount was added to the Remuneration Base of Assets (BRR) of Gasmig, as an intangible asset, to be amortized over the period up to the end of the concession contract.

Cash flow in financing activities

Financial activity in 2019 consumed net cash flow of R$1,203 million, comprising: R$4,883 million in amortization of financings, R$4,477 million in new funding received; R$96 million in leasing payments; and R$701 million in dividends and Interest on Equity paid to shareholders.

Cash consumed by financing activities in 2018 was R$936 million, comprising R$3,527 million in amortization of financings, offset by new financings of R$2,990 million; and R$509 million paid in dividends and Interest on Equity, 27% less than in 2019.

Funding and debt management policy

Costs of refinancing of the Company's debt were higher in 2017 and 2018 than the historic levels for prior years, due to the liquidity challenges suffered in those two years.
In 2019, on the other hand, Cemig, benefiting from the reopening of the capital market and improvement in its financial structure, concentrated efforts on reduction of costs and financial leverage.

In July Cemig D made its seventh issue of non-convertible debentures, for R$3.66 billion, in two series: The first series, with five-year maturity, was for R$2.16 billion, paying remuneratory interest of CDI +0.45% p.a.; and the second series, with maturity at seven years, for R$1.5 billion, paying monetary adjustment by the IPCA inflation index plus remuneratory interest of 4.10 p.a. – resulting in an estimated aggregate average cost of 108.61% of the CDI rate. The funds incoming to Cemig D's cash position contributed to management of debt, enabling a more expensive group of debts (average cost 144.13% of the CDI rate) with maturities over three years to be replaced by debt of the same total amount with amortizations over seven years. This increased the average maturity of Cemig D's total debt from 2.9 years to 5.1 years.

Continuing continued to improve its credit quality, amortizing a significant volume of debt in 2019. In Cemig D, a total of R$4,173 million in debt was amortized; and in Cemig GT, R$610 million.

Corroborating these improvements, the principal international risk rating agencies made further upgrades in their credit risk ratings for Cemig, Cemig GT and Cemig D, recognizing the success in implementing measures that improve these companies' credit quality – improvement of the liquidity profile, sale of assets, refinancing of debts, greater operational efficiency, and increase in Ebitda, combined with a prudent strategy for management of liabilities. In 2019, Moody's increased Cemig's rating from Baa2 on the Brazilian scale to Baa1, maintaining the global-scale rating at B1, both with outlook positive, and Fitch Ratings increased its rating for Cemig by two notches on the Brazilian scale and one notch on the global scale.

This table shows Cemig's ratings with the three principal agencies:

FitchRatings A+(bra) Cemig H, Cemig GT and Cemig D National Scale
BB- Cemig H, Cemig GT e Cemig D Global Scale

Investment grade										Speculative Grade											
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	CC	C	RD/D		
												Bond									

Upgrade on 11/13/2019

STANDARD &POOR'S brA+ Cemig H, Cemig GT e Cemig D National Scale
B Cemig H, Cemig GT e Cemig D Global Scale

Investment grade										Speculative Grade											
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
														Bond							

Upgrade on 03/29/2018
Scale adjustment on 07/11/2018
Stable on 03/28/2019

Baa1.br Cemig H, Cemig GT e Cemig D National Scale
B1 Cemig H, Cemig GT e Cemig D Global Scale

Investment grade										Speculative Grade											
Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	

National upgrade on 03/09/2019

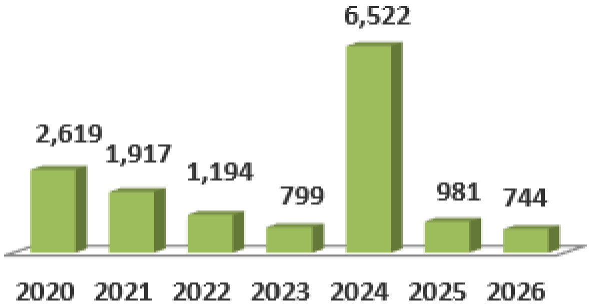
The details of funding raised, including costs and maturities, are given in Note 24.

Both the Eurobonds and the domestic debentures and loan agreements 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 Company's debt on December 31, 2019 totaled R$14,776 million, with average tenor of 3.9 years.

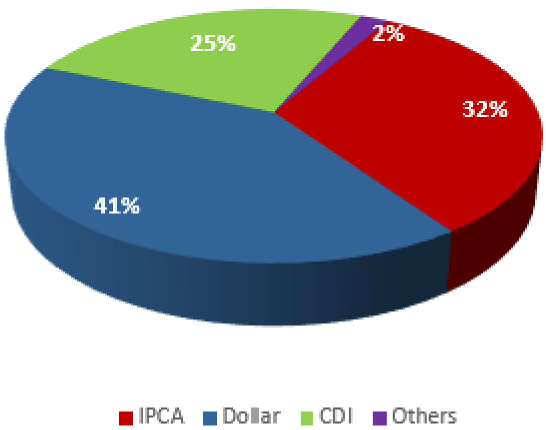
This chart shows the present amortization timetable:

Debt amortization timetable
Position at December 2019 – R$million



The composition of the debt is a reflection of the sources of funds available to its subsidiaries: there is a significant portion indexed to the CDI rate, and also in foreign currency – the foreign currency commitments are hedged to express them in terms of the CDI rate, to protect Cemig GT's Eurobonds against exchange rate variation. The average cost of the Company's debt is 2.67% p.a. in real terms, and 7.07% p.a. nominal.

Main indexors of debt at December 31, 2019



THE REGULATORY ENVIRONMENT

Our operations are highly regulated, and supervised by the federal government, through the Mining and Energy Ministry (MME), Aneel (the Brazilian Energy Regulator) and the National System Operator (ONS), as well as other regulatory authorities. The MME, Aneel and the ONS have discretionary authority to implement and change the policies, interpretations and rules applicable to various aspects of our business, particularly operations, maintenance, health and safety, compensation and inspection.

Brazil's federal government has implemented policies that have a wide-ranging impact on the Brazilian energy sector, in particular electricity. As part of the restructuring of the industry, Federal Law 10848, of March 15, 2004 ('the New Industry Model Law') introduced a new regulatory structure for the Brazilian power industry. This regulatory structure has undergone several changes over recent years, the most recent being the changes added by Provisional Measure (PM) 579 of 2012 (enacted as Law 12783/2013), which governs the extension of concessions governed by Law 9074 of July 7, 1995.

Energy Generation

2019 was one more year of low hydrology in the Southeastern Region of Brazil. Average Affluent Natural Energy (ANE) in the year was less than 80% of the historic average, compared to 90% in 2018. The long sequence of years with low hydrology has kept the reservoirs of the Southeast at below 60% of capacity at the end of the rainy period, which historically means low volumes – and during the dry period, there was rapid depletion, leading the reservoirs of the Southeast to levels near historic lows.

The average Spot Price (PLD) in the Southeast in 2019 was R$227.10/MWh, which was approximately 20% below the average PLD in 2018. In spite of the worsening in hydrology and storage over the year in the Southeast, the excess levels of generation in the North in the first half of the year and the Northeast in the second half of the year helped to keep the price lower. The Generation Scaling Factor (GSF) also presented lower exposure in 2019 than in 2018, at an average value of 0.91 in the year, versus 0.84 in 2018.

Energy distribution

The Annual Tariff Adjustment – Cemig D

Cemig D's Tariff Adjustment is made in May of each year. Every five years, under the concession contract, there is also an overall Periodic Tariff Review, also in May. The aim of the tariff adjustment is to pass on the non-manageable costs in full, and to provide inflation adjustment for 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.

On Tuesday, May 28, 2019, Aneel approved the result of the Annual Tariff Adjustment for Cemig D. This resulted in an average tariff increase of 8.73%. The largest factor in the increase, a component representing 1.60%, was the variation in costs of 'Portion B' – manageable costs. The remaining portion, of 7.13%, has a null effect on the Company's profit, since it consists of direct pass-through to the tariff of the following items of increased costs:

(i) 0.34% increase in non-manageable costs ('Portion A'), related mainly to the purchase of energy, sector charges and transmission costs;
(ii) financial components of the current process 9.24% higher, especially the CVA currently being processed, with an effect of 10.79%; and
(iii) withdrawal of 2.45% of the financial components of the previous process.

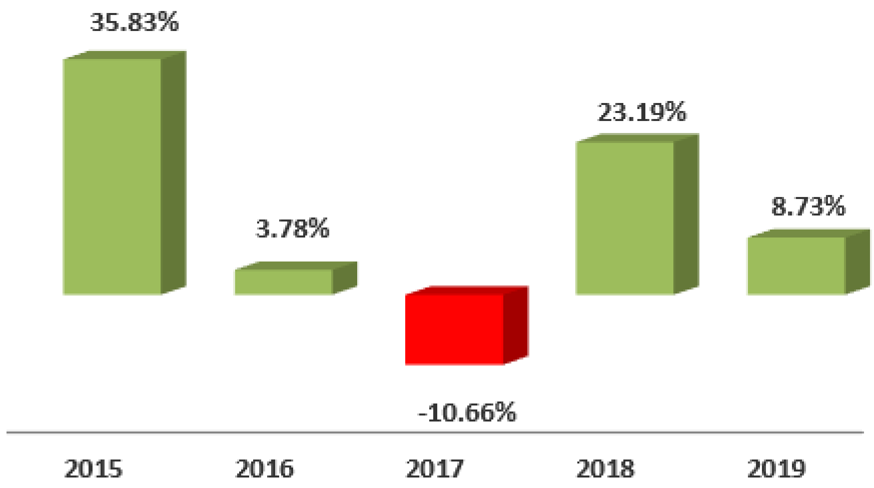
The increase for residential customers was 7.07%. For industrial and service sector customers, served at medium and high voltage, the average increase was 10.71%. For those served at low voltage, the average increase was 7.89%.

Of the amount charged to the customer on the invoice, 21.95% remains with Company: this total referred to as 'Portion B', is to remunerate the investment, cover depreciation and pay the concession holder's running costs. The remaining 78.05% is passed on, and comprises: (i) 'Portion A', comprising energy bought for resale (28.68%), sector charges (12.84%), and transmission costs (5.69%) and unrecoverable revenue (0.43%); and (ii) taxes: ICMS (24.36%) and the PIS/Pasep and Cofins taxes (6.05%). Under Brazil's Constitution, Cemig D is obliged to charge certain taxes directly on the customer's energy bill, and pass them on to the related authorities.

Another component charged on the customer's energy bill is the Contribution to Finance Public Illumination (Contribuição para Custeio do Serviço de Iluminação Pública, or CIP). The amounts of this charge are decided by individual municipal prefectures. Cemig collects the amount, passes it on to the prefectures of individual cities and towns – which are the bodies responsible for planning, building, expansion, operation and maintenance of public illumination facilities.

In the 774 municipalities of Minas Gerais State where Cemig distributes electric power D, more than 687 thousand customers are rural customers, and approximately 577,000 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



Revenue Management

Cemig's project to deliver energy bills by email had reached 306,000 customers by the end of 2019, 39.09% more than at the end of 2018 (220,000). This is an important initiative in sustainability, and also has a direct effect on customer satisfaction, providing a sentiment of contributing to preservation of the environment.

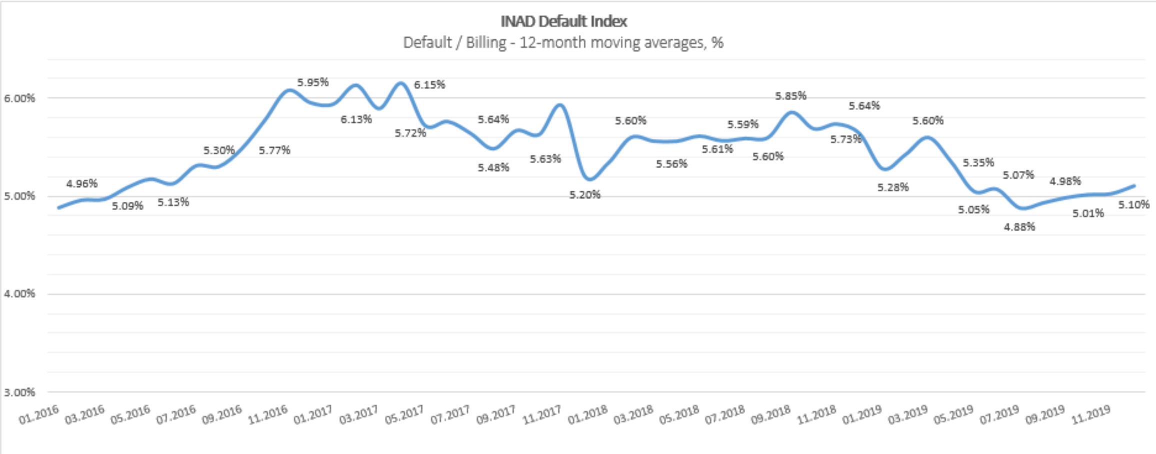
Today a total of 12,540 customer facilities, or 94% of medium-voltage clients, are remotely metered.

Management of payments and revenue collection

Cemig uses various tools of communication and collection to inhibit increase in default. These measures include contact by telephone, emails, text messages, collection requests by letter, negative posting on credit registers, collection through the courts and, principally, disconnection of supply. For the second year running, the Company cut off supply more than one million times, across the various customer categories.

In parallel, clients were offered the opportunity to regularize their debts, with the launch of a campaign offering special negotiating conditions ("*Você em Dia com a Cemig*" – "You Up-to-date with Cemig"), and also through the "Minas Gerais Appeal Court Conciliation Week".

We highlight the reduction in the allowance made for estimated doubtful receivables in 2019: R$199 million in 2019 – compared to R$271 million in 2018.



(Accumulated default over total of 12 months / Billing for same 12 months)

We are planning to implement new collection tools in practice in 2020:

- a technology platform solution, for out-of-court negotiation of debts;
- use of the public notaries' offices' debt protest system;
- contracting of a partner company specialized in collection, for complex receivables.

With the more intense application of the tools for collection, the Company is even more confident that default indices will be reduced in the coming years.

Management of power losses

The IPTD index – total losses as a percentage of total energy injected into the distribution system – in 2019 was 13.57%. This comprised 8.77% technical losses, and 4.80% non-technical losses. This figure for the IPTD is above the target set by Aneel for Cemig D for its fifth tariff cycle (2018-2022) – those targets are 11.49% for 2019 and 11.23% for the end of 2022. Even so, there was a higher in the IPTD in 2019 – of 0.75 points percentage from the 2018 result of 12.82%.

One highlight is the improvement achieved by Cemig in the ratio of regulatory technical losses – those that result during the process of transport and transformation of energy over transmission and distribution equipment and networks. This ratio increased from 7.84% in the fourth tariff cycle (2013 to May 2018) to 8.77% in the fifth cycle (2018–2023). This represents a significant increase in financial revenue, of the order of R$ 90 million annually.

The reduction in technical losses has been achieved following implementation of various physical upgrade works on the system at high, medium and low voltage.

Non-technical losses – energy consumed and not billed due to fraud, illegal connections, deficient metering, errors in client registry and other failings – are usually expressed as a percentage of the low-voltage billed market (the basis adopted by Aneel). In 2019 this result was 12.48% (0.83 percentage points higher than the 2018 result of 11.65%) – compared to a corresponding regulatory target of 7.04%.

Cemig began more intensive action to combat non-technical losses. The Company acted on various fronts in 2019: a highlight was 306,000 inspections at customer units over the whole of the state of Minas Gerais, – 65% more than the number of inspections made in 2018 (185,000 inspections), and corresponding to an increase in annual billing of approximately R$88 million.

Various other actions to mitigate non-technical losses were undertaken in 2019: Inspections by volunteer teams of the public at strategic points of the capital city (Belo Horizonte) and the interior of the state, with media coverage; numerous operations to withdraw clandestine power connections; preparation of more than 100 applications to competent authorities for criminal action against repetitive fraudsters; remote monitoring of large clients at high, medium and low voltage – including 12,500 clients at medium voltage, and more than 12,600 clients at low voltage – effectively 'bulletproofing' approximately 45% of the distribution company's billing; and modernization of meters throughout the system, with replacement of 86,000 obsolete meters.

Also, to achieve the regulatory level of losses in the coming years, Cemig D has a wide-ranging Recovery Plan in progress over the 2020-22 period, with the following actions planned for 2020:

- 775,000 inspections at customer units.
- expansion of remote metering in low-voltage clients, to a total of 25,000 customer units;
- Replacement of 60,000 obsolete meters.
- Inspection of 780,000 public lighting points.
- Regularization of supply to 20,000 families living in informally occupied zones and low-income areas.
- installation of intelligent meters at 120,000 low-voltage clients; and
- replacement of the communication system for 1,600 Free Market clients, increasing reliability and speed in billing.

Energy transmission

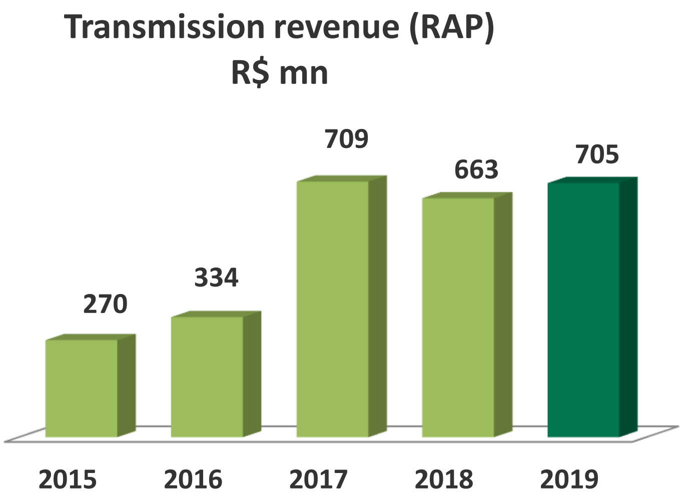
Because it acts in a regulated market, Cemig GT's revenue from the transmission assets is set by Aneel. The amount of this revenue is updated in three ways: by the *Periodic Review*, the *Annual Adjustment*, and the possibility of an *Extraordinary Review*. Similarly to the distribution company, Cemig GT works with the regulatory body seeking recognition of its costs, in the processes of review, adjustment and ratification of the Annual Permitted Revenues (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 (i) adjust the approved RAP by the adjustment index specified in each concession contract; (ii) 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 (iii) calculate the Adjustment Amount. The regulatory model adopts the revenue cap method.

In July 2019, the RAP of Cemig GT (Concession Contract 006/1997) was adjusted upward by a net 16.35%. This increase comprised:

(a) application of the IPCA inflation index to revenue previously approved; recognition of the new upgrades and improvements; and recognition of administrative appeal items; and
(b) the portion of the cost of capital not incorporated after the renewal of the concession at the beginning of 2013, as per MME Ministerial Order 120/2016.

The RAP of Itajubá (Contract 079/2000) received a net upward adjustment of 18.16%, comprising application of the IGP-M inflation index to revenue previously approved, and recognition of new upgrades and improvements.

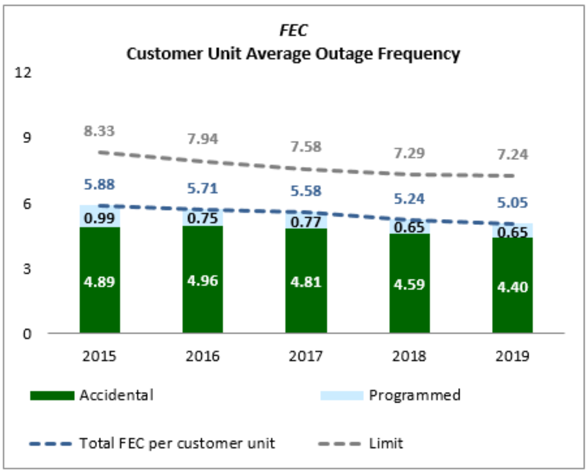


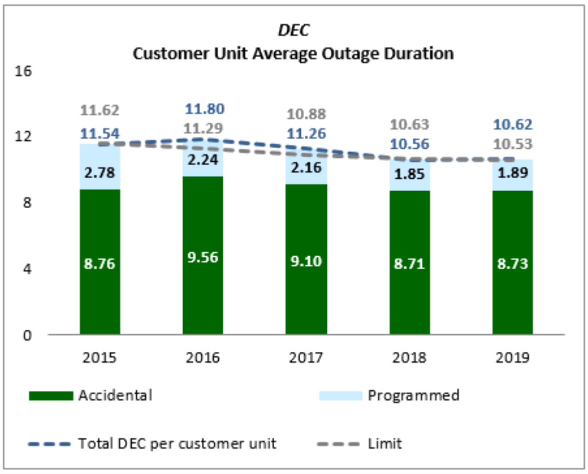
RELATIONSHIP WITH OUR CLIENTS

Quality of retail supply

The following charts show outage indicators over recent years.
FEC is the outage frequency indicator (Equivalent Interruption Frequency per Customer Unit) – in 2019 it was 5.05. DEC, the outage duration indicator, after significantly improving over 2016–18, increased slightly in 2019, to 10.62, which means the regulatory limit was not complied with in this year.

However, the Company increased its investment in preventive maintenance to reduce outages and improve the quality of service to customers, to meet the future demands of regulatory indices.





Service policy

To provide quality customer service, and to facilitate customer access, Cemig D makes available a mix of customer service channels available in various means of communication, both in-person and by telephone or online, serving all the segments of the market.

Cemig D is present in all the 774 municipalities of its concession area. In-person customer service is given by the '*Cemig Fácil*' service network, operating in 142 Branches and 635 Service Posts. In 2019 a total of 10.9 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). The number of contacts reported in 2019 was 14.3 million.

The Cemig Torpedo text messaging service enables the customer 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 million messages were received in 2019.

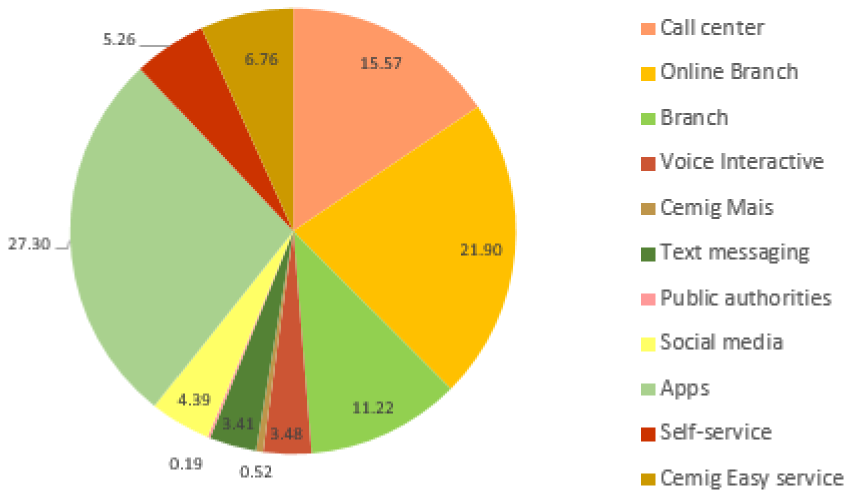
For the online channels, we highlight the '*Cemig Atende*' ('Cemig Serves') app, for smartphones and tablets on Android or IOS or Windows Phone platforms – which had 16.6 million contacts. The total number of contacts through stand-alone self-service machines ('totems') was 3.2 million.

Through Cemig D'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.

The site also has specialized service for specific market segments, with exclusive areas for clients of distributed generation; large-scale clients served at medium voltage; equipment and facility planners; and others. Cemig's 'Online Branch' had more than 13 million contacts in 2019.

The total number of client contacts through the various channels in 2019 was 61 million or 27% more than in 2018 (45.8 million).

The chart below shows the percentage participation of the various client communication channels in 2019.



Customer satisfaction

In the survey for 2018, announced in 2019, Cemig was one of the finalists in the IASC awards for companies in the Southeast Region with more than 400,000 customer units. Its score of 68.41 was 4.04% higher than in 2018, higher than the average for all Brazilian concession holders (66.10) and the average for its category (Southeast, over 400,000 customers), which scored 65.62.

This score placed Cemig fifth in the 10 largest energy distributors in the Southeast region.

In February 2020 Aneel published the result of the survey evaluating users' satisfaction with Brazilian distributors for 2019: Cemig D earned a mark of 70.58, higher than the target set by Aneel, and Cemig's best result since 2009. With this 3.17% increase in client satisfaction from the previous year, Cemig again positioned itself above the average for Brazilian concession holders (67.38%) and above the average for the category of companies with more than 400,000 customer units in the Southeast region (67.78%). The 2019 IASC survey was taken from July 31 to October 29, interviewing 27,308 people in 596 municipalities, served by 91 holders of concessions and permissions.

Compliance with the regulatory target is the result of planning by the Company involving all employees: it involves Cemig updating regularization of its works, reducing service times, and investing in expansion and upgrading of its distribution networks. Further, the service channels are more efficient and more diversified, expanding communication with the various publics, in a way that brings it closer to the client, and offering an increasingly human treatment.

INVESTMENTS

In 2019, Cemig invested capital expenditure of R$ 986 million in distribution, R$ 26 million in generation, and R$ 223 million in transmission.

Cemig has further capital investment totaling R$ 10.4 billion scheduled for 2020–2024. The investment plan for 2020 is R$ 2 billion, of which R$ 1.7 billion will be invested in Cemig D – probably the largest investment by a distribution concession holder in Brazil – as follows:

Investments in generation:

Energy generation

In 2019, the Belo Monte plant began full generation of power, with all rotors operating. Cemig GT, with an indirect equity interest of 11.69% in the project, has invested approximately R$1.61 billion in this major hydroelectric undertaking.

The *Poço Fundo Small Hydro Plant* project: On February 13, 2019 Aneel, by its Authorizing Resolution 7598, granted extension of the concession of the *Poço Fundo* Small Hydro Plant to May 2045, conditional upon amplification of the generator units.

The plant, on the Machado River in the municipality of *Poço Fundo*, Minas Gerais, is part of Cemig GT's generation portfolio, and will be transferred to the special purpose company Cemig Geração Poço Fundo S.A.

In 2019, the SPC was at pre-operational phase, being structured to increase the installed capacity of the Poço Fundo SHP, and for operation and maintenance of the plant until the end of the concession.

The expansion works will be begun in 2020 for an approximate cost of R$140 million, with completion planned for 2022.

Investments in transmission

In the transmission business, the decision on rules for reimbursement of assets in previous years has ensured that we had a stable flow of cash for the coming year, making it possible to expand the multi-annual Program of investments for Cemig GT from R$1.1 billion to R$1.45 billion – which will make it possible in the future to add new revenues arising from these investments, and mitigate important risks for operation of the system.

As a result of the process of acquisition begun in 2019, on January 13, 2020 the Company completed the acquisition, disbursed value of R$ 44,775,496.09, of the 49% equity interest held by Eletrobras in *Transmissão Centroeste de Minas Gerais S.A.* (Centroeste), the subject of Eletrobras Auction 01/2018, held on September 27, 2018. For more information on this please see Note 17 to the Company's financial statements.

Investments in distribution

Investments in distribution in 2019 totaled approximately R$916 million.

Cemig D has investments planned under its Distribution Development Plan (PDD) for 2018–2022, with a total of R$ 6.397 billion, for execution of works on its concession. Considering the regulatory depreciation scheduled for this period, of approximately R$ 4,200 million, this difference in investments may have the positive effect of increasing Cemig D's Regulatory Remuneration Base (BRR) in 2023 and consequently increasing its revenue, since these investments are compatible and suitable with the market growth, so as not to affect the profitability established in the tariff review.

This higher investment by Cemig D will also have positive impacts in terms of improvement of the quality of supply of energy and reduction of maintenance costs, with the increased reliability of the energy system.

System expansion – Distribution of substations lines (69kV to 161kV)

To provide continuous increase in the availability of energy, with quality and safety, in the quantity required by customers, promoting social, industrial and commercial development, R$154 million was invested in the energy distribution system of Cemig D in 2019, including the high, medium and low voltage systems.

8 substations were expanded, and 40.7 km of distribution lines were built in the year.

Expansion of the electricity system – networks (medium and low voltage)

Cemig D's works on the Distribution Development Plan will serve requests from medium and low voltage clients in the 774 municipalities of it concession area. This plan is divided into Macroprojects, related to the various segments of works to meet the demands of the Plan.

The Urban Service Macroproject concentrates the investments necessary to meet demand from customer units in the urban area – which is always provided without charge for the requesting party. Investments totaling approximately R$114.5 million were completed in 2019, extending new networks of 528 km and permitting collection of 213,203 urban customer units to the electricity system.

The service to customer units in rural areas that have the right to service without charge is carried out through the Rural Service Macroproject. 8,989 new customer units were connected through extensions totaling 2,179 km to the medium and low voltage networks in 2019, resulting in a total of R$108 million in investments in rural distribution infrastructure networks.

Connection of customer units that do not qualify for connection free of charge is provided by the Complementary Service Macroproject. R$151 million was invested by Cemig in the electricity system at medium and low voltage and R$180 million by the requesting parties, in financing of works, in 2018. This enabled connection of 11,654 clients and projects to Cemig D's distribution system.

For the distribution system to be able to absorb all the client and project connections served by the Urban, Rural and Complementary Service Macroprojects, a range of works needs to be carried out on the distribution assets, such as: expansion of power capacity, conversion from single phase to 3-phase networks, connections between feeds, refurbishment, network and operational contingency works. Strengthening and upgrades to the electricity system are made by the Network Strengthening and Upgrade Macroprojects – in 2019, works were carried out on 749 km of medium and low voltage networks, for total investment of R$91 million.

The Public Safety macro project was created to eliminate electric shock risk situations in Cemig D's distribution networks. This program aims to carry out the investments necessary for removal or transfer of networks to eliminate risk of accidents by direct or indirect touch or other risk situations for members of the public in the distribution networks. A total of 1,727 facilities were regularized in the year, with investment of R$15 million.

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), liquified natural gas (LNG) and vehicle natural gas (VNG). Cemig holds 99.57% of the share capital of Gasmig.

In 2018 Gasmig invested a total of R$70.3 million – comprising: R$50.1 million in expansion of the distribution network (including maintenance and operation of the natural gas network) in Minas Gerais; R$6.7 million in telecoms and IT; and R$13.4 million in infrastructure.

Due to expansion of its residential segment, Gasmig's client base increased by 22.85% in 2019, from 42,301 customer units in 2018 to 51,966 in 2019.

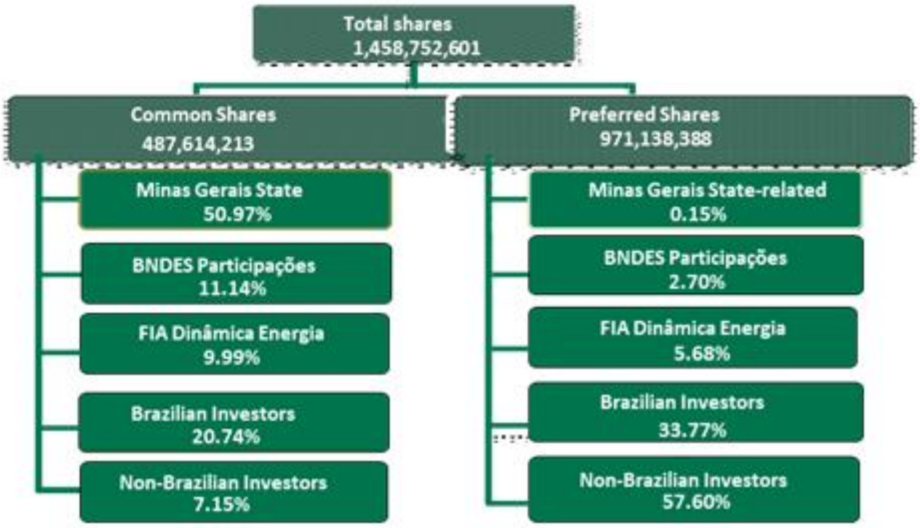
In 2019 Gasmig spent R$43 million on investment in assets, mainly in expansion of its natural gas distribution networks in the State of Minas Gerais. It built 37.67 km of gas pipelines in Greater Belo Horizonte, in the South of Minas and in Juiz de Fora, to serve customers in the residential, commercial, industrial, and vehicle segments of the market.

CAPITAL MARKETS AND DIVIDENDS

Cemig's shares were initially 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. ADRs for Cemig's shares have traded on the New York stock exchange since 1993 with tickers CIG and CIG/C) – and at Level 2, since 2001. Cemig shares have traded on the Madrid stock exchange (ticker: XCMIG) since 2002.

Shareholding structure

This chart shows the shareholding structure of Cemig on Monday, December 31, 2019, with share capital of R$7,294 million:



Share prices

The closing prices of Cemig's securities in São Paulo (Bovespa), New York (NYSE) and Madrid (Latibex) in 2018 and 2019 were as follows:

Security	Ticker	Currency	Close of 2018	Close of 2019
Cemig PN	CMIG4	R$	13.86	13.79
Cemig ON	CMIG3	R$	14.39	15.59
ADR PN	CIG	US$	3.38	3.34
ADR ON	CIG.C	US$	3.76	3.90
Cemig PN (Latibex)	XCMIG	Euro	2.98	2.80

Source: Economática. Prices adjusted by corporate action, including dividends.

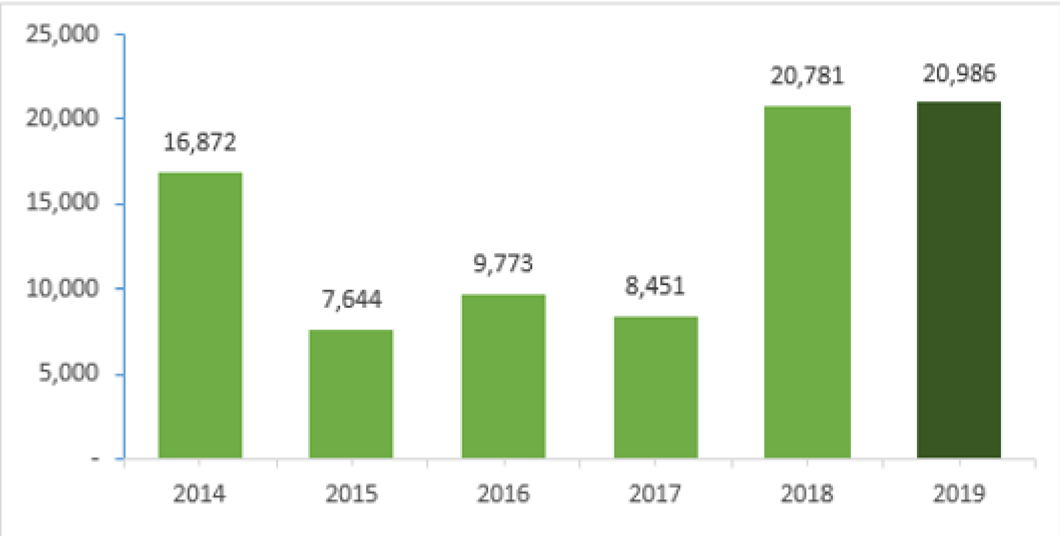
Total trading volume in the preferred shares, CMIG4, in 2019 was R$33.7 billion, a daily average of approximately R$136.1 million. The total volume is 25.10% higher than in 2018, making Cemig's preferred (PN) shares one of the most traded on the São Paulo stock exchange, thus offering investors an enhanced degree of security and liquidity.

Average daily volume of trading in the preferred shares on the NYSE in 2019 was US$12.66 million, with total volume of US$3.19 billion, 22.22% more than in 2018 (US$ 2.61 billion) – reaffirming Cemig's position as a global investment option.

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

	CMIG4	CMIG3	CIG	CIG.C	IBOV	IEE	DJIA
2019/2018	4.79%	8.35%	(1.14)%	3.72%	31.58%	55.54%	22.34%

Market capitalization is calculated on the totality of the company's shares at market price on the last trading day of each year. Cemig's market cap. increased by 0.99% in 2019.



Source - Economática

PROPOSAL FOR ALLOCATION OF NET INCOME

The Board of Directors decided to propose to the Annual General Meeting to be held on April 30, 2020 the following proposal for allocation of: (a) the 2019 net income, of R$3,127 million, and balance of R$25 million arising from realization of the deemed cost of PP&E.

- R$764 million as minimum obligatory dividends, to the Company's shareholders, as follows:

  - R$400 million in the form of Interest on Equity, to be paid in two equal installments, by June 30, and December 30, 2020, to shareholders whose names were on the Company's Nominal Share Registry on December 23, 2019;
  - R$364 million in the form of dividends, to be paid by December 31, 2020, to holders whose names are in the Company's Nominal Share Registry on the date of the AGM.

- R$835 million to be recorded as Unrealized Profit Reserve, considering the positive net share of profit of subsidiaries, jointly-controlled entities and affiliates not yet converted into cash.
- R$1,535 million to be held in Shareholders' equity in the Retained earnings reserve, to provide funding for the Company's consolidated investments planned for 2020, in accordance with a capital budget.
- R$18 million to be held in Shareholders' equity in the Tax incentives reserve, for tax incentive amounts gained in 2019 due to investment in the region of Sudene.

CORPORATE GOVERNANCE

The Company's Board of Directors comprises nine sitting members, nominated and elected by the shareholders, with the exception of one member who is elected by the employees, as per Law 13,303/2016. Under the by-laws, the period of office of all the members runs concurrently, for two years, and they may be re-elected a maximum of three times. In 2019, the Board held 30 meetings for decisions and presentations on various subjects such as strategic planning and budget, investment projects and acquisitions.

The Audit Committee, created under the change to the by-laws in June 2018 and in compliance with Law 13,303/2016, is an advisory committee linked to the Board of Directors, with the functions of auditing and inspecting the quality and integrity of the accounting statements, compliance with legal and regulatory rules and the by-laws, and effectiveness of the systems of internal control, internal auditing and external auditing. It has three members, with term of office of three years, each of whom may be re-elected only once. In 2019 it held 47 meetings.

The Audit Board is a permanent body comprising five sitting members and their replacement members, elected for a period of office of two years, with a maximum of two re-elections allowed. Its duties are set by Brazilian legislation governing corporations, especially Law 6404/1976, and, when these do not conflict, by the laws of the countries in which Cemig has shares listed and traded. The Audit Board met 15 times in 2019.

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 the definition of 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 rules of the CVM, a turnover system of external auditors is adopted, with a frequency of 5 years. Currently the Company's external auditors are Ernst &Young Auditores Independentes S/S. They are responsible for auditing the financial statements at December 31, 2019. The services provided by the Company's external auditors have been as follows:

Service	2019	As % of audit fees	2018	As % of audit fees
Auditing services:				
Auditing of financial statements	5,657	100.00	4,765	100.00
Additional services:				
Auditing of the Public Digital Bookkeeping System (SPED)	818	14.46	756	15.87
Comfort letter for issuance of debt instruments	-	-	912	19.14
Total	**6,475**	**114.46**	**6,433**	**135.01**

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 obligatory 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

The objective of corporate risk management, a process that is an integral part of Cemig's corporate governance practices, is to build a structure capable of providing material information to senior management to support decision-making, creating and protecting value for the Company. The process of risk management enables proper management of the risks of the business objectives, able to influence and align the strategy and performance in all areas of the Company.

In 2019, to give more emphasis to the questions that involve management of risks and compliance, a new joint Chief Executive's Department, of Compliance, was created in Cemig.

As part of this activity, in 2019 the Executive Board and the Board of Directors approved the Corporate Risks Matrix (Top Risks and Compliance Risks) in effect for the business years 2019 and 2020.

These risks, associated with execution of strategy and scenarios of the Company's exposure, conflicts of interest, fraud and corruption are under the responsibility of the members of the Executive Board, and are monitored and reported periodically to Senior Management.

The matrix of internal controls is also revised and approved annually, and the controls are tested and monitored by the Company's Risks and Internal Controls Management Unit, with periodic reporting to the Board of Directors, the Audit Board, and the Audit Committee.

The Company also has an Annual Internal Audit Plan, approved by the Company's management, for assessing the principal corporate procedures. The objective of this plan is to ensure appropriateness, efficacy and efficiency in the Company's processes, as well as compliance with the laws, rules, standards and internal procedures to which the Company is subject. The Internal Audit makes an independent assessment of the efficacy of the management of risks, and the effectiveness of the internal control system, reporting any deficiencies and proposing actions for improvement to be implemented by the areas responsible, which are periodically monitored for their compliance.

Anti-fraud Policy

The Company has a policy of prohibiting any type of gift, direct or indirect, or form of money or that can be estimated in terms of money, goods, or services, including in the form of publicity or advertising, that has a political objective of favoring any political party or its members, whether militantly 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 September 30, 1997, as amended by Law 13,487 of October 6, 2017.

Cemig also has a *'Whistleblower 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, answers are made available to the accusing parties.

TECHNOLOGICAL MANAGEMENT AND INNOVATION

The energy industry in Europe, the US and various other parts of the world is undergoing transformational changes, led by the intersection of various factors, such as: (i) growing decentralization of energy generation systems; (ii) advances in energy storage technologies; (iii) proliferation of digital technologies, which enable energy to be produced, transmitted and consumed more intelligently and efficiently; (iv) growth in various sources of renewable energy, such as wind and solar; and (v) the trend to decarbonization of the energy system, as part of global efforts to mitigate climate change.

All these transformations directly affect the power industry and represent at the same time threats and opportunities for a company like Cemig. These changes can be grouped into three trends – the "three D's": 1) Digitalization; 2) Decarbonization; and 3) Decentralization – placing new types of demand on the energy sector, coming from: the public in general, from other sectors of the economy, and indeed from the government, through its regulators.

With eyes on this new group of changes, in 2018 Cemig created the *CemigTech* program, and the *Strategic Digital Technology Plan* – covering training, diagnosis, prospecting and technological ways forward, aiming to:

- create new training for the new types of business emerging in the country and the world;
- define strategies for execution of R&D projects in the short, medium and long term;

- build project bid documents to collect R&D proposals in digital technology to place the company in harmony with technological evolution and the major digital transformations; and
- create projects that can boost new business activities that create economic and social benefit for the Company.

Six projects were contracted in 2019 resulting from a Specific Tender associated with the '3D', under the name of 'Cemig 4.0', including the following initiatives:

- Intelligent supplier chain management;
- Intelligence in the user experience;
- Management of assets (Distribution and Generation/Transmission); and
- Distributed Energy resources.

The Energy Efficiency Program

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

As from 2015, there has been a significant increase in the number of projects developed under Cemig D's Energy Efficiency Program – reaching a total of 76 initiatives in execution at the end of 2018. They include project from public Calls for Projects, held annually by the program, and also projects built directly by Cemig.

Cemig D's Energy Efficiency Program maintains a large number of projects in execution – a total 44 initiatives in progress at the end of 2019. They include projects from public Calls for Projects, held annually by the program, and also projects built directly by Cemig.

In 2019 the program invested approximately R$86 million in projects throughout the Cemig D's concession area. The Board of Directors also approved a total budget of R$457 million for the period 2020-24 for investment exclusively in energy efficiency actions.

The actions of the Program tend to focus on energy efficiency associated with social responsibility, innovation and generation opportunities for Cemig D as a business. They have prominently featured initiatives benefiting hospitals, schools, low-income communities and public lighting.

Research and Development program

In 2019 Cemig D invested more than R$54 million in 43 R&D projects, on various themes, of which we highlight the following:

- Development and application of the Data Governance method and construction of integrated architecture for formation and management of regulatory databases of a power distribution concession holder;
- The Distributed Energy Resources Management System (Sigred); and

- Artificial Intelligence Applied to Relationship with Clients;

Cemig GT executed 28 R&D projects, resulting in an investment of more than R$41 million, on a variety of subjects, including:

- the Asset Management Platform of Cemig GT;
- Trixel LT 2017, which is a system of transmission lines inspection; and
- Ecological integrity of marginal lakes for conservation of the biodiversity of the São Francisco River.

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.

The following are some of the highlights of 2019:

The *'Proximidade'* (Proximity) Program: This was created by Cemig to form a closer relationship with communities close to plants under Cemig's concession, and jointly with other programs of the Company, to take technical knowledge to them and promote their social development. Meetings are held in which specialists give objective presentations to explain operational aspects of reservoirs, make the initial preparation of the Emergency Action Plan (PAE), and publicize the environmental actions Cemig carries out at dam reservoirs. Other subjects dealt with include dam safety and secure coexistence with the electricity system.

In 2019, 12 meetings were held, attended by 30 of the 38 interested municipalities invited, at which the External Emergency Action Plans (PAEs) of 11 dams were officially delivered, presenting the studies of Flooding Areas Propagation for scenarios of dam rupture and exceptional floods, with indications of determination of Meeting Points and Flight Routes. In alignment with CEDEC-MG, the *Proximity* App was developed and made available, as a tool for risk management, notification of alerts/warnings and collection and storage of user/client data for use by the COMPDECs.

The Donations Program: Through the Donations Program, Cemig gives discounts of up to 25% on energy bills, subject to a ceiling, to philanthropic institutions that provide social and health assistance free of charge. In 2019, a total of 947 entities were benefited, for a total of R$6.2 million in deductions on energy bills.

Sponsorship Program: In the Sponsorship Program, donations in favor of the institutions are raised from third parties (the 'Sponsors'), by additions to their energy bills which are then 100% passed on to the institution's bank account. A total of 239 institutions received approximately R$66 million in donations in 2019.

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

The 2019 AI6% Campaign involved the participation of 1,546 employees, who voluntarily allocated R$1.16 million to benefit approximately 27,000 children and adolescents in vulnerable situations, served by 181 institutions. Cemig also allocated part of its income tax payable to the same FIAs, totaling R$4.61 million. Thus, a total of R$5.77 million was donated to entities spread out over 95 counties/municipalities in the Company's area of influence.

Corporate Volunteer Program: 'Voluntary Cemig' includes various actions to encourage and support employees' involvement in voluntary activities. Corporate volunteering is recognized in the business world as an important tool for improving organizational climate, developing skills, and contributing to improvement of society – and a company's image and reputation.

The VOCÊ Program aims to stimulate and disseminate the employees' solidarity and voluntary work, to promote human development and contribute to the well-being of communities where the company works. The Program is structured to maximize the potential of volunteers' ongoing actions – a path that migrates gradually from assistentialism to participative citizenship and social transformation.

The Volunteers' day, 'V day', is a date focused on mobilizing and fostering volunteer actions, held annually in a previously selected community, in a partnership with various companies of the Cemig Group. In 2019 the team coordinating V-Day analyzed the needs and the work done in various institutions and selected the '*BH Futuro'* Institute, which works for needy communities in the '*Aglomerado da Serra'* community, which comprises eight small settlements – *'Nossa Senhora da Conceição', 'Nossa Senhora de Fátima', 'Nossa Senhora Aparecida', 'Santana do Cafezal', 'Novo São Lucas', 'Fazendinha', 'Chácara' and 'Marçola'* – with an estimated population of 40,000 people. A day's programming, diversified for all ages, was prepared by the team of volunteers based on the profile and demands of the region, and carried out for approximately 1000 residents of the community. More than two tons of clothes, footwear, accessories and toys were collected, realizing sales of R$2,590 at the event's bazaar.

This program participated in 554 voluntary actions in 2019, totaling 6,906 hours of voluntary work by members of the Cemig Group Workforce.

Projects in culture, sport and health

Cemig has a policy of sponsorship that aims to evidence the company's commitment to the reality and demands of the environment and the locations where it works, contributing to development and strengthening culture, sport, education and social activity, in line with public policies of the communities where it is involved.

Culture

Cemig invested R$30 million in culture, allocated in 70 projects. Cemig sponsors the greatest name of Minas Gerais culture: “Fundação Clóvis Salgado”, “Instituto Inhotim”, “Orquestra Filarmônica de Minas Gerais”, “Grupo Galpão”, “Grupo Corpo”, and others. Cemig invested R$4.5 million in projects of preservation of Minas Gerais cultural heritage. The investments includes museums, churches and others buildings.

Health:

Cemig allocated almost R$12 million to improving service to the communities attended by the institutions in various regions of Minas Gerais, with a highlight for support to philanthropic hospitals in the State and some 220 social programs.

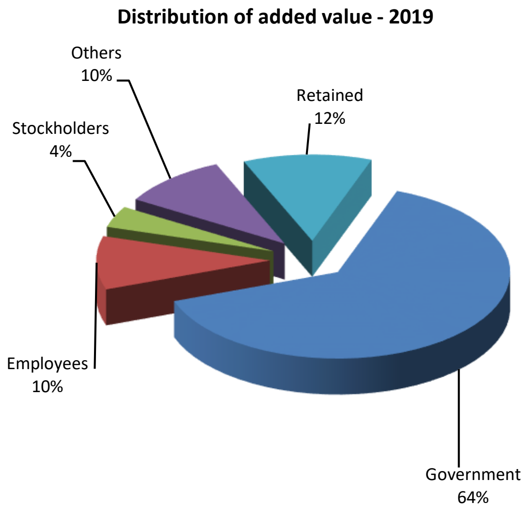
Sport:

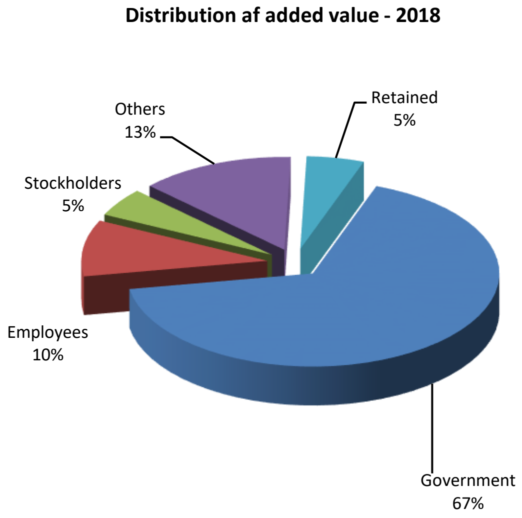
In 2019, the Company invested a total of R$4.4 million in sports. For the community, sports programs create social recovery and citizenship benefits, especially for children and teenagers, not only by encouraging sports but also by generating opportunities for local young people to become athletes.

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

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 2019 was R$19,395, which compares to R$17,343 in 2018.



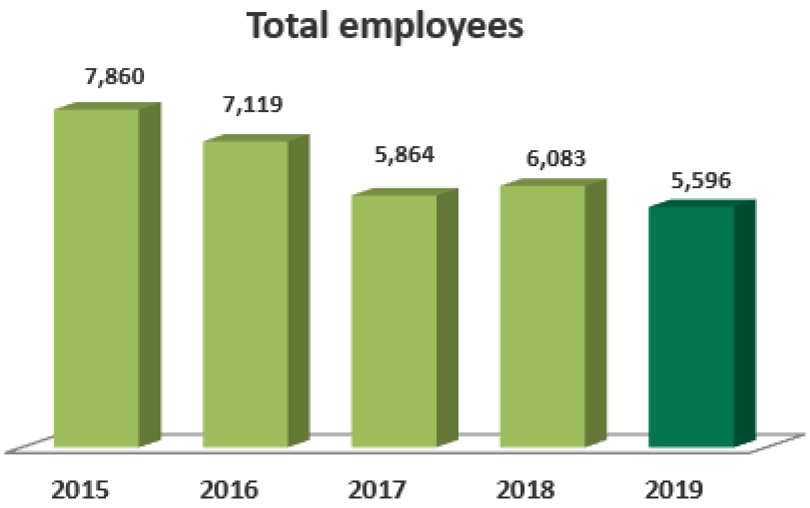


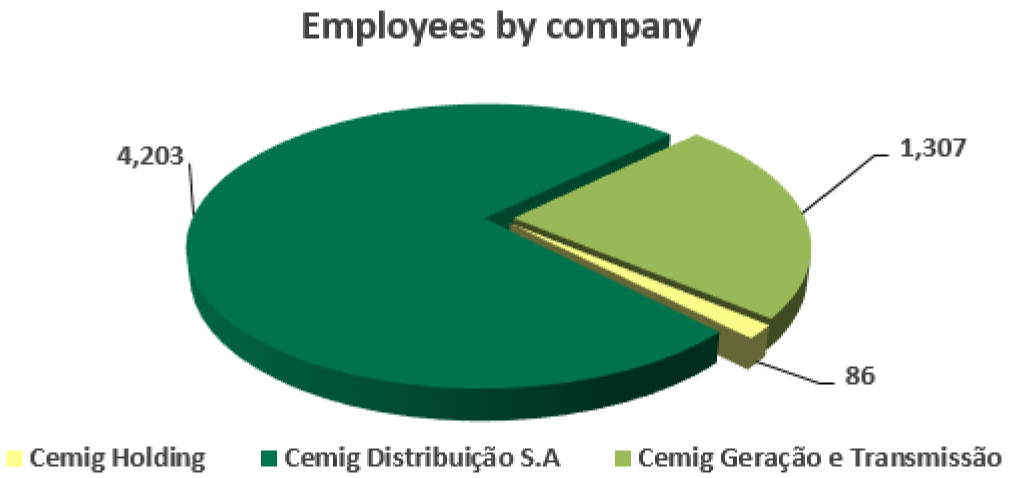
Human resources

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.

<u>Number of employees</u>

In view of the reality imposed by the present conditions of regulation in the energy sector, Cemig D is working towards more efficiency and greater alignment with the sector benchmarks. In the quest to include new talents, motivate natural turnover of the workforce, and take opportunities for review of processes and greater efficiency, the Company has offered voluntary retirement programs in recent years. These have reduced its workforce in the last five years, from 7,860 employees in 2015 to 5,596 in 2019:

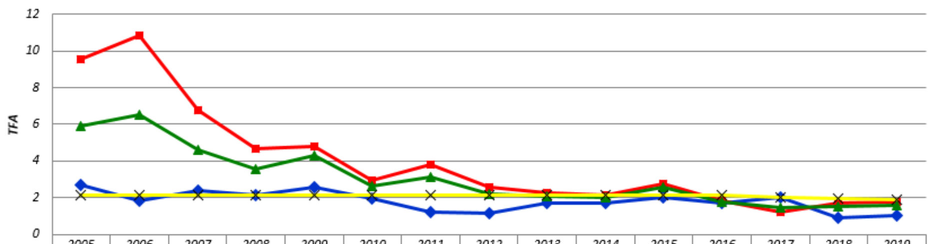




<u>Health, Hygiene and Safety in the workplace</u>

Cemig has continually reduced its workforce accident frequency index (TFA) in recent years, to historically record low levels. In spite of the increase in the accident rate in 2019, compared to 2018, Cemig believes that the continuous actions and investment in work safety have made possible a trend to reduce rates for the whole of the workforce in the coming years.

Cemig: Frequency of accidents with off work (TFA)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cemig staff	2.67	1.85	2.42	2.17	2.56	1.99	1.23	1.14	1.70	1.70	2.04	1.70	2.00	0.91	1.03
Outsourced	9.53	10.84	6.76	4.68	4.78	2.92	3.78	2.56	2.24	2.13	2.74	1.84	1.20	1.71	1.76
Workforce	5.88	6.51	4.62	3.59	4.32	2.66	3.13	2.20	2.10	2.01	2.56	1.79	1.47	1.52	1.60
Target	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.14	2.00	1.95	1.90

Covid 19 and the Coronavirus – Precautionary measures for employees

The Company has implemented a series of precautionary measures so that its employees are not exposed to risk situations. These include: restrictions on national and international travel; suspension of technical visits and events at Cemig's facilities; use of remote means of communication; home office working for certain groups of employees; etc.

The Company may adopt additional measures to reduce the exposure of its employees to the risks of infection, ensuring continuity of the provision of their services, which are essential to society.

<u>UniverCemig</u>

Cemig invests continually in knowledge management due to the specificities of the energy power sector, also aiming to keep its workforce qualified and up-to-date.

UniverCemig is responsible for employees' skill acquisition and development, providing structured education, including its own training and outsourced training in Brazil and worldwide, and management of postgraduate and language courses. It also operates in the market, offering training to other companies, principally companies providing services to Cemig D (distribution).

In 2019 UniverCemig began professional training of 223 new employees of its own: 72 electricians, 2 maintenance staff, 137 technicians and 12 engineers, and trained 220 outsourced customer unit inspection technicians.

Professional training of new employees and training in legal requirements, mainly the bi-annual recycling of the NR10 and NR35 standards, which took place in 2019, resulted in a 52.63% increase in the number of participations in in-person technical training, and a 56.55% increase in number of training person-hours compared to 2018.

Another indicator that rose strongly from 2018 was the average hours of in person training per group employees – from 38.31 hours in 2018 to 56.62 hours in 2019.

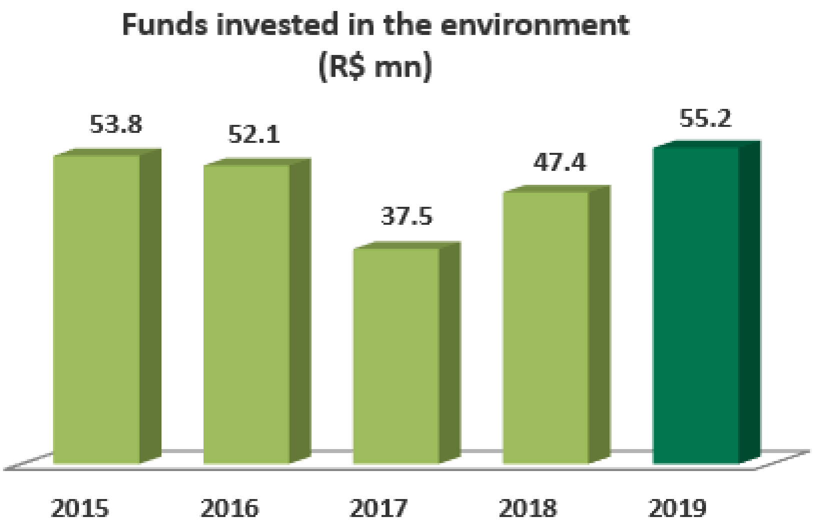
In 2019 there were 11,422 participations in in-person technical training sessions for the Group's own employees, and 5,178 participations for employees of other companies. In total, there were 466,712 person-hours of training, of which 316,260 were with the Company's employees and 150,452 with for other companies.

UniverCemig carried out 16,089 participations in distance training, with a total of 38,456 person-hours, for its employees, members of the Audit Board, management, outsourced personnel and interns.

Cemig believes that the training of its workforce is fundamental for reaching the strategic objectives with sustainability.

Environment

In 2019, Cemig invested approximately R$55.2 million for environment purposes. Among the three fronts of investment, a highlight is the funding for management of waste: R$641,000 was spent on management of waste; R$22.5 million on Research and Development projects; and R$32 million on environmental obligations and improvements. The Monitoring of Environmental Compliance Plan Group *"Grupo de Acompanhamento do Plano de Adequação Ambiental"* periodically reviews the prioritization and allocation of these funds.



Water resources

Water is the principal raw material for production of energy by Cemig – used to turn its turbines. 100% of the water used is returned to the related watercourse. It is a resource that is sensitive to climate variations, vulnerable to the consequences of exploitation and other natural resources, heavily impacted by the action of mankind, and subject to a regulatory environment. Consequently the subjects of water management and conservation are of extreme importance to Cemig. Cemig published its *Water Resources Policy* in 2016, underlining the Company's commitment on the subject.

The body that decides to dispatch thermoelectric generation plants linked to Brazil's National Grid is the National System Operator (ONS), responsible for the coordination and control of operation of the energy generation and transmission facilities in the National Grid, under the inspection and regulation of the energy regulator, Aneel.

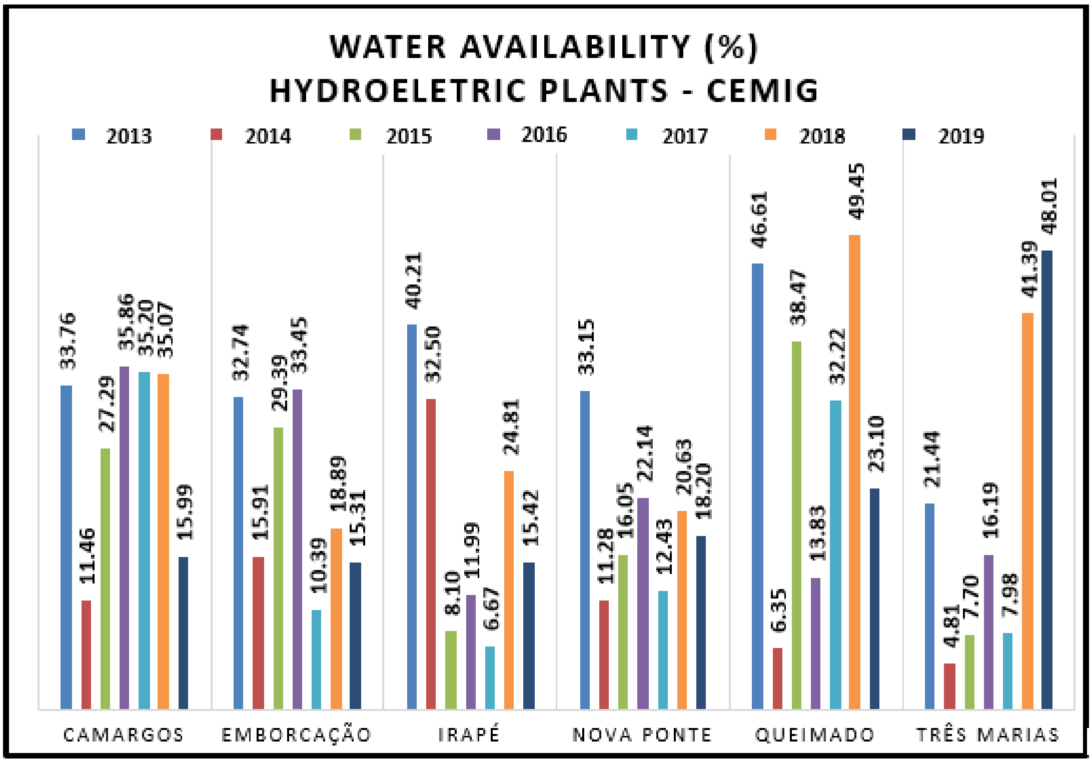
Operation of the reservoirs that Cemig uses for generation of hydroelectric power involves, essentially, consideration of the multiple uses of the water by other users of the river basin, and this in turn leads to the need to consider a series of restraints in relation to the environment, safety, irrigation systems, human supply, waterways, bridges, and other considerations – all of which Cemig rigorously obeys and respects. In periods of severe drought, like the one since 2013, monitoring and forecasting of the levels of reservoirs and constant dialogue with public authorities, civil society and users have been of primordial importance in ensuring generation of power, as well as for the other uses of this resource.

Cemig published daily figures on the levels of several of its reservoirs on its website.

Considering the nature of its operations, Cemig participates actively in decision committees and forums, accompanying and proposing the most appropriate decisions possible for the power industry, reconciling multiple uses of river basins. These organizations include: the National and State *Water Resources Councils*, the committees of the various river basins, Technical Chambers and Workgroups.

The chart below shows the information on water storage levels in Cemig's principal reservoirs in December 2019, compared with the same time in previous years.

Water availability – Percentages of total reservoir volumes



Dam safety

The process that aims to ensure safety of the dams operated and maintained by Cemig uses, in all its phases, a methodology founded on best Brazilian and international practices, also complying with Brazilian Federal Law 12,334/2010, which established the National Dam Safety Policy and its associated regulation (Aneel Normative Resolution 696/2015).

The process includes field inspection, collection and analysis instrumentation data, preparation and updating of dam safety plans, planning and monitoring of maintenance services, analysis of results, and classification of the built structures. Based on the classification of structures, frequency of safety inspections and the monitoring routine are established.

The vulnerability of each dam is calculated automatically, and continuously, and monitored by the specialized inspector dam safety system. There are periodic reviews of dam safety by Cemig's professionals, which can also involve a multidisciplinary team of external consultants. These reviews go carefully into all matters relating to the safety of the dams, which are carefully investigated by highly-qualified specialists.

Cemig was the pioneer in Brazil in preparation of emergency plans ('PAEs') for dam rupture – it began studies on the subject in 2003. There are currently specific emergency plans available for each dam, covering the following items:

- Identification and analysis of possible emergency situations;

- Procedures to identify any malfunction or potential rupture conditions;
- Procedures for notification;
- Preventive and corrective procedures to be adopted in emergency situations;
- Responsibilities; and
- Dissemination, training and updating.

Internal training on these Emergency Action Plans (PAEs) is held periodically based on discussions or operations.

In 2019 Cemig maintained its policy of increasingly close relations with the public, focused on emergency situations, through the Municipal Coordination Units for Protection and Civil Defense (COMPDECs). Working with the theme areas referred to by Law 12,334/2010 and Aneel Normative Resolution 696/2015, it prepared the strategy for alerts and alarms, and means of communication in dam rupture emergency situations, to be put in place with communities that might potentially be affected by such situations. The document was divided into two parts, for the internal and external public:

- Internal pae: describing all the procedures for detection, prevention and correction to be adopted in emergency situations, enabling technical management to take the best decision as well and fast as possible, making maximum efforts to preserve the structure of the dam and avoid the accident;
- External pae: setting out the interfaces between the company and the public during any emergency situations that are detected.

Complying with Normative Resolution 696/2015, the internal PAEs are being dealt with by internal management units of the companies responsible for operation and maintenance of the hydroelectric plants, and being made available to the projects and their structural maintenance and dam security technical teams. The external PAEs are required to be available at the projects, at the prefectures involved, and with the competent authorities and civil defense organizations.

The external document focuses on presenting the risk of flooding caused by ordinary floods, and also by possible dam rupture events. The intention is to build a culture of readiness for flood situations for the communities living along the rivers where Cemig's plants are located.

In alignment with CEDEC-MG, and in compliance with the legislation, in 2019 Cemig held meetings on 'Emergency and Readiness Culture – Preparation of External Emergency Plans (PAEs)', with the Municipal Protection and Civil Defense Councils (COMPDECs). The last nine meetings were held for municipalities not covered in 2018, and 24 of the 33 remaining municipalities of interest invited were given detailed information, with the participation of approximately 70 Civil Defense agents.

Also in 2019, 12 meetings were held, attended by 30 of the 38 invited municipalities of interest, making official delivery of the External PAEs of 11 dams, with presentation of studies of Flood Areas Propagation for scenarios of Dam Rupture and Exceptional Floods, with indications of how to choose Meeting Points and Escape Routes. The program also developed and made available an application for smartphones, including a risk management tool, alert and warning notifications, and construction of client and user files for use by the COMPDECs.

To improve the perception of risk and enable municipality contingency plans to be developed with the best technical content, through a specialized company, carried out surveys of topography for the process of preparation of the cartographic base of the valleys upstream from 43 hydroelectric plants, also to be used in computer models of water propagation for eight flow scenarios, to support the preparation of the Emergency Action Plans to cover dam ruptures and natural floods.

The major gain which the approach adopted by Cemig proposes is presentation of the impacts caused by natural floods, giving greater security to populations living by rivers, and developing the resilience of towns and cities to flood events. Further, the '*Proximidade'* program has now made a mobile app for relationship between populations and their COMPDECs. As well as hydrological and operational information on Cemig plants, the app is a tool for risk management, regulation of details of interested parties and notification and alerts for dam emergencies.

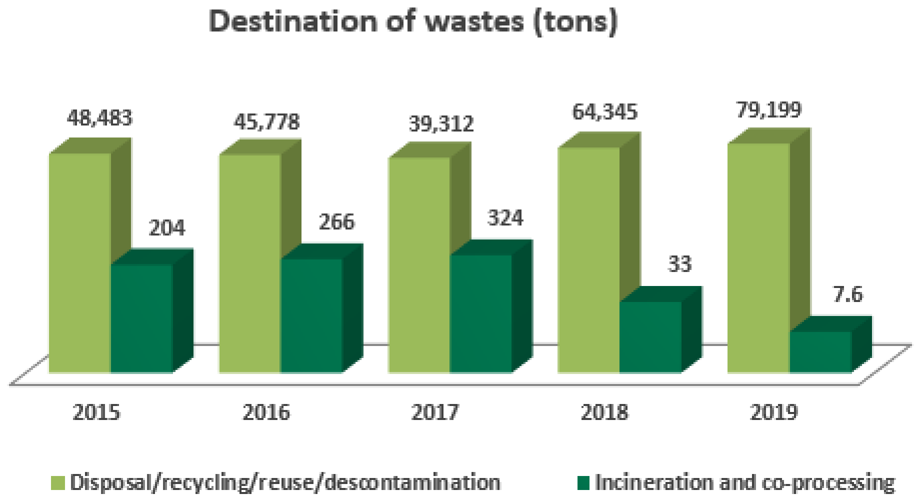
Management of waste

Over the whole of 2019, 79,400 tons of industrial wastes were allocated for disposal: 99.50% of these wastes were sold or recycled; 0.18% regenerated, reused or decontaminated; and 0.28% co-processed, incinerated, sent for treatment (effluents and sedimentation), or disposed of in industrial landfills.

In 2019 R$133,000 was spent on disposal of 224 tons of solid waste impregnated with oil, solvents, EPIs, fiber and glass fiber wastes, septic tank settlements, asbestos residues, waste contaminated with PCBs, and insulating mineral oil. This was 100% less in mass than in 2018. A total of 7.6 tons of lamps were sent for decontamination and recycling.

Of the total of oil wastes disposed of, 132.3 tons of insulating mineral oil were regenerated and reused by the Company.

All of these waste disposal activities have confirmation by final disposal certificates.



<u>Programs for fish populations</u>

In 2007 Cemig created the '*Peixe Vivo*' ('*Fish Alive*') Program, with the mission of minimizing impact on fish populations, seeking handling solutions and technologies that integrate the generation of energy by Cemig with conservation of native fish species, promoting involvement of the community. The activities of the program are in three main areas:

(a) conservation and handling programs, seeking to adopt best practices for fish conservation;
(b) research and development, enlarging scientific knowledge of ichthyofauna and providing inputs for more efficient conservation strategies; and
(c) relationship with the community, disseminating the program's activities and results to the public, seeking their involvement in construction of strategic planning.

Since its creation the program operates on two fronts:

(i) preservation of fish populations in Minas Gerais State, through financing and support for research projects; and
(ii) formation of protection strategies to avoid and prevent fish deaths at Cemig's hydroelectric plants.

The main guiding principles of the program's work team are: adoption of scientific principles for decision making; establishment of partnerships with other institutions; and change in practices adopted as a result of the information generated.

In 2019 seven research projects were carried out using funding from the R&D program and the company itself: 49 works were published related to the projects or actions of the '*Peixe Vivo*' program, presenting results for projects in progress or completed. The research project coordinated by the '*Peixe Vivo*' team in 2019 involved a total of 50 people from teaching and research institutions.

The team evaluates potential risks to fish populations from the operation of hydroelectric plants through periodic monitoring, and prior inspection of the maneuvers for maintenance and/or operation of the plants, to assess fish density and the environmental conditions downstream from the hydroelectric plants. Since the creation of the program, development and use of the methodology for assessment of risk to fish populations has resulted, in Cemig's plants today, in a 75.7% reduction in the monthly average of affected biomass.

Environmental licensing

As well as being a legal obligation, environmental licensing of Cemig's activities aims to ensure that its operation and expansion take place in compliance with the environmental and sustainability criteria, and in harmony with the Company's environmental policy.

Environmental licensing can have a preventive character (in the case of new construction) or a corrective function (for facilities that are already built).

Approximately 77% of the plants of Cemig GT and its wholly-owned subsidiaries that are subject to regularization now have their environmental licensing up to date, and the remaining 23% are at the phase of obtaining the related licenses.

Nine licenses and authorizations for regularization of Cemig D projects were obtained in 2019, in the category of Environmental Intervention Authorizing Documents (DAIAs). All these processes were regularized in the regional offices of the Minas Gerais State Forests Institute (IEF), which are spread throughout the state of Minas Gerais.

In natural gas, distribution by Gasmig through gas pipelines in Minas Gerais is also subject to environmental control. All licenses necessary for the regular operation of Gasmig's activities have been obtained and are now in force.

The risks related to the environmental licensing process are described in the Reference Form and in the 20F Form.

The Carbon Market

We believe that Brazil has significant potential for generating carbon credits arising from clean energy projects that qualify under the Clean Development Mechanism (CDM) or the Voluntary Markets. Every year we seek to quantify our emissions and publish our principal initiatives in reduction of CO2 emissions, for example, through the Carbon Emission Project.

The Cemig Group participates in CDM projects at various stages of development registered with the United Nations Framework Convention on Climate Change – UNFCCC. These include: seven small hydroelectric plants with combined generation capacity of 116 MW; two hydroelectric plants with combined generation capacity of 3,708 MW; and one solar plant with capacity for 3 MW. The process of registry and issuance of part of the carbon credits of the '*Cachoeirão'* Small Hydro Plant and the '*Baguari'* and '*Santo Antônio'* hydroelectric plants has been completed, corresponding to prevention of approximately 1,402 tons of CO_2 emissions under this program.

RECOGNITION – AWARDS

Cemig's efforts in 2019 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 15th year running in this annual award for transparency in financial statements. This is jointly organized by Anefac – the Brazilian Association of Finance, Management and Accounting Professionals, Fipecafi – the Accounting, Actuarial and Finance Research Institute of the Economics and Management School (FEA) of São Paulo University (USP), and Serasa Experian. Cemig's award, in the category Listed companies with billing over R$5 billion, reflects the clarity of its financial statements and the quality of the information published. The winning companies were chosen by master's degree and doctorate students of FEA/Fipecafi, after analysis of the financial statements of more than two thousand companies.

The Dow Jones Sustainability World Index

For the 20th consecutive year, Cemig has been selected for inclusion in the Dow Jones Sustainability World Index (the 'DJSI World'), for 2019–2020. The index functions as a global financial performance indicator, while testifying to Cemig's objective of respecting and building new businesses in accordance with enhanced corporate sustainability practices. The new composition of the DJSI World comprises 318 companies in 27 countries, selected from among 2,296 companies in 58 sectors.

The Bovespa ISE Corporate Sustainability Index

Cemig is included in this index for the 15th year running, reflecting its strong sustainable practices. The index is of Brazilian companies, and assesses corporate governance, economic efficiency, care for the environment, and social responsibility. Inclusion in the ISE recognizes Cemig's intense efforts to develop sustainable solutions aligned with preservation of the environment.

The *Companies that Communicate Best with Journalists* Award

Cemig received this award for 2019, promoted by the *Communication Studies Center* (CECOM) and by the platform *Communication Business*. The award assesses the quality and transparency of companies and communication agencies in their dealings with the press. Cemig is available for dealings with the press 24 hours per day including weekends and public holidays.

The Mário Bhering Prize

Cemig received the third *Mário Bhering Prize* in the *Sector Preservation Initiatives* category, given by the Brazil Electricity History Center (‘*Centro da Memória da Eletricidade do Brasil’*). Cemig received the award for the project to open the ‘*Marmelos’ Zero* Museum, 130 years old in 2019, which preserves the history of South America’s first hydroelectric plant, located at Juiz de Fora in Minas Gerais.

APPRECIATION

Cemig’s management is grateful to its majority shareholder, 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, its shareholders, other investors – and, above all, its highly qualified group of employees, for their dedication.

CONSOLIDATED SOCIAL STATEMENT

1) Basis of calculations	2019 Amount (R$ '000)			2018 Amount (R$ '000)		
Net revenue (NR)			25,390,306			22,266,217
Operational profit (OP)			3,109,384			2,874,213
Gross payroll (GP)			1,271,518			1,410,491
2) Internal social indicators	**Amount R$ '000**	**% of GP**	**% of NR**	**Amount R$ '000**	**% of GP**	**% of NR**
Food	82,546	6.49	0.33	84,075	5.96	0.38
Mandatory charges/costs on payroll	336,812	26.49	1.33	300,009	21.27	1.35
Private pension plan	91,541	7.20	0.36	80,314	5.69	0.36
Health	53,488	4.21	0.21	48,105	3.41	0.22
Safety and medicine in the workplace	22,382	1.76	0.09	22,986	1.63	0.10
Education	1,001	0.08	-	1,243	0.08	0.01
Training and professional development	28,041	2.21	0.11	22,419	1.53	0.10
Provision of or assistance for day-care centers	1,841	0.14	0.01	3,371	0.24	0.02
Profit sharing	110,356	8.68	0.43	3,569	0.25	0.02
Other expenses	17,402	1.37	0.07	14,433	1.02	0.06
Internal social indicators – Total	**745,410**	**58.63**	**2.94**	**580,524**	**41.15**	**2.62**
3) External social indicators	**Amount R$ '000**	**% of OP**	**% of NR**	**Amount R$ '000**	**% of OP**	**% of NR**
Education	20,030	0.64	0.08	1,370	0.05	0.01
Culture	24,787	0.80	0.10	10,570	0.37	0.05
Health and water infrastructure	2,049	0.07	0.01	1,838	0.07	0.01
Sport	4,982	0.16	0.02	4,035	0.14	0.02
Other donations/subsidies / ASIN project / Sport	100,492	3.23	0.40	25,999	0.92	0.12
Total contributions to society	**152,340**	**4.90**	**0.61**	**43,812**	**1.55**	**0.20**
Taxes (excluding obligatory charges on payroll)	12,505,603	402.19	49.25	11,663,617	413.26	52.38
Internal social indicators – Total	**12,657,943**	**407.09**	**49.86**	**11,707,429**	**414.81**	**52.58**
4) Environmental indicators	**Amount R$ '000**	**% of OP**	**% of NR**	**Amount R$ '000**	**% of OP**	**% of NR**
Related to the company's operations	31,623	1.02	0.12	86,245	3.06	0.39
Total investment in the environment	**31,623**	**1.02**	**0.12**	**86,245**	**3.06**	**0.39**
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	**2019**			**2018**		
Number of employees at end of period			5,596			6,083
Number of hirings during period			272			332
Number of outsourced employees			218			316
Number of interns			185			242
Employees' levels of schooling						
- University and university extension			1,420			1,352
- Secondary			4,235			4,371
- Primary			103			141
Number of employees over 45 years old			2,635			3,232
Number of women employed			783			805
% of supervisory positions held by women			55.50			39.06%
Number of African-Brazilian employees			291			302
% of supervisory positions held by African-Brazilians			1.54			4.11
Number of employees with disabilities			188			188

6) Corporate citizenship	2019		
Ratio between highest and lowest compensation in the Company	31.13		
Total number of work accidents	72		
Who selects the company's social and environmental projects:	()senior management	(x) senior management and functional 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
In relation to labor union freedom, the right to collective bargaining and/or internal employee representation, the company:	( ) does not get involved	(x) follows ILO rules	( ) encourages and follows the ILO
The company pension plan covers:	()senior management	( ) senior management and functional managers	(x) all the employees
The profit-sharing program covers:	()senior management	( ) senior management and functional managers	(x) all the employees
In selecting suppliers, the company's standards of ethics and social and environmental responsibility:	( ) are not considered	( ) are suggested	(x) are required
In relation to employee participation in volunteer work programs, the company:	( ) no supports	( ) supports	(x) organizes and encourages
Total number of customer complaints and criticisms:	Company ___ ND ___	Procon 71	In the courts 7,666
% of complaints and criticisms met or solved:	Company ___ ND __%	Procon 46.48%	In the courts 26.23%

7) Other information	2019
Investments in environmental issues	31,623,083
Monitoring of reservoir water quality	43 reservoirs and 236 biological data collection stations
Non-reusable wastes and materials	79,000 tons
oil regenerated by the Company	132 tons
Revenue from sales of waste	14,852,735

COMPOSITION OF BOARD OF DIRECTORS, AUDIT COMMITTEE AND EXECUTIVE BOARD

THE EXECUTIVE BOARD	
NAMES	POSITION
Reynaldo Passanezi Filho	Chief Executive Officer
Ronaldo Gomes de Abreu	Chief Distribution and Sales Officer
Maurício Fernandes Leonardo Júnior	Chief Finance and Investor Relations Officer
Paulo Mota Henriques	Chief Generation and Transmission Officer
Daniel Faria Costa	Chief Officer Cemigpar
Dimas Costa	Chief Trading Officer
Luciano de Araújo Ferraz	Chief Regulation and Legal

AUDIT BOARD	
SITTING MEMBERS	SUBSTITUTE MEMBERS
Gustavo de Oliveira Barbosa (Chair)	Germano Luiz Gomes Vieira (majority)
Marco Aurélio de Barcelos Silva (majority)	Carlos Eduardo Amaral Pereira da Silva (majority)
Elizabeth Jucá e Mello Jacomet (majority)	vacant (majority)
Rodrigo de Mesquita Pereira (preferred shares)	Ronaldo Dias (preferred shares)
Cláudio Morais Machado (minority)	Carlos Roberto de Albuquerque Sá (minority)

THE AUDIT COMMITTEE	
SITTING MEMBERS	SUBSTITUTE MEMBERS
Pedro Carlos de Mello (Financial Specialist and Coordinator)	No
Márcio de Lima Leite	No
Roberto Tommasetti	No

THE CUSTOMERS BOARD	
SITTING MEMBERS	SUBSTITUTE MEMBERS
José Luiz Nobre Ribeiro (Industrial)	José Ciro Motta
Solange Medeiros de Abreu (Residencial)	Lúcia Maria dos Santos Pacífico Homem
José Geraldo de Oliveira Motta (Commercial)	Helton Andrade
Aline de Freitas Veloso (Rural)	Ennia Rafael de Oliveira Guedes Bueno
Erick Nilson Souto (Public authorities)	Tadahiro Tsubouchi
Ricardo Augusto Amorim Cesar (Procon)	Christiane Vieira Soares Pedersoli
Wantuil Dionísio Teixeira (Cemig)	Juliana Cardoso Amaral

BOARD OF DIRETORS	
SITTING MEMBERS	SUBSTITUTE MEMBERS
Márcio Luiz Simões Utsch - Presidente (majority)	No
Antônio Rodrigues dos Santos e Junqueira (majority)	No
Cledorvino Belini (majority)	No
José Reinaldo Magalhaes (majority)	No
Romeu Donizete Rufino (majority)	No
José João Abdalla Filho (preferencialist)	No
Marcelo Gasparino da Silva (minority)	No
vacant (minority)	No
Marco Aurélio Dumont Porto (employee representatives)	No

INVESTOR RELATIONS

Cemig Investor Relations Management
Tel.: +5531 3506-5024 - 3506-5028
Fax: +5531 3506-5025 - 3506-5026

Website: www.cemig.com.br
E-Mail: ri@cemig.com.br

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019 AND 2018

ASSETS
(Thousands of Brazilian Reais)

	Note	Consolidated		Parent company	
		2019	2018	2019	2018
CURRENT					
Cash and cash equivalents	6	535,757	890,804	64,356	54,330
Marketable securities	7	740,339	703,551	185,211	80,781
Customers and traders and concession holders – Transport of energy	8	4,523,540	4,091,722	194	5,813
Concession financial and sector assets	16	1,079,743	1,070,384	-	-
Concession contract assets	17	171,849	130,951	-	-
Recoverable taxes	9	98,804	124,183	248	3,020
Income tax and social contribution tax credits	11a	621,302	386,668	-	41,274
Dividends receivables	18	185,998	119,743	1,726,895	945,584
Restricted cash	12	12,337	90,993	129	129
Inventories		39,352	35,619	10	10
Public Lighting Contribution		164,971	149,098	-	-
Advances to suppliers		40,081	6,785	-	-
Reimbursement of tariff subsidies payments	15	96,776	90,845	-	-
Low-income customer subsidy		29,582	30,232	-	-
Derivative financial instruments	33b	234,766	69,643	-	-
Others		304,100	358,820	15,737	13,801
		8,879,297	**8,350,041**	**1,992,780**	**1,144,742**
Assets classified as held for sale	34	1,258,111	19,446,033	1,258,111	1,573,967
TOTAL CURRENT		**10,137,408**	**27,796,074**	**3,250,891**	**2,718,709**
NON-CURRENT					
Marketable securities	7	13,342	108,683	454	10,691
Advances to suppliers		-	87,285	-	-
Customers and traders and concession holders – Transport of energy	8	77,065	80,889	-	-
Recoverable taxes	9	6,349,352	242,356	491,487	3,672
Income tax and social contribution tax recoverable	11a	227,913	5,516	224,846	2,401
Deferred income tax and social contribution tax	11c	2,429,789	2,146,863	680,731	809,270
Escrow deposits	14	2,540,239	2,501,512	310,065	326,345
Derivative financial instruments	33b	1,456,178	743,692	-	-
Accounts receivable from the State of Minas Gerais	13	115,202	245,566	115,202	245,566
Concession financial and sector assets	16	4,850,315	4,927,498	-	-
Concession contract assets	17	1,832,380	1,597,996	-	-
Investments – Equity method	18	5,399,391	5,234,578	12,631,091	12,405,706
Property, plant and equipment	19	2,450,125	2,661,585	1,546	2,250
Intangible assets	20	11,624,471	10,777,191	4,175	6,125
Leasing – rights of use	21a	276,824	-	3,330	-
Others		147,058	697,389	38,407	35,756
TOTAL NON-CURRENT		**39,789,644**	**32,058,599**	**14,501,334**	**13,847,782**
TOTAL ASSETS		**49,927,052**	**59,854,673**	**17,752,225**	**16,566,491**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019 AND 2018
LIABILITIES
(Thousands of Brazilian Reais)

	Note	Consolidated		Parent company	
		2019	2018	2019	2018
CURRENT					
Suppliers	22	2,079,891	1,801,252	2,705	9,285
Regulatory charges	25	456,771	514,412	4,624	5,671
Profit sharing		212,220	78,759	10,235	4,813
Taxes payable	23	358,847	409,825	92,640	45,014
Income tax and social contribution tax	11b	133,868	112,063	-	-
Interest on equity and dividends payable	28f	744,591	863,703	742,519	861,420
Loans, financing and debentures	24	2,746,249	2,197,566	-	-
Payroll and related charges		200,044	283,730	10,662	17,446
Public Lighting Contribution		251,809	281,362	-	-
Post-employment obligations	26	287,538	252,688	23,747	13,774
Leasing	21b	85,000	-	1,646	-
Advances from customers	8	-	79,405	-	-
Payable to related parties		8,395	-	6,418	408,114
Others		347,228	246,580	5,078	12,084
		7,912,451	**7,121,345**	**900,274**	**1,377,621**
Liabilities directly associated to assets held for sale	34	-	16,272,239	-	-
TOTAL CURRENT		**7,912,451**	**23,393,584**	**900,274**	**1,377,621**
NON-CURRENT					
Regulatory charges	25	147,266	178,525	-	-
Loans, financing and debentures	24	12,029,782	12,574,262	48,252	45,081
Taxes payable	23	883	29,396	91	-
Deferred income tax and social contribution tax	11c	661,057	728,419	-	-
Provisions	27	1,888,064	640,671	223,427	64,204
Post-employment obligations	26	6,421,156	4,735,656	689,761	495,677
PIS/Pasep and Cofins taxes to be reimbursed to customers	23	4,193,329	1,123,680	-	-
Derivative financial Instruments	33b	482,841	419,148	-	-
Leasing	21b	202,747	-	1,833	-
Other obligations		96,611	92,005	1,972	5,189
TOTAL NON-CURRENT		**26,123,736**	**20,521,762**	**965,336**	**610,151**
TOTAL LIABILITIES		**34,036,187**	**43,915,346**	**1,865,610**	**1,987,772**
EQUITY	28				
Share capital		7,293,763	7,293,763	7,293,763	7,293,763
Capital reserves		2,249,721	2,249,721	2,249,721	2,249,721
Profit reserves		8,750,051	6,362,022	8,750,051	6,362,022
Equity valuation adjustments		(2,406,920)	(1,326,787)	(2,406,920)	(1,326,787)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**15,886,615**	**14,578,719**	**15,886,615**	**14,578,719**
NON-CONTROLLING INTERESTS	28	**4,250**	**1,360,608**	**-**	**-**
TOTAL EQUITY		**15,890,865**	**15,939,327**	**15,886,615**	**14,578,719**
TOTAL LIABILITIES AND EQUITY		**49,927,052**	**59,854,673**	**17,752,225**	**16,566,491**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Thousands of Brazilian Reais, except earnings per share)

	Note	Consolidated		Parent company	
		2019	2018	2019	2018
CONTINUING OPERATIONS					
NET REVENUE	29	**25,390,306**	**22,266,217**	**186,467**	**3,862**
OPERATING COSTS					
COST OF ENERGY AND GAS	30				
Energy purchased for resale		(11,286,174)	(11,084,194)	-	-
Charges for use of the national grid		(1,426,278)	(1,479,414)	-	-
Gas purchased for resale		(1,435,728)	(1,238,085)	-	-
		(14,148,180)	**(13,801,693)**	**-**	**-**
OTHER COSTS	30				
Personnel		(1,001,762)	(1,098,250)	-	-
Materials		(73,872)	(81,414)	-	-
Outsourced services		(1,042,989)	(912,647)	-	-
Depreciation and amortization		(814,783)	(760,720)	-	-
Operating provisions, net		(1,213,759)	(40,054)	-	-
Infrastructure construction cost		(1,199,698)	(897,490)	-	-
Others		(103,630)	(84,924)	-	-
		(5,450,493)	**(3,875,499)**	**-**	**-**
TOTAL COST		**(19,598,673)**	**(17,677,192)**	-	-
GROSS PROFIT		**5,791,633**	**4,589,025**	**186,467**	**3,862**
OPERATING EXPENSES	30				
Selling expenses		(237,733)	(264,416)	-	-
General and administrative expenses		(641,810)	(671,923)	(72,715)	(78,996)
Operating provisions		(949,614)	(167,232)	(188,461)	(59,677)
Other operating (expenses) income, net		(1,051,181)	(639,464)	(66,084)	(62,502)
		(2,880,338)	**(1,743,035)**	**(327,260)**	**(201,175)**
Share of loss, net, of subsidiaries and joint ventures	18	125,351	(103,549)	2,834,411	1,719,540
Dividends declared by investee classified as held for sale	34	72,738	-	72,738	
Remeasurement of previously held equity interest in subsidiaries acquired	18	-	(119,117)	-	(198,811)
Impairment loss on Investments		-	(127,427)	-	-
Income before finance income (expenses) and taxes		**3,109,384**	**2,495,897**	**2,766,356**	**1,323,416**
Finance income	31	3,206,850	1,705,679	272,753	9,548
Finance expenses	31	(1,846,573)	(2,224,161)	(26,690)	(22,965)
Income before income tax and social contribution tax		**4,469,661**	**1,977,415**	**3,012,419**	**1,309,999**
Current income tax and social contribution tax	11d	(1,454,341)	(583,273)	(5,707)	39,432
Deferred income tax and social contribution tax	11d	(111,314)	(15,851)	(103,381)	43,191
Net income for the year from continuing operations		**2,904,006**	**1,378,291**	**2,903,331**	**1,392,622**
DISCONTINUED OPERATIONS					
Net income after tax for the year from discontinued operations	34	224,067	363,422	224,067	307,477
NET INCOME FOR THE YEAR		**3,128,073**	**1,741,713**	**3,127,398**	**1,700,099**
Total of net income for the year attributed to:					
Equity holders of the parent					
Net income from continuing operations		2,903,331	1,377,530	2,903,331	1,392,622
Net income from discontinued operations	34	224,067	322,569	224,067	307,477
Net income for the year attributed to equity holders of the parent		**3,127,398**	**1,700,099**	**3,127,398**	**1,700,099**
Non-controlling interests	28				
Net income from continuing operations		675	761	-	-
Net income from discontinued operations		-	40,853	-	-
		3,128,073	**1,741,713**	**3,127,398**	**1,700,099**
Basic earnings per preferred share – R$	28	**2.14**	**1.17**	**2.14**	**1.17**
Basic earnings per common share – R$	28	**2.14**	**1.17**	**2.14**	**1.17**

	Note	Consolidated		Parent company	
		2019	2018	2019	2018
Basic and diluted earnings per preferred share from continuing operations – R$	28	**1.99**	**0.95**	**1.99**	**0.95**
Basic and diluted earnings per common share from continuing operations – R$	28	**1.99**	**0.95**	**1.99**	**0.95**
Basic and diluted earnings earnings per preferred share from discontinued operations – R$	28	**0.15**	**0.22**	**0.15**	**0.21**
Basic and diluted earnings per common share from discontinued operations – R$	28	**0.15**	**0.22**	**0.15**	**0.21**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais)

	Consolidated		Parent company	
	2019	2018	2019	2018
NET INCOME FOR THE YEAR	**3,128,073**	**1,741,713**	**3,127,398**	**1,700,099**
OTHER COMPREHENSIVE INCOME				
Items not to be reclassified to profit or loss in subsequent periods				
Post retirement liabilities – remesurement of obligations of the defined benefit plans	(1,599,049)	(702,153)	(176,235)	(22,422)
Income tax and social contribution tax on restatement of defined benefit plans	543,676	239,390	59,919	7,624
Equity gain (loss) on other comprehensive income in subsidiary and jointly-controlled entity	-	-	(939,057)	(447,965)
Others	48	-	52	-
	(1,055,325)	**(462,763)**	**(1,055,321)**	**(462,763)**
Items that may be reclassified to the profit or loss in subsequent periods				
Equity gain (loss) on other comprehensive income of subsidiaries and jointly-controlled entities, relating to fair value of financial asset and conversion of transactions outside Brazil	-	-	-	(175)
Foreign exchange variations arising from conversion of transactions outside Brazil	-	(175)	-	-
COMPREHENSIVE INCOME FOR THE YEAR	**2,072,748**	**1,278,775**	**2,072,077**	**1,237,161**
Total of comprehensive income for the year attributed to:				
Equity holders of the parent	2,072,077	1,237,161	2,072,077	1,237,161
Non-controlling interests	671	41,614	-	-
	2,072,748	**1,278,775**	**2,072,077**	**1,237,161**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais, except where otherwise indicated)

	Share capital	Capital reserves	Profit reserves	Equity valuation adjustments	Retained earnings	Total	Non-controlling interests	Total Equity
AS OF DECEMBER 31, 2018	**7,293,763**	**2,249,721**	**6,362,022**	**(1,326,787)**	**-**	**14,578,719**	**1,360,608**	**15,939,327**
Interest of non-controlling shareholders (Note 28)	-	-				-	(1,356,791)	(1,356,791)
Net income for the year	-	-	-	-	3,127,398	**3,127,398**	675	3,128,073
Other Comprehensive Income	-	-	-	(1,055,321)	-	**(1,055,321)**	(4)	(1,055,325)
Realization of PP&E deemed cost	-	-	-	(24,812)	24,812	-	-	-
Appropriation of Net income for the year								
Tax incentives reserve	-	-	18,256	-	(18,256)	-	-	-
Proposed dividends (R$0.52 per share)	-	-	-	-	(764,181)	(764,181)	(238)	(764,419)
Unrealized profit reserve	-	-	834,603	-	(834,603)	-	-	-
Retained earnings reserve	-	-	1,535,170	-	(1,535,170)	-	-	-
AS OF DECEMBER 31, 2019	**7,293,763**	**2,249,721**	**8,750,051**	**(2,406,920)**	**-**	**15,886,615**	**4,250**	**15,890,865**

	Share capital	Subscription of shares to be capitalized	Capital reserves	Profit reserves	Equity valuation adjustments	Retained earnings	Total	Non-controlling interests	Total Equity
AS OF 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**
Proposed dividends from prior years	-	-	-	(126,996)	-	-	(126,996)	-	(126,996)
Expired dividends of previous years	-	-	-	-	-	42,464	42,464	-	42,464
First time adoption of IFRS 9 and IFRS 15	-	-	-	-	-	(157,266)	(157,266)	-	(157,266)
AS OF JANUARY 01, 2018	**6,294,208**	**1,215,223**	**1,924,503**	**5,601,578**	**(836,522)**	**(114,802)**	**14,084,188**	**4,150**	**14,088,338**
Subscription of shares, to be capitalized	-	109,550	-	-	-	-	109,550	-	109,550
Subscription of capital	999,555	(999,555)	-	-	-	-	-	-	-
Goodwill on subscription of shares	-	(325,218)	325,218	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	1,315,195	1,315,195
Net income for the year	-	-	-	-	-	1,700,099	1,700,099	41,614	1,741,713
Other Comprehensive Income	-	-	-	-	(462,938)	-	(462,938)	-	(462,938)
Realization of PP&E deemed cost	-	-	-	-	(27,327)	42,497	15,170	-	15,170
Appropriation of Net income for the year									
Tax incentives reserve	-	-	-	9,237	-	(9,237)	-	-	-
Proposed dividends (R$0.59 per share)	-	-	-	-	-	(867,350)	(867,350)	(351)	(867,701)
Retained earnings reserve	-	-	-	751,207	-	(751,207)	-	-	-
AS OF DECEMBER 31, 2018	**7,293,763**	**-**	**2,249,721**	**6,362,022**	**(1,326,787)**	**-**	**14,578,719**	**1,360,608**	**15,939,327**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Thousands of Brazilian Reais)

	Note	Consolidated		Parent company	
		2019	2018	2019	2018
CASH FLOW FROM OPERATIONS					
Net income for the year from continuing operations		2,904,006	1,378,291	2,903,331	1,392,622
Net income for the year from discontinuing operations		224,067	363,422	224,067	307,477
Net income for the year		**3,128,073**	**1,741,713**	**3,127,398**	**1,700,099**
Expenses (revenues) not affecting cash and cash equivalents:					
Net income for the year attributed non-controlling shareholders		(675)	(41,614)	-	-
Deferred income tax and social contribution tax	11c	111,314	15,851	103,381	(43,191)
Depreciation and amortization	19 at 21	958,234	849,093	4,525	7,396
Loss on write-off of net residual value of unrecoverable concession financial assets, concessional contract asset, PP&E and Intangible assets	16, 17,19 and 20	127,835	62,148	573	468
Provision for impairment of intangible assets	20	21,684	-	-	-
Impairment (reversals) of contract assets	17	2,665	42,029	-	-
Share of loss, net, of subsidiaries and joint ventures	18	(125,351)	103,549	(2,834,411)	(1,719,540)
Dividends declared by investee classified as held for sale	34	(72,738)	-	(72,738)	-
Remeasurement of previously held equity interest in subsidiaries acquired		-	119,117	-	198,811
Impairment loss on Investments		-	127,427	-	-
Generation Indemnity Revenue	16	-	(55,009)	-	-
Updating of concession financial and concession contract assets	16 and 17	(505,507)	(585,382)	-	-
Interest and monetary variation		1,189,777	1,206,652	(20,018)	(25,417)
Recovery of PIS/Pasep and Cofins taxes credits over ICMS	10	(2,951,789)	-	(481,069)	-
Exchange variation on loans	24	225,992	582,193	-	-
Appropriation of transaction costs	24	37,616	32,907	173	434
Provisions for operating losses	30d	2,401,106	466,768	188,461	59,677
Net loss on derivative instruments at fair value through profit or loss		(997,858)	(893,301)	-	-
CVA (*Parcel A items Compensation*) Account and *Other financial components* in tariff adjustments	16	(57,988)	(1,973,064)	-	-
Post-employment obligations	26	464,554	405,111	46,796	43,980
Others		(22,967)	(47,875)	1,845	-
		3,933,977	**2,158,313**	**64,916**	**222,717**
(Increase) / decrease in assets					
Customers and traders and Concession holders – Transport of energy		(665,727)	(391,152)	5,619	23,454
CVA and *Other financial components* in tariff adjustments	16	362,469	908,604	-	-
Recoverable taxes		(11,699)	38,407	4,640	(4,839)
Income tax and social contribution tax credits		(71,267)	614,963	16,698	(3,336)
Escrow deposits		10,975	(109,315)	33,820	(29,657)
Dividends received from investees	18	282,580	311,471	830,525	801,521
Concession contract and financial assets	16 and 17	373,332	1,704,007	-	-
Advances to suppliers		53,989	28,850	-	-
Others		(28,730)	48,308	(7,709)	7,244
		305,922	**3,154,143**	**883,593**	**794,387**
Increase (decrease) in liabilities					
Suppliers		278,639	(553,445)	(6,580)	(79)
Taxes payable		(162,319)	(291,037)	44,376	39,173
Income tax and social contribution tax payable		1,432,536	(5,962)	5,707	-
Payroll and related charges		(83,686)	76,639	(6,784)	6,374
Regulatory charges		(88,900)	(69,553)	(1,047)	5,671
Advances from customers		(80,862)	(153,357)	-	-
Post-employment obligations	26	(343,253)	(307,034)	(18,974)	(16,448)
Derivative financial instruments –Put options	33	-	(555,590)	-	(555,590)
Others		6,210	(164,005)	(22,015)	70,051
		958,365	**(2,023,344)**	**(5,317)**	**(450,848)**
Cash generated by operating activities continuing		**5,198,264**	**3,289,112**	**943,192**	**566,256**
Interest paid on loans and financing	24	(1,264,800)	(1,290,348)	-	(894)
Interest paid on loans from related parties		-	-	(24,578)	-
Interest in leasing contracts	21	(5,150)	-	(127)	-
Income tax and social contribution tax paid		(1,767,409)	(649,966)	(102,869)	(76,095)
Cash inflows from settlement of derivatives instruments		100,107	37,330	-	-
Cash from (used in) continued operating activities		**2,261,012**	**1,386,128**	**815,618**	**489,267**
Cash from (used in) discontinued operating activities	**34**	**(224,067)**	**(378,316)**	**(224,067)**	**(378,316)**
NET CASH FROM OPERATING ACTIVITIES		**2,036,945**	**1,007,812**	**591,551**	**110,951**
INVESTING ACTIVITIES					
Marketable securities		79,030	275,903	(64,919)	(25,775)
Restricted cash		78,656	15,234	-	87,746

	Note	Consolidated		Parent company	
		2019	2018	2019	2018
Investments					
Acquisition of equity investees	18	-	(109,006)	-	(103,788)
Capital contributions in investees	18	(38,265)	(240,189)	(19,434)	(1,109,127)
Disposal of investments		-	-	-	423,163
Cash arising from business combination	38	-	69,987	22,444	-
Loans to related parties		(6,418)	-	(6.418)	-
Property, plant and equipment	19	(70,390)	(76,998)	(45)	(25)
Intangible assets and contract assets – gas and distribution of energy infrastructure	17 and 20	(1,856,308)	(800,395)	(13)	(195)
Net cash flow from used in investment activities continuing operations		**(1,813,695)**	**(865,464)**	**(68,385)**	**(728,001)**
Net cash flow used in discontinued investment activities	18 and 34	**625,000**	**654,461**	**625,000**	**654,461**
NET CASH USED IN INVESTING ACTIVITIES		**(1,188,695)**	**(211,003)**	**556,615**	**(73,540)**
FINANCING ACTIVITIES					
Proceeds from Loans, financings and debentures	24	4,476,722	2,989,753	-	-
Interest on capital and dividends paid	28f	(701,137)	(508,765)	(735,284)	(508,703)
Payment of Loans with related parties		-	-	(400,000)	400,000
Capital increase		-	109,550	-	109,550
Payment of loans, financing and debentures	24	(4,883,218)	(3,526,800)	-	(22,600)
Leasing liabilities paid	21	(95,664)	-	(2,856)	-
NET CASH USED IN FINANCING ACTIVITIES		**(1,203,297)**	**(936,262)**	**(1,138,140)**	**(21,753)**
Net (decrease) increase in cash and cash equivalents for the year		**(355,047)**	**(139,453)**	**10,026**	**15,658**
Cash and cash equivalents at the beginning of the year	6	890,804	1,030,257	54,330	38,672
Cash and cash equivalents at the end of the year	**6**	**535,757**	**890,804**	**64,356**	**54,330**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF ADDED VALUE

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Thousands of Brazilian Reais)

	Consolidated				Parent company			
	2019		2018		2019		2018	
REVENUES								
Sales of energy, gas and services	34,607,575		33,052,902		4,485		4,498	
Distribution construction revenue	979,308		801,778		-		-	
Transmission construction revenue	220,390		95,712		-		-	
Gain on financial updating of the Concession Grant Free	318,266		321,427		-		-	
Adjustment to expectation of cash flow from reimbursement of distribution concession financial assets	17,839		325		-		-	
Transmission assets – reimbursement revenue	155,013		250,375		-		-	
Generation assets – reimbursement revenue	-		55,332		-		-	
Recovery of PIS/Pasep and Cofins taxes credits over ICMS (note 10)	1,427,786		-		-		-	
Investment in PP&E	25,012		42,767		-		-	
Other revenues	71,161		55,299		-		-	
Allowance for doubtful receivables	(237,733)		(264,416)		-		-	
	37,584,617		**34,411,501**		**4,485**		**4,498**	
INPUTS ACQUIRED FROM THIRD PARTIES								
Energy bought for resale	(12,311,849)		(12,140,162)		-		-	
Charges for use of national grid	(1,592,178)		(1,649,181)		-		-	
Outsourced services	(1,671,293)		(1,476,357)		(36,586)		(34,536)	
Gas bought for resale	(1,823,147)		(1,572,171)		-		-	
Materials	(691,683)		(501,263)		(3,396)		(1,438)	
Other operating costs	(2,698,149)		(613,830)		(117,963)		(72,029)	
	(20,788,299)		**(17,952,964)**		**(157,945)**		**(108,003)**	
GROSS VALUE ADDED	**16,796,318**		**16,458,537**		**(153,460)**		**(103,505)**	
RETENTIONS								
Depreciation and amortization	(958,234)		(834,593)		(4,525)		(1,278)	
NET ADDED VALUE PRODUCED BY GOING CONCERN OPERATIONS	**15,838,084**		**15,623,944**		**(157,985)**		**(104,783)**	
NET ADDED VALUE PRODUCED BY DISCONTINUED OPERATIONS	**224,067**		**363,422**		**224,067**		**307,477**	
ADDED VALUE RECEIVED BY TRANSFER								
Share of (loss) profit, net, of associates and joint ventures	125,351		(103,549)		2,834,411		1,719,540	
Financial revenues	3,206,850		1,705,679		272,753		9,548	
Result of business combinations	-		(119,117)		-		(198,811)	
Adjustment for impairment of Investments	-		(127,427)		-		-	
ADDED VALUE TO BE DISTRIBUTED	**19,394,352**		**17,342,952**		**3,173,246**		**1,732,971**	
DISTRIBUTION OF ADDED VALUE								
		%		%		%		%
Employees	**1,861,767**	**9.61**	**1,715,361**	**9.89**	**83,362**	**2.64**	**76,910**	**4.44**
Direct remuneration	1,218,391	6.29	1,081,833	6.24	32,600	1.03	22,258	1.28
Post-employment obligations and other benefits	562,075	2.90	479,274	2.76	48,138	1.53	46,372	2.68
FGTS fund	59,810	0.31	62,992	0.36	1,716	0.05	3,095	0.18
Voluntary retirement program	21,491	0.11	91,262	0.53	908	0.03	5,185	0.30
Taxes	**12,505,603**	**64.48**	**11,534,990**	**66.51**	**(66,623)**	**(2.12)**	**(72,292)**	**(4.17)**
Federal	6,348,455	32.74	6,050,851	34.89	(68,726)	(2.18)	(73,194)	(4.22)
State	6,142,683	31.67	5,471,291	31.55	1,357	0.04	606	0.03
Municipal	14,465	0.07	12,848	0.07	746	0.02	296	0.02
Remuneration of external capital	**1,898,909**	**9.78**	**2,350,888**	**13.56**	**29,109**	**0.93**	**28,254**	**1.63**
Interest	1,872,545	9.64	2,252,619	12.99	26,690	0.85	22,965	1.33
Rentals	26,364	0.14	98,269	0.57	2,419	0.08	5,289	0.30
Remuneration of own capital	**3,128,073**	**16.13**	**1,741,713**	**10.04**	**3,127,398**	**98.55**	**1,700,099**	**98.10**
Interest on capital	**400,000**	2.06	210,000	1.21	**400,000**	12.60	210,000	12.12
Dividends	**364,181**	1.88	657,350	3.79	**364,181**	11.48	657,350	37.93
Retained earnings	2,363,217	12.19	832,749	4.80	2,363,217	74.47	832,749	48.05
Non-controlling interest in Retained earnings	675	-	41,614	0.24	-	-	-	-
	19,394,352	**100.00**	**17,342,952**	**100.00**	**3,173,246**	**100.00**	**1,732,971**	**100.00**

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2019 AND 2018 AND FOR THE YEARS ENDED ON DECEMBER 31, 2019 AND 2018

(In thousands of Brazilian Reais, except where otherwise indicated)

1. OPERATING CONTEXT

a) The Company

Companhia Energética de Minas Gerais (‘Cemig’, ´Parent company’ or ‘Company’) is a listed corporation registred 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; on the New York Stock Exchange (‘NYSE’); and on the stock exchange of Madrid (‘Latibex’). The Company is an entity domiciled in Brazil, with head office in Belo Horizonte/MG. Constituted to operate exclusively as a holding company, with interests in subsidiaries or jointly controlled entities, whose objects are: construction and operation of systems for generation, transformation, transmission, distribution and sale of energy, and also activities in the various fields of energy sector, for the purpose of commercial operation.

Cemig has equity interests in the following subsidiaries, jointly-controlled entities and affiliates, all of which principal activities are: construction and operation of systems of production, distribution and sale of energy and gas (information in MWh has not been audited by the external auditors):

Investments	Classification	Description
SUBSIDIARIES:		
Cemig Geração e Transmissão S.A. (‘Cemig GT’ or ‘Cemig Geração e Transmissão’)	Subsidiary	Wholly-owned subsidiary engaged in the energy generation and transmission services. Its shares are listed in Brazil, but are not actively traded. Cemig GT has interests in 83 power plants (76 of which are hydroelectric, 6 are wind power, 1 is a thermal plant and 1 is solar), of which 45 are controlled by Cemig GT, and associated transmission lines, most of which are part of the Brazilian national generation and transmission grid system, with total installed generation capacity of 3,235 MW (information not reviewed by the external auditors).
Cemig Baguari	Subsidiary	Corporation engaged in the production and sale of energy as an independent power producer and in interests in investees or joint operations that are engaged in the production and sale of energy in future projects.
Cemig GeraçãoTrês Marias S.A.	Subsidiary	Corporation engaged in the 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.	Subsidiary	Corporation engaged in the 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.

Investments	Classification	Description
Cemig Geração Itutinga S.A.	Subsidiary	Corporation engaged in the 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 Camargos S.A.	Subsidiary	Corporation engaged in the 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 Sul S.A.	Subsidiary	Corporation engaged in the 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; guaranteed offtake level of 27.42 MW average.
Cemig Geração Leste S.A.	Subsidiary	Corporation engaged in the 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; guaranteed offtake level of 18.64 MW average.
Cemig Geração Oeste S.A.	Subsidiary	Corporation engaged in the 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 guaranteed offtake level of 11.21 MW average.
Rosal Energia S.A. ('Rosal')	Subsidiary	Corporation that holds the concession to generate and sell energy, operating the *Rosal* Hydroelectric Plant, on the border between the states of Rio de Janeiro and Espírito Santo.
Sá Carvalho S.A. ('Sá Carvalho')	Subsidiary	Corporation that holds the concession to generate and sell energy, operating the *Sá Carvalho* Hydroelectric Plant.
Horizontes Energia S.A. ('Horizontes')	Subsidiary	Corporation that is classified as an independent power producer operating the *Machado Mineiro* and *Salto do Paraopeba* Hydroelectric Plants in Minas Gerais; and the *Salto do Voltão* and *Salto do Passo Velho* Hydroelectric Plants, in the state of Santa Catarina.
Cemig PCH S.A. ('PCH')	Subsidiary	Corporation that is classified as an independent power producer operating the *Pai Joaquim* hydroelectric power plant.
Cemig Comercializadora de Energia Incentivada S.A.	Subsidiary	Corporation engaged in the production and sale as ndependent thermal generation power producer, in future projects.
Cemig Trading S.A. ('Cemig Trading')	Subsidiary	Corporation engaged in trading and intermediation of energy.
Empresa de Serviços e Comercialização de Energia Elétrica S.A.	Subsidiary	Corporation engaged in the production and sale of energy as an independent power producer, in future projects.
Cemig Geração Poço Fundo	Subsidiary	Corporation engaged in the production and sale of energy, as an independent producer, through construction and operation of the hydroelectric power plant *Poço Fundo*, located in Machado river, in the State of Minas Gerais.
Central Eólica Praias de Parajuru S.A. ('Central Eólica Praias de Parajuru')	Subsidiary	Corporation engaged in the production and sale of energy at the wind power plant of the same name in the northeastern Brazilian state of Ceará.
Central Eólica Volta do Rio S.A. ('Central Eólica Volta do Rio')	Subsidiary	Corporation engaged in the production and sale of energy at the wind power plant of the same name in Acaraú, northeastern Brazilian state of Ceará.
Cemig Distribuição S.A. ('Cemig D' or 'Cemig Distribuição')	Subsidiary	Wholly-owned subsidiary, whose shares are listed in Brazil but are not actively traded; engaged in the distribution of energy through networks and distribution lines throughout almost the whole of Minas Gerais State.

Investments	Classification	Description
Companhia de Gás de Minas Gerais ('Gasmig')	Subsidiary	Corporation engaged in the acquisition, transportation and distribution of combustible gas or sub-products and derivatives, through a concession for the distribution of gas in the State of Minas Gerais.
Cemig Geração Distribuída	Subsidiary	Wholly owned subsidiary engaged in: building and maintaining projects and equipment associated with energy efficiency and micro- and mini- distributed generation; providing consultancy and studies for distributed generation projects and equipment, for subscription to systems for customers to supply to the grid as generators, and technical, regulatory and economic feasibility analyses for these purposes.
Efficientia S.A. ('Efficientia')	Subsidiary	Corporation that provides energy efficiency and optimization services and energy solutions through studies and execution of projects; and services of operation and maintenance of energy supply facilities.
JOINTLY-CONTROLLED ENTITIES		
Hidrelétrica Cachoeirão S.A. ('Cachoeirão')	Jointly-controlled entity	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.
Guanhães Energia S.A. ('Guanhães Energia')	Jointly-controlled entity	Corporation engaged in the 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, in Minas Gerais.
LightGer S.A. ('LightGer')	Jointly-controlled entity	Corporation classified as independent power producer, formed to build and operate the *Paracambi* Small Hydro Plant (or PCH), on the Ribeirão das Lages river in the county of Paracambi, Rio de Janeiro State.
Usina Hidrelétrica Itaocara S.A. ('UHE Itaocara')	Jointly-controlled entity	Corporation, comprising the partners of the UHE Itaocara Consortium, formed by Cemig GT and Itaocara Energia (of the Light group), responsible for construction of the *Itaocara I* Hydroelectric Plant.
Axxiom Soluções Tecnológicas S.A. ('Axxiom')	Jointly-controlled entity	Unlisted corporation, providing technology and systems solutions for operational management of public service concession holders, including companies operating in energy, gas, water and sewerage, and other utilities. Jointly controlled by Light (51%) and Cemig (49%).
Hidrelétrica Pipoca S.A. ('Pipoca')	Jointly-controlled entity	Independent production of energy, through construction and commercial operation of the *Pipoca* Small Hydro Plant (SHP, or *Pequena Central Hidrelétrica* – PCH), on the Manhuaçu River, in the municipalities of Caratinga and Ipanema, in Minas Gerais State.
Amazônia Energia Participações S.A ('Amazônia Energia')	Jointly-controlled entity	Special-purpose company created by Cemig GT (74.50% ownership) and Light (25.50%), for acquisition of an equity 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 Northern Brazilian State of Pará.
Retiro Baixo Energética S.A. ('RBE')	Jointly-controlled entity	Corporation that 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.
Aliança Norte Energia Participações S.A. ('Aliança Norte')	Jointly-controlled entity	Special-purpose company created by Cemig GT (49% ownership) and Vale S.A. 51%), for acquisition of an equity interest of 9% in Norte Energia S.A. ('Nesa'), the company holds the concession for the *Belo Monte* Hydroelectric Plant, on the Xingu River, in the Northern Brazilian State of Pará.
Baguari Energia S.A. ('Baguari Energia')	Jointly-controlled entity	Corporation engaged in the 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%), on the Doce river in Governador Valadares, Minas Gerais.
Renova Energia S.A. ('Renova Energia')	Jointly-controlled entity	Listed company engaged in the development, construction and operation of plants generating power from renewable sources – wind power, small hydro plants (SHPs), and solar energy; trading of energy; and related activities.
Aliança Geração de Energia S.A. ('Aliança')	Jointly-controlled entity	Unlisted company created by Cemig GT and Vale S.A. as a platform for consolidation of generation assets held by the two parties in generation consortia, and investments in future generation projects. For their shares, the two parties subscribed the following generation plant assets: *Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés,* and *Candonga*. With these assets Aliança has total installed generation capacity, in operation, of 1,257 MW (physical offtake guarantee 668 MW average). It also has other generation projects. Vale and Cemig GT respectively hold 55% and 45% of the total capital.
Transmissora Aliança de Energia Elétrica S.A. ('TAESA')	Jointly-controlled entity	Corporation engaged in the construction, operation and maintenance of energy transmission facilities in 18 states of Brazil through direct and indirect equity interests in investees
Companhia de Transmissão Centroeste de Minas ('Centroeste') (1)	Jointly-controlled entity	Corporation engaged in the construction, operation and maintenance of the *Furnas-Pimenta* transmission line – part of the national grid.
Affiliated Company		
Madeira Energia S.A. ('Madeira')	Affiliated company	Corporation engaged in the construction and commercial operation of the Santo Antônio Hydroelectric Plant, through its subsidiary Santo Antônio Energia S.A., in the basin of the Madeira river, in the State of Rondônia.
Ativas Datacenter S.A. ('Ativas')	Affiliated entity	Corporation engaged in the supply of IT and communication infrastructure services, including physical hosting and related services for medium-sized and large corporations.
FIP Melbourne (Usina de Santo Antônio)	Affiliated entity	Investment fund managed by Banco Modal S.A., whose objective is to seek appreciation of capital invested through acquisition of shares, convertible debentures or warrants issued by listed or unlisted companies, and/or other assets. This fund held 83% of the share capital of SAAG Investimentos S.A. ('SAAG'), the objects of which are to own equity in Madeira Energia S.A. ('Mesa').

Investments	Classification	Description
Affiliated Company held for sale:		
Light S.A. ('Light')	Affiliated entity	Listed company engaged in the following activities: energy generation, transmission, trading, distribution, and related services; and holding direct or indirect interest in companies engaged in similar activities.

(1) On January 13, 2020, the Company concluded acquisition of the equity interest of 49% of the share capital held by Eletrobras in Centroeste, resulting in now holding all its shares. For more details see Note 18 – Investments.

Based on the facts and circumstances at this date, Management has assessed the capacity of the Company and its subisidiaries to continue as a going concern, and believes that its operations will generate sufficient future cash flows to enable continuity of its businesses. In addition, Management is not aware of any material uncertainties that could generate significant doubts about its ability to continue as a going concern. Therefore, these financial statements are prepared on a going concern basis.

Merger of the wholly-owned subsidiaries Rio Minas Energia Participações S.A. ('RME') and Luce Empreendimentos e Participações S.A. ('Lepsa')

On April 24, 2019, the Company completed the merger of its wholly-owned subsidiaries RME and LEPSA, at book value, with consequent extinction of these Companies and became successor of all assets, rights and obligations.

With extinction of RME and Lepsa, the Shareholders 'agreement of Light S.A. ('Light') immediately ceased to exist, losing its object, and obligations under it terminated.

The condensed balance sheet of RME and Lepsa used for the merger, as of March 31, 2019, are as follows:

	RME	LEPSA		RME	LEPSA
Assets			**Liabilities**		
Current	55,858	10,080	Current	-	4,979
Non-current	377,184	451,003	Non-current	-	-
			Shareholders' Equity	433,042	456,104
Total Current	**433,042**	**461,083**	**Total Liabilities and Equity**	**433,042**	**461,083**

The merger was approved by the Extraordinary General Shareholders' Meetings of the Company held on March 25, 2019.

Since this was a merger of wholly-owned subsidiaries, there was no capital increase nor issuance of new shares. Also, this merger did not change the aggregate percentage equity interest in Light held by Cemig in that date.

Disposal of interest in and control of Light

On July 17, 2019, Light completed a public offering for initial and secondary distribution of its nominal, book-entry common shares without par value, all free of any liens or encumbrances, carried out in accordance with the procedures of CVM Instruction 476 of January 16, 2009.

In the Public Offering, Light placed: (i) 100,000,000 new shares ('the Primary Offering'), consequently increasing its share capital; and (ii) 33,333,333 shares in Light owned by the Company at the price of R$ 18.75 per share.

With the settlement of the restricted offering, the Company's equity interest in the total share capital of Light was reduced from 49.99% to 22.58%, limiting its voting rights in Shareholders' Meetings and, as a result, its ability to directing the relevant activities of the investee.

Thus, as from that date, with the change in the equity interest in Light, the Company no longer has an equity interest giving it control of this investee. In these circumstances, in accordance with IFRS 10 / CPC 36 (R3) – Consolidated financial statements, the investee is no longer within the concept of a subsidiary, and is thus therefore no longer consolidated in the Company's financial statements.

Since the Company continues to have a firm commitment to dispose of the remaining interest in Light, the investment in that company continues to be classified in assets held for sale, in accordance with CPC 31 / IFRS 5 – Non-current assets held for sale, and discontinued operations. For more details please see Note 34.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The individual and consolidated financial statements of the Company have been prepared in accordance with accounting practices adopted in Brazil, which comprise: the rules issued by the Brazilian Securities Commission (CVM), and the pronouncements made by the Accounting Pronouncements Committee (CPC), and in accordance with the international financial reporting standards (IFRS) issued by IASB.

The accounting practices adopted in Brazil applied in the individual financial statements, as from 2014, do not differ from those of IFRS applicable to the separate financial statements, since this rule permitted application of the equity method of accounting in subsidiaries, affiliated companies and joint ventures. Thus, these individual financial statements, which are presented jointly with the consolidated financial statements, are also in accordance with international financial reporting standards (IFRS).

All relevant information in the financial statements is being disclosed, which is used by management in its administration of the Company.

On March 19, 2020, the Company's management authorized the issuance of the financial statements for the year ended December 31, 2019.

2.2 Basis of measurement

The financial statements were prepared on a historical cost basis, except in the case of certain financial instruments and assets as held for sale which are measured at fair value and fair value less costs to sell, in accordance with the standards applicable, as detailed in Note 33 and 34, respectively.

Functional currency and presentation currency

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

Transactions in foreign currency, corresponding to those not carryied under the functional currency, were converted to Reais at the exchange rate as of the transaction date. Balances of monetary assets and liabilities denominated in foreign currency are translated to Reais at the exchange rates at the reporting date. Foreign exchange gains and losses resulting from updating assets and liabilities are recognized as finance income and cost in the statements of income.

2.3 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 reported amounts of assets, liabilities, revenues and expenses. Future reported results may differ from these estimates.

Estimates and assumptions are periodically reviewed, using as a reference both historical experience and any significant change in scenarios that could affect the Company's financial position or results of operations. 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 signficiant effect in the amounts recognized in the financial statements are as follows:

- Adjustments for loss on doubtful accounts – Note 8.
- Amounts to be restituted to customers – Note 10.
- Deferred income tax and social contribution tax – Note 11.
- Financial assets and liabilities of the concession – Note 16.
- Concession contract assets – Note 17.

- Investments – Note 18.
- Property, plant and equipment ("PP&E") and useful life of assets – Note 19.
- Intangible assets and useful life of assets – Note 20.
- Leasing transaction – Note 21.
- Employee post-employment obligations –Note 26.
- Provisions – Note 27.
- Unbilled revenue – Note 29.
- Financial instruments measurement and fair value measurement – Note 33.
- Asset and liability held for sale measurement – Note 34.

The settlement of the transactions involving those estimates may result in amounts that are significantly different from those recorded in the financial statements due to the uncertainty inherent to the estimation process. The Company reviews its significant estimates at least annually.

2.4 New accounting standards, interpretation or revisions of accounting standards, applied for the first time in 2019

The Company and its subsidiaries have applied, for the first time, new accounting standards that became effective for annual periods beginning January 1, 2019 or later, as described below:

IFRS 16/CPC 06 (R2) – *Leases*

This establishes principles for recognition, measurement, presentation and disclosure of leasing transactions and requires that lessees account all the leasing transactions in accordance with a single balance sheet model, similar to the accounting of financial leasing. At the date of start of the leasing operation, the lessee recognizes a liability to make the payments (a leasing liability) and an asset, representing the right to use the subject asset during the period of the leasing (an asset of right to use). Lessees are required to recognize separately the expenses of interest on the leasing liability and the expense of depreciation of the asset of the right to use.

Lessees are also required to revalue the leasing liability when certain events occur (for example, change in the period of leasing, a change in the future payments of the leasing as a result of a change in an index, or a rate used to determine such payments). In general, the lessee will recognize the amount of the revaluation of the leasing liability as an adjustment to the asset of right to use.

The Company and its subsidiaries have made an analysis of the initial application of IFRS 16/CPC 06 (R2) in their financial statements as from January 1, 2019, and have adopted the exemption specified in the rule for short-term leasing operations (that is to say, leasing transactions with a period of 12 months or less) without the option to purchase, and for low-value items. The Company and its subsidiaries opted to adopt the modified retrospective method, and thus, in accordance with the requirements of IFRS 16/CPC 06 (R2), will not re-present the information and balances on a comparative basis.

The Company and its subsidiaries carried out a detailed evaluation of the impacts of adoption of IFRS 16/CPC 06 (R2) based on the following contracts affected:

- Leasing of commercial real estate used for serving customers;
- Leasing of buildings used as administrative headquarters;
- Leasing of commercial vehicles used in operations.

The Company and its subsidiaries have considered the asset of right to use at the same value as the liability for leasing on the initial adoption date. The impacts of adoption of IFRS 16/CPC 06 (R2), on January 1, 2019 are as follows:

	Consolidated	Parent company
Assets – right of use	342,450	19,844
Liabilities – Obligations referring to operational leasing agreements	(342,450)	(19,844)

IFRIC 23 / ICPC 22 – Uncertainty on treatment of taxes on profit

This relates to accounting of taxes on profits in the cases where the tax treatments involve uncertainty affecting application of IAS 12 (CPC 32) – *Income taxes* – and does not apply to taxes outside the scope of IAS 12, nor specifically include the requirements relating to interest and penalty payments associated with uncertain tax treatments. The Interpretation deals specifically with the following:

- Whether the entity considers uncertain tax treatments separately.
- The assumptions that the entity makes in relation to examination of the tax treatments by the tax authorities.
- How the entity determines real profit (or tax losses), the bases of calculation, unused tax losses, intertemporal tax credits and tax rates.
- How the entity considers changes of facts and circumstances.

The entity is required to decide whether it treats each uncertain tax treatment separately, or as a group with one or more uncertain tax treatments. It is required to follow the approach that better provides for resolution of the uncertainty. The interpretation is in effect for annual periods starting on or after January 1, 2019.

The Company and its subsidiaries have adopted the interpretation as from the date of coming into effect and have analyzed the tax treatments adopted which could generate uncertainties in the calculation of income taxes and which might potentially expose the Company and its subsidiaries to materially probable risks of loss. The conclusion of these analyses is that none of the significant positions adopted by the Company and its subsidiaries have been altered in relation to expectation of losses due to any questioning or challenge by the tax authorities.

Adoption of new standards effective as from January 1, 2019

(i) IAS 28/CPC 18: Application of IFRS 9 /CPC 48 to measurement of other financial instruments in an affiliated company, subsidiary or a jointly controlled undertaking, for which the equity method of reporting is not applicable; also states the rules for transition related to initial adoption;

(ii) IAS 12/CPC 32: Sets rules for recognizing tax effects on the yield of dividends distributable. This alteration does not affect the Company's financial statements, due to the Brazilian tax legislation applicable to its transactions;

(iii) IAS 19/CPC 33: Changes the moment of measuring of net liability (asset) value of a defined benefit to the time when the cost of past service, or the gain or loss on liquidation, is determined, using the fair value of the plan assets and actuarial assumptions that reflect the benefits offered in conformity with the plan and the plan's assets, before and after the alteration, reduction or liquidation of the plan, and also the use of the discount rate and the value of the liability (net asset) after the alteration, reduction or liquidation of the plan in the determination of the net interest for the rest of the period of the annual report.

The Company and its subsidiaries have not identified significant impacts arising from the changes in the other standards in 2019.

2.5 Standards issued but not yet effective

The principal changes in rules and interpretations were reflected in the CPCs through CPC Revision 14/2019, and are described below:

CPC 15 (R1): The alterations help entities to determine whether an acquired group of activities and assets does or does not constitute a business. They eliminate the evaluation on whether the market participants are capable of substituting any absent element, include orientations to help entities to assess whether a process acquired is substantial, give a better delimitation of the definitions of business and of products, and introduce an optional test of concentration of fair value. The alterations apply prospectively to transactions or other events that occur on or after the date of first application, and hence the Company will not be affected by these alterations on the transition date.

CPC 26 (R1) and IAS 8: These align the definition of "material omission" and "material distortion" and clarify some aspects of that definition. It is not expected that these alterations will have a significant impact on the individual and consolidated financial statements of the Company.

As well as the alteration specified in Review CPC 14/2019, the IASB issued, in 2017, IFRS 17 – Insurance contracts, a rule that has not yet been issued in Brazil, which has the general aim of supplying an accounting model for insurance contracts that is more useful and consistent for insurance companies; it is not applicable to the Company and its subsidiaries.

2.6 Significant accounting policies

The significant accounting policies described below have been applied consistently to all the periods presented in the financial statements, in accordance with the standards and regulations described in Item 2.1 – Compliance statement.

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

a) Financial instruments

Financial instruments are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss, depending on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

Fair value through profit or loss: this includes the concession financial assets related to distribution segment infrastructure. These financial assets are measured at the expected New Replacement Value (*Valor Novo de Reposição*, or VNR), as defined in the concession agreement, which represent the fair value of the residual value of the infrastructure as of the balance sheet date. The Company and its subsidiaries recognize 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 grantor for the services of construction and maintenance of the infrastructure.

Financial assets also include: cash equivalents, marketable securities not classified at amortized cost , derivative financial instruments, and indemnities receivable from the generation assets.

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits, subject to an insignificant risk of changes in value, maintained to carry out the Company's cash management.

The disclosures about the main assumptions used in fair value measurement are summarized in the respective notes.

Derivative financial instruments (Swap transactions and call spread): The Company, through its subsidiary Cemig GT, maintains derivative instruments to manage its exposure to the risks of changes in foreign currency exchange rates that are recognized initially at their fair value and the related transaction costs are recognized in the Statement of Income when they are incurred. After the initial recognition, derivatives are measured at fair value and changes in fair value are recorded in the Statement of Income.

Derivative financial instruments (Put options) – The options to sell to Cemig GT units of the FIP Melbourne and FIP Malbec funds ('the SAAG PUT') were measured at fair value using the Black-Scholes-Merton (BSM) method, using as reference the related put options obtained by the BSM model valued on the closing date of the financial statements for the year ended December 31, 2019.

Amortized cost: This includes accounts receivables from customers, traders and energy transport concession holders; advances to suppliers; accounts receivable from Minas Gerais State; restricted cash; escrow deposits in litigation; marketable debt securities with the intention of holding them until maturity and the terms of their contracts originate known cashflows that constitute exclusively payments of principal and interest; concession financial assets related to the concession grant fee; indemnifiable receivable for transmission assets; accounts receivable from related parties; suppliers; loans and debentures; debt agreed with the pension fund (Forluz); concessions payable; the Minas Gerais State PRCT Tax Amnesty Program; advances from customers; assets and liabilities related to the *CVA* account and *Other financial components* in tariff adjustments; the low-income subsidy; reimbursement of tariff subsidies; and other credits.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR).

b) <u>Customers, traders and power transport concession holders</u>

Accounts receivable from customers, traders and power transport concession holders are initially recognized at the sales value and subsequently measured at amortized cost. These receivables are stated with the amount of sales tax included, net of the taxes withheld by the payers, which are recognized as recoverable taxes.

In order to estimate future losses on receivables, the Cemig D adopted a simplified approach, considered that the accounts receivable from customers do not have significant financial components, and calculated the expected loss considering the historical average of non-collection over the total billed in each month (based on the last 24 months of billing), segregated by type of customer and projected for the next 12 months, taking into account the age of maturity of invoices, including those not yet due and unbilled.

In 2019 Cemig D revised the assumption used for the calculation of the historic percentages of default in the provision matrix, which changed from 12 to 24 months, with the aim of enhancing the calculation method, having as a basis studies on the behavior of the debt of its clients after more than 12 and 24 months from the due date, using the existing collection tools.

The expected losses for overdue accounts of customers that renegotiated their debt is measured based on the maturity date of the original invoice, despite the new terms negotiated. Expected losses are fully recognized for accounts overdue for more than 12 months.

Expected losses for invoices unbilled, not yet due or less than 12 months past due are measured according to 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.

For large customers, the provision for doubtful receivables is recorded based on estimates by Management, in an amount sufficient to cover probable losses. The principal criteria used by the Company and its subsidiaries are: (i) customers with significant balances, the receivable balance is analyzed in the light of the history of the debt, negotiations in progress, and asset guarantees; and (ii) for large customers, an individual analysis of the debtors and the initiatives in progress to realize the overdue credits.

c) <u>Investments</u>

The Company and its subsidiaries have investments in associates and joint ventures. Control is obtained when the Company and/or one of its subsidiaries has the power to control the financial and operational policies of an entity to receive benefits from its activities. These investments are accounted using the equity method in the individual and consolidated financial statements and are, initially, recognized at acquisition cost, by the consideration transferred, measured at fair value at acquisition date.

The difference between the amount paid and the amount of the shareholders' equity acquired is recognized in Investments as:

(i) added value, when the economic basis is substantially related to the fair value of the net assets of the subsidiary acquired; and

(ii) goodwill premium, when the amount paid is higher than the fair value of the net assets, and this difference represents the expectation of generation of future value. The goodwill premium arising from the acquisition is tested annually for impairment.

Subsequently, impairments losses are recognized in the income statement, through an indication that the recovery value of the investment is lower than its book value. The participations in consortia are accounted in accordance with CPC 19 (R2) – Joint ventures, and these investments are recognized in accordance with the Company's participation in any assets and/or liabilities held or assumed jointly. The result of these investments is recognized in proportion to the Company's participation in the revenues and expenses of the joint operation.

d) Business combination

A business combination occurs when the Company or its subsidiaries acquire control of a business, whatever its legal form. Business combinations are accounted for using the acquisition method of accounting. At the acquisition date the acquirer Company recognizes and measures the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. Goodwill is initially measured at cost, which being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed.

In the parent company, the difference between the amount paid and the amount of the shareholders' equity of the entities acquired is recognized in Investments based to the criteria described in item (c) above.

It is the Company's understanding, in line with ICPC 09 (R2), that the amount specifically referred to the right of concession, the right of commercial operation, or similar rights, does not constitute goodwill, including when these rights are acquired in a business combination in which the acquired entity is a concession holder, whose right to the concession has a known and defined period.

When a business combination is carried out in stages ("step-acquisition method"), the interest previously held by the Company in its investee is remeasured at the fair value at the acquisition date and the corresponding gain or loss, if any, is recognized in the statement of income.

e) Concession assets

Energy Distribution segment: Assets linked to concession infrastructure still under construction are posted initially as contractual assets, considering the right of the Company to charge for the services provided to customers or receive an indemnity at the end of the concession period for assets not yet amortized. Thus, in accordance with CPC 47 / IFRS 15, the counterpart amounts of construction revenues equivalent to the new assets are initially recorded as contractual assets, measured at acquisition cost including the costs of capitalized loans. After the assets start operation, the conclusion of the performance obligation linked to construction is recorded, and the assets are split between financial assets and intangible assets.

The portion of the assets of the concession 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 changes introduced by CPC 47/IFRS 15 have affected the way of classifying distribution assets. Amortization reflects the pattern of consumption of the rights acquired. It is calculated on the balance of the concession assets, by the straight-line method, based on application of the rates that consider the expected useful life of the energy distribution assets, which are taken into consideration by the regulator during the process of tariff review.

The portion of the value of the assets which will not be fully amortized by the end of the concession is reported as a financial asset because it is an unconditional right to receive cash or other financial asset directly from the grantor. This portion is measured based on the New Replacement Value (*Valor Novo de Reposição*, or VNR), which is equal to its fair value, in reference to the remuneration base value approved by Aneel in the tariff review process.

Transmission segment: The assets related to the transmission infrastructure are classified as contract asset, considering the dependence on the satisfaction of a performance obligations during the concession period, represented by the network availability The contractual asset is reclassified as a financial asset only after satisfaction of the performance obligation to operate and maintain infrastructure, since from that point nothing more than the passage of time is necessary for the consideration to be received. The costs related to the infrastructure construction are recognized as incurred in the statement of income. The construction revenues are recognized in accordance with the stage of completion of the service (obligation performance satisfied) at the end of the reporting period, including sales tax.

Of the amounts of Permitted Annual Transmission Revenue (RAP) invoiced by the transmission concession, the portion relating to the fair value of the operation and maintenance of the assets is recorded 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 contractual asset. Additions for expansion and improvements generate additional cash flow, and hence this new cash flow is capitalized into the asset balance of the contract.

Thus, based on the contractual characteristics, the subsidiaries have classified the asset as contractual since, for its realization, the financial flows are influenced by the operational performance factor, these assets not being receivable due only to passage of time, which is a condition precedent for classification of the said financial assets in accordance with CPC 48 / IFRS 09.

Due to the acceptance of the terms of renewal of the old transmission concessions, part of the transmission assets of the concessions terminated on December 31, 2012, is subject of reimbursement by the granting authority, and an accounts receivable was recognized corresponding to the estimated indemnity to be received over a period of eight years.

Nevertheless, due to the application of CPC 47/IFRS15, the portion of the RAP relating to the facilities of the National Grid arising from the regulatory reintegration quota incorporated into the Remuneration Base, under Mining and Energy Ministry Order 120/2016 and Aneel Resolution 762/2017, is classified as a contractual asset, since satisfaction of the performance obligation linked to their construction occurs during their useful life (availability of the network).

On the other hand, the portion not yet paid, since the extension of the concessions, for the period January 1, 2013 to June 30, 2017, to be received over a period of eight years, considered as a Financial Component, is classified as a Financial asset, since it no longer involves the construction of infrastructure assets, and represents exclusively the portions not paid in the period 2013 to 2017, updated by the regulatory cost of capital of the transmission sector.

Generation segment: The concession fee right paid for the concession contracts granted by the Brazilian Regulator (Aneel) in November 2015, has been classified as a financial asset, at amortized cost, as it represents an unconditional right to receive cash, adjusted by the IPCA index, and remuneratory interest, during the period of the concession.

Gas distribution segment: New assets are classified initially as contractual assets, valued at acquisition cost, including capitalized borrowing costs. When they start operation they are split into financial assets and intangible assets.

The portion of the assets of the concession that will be fully amortized during the concession period is recorded as an Intangible asset. 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. The portion of the assets that is recorded in financial assets is valued based on the New Replacement Value, equivalent to fair value, having as a reference the amounts homologated 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.

f) Intangible assets

Intangible assets are mainly, comprised of the intangible assets related to the service concession contracts as described in topic (e) above as well as software. Intangible assets are stated at cost, less amortization, and any accumulated impairments when applicable.

Any gain or loss arising upon derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of income.

g) Property, plant and equipment

Property, plant and equipment are stated at the cost, including deemed cost, capitalized borrowing costs and less accumulated depreciation.

Depreciation is calculated on the balance of property, plant and equipment in service and investments in consortia, by the straight-line method, using the rates that reflect the estimated useful life of the assets, for assets related to energy activities, limited in certain circumstances to the periods of the related concession contracts. The main rates are shown in Note 19.

Gains and losses resulting from the disposal of a property, plant and equipment, are measured as the difference between the net proceeds obtained from the sale and the asset's book value, and are recognized in the Statement of income when the asset is disposed of.

h) Impairment

In assessing impairment of financial assets, the Company and its subsidiaries use historical 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 historical trends.

Additionally, management revises, annually, the carrying value of non-financial assets, for the purpose of assessing if there is any indication, such as events or changes in the economic, operational or technological conditions that an asset may be impaired. If any indication exists and the asset carrying amount exceeds its recoverable amount, an impairment loss is recognized, adjusting the carrying value of the asset or cash generating unit to its recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher between its value in use and its fair value less costs to sell.

i) Employee benefits

The liability recorded in the statements of financial position related to retirement benefit pension plan obligations is the greater of: (a) the amount to be paid in accordance with the terms of the pension plan 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. Expenses related to the debt agreed upon with the pension trust fund were recorded in finance income (expenses), because they represent financial interest and inflation adjustment. Other expenses related to the pension fund were recorded as operating expenses.

Actuarial gains and losses arising as a result of changes in actuarial assumptions are recognized in other comprehensive income.

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

j) Income tax and social contribution tax

Current

Advances, or tax credits, are presented as current or non-current assets, in accordance with the expected date of their realization at the balance sheet date, when the tax amounts are duly calculated and offset against 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. These taxes are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Periodically, in accordance with ICPC 22/IFRIC 23, the Company and its subsidiaries evaluate positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

k) Subsidies government

The subsidiaries Cemig D e GT have ventures in the SUDENE area, which result in the recognition of its right to a 75% reduction in income tax, including the additional. Such tax incentives, in the form of exemption or reduction of income tax, comply with the concept of government grants and are recognized by recording the total tax in the income statement as if due, and the equivalent grant income, shown as a deduction from income tax expense.

Given the legal restriction on the distribution of net income corresponding to the incentive, the Company maintains the amount related to the incentive granted in the tax incentive reserve.

In addition, the subsidiaries Cemig D e GT receive amounts from the Energy Development Account (CDE) as reimbursement for subsidies on tariffs granted to users of the public energy distribution service – TUSD and EUST (charges for use of the transmission system). These amounts are recognized in the income statement as those subsidiaries acquire the right of receive them.

l) Non-current assets classified as held for sale and discontinued operations

The Company and its subsidiaries classify non-current assets as held for sale when their carrying amount will be recovered, principally, through a sale transaction rather than through continuous use. This condition is met only when the asset (or group of assets) is available for immediate sale in its current condition subject only to usual and customary terms for the sale of the asset (or group of assets) and its sale is considered highly probable. Management must be committed to the sale which is expected to be completed within one year from the date of classification. Assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance expenses and income tax expenses.

Fixed assets (PP&E) and Intangible assets are not depreciated or amortized as long as they are classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the Statement of financial position. Dividends received from jointly-controlled undertakings and affiliated companies classified as held for sale are recognized in the Income statement, in view of the discontinuation of measurement by the equity method, under CPC 31/IFRS 05.

Discontinued operations are excluded from the reported profit from continuing operations, and are presented as a single amount, after taxes, based on discontinued operations, in the statement of income.

Additional disclosures are presented in Note 34. All the other notes to the financial statements include amounts for continuing operations, except when otherwise stated.

m) Revenue recognition

In general, for the Company and its subsidiaries' business in the energy sector, gas and others, revenue from contracts with customers is recognized when the performance obligation is satisfied, at an amount that reflects the consideration to which the Company and its subsidiaries expects to be entitled in exchange for the goods or services transferred, which must be allocated to that performance obligation. The revenue is recognized only when it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer, considering the customer's ability and intention to pay that amount of consideration when it is due.

Revenues from the sale of energy are recorded based on the energy supplied 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 monthly basis, when the energy is supplied, based on measured and billed. In addition, the Company recognizes the unbilled retail supply of energy, from the period between the last billing and the end of each month, is estimated based on the supply contracted. In the case of the distribution concession contract, the unbilled revenue is estimated based on the volume of energy consumed and unbilled in the period. The supply is billed in monthly basis in accordance with the metering calendar established by the distribution company. Historically, the differences between the estimated and invoiced unrealized amounts in the following month are not relevant and are accounted for in the following month.

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.

Revenues from transmission concession services are recognized in the Statement of income monthly and represent, basically:

- Construction revenue – This corresponds to the performance obligation to build the infrastructure, by the investments in concession assets made by the Company in the reporting period. Recognition of this revenue is directly related to the expenditure incurred on the addition of contractual assets. Considering that the regulatory model currently in effect does not provide for specific remuneration for construction or upgrading of the infrastructure of the concession; that constructions and improvements are substantially executed through specialized services of outsourced parties; and that all construction revenue is related to construction of infrastructure, the Company's management has decided to record construction contract revenue with a zero profit margin;
- Operation and maintenance revenue arising from costs incurred and necessary to comply with performance obligations of operation and maintenance specified in a concession contract, after termination of the construction phase;
- Revenue from remuneration on the contractual asset recognized, arising from the variation in the fair value of the remuneration base of assets posted under Transmission Concession Revenue in Gross Revenue.

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

Revenues from use of the distribution system (TUSD) received by the Company from other concession holders and other customers that use the distribution network are recognized in the month in which the services are provided. Unbilled retail supply of energy, from the period between the last consumption and the end of each month, is estimated based on the billing from the previous month or the contractual amount. Historically, the differences between the estimated amounts and the actual revenues recognized are not significant.

The 'Parcel A' revenue and *other financial components* in tariff adjustments are recognized in the Statement of income when the energy acquisition costs effectively incurred are different from those considered by the Grantor to stablishes the energy distribution tariff. For further details, see Note 16.

Any adjustment of expected cash flows from the concession financial asset of the energy distribution concession contract is presented as operating revenue, together with the other revenues related to the energy distribution services.

n) Sales tax

Expenses and non-current assets acquired are recognized net of the amount of sales taxes when they are recoverable from the taxation authority.

o) Finance income and expenses

Finance income is mainly comprised of interest income on funds invested, monetary adjustments on overdue receivables and interest income on other financial assets. Interest income is recognized in the Statement of income using the effective interest method.

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

p) Cash dividends

A liability to pay a dividend is recognized when the distribution is authorized or is enforced by law. The Brazilian law requires the payment of a minimum dividend, and, thus, it is considered a present obligation at the end of the fiscal year, being recognized as an entity's liability.

q) 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 the 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: concession financial assets, intangible assets, concession contract assets and property, plant and equipment.

3. PRINCIPLES OF CONSOLIDATION

The reporting dates of the subsidiaries and jointly-controlled entities used for the purposes of calculation of consolidation and equity in earnings of unconsolidated investees coincide with those of the Company. Accounting practices are applied uniformly in line with those used by the parent company.

The following subsidiaries are included in the consolidated financial statements:

Subsidiary	Form of valuation	2019		Form of valuation	2018	
		Direct interest, %	Indirect interest, %		Direct interest, %	Indirect interest, %
Cemig Geração e Transmissão	Consolidation	100.00	-	Consolidation	100.00	-
Cemig Distribuição	Consolidation	100.00	-	Consolidation	100.00	-
Gasmig	Consolidation	99.57	-	Consolidation	99.57	-
Cemig Geração Distribuída (Usina Térmica Ipatinga)	Consolidation	100.00	-	Consolidation	100.00	-
Efficientia	Consolidation	100.00	-	Consolidation	100.00	-
Luce Empreendimentos e Participações S.A. (1)	Consolidation	-	-	Consolidation	100.00	-
Rio Minas Energia e Participações (1)	Consolidation	-	-	Consolidation	100.00	-
Light (2)	Assets classified as held for sale	22.58	-	Consolidation	26.06	23.93
LightGer(3)	Equity method	-	49.00	Consolidation	-	74.49
Guanhães (3)	Equity method	-	49.00	Consolidation	-	74.49
Axxion (4)	Equity method	49.00	-	Consolidation	49.00	25.49
UHE Itaocara (3)	Equity method	-	49.00	Consolidation	-	74.49

(1) Merged with Cemig on April 24, 2019.

(2) With the settlement of the restricted offering, on July, 17th, 2019, the Company's equity interest in the total share capital of Light was reduced from 49.99%, on December, 31, 2018, to 22.58%. This transaction resulted in the company ceasing to have control over this investee, and the Company recognized the remaining investment in Light in the consolidated income statement, as an Investment in affiliate or jointly-controlled entity, in accordance with CPC 18. Additionally, in accordance with CPC 31, the investment was transferred to Assets held for sale, since the Company continues to have the firm intention of disposing of the remaining equity interest. For more information, see Notes 1, 18 and 34.

(3) On December 31, 2018, the Company had indirect equity interests in LightGer, Guanhães and Itaocara, of 74.49% and 49%, held via Cemig GT, and 25.49%, held via Light. As from the cessation of control of Light, the Company no longer held control of these investees and the remaining indirect interest via Cemig GT is, from that date, measured by the equity method in the interim financial statements, in accordance with CPC 18. For more information, see Notes 18 and 34.

(4) On December, 31, 2018 the Company had direct and indirect interests (via Light) in Axxiom of 49% and 25.49%, respectively. As from the cessation of control of Light, the Company no longer held control of these investees and the remaining indirect interest via Cemig is, from that date, measured by the equity method in the interim financial statements, in accordance with CPC 18. For more information, see Notes 18 and 34.

a) Subsidiaries, jointly-controlled and affiliated entities

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

The Company controls an investee when its existing rights give it the current ability to direct the relevant activities of the investee. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Company loses controls of an investee, it derecognizes the assets and liabilities of the former subsidiary from the statements of financial position, at the date when control is lost. Any investment retained in the former subsidiary is recognized at its fair value and any resulting difference is recognized as gain or loss in the statement of income.

Jointly-controlled and affiliated entities are accounted for under the equity method.

b) Consortia

The Company recognizes the proportional interest in assets, liabilities, and profits (losses) of consortium operations, since these investments are considered to be 'joint operations' in accordance with the requirements of CPC 19/IFRS 11.

c) Transactions eliminated in consolidation

Intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with investee companies accounted for under 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, through its subsidiaries, holds the following concessions or authorizations:

	Company holding concession or authorization	Concession or authorization contract*	Expiration date
POWER GENERATION			
Hydroelectric plants			
Emborcação (1)	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 (Consórcio) (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	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 and 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	16/2016	01/2046
Thermal plants			
Igarapé (1) (5)	Cemig GT	07/1997	08/2024
Wind power plants			
Central Geradora Eólica Praias de Parajuru (3)	Parajuru	Resolution 526/2002	09/2032
Central Geradora Eólica Volta do Rio (3)	Volta do Rio	Resolution 660/2001	01/2031
POWER TRANSMISSION			
National grid (4)	Cemig GT	006/1997	01/2043
Itajubá Substation(4)	Cemig GT	79/2000	10/2030
ENERGY DISTRIBUTION (6)	Cemig D	002/1997 003/1997 004/1997 005/1997	12/2045
GAS DISTRIBUTION (6) (7)	Gasmig	State Law 11,021/1993	01/2053

(1) Generation concession contracts that are not within the scope of IFRIC 12, whose infrastructure assets are recorded as PP&E since the concession grantor does not have control over whom the service is provided to as the output is being sold mainly in the Free Market ('ACL').

(2) Generation concession contracts within the scope of IFRIC 12, under which Cemig has the right to receive cash and therefore, recognizes a concession financial assets.

(3) This refers to concessions, given by the process of authorization, for generation, as an independent power producer, of wind power, sold under the Proinfa program. The assets tied to the right of commercial operation are recorded in PP&E. The rights of authorization of commercial operation that are classified as an Intangible.

(4) These refer to transmission concession contracts, for which a contract asset was recognized upon the application of IFRS 15, are recognized as contract asset for being subject to satisfaction of performance obligations.

(5) On December 6, 2019, Aneel suspended Igarapé Plant commercial operation upon Cemig GT's claim for early termination of its concession contract.

(6) Concession contracts that are within the scope of IFRIC 12 and under which the concession infrastructure assets are recorded under the intangible and financial assets bifurcation model, and in compliance with IFRS 15, the infrastructure under construction has been classified as a contract asset. Despite the segregation of distribution concession contract into four regions of State of Minas Gerais, its terms and conditions are the same.

(7) On September 19, 2019, Gasmig executed with the State of Minas Gerais, as Granting Authority, the Third Amendment to the Concession Agreement, assuring Gasmig the extension of its concession term until 2053. For more information, please see Note 20 – Intangible Assets.

*Cemig has grants for hydroelectric generation with potential of 5MW or less, and thus under Law 9074/95, these are dispensed from concession, permission or authorization, and do not have a final concession date.

Generation concessions

In the generation business, the Company sells 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.

There is also revenue from the spot market, which remunerates agents for de-contracted energy, which is settled at the Spot Price (PLD).

Transmission concessions

Under the transmission concession contracts, the Company, through its subsidiaries, is authorized to charge a Tariff for use of the Transmission System (*Tarifa de Uso do Sistema de Transmissão*, or TUST). Tariffs are adjusted annually on the same date the Permitted Annual Revenue (*Receitas Anuais Permitidas*, or RAP) of transmission concessions contracts is adjusted. This tariff is in effect from July 1 of each year, upon its publication, until June 30 of the subsequent year.

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

Onerous concessions

When obtaining the concessions for construction of certain generation projects, the Company is required to make payments to the regulator over the period of the contract or for up to 5 years upon signature of the concession contract for plants with installed capacity between 1 and 50 MW, as compensation for the right to operate them. The information on the concessions and the amounts to be paid are as follows:

Project	Nominal value in 2019	Present value in 2019	Period of the concession	Updating indexer
Irapé	33,183	15,436	03/2006 – 02/2035	IGPM
Queimado (Consortium)	8,190	4,192	01/2004 – 12/2032	IGPM
Salto Morais Small Hydro Plant (1)	-	-	06/2013 – 07/2020	IPCA
Rio de Pedras Small Hydro Plant (1)	-	-	06/2013 – 09/2024	IPCA
Various Small Hydro Plants (*) (1)	-	-	06/2013 – 08/2025	IPCA

(*) SHPs, with installed capacity less than 50 MW: *Luiz Dias, Poço Fundo, São Bernardo* and *Xicão*.

(1) Under Aneel Resolution 467/2011 the power plants with total installed generation capacity of 1 to 50 MW must pay Aneel for five years, starting on the date that the concession contract is signed. The power plants contracts of *Salto Morais, Rio de Pedras, Luis Dias, Poço Fundo, São Bernardo* and *Xicão* were signed in 06/2013, completing five years in 2018, therefore, they didn't make any payments in 2019.

The concessions fee are paid monthly to the grantor for an amount that changes over time. These payments are recorded as an intangible asset, representing a right to operate the concession and to charge users through the concession period, they are recorded as from the date of signature of the contracts at the present value of the future payment obligations.

The amounts paid to the grantor in 2019, the nominal value and the present value of the amounts to be paid in the next 12 months, are as follows:

Project	Interest, %	Amounts paid in 2019	Nominal value of amounts to be paid in the next 12 months	Present value of amounts to be paid in the next 12 months
Irapé	100.00	2,034	2,168	2,042
Queimado (Consortium)	82.50	588	630	594

The rate used by the Company to discount the above liabilities to its present value, was 12.50%, and represents the average cost of funding in normal conditions on the date the concession contract was entered into.

Distribution concessions

The Cemig D operates the concession for the distribution of energy in the greater part of the State of Minas Gerais, which expires in December 2045.

According to 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 revertible 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 adjustments to tariffs: (i) an annual tariff adjustment; (ii) periodic review of tariffs; and (iii) extraordinary reviews.

Each year the Cemig D has the right to request for the annual adjustment, the purpose of which is to be compensated 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 customers – for example the cost of energy purchased for resale and sector charges including charges for the use of the transmission and distribution facilities.

Also, the regulator performs a Periodic Review of tariffs every five years, which aims to make adjustments due to changes in the 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 the Cemig D's customers.

The Cemig D also has the right to request an extraordinary review of tariffs in the event that any unforeseen development significantly affects the economic-financial equilibrium of the concession. The Periodic Review and the Extraordinary Review are subject, to a certain degree, to the discretion of the regulator, although there are pre-established provisions for each revision cycle.

Under the distribution concession contracts, the Cemig D is authorized to charge customers a tariff consisting of two components: (i) A component related 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 ('Parcel A costs'); and (ii) a portion relating to operating costs ('Parcel B costs').

Fifth Amendment to concession contract

On December 21, 2015, the Company signed, with the Mining and Energy Ministry, the Fifth Amendment to its concession contracts, extending its energy distribution concessions for an additional 30 years, starting 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; with the adjustment provisions specified in the previous concession contract remained unchanged. For the subsequent tariff adjustments the rules set for in Clause 6 of the Amendment will be applied.

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

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

- Subject to the compliance of efficiency criteria related to continuity of supply and the economic and financial management to guarantee the concession's operations as follows: (i) for five years starting 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 cancelation of the concession contract; (ii) starting 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 the end of 2017, maintained in 2018, 2019 and 2020);
- [Ebitda (-) QRR] ≥ 0 (by the end of 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 = 'Regulatory reintegration quota', or Regulatory depreciation expense.
2. Net debt x 111% of the Selic rate.
3. Calculated according to the method defined by the regulator (Aneel), contained in distribution concession contract.
4. Gross debt, less financial assets.

The efficiency criteria related to the continuity of supply and the economic and financial management to maintain the concession of Cemig D were met in the years ended December 31, 2019 and 2018.

Gas distribution concessions

The concessions for distribution of natural gas are granted by each Brazilian state. In the state of Minas Gerais the tariffs for natural gas are set by the regulator, the State's Economic Development Secretariat, by market segment. The tariffs is comprised of a portion for the cost of gas and a portion for the distribution of gas. Each 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, there are periodic reviews of tariffs. The first periodic review of tariff, referred to the 2018-22 period, was concluded in 2019. These reviews may occurr every five years from the end of the first cycle, to evaluate the changes in the costs of the 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 14, 2018, the Minas Gerais State Department for Economic, Scientific, Technological and Higher Education Development ('Sedectes' or 'the grantor power' and actually 'Sede') presented a study, prepared by *Fundação Getulio Vargas* Business school ("FGV"), related to financial economic rebalancing of the Gasmig concession agreement, also supported by consultation from General Attorney's Office of the State. The rebalancing that has been requested by the grantor consisted of replacing the contractual obligation to build a gas pipeline to serve the Nitrogen Fertilizers Unit (UFN), which should have been built by Petrobras, for the payment of a grant fee estimated by 'Sedects' in R$ 852 million. Based on the study, Sedectes requested a response from Gasmig and began discussion for solution related to imbalance referred to, considering that one of its conditions for extension of the concession contract from 2023 to 2053, as specified in the second amendment to the contract, was the requirement to make investments for the construction of the gas pipeline. For further information, see Note 20 – Intangible Assets.

On September 19, 2019 the Company signed, with the State of Minas Gerais as Concession-granting Power, the Third Amendment to the Concession Contract for Commercial Operation of Industrial, Institutional and Residential Piped Gas Services in the State of Minas Gerais, which represents conclusion of the process of economic-financial rebalancing of the concession contract, upon payment of a grant fee of R$852 million, updated, from its base date of January 1, 2019 to the date of payment, by the DI (Interbank Deposit, extra-grupo) rate. This guarantees maintenance of the period of Gasmig's succession up to 2053.

On September 26, 2019, Gasmig concluded its First Issue of Commercial Promissory Notes, in a single series, in the amount of R$850 million, with maturity at 12 months and interest at 107% of the DI rate, without guarantee or surety. The proceeds of this issue were used in full, on September 26, 2019, to pay the concession grant fee payable to the Grantor Power, updated by the variation in the DI rate from January 1, 2019, in a total amount of R$891.2 million.

Also under the Third Amendment to the Concession Contract, the total value paid for the compensatory grant will be added to the company's Remuneration Base of Assets, and considered in the process of tariff review by the Grantor Power as an intangible asset to be amortized by the end of the concession contract, producing immediate effect in terms of setting and review of tariffs.

5. OPERATING SEGMENTS

The operating segments of the Company and its subsidiaries reflect their management and their organizational structure, used to monitoring its results. They are aligned with the regulatory framework of the Brazilian energy industry.

The Company also operates in the gas market, through its subsidiary Gasmig, and in 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.

The tables below show segment information for 2019 and 2018:

DESCRIÇÃO	ENERGY			GAS	OTHER	ELIMINATIONS	TOTAL
	GENERATION	TRANSMISSION	DISTRIBUTION				
INFORMATION BY SEGMENT AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019							
SEGMENT ASSETS	**14,748,832**	**4,112,858**	**25,616,174**	**2,688,670**	**3,887,602**	**(1,127,084)**	**49,927,052**
INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES	4,133,104	1,237,177	-	-	29,110	-	5,399,391
INVESTMENTS IN AFFILIATES CLASSIFIED AS HELD FOR SALE	-	-	1,258,111	-	-	-	1,258,111
ADDITIONS TO THE SEGMENT	**101,616**	**220,390**	**936.332**	**934.143**	**9.155**	**-**	**2.201.636**
CONTINUING OPERATIONS							
NET REVENUE	**6,882,174**	**713,931**	**15,918,741**	**1,858,211**	**323,934**	**(306,685)**	**25,390,306**
COST OF ENERGY AND GAS							
Energy bought for resale	(3,841,262)	-	(7,516,878)	-	(6)	71,972	(11,286,174)
Charges for use of the national grid	(189,901)	-	(1,458,939)	-	-	222,562	(1,426,278)
Gas bought for resale	-	-	-	(1,435,728)	-	-	(1,435,728)
Total	**(4,031,163)**	**-**	**(8,975,817)**	**(1,435,728)**	**(6)**	**294,534**	**(14,148,180)**
OPERATING COSTS AND EXPENSES							
Personnel	(207,422)	(114,837)	(869,289)	(45,913)	(34,057)	-	(1,271,518)
Employees' and managers' profit sharing	(35,818)	(26,908)	(182,856)	-	(17,426)	-	(263,008)
Post-employment obligations	(49,627)	(38,138)	(276,663)	-	(44,036)	-	(408,464)
Materials	(16,927)	(6,059)	(62,632)	(2,092)	(3,455)	27	(91,138)
Outsourced services	(125,390)	(44,922)	(1,015,880)	(19,788)	(39,667)	7,097	(1,238,550)
Depreciation and amortization	(209,967)	(5,563)	(652,208)	(85,920)	(4,576)	-	(958,234)
Operating provisions (reversals)	(975,363)	(134,843)	(1,100,647)	(1,793)	(188,460)	-	(2,401,106)
Construction costs	-	(220,390)	(936,332)	(42,976)	-	-	(1,199,698)
Other operating expenses, net	(174,888)	(20,116)	(298,633)	(10,128)	(377)	5,027	(499,115)
Total cost of operation	**(1,795,402)**	**(611,776)**	**(5,395,140)**	**(208,610)**	**(332,054)**	**12,151**	**(8,330,831)**
OPERATING COSTS AND EXPENSES	**(5,826,565)**	**(611,776)**	**(14,370,957)**	**(1,644,338)**	**(332,060)**	**306,685**	**(22,479,011)**
Equity in earnings of unconsolidated investees, net	(88,279)	214,564	-	-	(934)	-	125,351
Dividends declared by investee classified as held for sale	-	-	72,738	-	-	-	72,738
OPERATING INCOME BEFORE FINANCE INCOME (EXPENSES)	**967,330**	**316,719**	**1,620,522**	**213,873**	**(9,060)**	**-**	**3,109,384**
Finance income	1,282,018	97,905	1,534,795	21,103	271,029	-	3,206,850
Finance expenses	(1,034,529)	(114,784)	(632,406)	(45,865)	(18,989)	-	(1,846,573)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION TAX	**1,214,819**	**299,840**	**2,522,911**	**189,111**	**242,980**	**-**	**4,469,661**
Income tax and social contribution tax	(550,798)	(36,042)	(805,807)	(47,507)	(125,501)	-	(1,565,655)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**664,021**	**263,798**	**1,717,104**	**141,604**	**117,479**	**-**	**2,904,006**
DISCONTINUED OPERATIONS							
NET INCOME AFTER TAX FROM DISCONTINUED OPERATIONS	**-**	**-**	**224,067**	**-**	**-**	**-**	**224,067**
NET INCOME (LOSS) FOR THE YEAR	**664,021**	**263,798**	**1,941,171**	**141,604**	**117,479**	**-**	**3,128,073**
Equity holders of the parent	664,021	263,798	1,941,171	140,929	117,479	-	3,127,398
Non-controlling interests	-	-	-	675	-	-	675
	664,021	**263,798**	**1,941,171**	**141,604**	**117,479**	**-**	**3,128,073**

The following is a breakdown of the revenue of the Company by activity:

2019	ENERGY			GAS	OTHER	ELIMINATIONS	TOTAL
	GENERATION	TRANSMISSION	DISTRIBUTION				
Revenue from supply of energy	7,037,448	-	19,966,951	-	-	(76,840)	26,927,559
Revenue from Use of Distribution Systems (the TUSD charge)	-	-	2,746,532	-	-	(24,088)	2,722,444
CVA and *Other financial components* in tariff adjustment	-	-	57,988	-	-	-	57,988
Transmission concession revenue	-	702,766	-	-	-	(198,452)	504,314
Transmission construction revenue	-	220,390	-	-	-	-	220,390
Reimbursement revenue – Transmission	-	155,013	-	-	-	-	155,013
Distribution construction revenue	-	-	936,332	42,976	-	-	979,308
Adjustment to expectation of cash flow from Financial assets of distribution concession to be indemnified	-	-	17,839	-	-	-	17,839
Gain on inflation updating of Concession Grant Fee	318,266	-	-	-	-	-	318,266
Transactions in energy on the CCEE	438,555	-	(6,561)	-	-	-	431,994
Supply of gas	-	-	-	2,298,141	-	(27)	2,298,114
Fine for violation of continuity indicator	-	-	(57,897)	-	-	-	(57,897)
PIS/Pasep and Cofins taxes credits over ICMS	413,616	-	830,343	-	183,827	-	1,427,786
Other operating revenues	81,995	27,786	1,468,224	60	152,272	(7,278)	1,723,059
Sector / Regulatory charges reported as Deductions from revenue	(1,407,706)	(392,024)	(10,041,010)	(482,966)	(12,165)	-	(12,335,871)
Net operating revenue	**6,882,174**	**713,931**	**15,918,741**	**1,858,211**	**323,934**	**(306,685)**	**25,390,306**

INFORMATION BY SEGMENT AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018								
DESCRIÇÃO	ENERGY			GAS	TELECOM*	OTHER	ELIMINATIONS	TOTAL
	GENERATION	TRANSMISSION	DISTRIBUTION					
SEGMENT ASSETS	**14,670,719**	**3,862,238**	**37,840,059**	**1,822,176**	**9,584**	**2,606,857**	**(956,960)**	**59,854,673**
INVESTMENTS IN SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES	4,055,190	1,162,879	-	-	-	16,509	-	5,234,578
ADDITIONS TO THE SEGMENT	**558,649**	**95,712**	**856,315**	**70,319**	**8,646**	**195**	**-**	**1,589,836**
CONTINUING OPERATIONS								
NET REVENUE	**6,374,319**	**675,656**	**13,756,860**	**1,618,942**	**-**	**133,704**	**(293,264)**	**22,266,217**
COST OF ENERGY AND GAS								
Energy bought for resale	(3,917,436)	-	(7,237,526)	-	-	(2)	70,770	(11,084,194)
Charges for use of the national grid	(216,413)	-	(1,463,469)	-	-	-	200,468	(1,479,414)
Gas bought for resale	-	-	-	(1,238,085)	-	-	-	(1,238,085)
Total	**(4,133,849)**	**-**	**(8,700,995)**	**(1,238,085)**	**-**	**(2)**	**271,238**	**(13,801,693)**
OPERATING COSTS AND EXPENSES								
Personnel	(229,871)	(108,125)	(965,345)	(59,812)	(17,854)	(29,484)	-	(1,410,491)
Employees' and managers' profit sharing	(10,278)	(6,651)	(50,506)	-	351	(9,677)	-	(76,761)
Post-employment obligations	(45,619)	(26,716)	(224,041)	-	-	(40,629)	-	(337,005)
Materials	(38,516)	(5,059)	(57,526)	(1,802)	(1,209)	(325)	21	(104,416)
Outsourced services	(123,462)	(40,338)	(880,318)	(20,472)	(8,707)	(29,517)	15,405	(1,087,409)
Depreciation and amortization	(164,158)	-	(594,922)	(73,505)	(1,291)	(717)	-	(834,593)
Operating provisions (reversals)	(106,697)	(11,526)	(332,200)	1,516	605	(18,466)	-	(466,768)
Construction costs	-	(95,712)	(756,964)	(44,814)	-	-	-	(897,490)
Other operating expenses, net	(64,961)	(16,906)	(203,352)	(12,884)	(3,218)	(108,878)	6,600	(403,599)
Total	**(783,562)**	**(311,033)**	**(4,065,174)**	**(211,773)**	**(31,323)**	**(237,693)**	**22,026**	**(5,618,532)**
OPERATING COSTS AND EXPENSES	**(4,917,411)**	**(311,033)**	**(12,766,169)**	**(1,449,858)**	**(31,323)**	**(237,695)**	**293,264**	**(19,420,225)**
Equity in earnings of unconsolidated investees, net	(352,389)	230,406	33,655	-	(763)	(14,458)	-	(103,549)
Remeasurement of previously held equity interest in subsidiaries acquired	79,693	-	(52,186)	-	-	(146,624)	-	(119,117)
Adjustment for impairment of Investments	(127,427)	-	-	-	-	-	-	(127,427)
OPERATING INCOME BEFORE FINANCE INCOME (EXPENSES)	**1,056,785**	**595,029**	**972,160**	**169,084**	**(32,086)**	**(265,073)**	**-**	**2,495,899**
Finance income	1,112,547	60,959	433,976	83,537	1,223	13,437	-	1,705,679
Finance expenses	(1,536,595)	(4,507)	(620,874)	(37,649)	(4,871)	(19,665)	-	(2,224,161)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION TAX	**632,737**	**651,481**	**785,262**	**214,972**	**(35,734)**	**(271,301)**	**-**	**1,977,415**
Income tax and social contribution tax	(276,236)	(122,073)	(216,737)	(53,288)	11,500	57,710	-	(599,124)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**356,501**	**529,408**	**568,525**	**161,684**	**(24,234)**	**(213,591)**	**-**	**1,378,293**
DISCONTINUED OPERATIONS								
NET INCOME AFTER TAX FROM DISCONTINUED OPERATIONS (Note 34)	12,253	-	61,239	-	289,928	-	-	363,420
NET INCOME (LOSS) FOR THE YEAR	**368,754**	**529,408**	**629,764**	**161,684**	**265,694**	**(213,591)**	**-**	**1,741,713**
Equity holders of the parent	**360,938**	**529,408**	**598,840**	**160,923**	**265,694**	**(215,704)**	**-**	**1,700,099**
Non-controlling interests	**7,816**	**-**	**30,924**	**761**	**-**	**2,113**	**-**	**41,614**
	368,754	**529,408**	**629,764**	**161,684**	**265,694**	**(213,591)**	**-**	**1,741,713**

(*) On March 31, 2018 Cemig Telecom assets and liabilities were merged into the Company.

The following is a breakdown of the revenue of the Company by activity:

2018	ENERGY			GAS	OTHER	ELIMINATIONS	TOTAL
	GENERATION	TRANSMISSION	DISTRIBUTION				
Revenue from supply of energy	7,064,849	-	17,885,000	-	-	(77,854)	24,871,995
Revenue from Use of Distribution Systems (the TUSD charge)	-	-	2,066,845	-	-	(22,246)	2,044,599
CVA and *Other financial components* in tariff adjustment	-	-	1,973,064	-	-	-	1,973,064
Transmission concession revenue	-	589,055	-	-	-	(178,203)	410,852
Transmission construction revenue	-	95,712	-	-	-	-	95,712
Concession assets – indemnity revenue	-	250,375	-	-	-	-	250,375
Generation assets – indemnity revenue	55,332	-	-	-	-	-	55,332
Distribution construction revenue	-	-	756,964	44,814	-	-	801,778
Adjustment to expectation of cash flow from Financial assets of distribution concession to be indemnified	-	-	325	-	-	-	325
Gain on inflation updating of Concession Grant Fee	321,427	-	-	-	-	-	321,427
Transactions in energy on the CCEE	217,216	-	-	-	2	-	217,218
Supply of gas	-	-	-	1,995,427	-	(21)	1,995,406
Fine for violation of continuity indicator	-	-	(44,326)	-	-	-	(44,326)
Other operating revenues	81,969	28,275	1,344,778	16	143,996	(14,940)	1,584,094
Sector / Regulatory charges reported as Deductions from revenue	(1,366,474)	(287,761)	(10,225,790)	(421,315)	(10,294)	-	(12,311,634)
Net operating revenue	**6,374,319**	**675,656**	**13,756,860**	**1,618,942**	**133,704**	**(293,264)**	**22,266,217**

For further details of operating revenue, see Note 29.

6. CASH AND CASH EQUIVALENTS

	Consolidated		Parent company	
	2019	2018	2019	2018
Bank accounts	209,405	107,516	4,437	7,602
Cash equivalents				
Bank certificates of deposit (CDBs) (1)	289,924	555,008	50,854	21,534
Overnight (2)	36,428	228,280	9,065	25,194
	326,352	783,288	59,919	46,728
	535,757	**890,804**	**64,356**	**54,330**

(1) *Bank Certificates of Deposit* (*Certificados de Depósito Bancário*, or CBDs), accrued interest at 80% to 106%, 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) in 2019 (40% to 106% in 2018). For these CDBs, the Company and its subsidiaries have repo transactions which state, on their trading notes, the bank's commitment to repurchase the security, on demand, on the maturity date of the transaction, or earlier.

(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 4.39% in 2019 (6.39%, in 2018). Their purpose is to settle the short-term obligations of the Company and its subsidiaries, or to be used in the acquisition of other assets with better return to replenish the portfolio.

Note 33 provides information in relation to the exposure of the Company and its subsidiaries to interest rate risks, and a sensitivity analysis of their effects on financial assets and liabilities.

7. MARKETABLE SECURITIES

	Consolidated		Parent company	
	2019	2018	2019	2018
Investments				
Current				
Financial Notes (LFs) – Banks (1)	645,119	434,735	160,531	47,979
Treasury Financial Notes (LFTs)	94,184	253,868	23,437	28,018
Debentures (2)	103	11,292	780	4,129
Others	933	3,656	463	655
	740,339	**703,551**	**185,211**	**80,781**
Non-current				
Financial Notes (LFs) – Banks (1)	11,481	108,443	-	10,647
Debentures	1,825	-	454	-
Others	36	240	-	44
	13,342	**108,683**	**454**	**10,691**
	753,681	**812,234**	**185,665**	**91,472**

(1) Bank Financial Notes (*Letras Financeiras*, or LFs) are fixed-rate fixed-income securities, issued by banks and that accrued interest a percentage of the CDI rate published by Cetip. The LFs had remuneration rates varying between 101.95% and 113% of the CDI rate in 2019 (102% and 111.25% in 2018).

(2) *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 108.25% to 113% of the CDI Rate in 2019 (104.25% to 151% of CDI in 2018).

Note 33 provides a classification of these marketable securities. Investments in marketable securities of related parties are shown in Note 32.

8. CUSTOMERS, TRADERS AND POWER TRANSPORT CONCESSION HOLDERS

	Consolidated					
	Balances not yet due	Up to 90 days past due	More than 91 up to 360 days past due	More than 361 days past due	2019	2018
Billed supply	1,396,256	706,611	431,549	595,790	3,130,206	2,988,791
Unbilled supply	1,203,823	-	-	-	1,203,823	1,048,261
Other concession holders – wholesale supply	38	31,867	14,902	489	47,296	46,978
Other concession holders – wholesale supply, unbilled	203,386	-	-	-	203,386	281,655
CCEE (Wholesale Trading Exchange)	-	-	385,558	-	385,558	165,720
Concession Holders – power transport	79,363	20,353	5,836	81,358	186,910	180,036
Concession Holders – power transport, unbilled	253,151	-	-	-	253,151	212,338
(–) Provision for doubtful receivables	(170,475)	(11,877)	(38,174)	(589,199)	(809,725)	(751,168)
	2,965,542	**746,954**	**799,671**	**88,438**	**4,600,605**	**4,172,611**
Current assets					**4,523,540**	**4,091,722**
Non-current assets					**77,065**	**80,889**

	Parent company					
	Balances not yet due	Up to 90 days past due	More than 91 up to 360 days past due	More than 361 days past due	2019	2018
Billed supply	-	-	38	22,440	22,478	25,843
Unbilled supply	-	-	-	-	-	2,254
(–) Provision for doubtful receivables	-	-	-	(22,284)	(22,284)	(22,284)
	-	**-**	**38**	**156**	**194**	**5,813**
Current assets					**194**	**5,813**

The Company and its subsidiaries' exposure to credit risk related to customers and traders is provided in Note 33.

The allowance for doubtful accounts is considered to be sufficient to cover any potential losses in the realization of accounts receivable, and the breakdown by type of customers is as follows:

	2019	2018
Residential	131,011	136,866
Industrial	197,229	171,732
Commercial, services and others	161,141	188,819
Rural	31,919	33,517
Public authorities	200,530	119,571
Public lighting	2,045	5,615
Public services	31,063	27,318
Charges for use of the network (TUSD)	54,787	67,730
	809,725	**751,168**

Changes in the allowance for doubtful accounts in 2019 and 2018 are as follows:

Consolidated	2019	2018
Opening balances	**751,168**	**567,956**
Effect of adoption of CPC48/IFRS 9 on Jan. 1, 2018	-	150,114
Additions, net (Note 30 d)	237,733	264,416
Disposals	(179,176)	(231,318)
Balance at December 31	**809,725**	**751,168**

In 2019, as a result of changes in the principles of PCLD calculations presented in note 2.7 b), the percentage of loss in relation to the Cemig D's revenue from energy supply caused a reduction in doutbtful accounts of R$46 million at December 31, 2019.

Advances from customers

Cemig GT and Cemig D received advance payments for the sale of energy from certain customers. Advance payments related to services not yet provided are as follows:

	2019	2018
Opening balances	**79,405**	**232,762**
Additions	-	50,000
Disposals	(80,862)	(214,445)
Inflation adjustment (Note 31)	1,457	11,088
Balance at December 31	-	**79,405**

Revenue from advanced sales of energy supply was recognized in the Statement of income as the the energy supply occurred, when the performance obligation was satisfied.

9. RECOVERABLE TAXES

	Consolidated		Parent company	
	2019	2018	2019	2018
Current				
ICMS (VAT)	65,139	79,956	-	2,778
PIS/Pasep	2,937	4,150	24	20
Cofins	7,359	21,463	120	125
Others	23,369	18,614	104	97
	98,804	**124,183**	**248**	**3,020**
Non-current				
ICMS (VAT)	276,851	239,789	-	1,862
PIS/Pasep	1,102,460	3	106,946	3
Cofins	4,967,814	12	382,745	12
Others	2,227	2,552	1,796	1,795
	6,349,352	**242,356**	**491,487**	**3,672**
	6,448,156	**366,539**	**491,735**	**6,692**

The ICMS (VAT) credits that are reported in non-current assets arise mainly from acquisitions of property, plant and equipment, and intangible assets, and can be offset against taxes payable in the next 48 months. The transfer to non-current is made in accordance with management's best estimate of the amounts which will likely be realized after September, 2020.

Credits of PIS/Pasep and Cofins generated by the acquisition of machinery and equipment can be offset immediately.

The credits of PIS/Pasep and Cofins taxes recorded in non-current assets refer to the amounts paid for these taxes that included ICMS tax in their basis of calculation. For more information see Note 10.

10. PIS/PASEP AND COFINS TAXES CREDITS OVER ICMS – FINAL COURT JUDGMENT

On July 16, 2008, Cemig, Cemig GT and Cemig D filed an Ordinary Action for a declaration that it was unconstitutional to include the ICMS value added tax within the taxable amount for calculation of PIS/Pasep and Cofins; and for recognition of these companies' right to offsetting of amounts unduly paid for the 10 years prior to the action being filed, with monetary adjustment by the Selic rate.

In July 2008 the Company and the subsidiaries above referred obtained an interim injunction, and from that time, made escrow deposits into court relating to the inclusion of ICMS tax amounts in the basis for calculation of PIS/Pasep and Cofins taxes. The Company and its subsidiaries maintained this procedure from August 2008 to August 2011, and from then on, although they continued to challenge the basis of calculation in the courts, opted to pay the taxes monthly.

In October 2017, the Federal Supreme Court (STF) published its Joint Judgment on the Extraordinary Appeal, in the form that creates overall precedent, in favor of the Company's argument. In 2017, based on the opinion of its legal advisers, the Company and its subsidiaries reversed the provision related to the escrow deposits made from 2008 to 2011, and also recognized a liability for reimbursement to their customers of the distribution segment.

On May 8, 2019 the Regional Federal Appeal Court of the First Region gave final judgment – against which there is no appeal – on the Ordinary Action, deciding in favor of Cemig, Cemig D and Cemig GT, and recognizing their right to exclude the ICMS amounts from the calculation basis of PIS/Pasep and Cofins taxes, backdated as from five years prior to the action initial filing– that is, from July 2003.

On June 11, 2019, following judgment against which there is no further appeal, Cemig D and Cemig GT applied for release of the escrow deposits, and this took place on February 13, 2020, in the respective amounts of R$1,186,402 and R$196,169, respectively – a total of R$ 1,382,571. Of this amount, R$1,155,340 will be restituted to customers of Cemig D, after Aneel has specified the mechanisms and criteria for reimbursement.

Final court judgment has also been given, against which there is no further appeal, in favor of the similar actions filed by Cemig's wholly-owned subsidiaries Sá Carvalho, Cemig Geração Distribuída, Cemig Geração Poço Fundo S.A. (previously denominated UTE Barreiro S.A.) and Horizontes Energia S.A..

Based on the opinion of its legal advisers, the Company believes that a portion of the credits to be received by Cemig D should be reimbursed to its customers, considering a maximum period for calculation of the reimbursement of 10 years. Thus, Cemig D has constituted a liability corresponding to the credits to be reimbursed to its customers, which comprises the period of the last 10 years, from June 2009 to May 2019, net of PIS/Pasep and Cofins taxes over monetary updating.

The amounts will be reimbursed to customers as from the date when the tax credits are in fact offset, that is still pending approval by the federal tax authority, and the mechanisms and criteria for the reimbursement will be discussed with Aneel.

The Company has two ways to recover the tax credit: (i) offsetting of the amount receivable against amounts payable of PIS/Pasep and Cofins taxes, monthly, within the five-year period specified by the relevant law of limitation; or (ii) receipt of specific credit instruments '*precatórios*' from the federal government.

In Cemig D and Cemig GT, the credits will be offset, to accelerate recovery. For the Company itself, priority will be given to receipt of the credits through *precatório* letters of credit, since the Company does not make enough monthly payments of PIS/Pasep and Cofins taxes to enable offsetting.

Shown below are the accounting effects relating to the recognition of the PIS/Pasep and Cofins taxes credits, including their monetary updating by the Selic rate, and the amounts to be reimbursed to customers at December 31, 2019:

PIS/Pasep and Cofins taxes credits	Cemig	Cemig D	Cemig GT	Others subsidiaries (4)	Total
Effects on the statement of financial position					
Recoverable taxes (July/2003 to May/2019)	489,677	4,926,364	626,019	27,858	6,069,918
Amounts to be restituted to customers (1)	-	(3,037,989)	-	-	(3,037,989)
Taxes payable (2)	(3,602)	(44,564)	(6,063)	(251)	(54,480)
Income tax and social contribution tax	(165,266)	(626,896)	(210,785)	(9,386)	(1,012,333)
Equity	**320,809**	**1,216,915**	**409,171**	**18,221**	**1,965,116**
Effects on net income					
Recovery of PIS/Pasep and Cofins taxes credits - Other operating revenues (3)	183,595	830,343	397,301	16,547	1,427,786
Finance income (5)	306,082	1,034,352	228,718	11,311	1,580,463
PIS/Pasep and Cofins taxes charged on financial revenues (5)	(3,602)	(20,884)	(6,063)	(251)	(30,800)
Income tax and Social contribution tax	(165,266)	(626,896)	(210,785)	(9,386)	(1,012,333)
	320,809	**1,216,915**	**409,171**	**18,221**	**1,965,116**

(1) Amounts to be reimbursed to customers on the PIS/Pasep and Cofins taxes credits for Cemig D, recognized in 2019. The total amount of this line, presented in the Statements of Financial Position consolidated, is R$ 4,193,329. The difference of R$ 1,155,340 is due to the constitution of a liability corresponding to the reversal of the provision related to the escrow deposits made from 2008 to 2011, recorded in 2017.

(2) PIS/Pasep and Cofins taxes on the financial revenues comprising the monetary updating of the tax credits that have been recognized. These taxes applicable to the credits to be reimbursed to customers reduce their total, without effects in the Statement of income.

(3) This refers to the credits recognized in operating profit of 2019, amounting R$ 3,826,284, net of the amounts to be reimbursed to customers, of R$ 2,398,498.

(4) This refers to the credits recognized by the wholly-owned subsidiaries Sá Carvalho, Cemig Geração Distribuída and UTE Barreiro.

(5) It includes financial updating from the date of credits recognition until December 31, 2019, net of PIS/Pasep and Cofins taxes on finance income, in the amounts of R$25,660, in the consolidated, and R$5,006 in the parent.

As a result of the court decision, amounts of ICMS tax were no longer included in the calculation basis of PIS/Pasep and Cofins taxes in the billing of Cemig D's customers as from June 2019, representing an average reduction of approximately 1% in the invoice amount.

11. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Income tax and social contribution tax recoverable

The balances of income tax and social contribution tax refer to tax credits in the corporate income tax returns of previous years and to advance payments which will be offset against federal taxes eventually payable.

	Consolidated		Parent company	
	2019	2018	2019	2018
Income tax	607,719	252,756	191,838	36,023
Social contribution tax	241,497	139,428	33,008	7,652
	849,216	**392,184**	**224,846**	**43,675**
Current	**621,302**	**386,668**	**-**	**41,274**
Non-current	**227,914**	**5,516**	**224,846**	**2,401**

The balances of income tax and social contribution tax posted in non-current assets arise from retentions at source of tax relating to energy supply sold under the *Proinfa* program by companies opting to use the presumed profit method of tax reporting, where the expectation of offsetting is greater than 12 months.

b) Income tax and social contribution tax payable

The balances of income tax and social contribution tax recorded in current liabilities refer mainly to the taxes owed by the subsidiaries which report by the Real Profit method and have opted to make monthly payments based on estimated revenue, and also by the subsidiaries that have opted for the Presumed Profit method, in which payments are made quarterly.

	Consolidated	
	2019	2018
Current		
Income tax	98,712	83,213
Social contribution tax	35,156	28,850
	133,868	**112,063**

c) Deferred income tax and social contribution tax

The Company and its subsidiaries has deferred taxed assets from unused tax loss carryforwards, negative base for the social contribution tax, and deductible temporary differences, at the statutory rates applicable to each legal entity in Brazil of 25% (for Income tax) and 9% (for the social contribution tax), as follows:

	Consolidated		Parent company	
	2019	2018	2019	2018
Deferred tax assets				
Tax loss carryforwards	116,266	373,413	116,266	118,761
Provisions for contingencies	544,015	217,908	67,454	21,829
Impairment on investments	660,204	882,717	382,904	609,159
Provision PUT SAAG	164,166	142,510	-	-
Operating provisions	66,331	39,369	588	1,732
Provisions for profit sharing	71,535	24,586	3,015	1,418
Post-employment obligations	2,089,695	1,476,519	233,090	163,399
Estimated provision for doubtful receivables	283,023	278,897	8,532	8,161
Onerous concession	8,194	7,683	-	-
Others	24,187	26,753	52	-
Total	**4,027,616**	**3,470,355**	**811,901**	**924,459**
Deferred tax liabilities				
Funding cost	(15,985)	(25,254)	-	-
Deemed cost	(231,833)	(239,092)	-	-
Acquisition costs of equity interests	(502,503)	(501,311)	(130,282)	(113,673)
Borrowing costs capitalized	(166,478)	(167,454)	-	-
Taxes on revenues not redeemed – Presumed Profit accounting	(972)	(4,715)	-	-
Adjustment to expectation of cash flow – Concession assets	(761,470)	(804,077)	-	-
Adjustment to fair value: Swap/Gains	(574,921)	(276,534)	-	-
Others	(4,722)	(33,474)	(888)	(1,516)
Total	**(2,258,884)**	**(2,051,911)**	**(131,170)**	**(115,189)**
Total, net	**1,768,732**	**1,418,444**	**680,731**	**809,270**
Total assets	**2,429,789**	**2,146,863**	**680,731**	**809,270**
Total liabilities	**(661,057)**	**(728,419)**	**-**	**-**

The changes in deferred income tax and social contribution tax were as follows:

	Consolidated	Parent company
Balance at December 31, 2017	**1,136,539**	**756,739**
Effects allocated to net profit from continuing operations	(15,850)	43,191
Effect allocated to other comprehensive income	239,390	7,624
Effects allocated to Equity		
First-time adoption of IFRS 9 – effects allocated to equity	51,038	-
Reversal of deemed cost	17,547	-
Transfer to assets held for sale	(3,405)	667
Variations in deferred tax assets and liabilities	(3,514)	-
Deferred taxes arising from merger of subsidiary	-	1,049
Deferred taxes arising from business combination	(3,301)	-
Balance at December 31, 2018	**1,418,444**	**809,270**
Effects allocated to Statement of comprehensive income	543,676	59,919
Effects allocated to net profit from continuing operations	(111,314)	(103,381)
Effects allocated to net profit from discontinuing operations (note 34)	(85,077)	(85,077)
Others	3,003	-
Balance at December 31, 2019	**1,768,732**	**680,731**

On March 19, 2020, the Board of Directors meeting approved the Company's estimated future taxable profits forecast. This forecast was also submitted for examination by the Fiscal Council in the same date.

The Company and its subsidiaries estimated that the balance of deferred tax asset as of December 31, 2019 will be realized, as follows:

	Consolidated	Parent company
2020	658,926	148,400
2021	570,866	128,863
2022	570,540	128,538
2023	572,510	130,509
2024	571,179	129,178
2025 to 2027	658,541	96,234
2028 to 2029	425,054	50,179
	4,027,616	**811,901**

d) Reconciliation of income tax and social contribution tax effective rate

This table reconciles the statutory income tax (rate 25%) and social contribution tax (rate 9%) with the current income tax expense in the Statement of income:

	Consolidated		Parent company	
	2019	2018	2019	2018
Profit before income tax and social contribution tax	**4,469,661**	**1,977,415**	**3,012,419**	**1,309,999**
Income tax and social contribution tax – nominal expense (34%)	(1,519,685)	(672,321)	(1,024,222)	(445,400)
Tax effects applicable to:				
Gain (loss) in subsidiaries by equity method (net of effects of Interest on Equity)	8,445	(61,473)	749,714	495,704
Non-deductible contributions and donations	(12,675)	(5,763)	-	(808)
Tax incentives	65,605	29,053	91	3,097
Difference between Presumed Profit and Real Profit	88,505	89,262	-	-
Non-deductible penalties	(135,492)	(12,041)	(8,585)	(45)
Estimated losses on doubtful accounts receivable from	(233,931)	-		-
Interest on Equity	136,000	71,400	136,000	71,400
Others	37,573	(37,241)	37,914	(41,325)
Income tax and Social Contribution – effective gain (expense)	**(1,565,655)**	**(599,124)**	**(109,088)**	**82,623**
Current tax	**(1,454,341)**	**(583,273)**	**(5,707)**	**39,432**
Deferred tax	**(111,314)**	**(15,851)**	**(103,381)**	**43,191**
	(1,565,655)	**(599,124)**	**(109,088)**	**82,623**
Effective rate	**35.03%**	**30.30%**	**3.62%**	**6.31%**

12. RESTRICTED CASH

The total of restricted cash, R$12,337 (R$90,993 on December 31, 2018), refers to funds used as guarantee issued to energy seller in power purchase agreement and other regulatory and financial obligations of the subsidiaries.

13. ACCOUNTS RECEIVABLE FROM THE STATE OF MINAS GERAIS

The Company has accounts receivable from the State of Minas Gerais, arising from return of an administrative deposit made for a dispute on the rate of inflation and other adjustment to be applied to an advance for future capital increase (‘AFAC’), made in prior years, which was the subject of a debt recognition agreement. The agreement provided for payment by the Minas Gerais State in 12 consecutive monthly installments, each updated by the IGP–M index up to the date of actual payment, the first to become due on November 10, 2017. The agreement 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.

Considering the provision referred to in the previous paragraph, on June 28, 2019 and December 27, 2019, the Company withheld an amount of R$17,892 and R$129,907, respectively, corresponding to the dividends that would have been payable to Minas Gerais State on that dates. The balance receivable on December, 31, 2019, R$115,202 (R$245,566 on December, 31, 2018), was classified as Non-current asset, as a result of the delays in installments past due since January 2018.

Management believes that it will not suffer losses in the realization of these receivables, as the amounts due are subject to the guarantees mentioned above, which the Company intends to execute in the event of non-receipt of the amount agreed in the debt recognition agreement.

14. ESCROW DEPOSITS

	Consolidated		Parent company	
	2019	**2018**	**2019**	**2018**
Labor claims	**354,859**	**334,685**	**41,597**	**41,015**
Tax contingencies				
Income tax on Interest on Equity	28,612	27,852	281	265
PIS/Pasep and Cofins taxes (1)	1,447,839	1,402,117	-	-
Donations and legacy tax (ITCD)	53,045	51,075	52,606	50,635
Urban property tax (IPTU)	79,055	86,906	58,705	69,242
Finsocial tax	39,718	38,455	39,718	38,455
Income and Social Contr. Tax on indemnity for employees' 'Anuênio' benefit (2)	282,071	274,871	13,546	13,200
Income tax withheld at source on inflationary profit	8,574	8,438	8,574	8,437
Contribution tax effective rate (3)	18,062	18,062	-	-
ICMS credits on PP&E	38,740	38,193	-	-
Others (4)	93,144	117,171	65,887	65,416
	2,088,860	**2,063,140**	**239,317**	**245,650**
Others				
Regulatory	43,180	52,701	19,760	29,565
Third party	10,515	9,328	3,703	3,568
Customer relations	6,874	6,132	1,466	987
Court embargo	12,180	12,394	2,868	4,148
Others	23,771	23,132	1,354	1,412
	96,520	**103,687**	**29,151**	**39,680**
	2,540,239	**2,501,512**	**310,065**	**326,345**

(1) This refers to escrow deposits in the action challenging the constitutionality of inclusion of ICMS tax within the amount to which PIS/Pasep and Cofins taxes are applied. On February 13, 2020 Cemig D and Cemig GT received these amounts, totaling R$1,382,571, comprising, respectively, R$1,186,402 and R$196,169. The escrow deposits from the others subsidiaries will be received as their judicial claims actions reach the final judgement. See more details in Note 10 – PIS/Pasep and Cofins taxes credits over ICMS – Final court judgement

(2) See more details in Note 27 – Provisions under the section relating to the 'Anuênio indemnity'.

(3) Escrow deposit in the legal action challenging an infringement claim relating to application of social contribution tax to amounts of cultural and artistic donations and sponsorship, expenses on punitive fines, and taxes with liability suspended.

(4) Includes escrow deposits from legal actions related to INSS and PIS/Pasep and Cofins taxes

15. REIMBURSEMENT OF TARIFF SUBSIDIES

Subsidies on tariffs charged to users of distribution services – TUSD and EUST (Charges for Use of the Transmission System) are reimbursed to distributors through the funds from the Energy Development Account (CDE).

In 2019, the amount recognized as subsidies revenues was R$1,096,826 (R$953,140 in 2018). Of such amounts, Cemig D has a receivable of R$93,673, as of December 31, 2019 (R$ 82,470 in 2018) and Cemig GT has a receivable of R$3,103 (R$8,375 in 2018) in current assets.

16. CONCESSION FINANCIAL AND SECTOR ASSETS AND LIABILITIES

Consolidated	2019	2018
Concession financial assets		
Distribution concessions (16.1)	459,711	395,743
Gas concessions (16.1)	23,663	-
Indemnifiable receivable – Transmission (16.2)	1,280,652	1,296,314
Indemnifiable receivable – Generation (16.3)	816,202	816,202
Concession grant fee – Generation concessions (16.4)	2,468,216	2,408,930
	5,048,444	**4,917,189**
Sector financial assets		
Amounts receivable from Parcel A (CVA) and Other Financial Components (16.5)	881,614	1,080,693
Total	**5,930,058**	**5,997,882**
Current assets	**1,079,743**	**1,070,384**
Non-current assets	**4,850,315**	**4,927,498**

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

	Transmission	Generation	Distribution	Gas	Total
Balances at December 31, 2017	**2,475,838**	**4,237,892**	**369,762**	**-**	**7,083,492**
Effects of first-time adoption of IFRS	(1,092,271)	-	-	-	(1,092,271)
Amounts received	(249,207)	(1,388,985)	-	-	(1,638,192)
Transfers to PP&E	-	-	26,695	-	26,695
Others transfers	-	(532)	(50)	-	(582)
Adjustment of expectation of cash flow from the Concession financial assets	-	-	325	-	325
Monetary updating	161,954	376,757	-	-	538,711
Disposals	-	-	(989)	-	(989)
Balances at December 31, 2018	**1,296,314**	**3,225,132**	**395,743**	-	**4,917,189**
Amounts received	(181,159)	(258,980)	-	-	(440,139)
Transfers of contract assets	44,082	-	48,168	-	92,250
Transfers to intangible assets	-	-	(1,142)	23,663	22,521
Monetary updating	121,415	318,266	17,839	-	457,520
Disposals	-	-	(897)	-	(897)
Balances at December 31, 2019	**1,280,652**	**3,284,418**	**459,711**	**23,663**	**5,048,444**

16.1 Distribution - Financial assets

The energy and gas distribution concession contracts are within the scope of ICPC 01 (IFRIC 12). The financial assets under these contracts refer to the investments made in infrastructure that will paid by grantor at the end of the concession period and they are measured at fair value through profit or loss, in accordance with regulation of the energy segment and concession contracts executed by Cemig and its subsidiaries and the granting authorities.

16.2 Transmission – Indemnifiable receivable

On April 20, 2016, the Mining and Energy Ministry (MME) issued its Ministerial Order 120, which set the amounts ratified by Aneel through its Dispatches, relating to the facilities of the National Grid not yet amortized nor depreciated nor yet reimbursed by the concession-granting power, related to the concession contracts renewed under Law 12,783/2013. These became a component of the Regulatory Remuneration Base of the energy transmission concession holders, as from the 2017 tariff-setting process. These regulations determined the amounts receivable as Permitted Annual Revenue (Receita Anual Permitida - RAP) of the amounts relating to the National Grid.

Based on the regulations of Aneel and the Mining and Energy Ministry, in particular MME Ministerial Order 120/2016 and Aneel Resolution 762/2017, the portion of the Company's receivable rights for which passage of time is required for their payment is governed by CPC 48 (financial asset).

Thus, the portion not yet paid, since the extension of the concessions, for the period January 1, 2013 to June 30, 2017, to be received over a period of eight years, considered as a Financial Component, is classified as a Financial asset, since it no longer involves the construction of infrastructure assets, and represents exclusively the portions not paid in the period 2013 to 2017, updated by the regulatory cost of capital of the transmission sector.

The classification of this portion as a financial asset is based on the non-existence of assets linked to the financial component of the National Grid, for which a performance obligation is required for its receipt. In this context, the Company has the unconditional right to the receivable, specified in Article 15 of Law 12,783/2013 and also in the regulations of Aneel, requiring, basically, only the passage of time for receipt of the amounts payable. Considering that the regulatory cost of capital, previously set by Aneel through its Resolution 762/2017, is used for remuneration of the financial asset recognized, this is classified as measured at amortized cost, in the terms of IFRS 09 / CPC 48, because it is maintained in a business model whose objective is the receipt of contractual cash flows, constituting payment of principal and interest on the principal yet unpaid.

In relation to the facilities of the National Grid linked to the Company's concession contract, Aneel ratified, through its Dispatch 2,181, on august, 16, 2016, homologated the amount of R$892,050, in December, 2012, for the portion of the residual value of assets to be paid to the Company. This amount was recorded as a financial asset, with specific maturity and interest rate, in accordance with its characteristics.

The amount of the indemnity receivable, updated to December 31, 2019, of R$1,280,652 (R$1,296,314 on December, 31, 2018) is classified as a financial asset, at amortized cost, in accordance with IFRS 9, as follows:

- *Portion of remuneration and depreciation not paid since the extensions of concessions*

An amount of R$832,915 (R$936,945 in 2018), corresponding to remuneration and depreciation not paid since the extension of the concessions, until the tariff adjustment of 2017, which will be inflation adjusted using the IPCA (Expanded National Customer Price) index and remunerated at the weighted average cost of capital of the transmission segment as defined by the regulator for the periodic tariff review, to be paid over a period of eight years through the RAP, since July of 2017.

- *Residual Value of transmission assets – injunction awarded to industrial customers*

On April 10, 2017, a preliminary injunction 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 the regulator and the Federal Government requesting suspension of the effects on their tariffs of payment of the residual value of the Existing Basic Network System (RBSE).

The preliminary injunction was partial, with effects related to suspension of the inclusion in the customer 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 – amounting to R$447,737 at December 31, 2019 (R$359,369 at December 31, 2018, inflation-adjusted by the IPCA index.

In compliance with the court decision, the regulator, presented a new calculation, excluding the amounts that refer to the cost of own capital. The Company and its subsidiary Cemig GT believe that this is a provisional decision, and that its right to receive the amount referring to the assets of RBSE is guaranteed by law, so that no adjustment to the amount recorded at December 31, 2019 is necessary.

16.3 Generation – Indemnity receivable

As from August 2013, with the extinction of the concession for various plants operated by Cemig GT under Concession Contract 007/1997, the subsidiary has a right to receive an amount corresponding to the residual value of the infrastructure assets, as specified in the concession contract. These balances are recognized in financial assets, at fair value through profit or loss, and totaled R$ 816,202 on December 31, 2019 and December 31, 2018.

Generation plant	Concession expiration date	Installed capacity (MW)	Net balance of assets based on historical cost	Net balance of assets based on fair value (replacement cost)
Lot D				
UHE Três Marias	July 2015	396	71,694	413,450
UHE Salto Grande	July 2015	102	10,835	39,379
UHE Itutinga	July 2015	52	3,671	6,589
UHE Camargos	July 2015	46	7,818	23,095
PCH Piau	July 2015	18.01	1,531	9,005
PCH Gafanhoto	July 2015	14	1,232	10,262
PCH Peti	July 2015	9.4	1,346	7,871
PCH Dona Rita	Sep. 2013	2.41	534	534
PCH Tronqueiras	July 2015	8.5	1,908	12,323
PCH Joasal	July 2015	8.4	1,379	7,622
PCH Martins	July 2015	7.7	2,132	4,041
PCH Cajuru	July 2015	7.2	3,576	4,252
PCH Paciência	July 2015	4.08	728	3,936
PCH Marmelos	July 2015	4	616	4,265
Others				
UHE Volta Grande	Feb. 2017	380	25,621	70,118
UHE Miranda (1)	Dec. 2016	408	26,710	22,546
UHE Jaguara (1)	Aug. 2013	424	40,452	174,203
UHE São Simão (1)	Jan. 2015	1,710	1,762	2,711
		3,601.70	**203,545**	**816,202**

(1) Investments made after the Jaguara, São Simão and Miranda plants came into operation, in the amounts of R$174,203, R$2,711 and R$22,546, respectively, are recorded as concession financial assets, and the determination of the final amounts to be paid to the Cemig GT is in a process of discussion with Aneel (the regulator). Management of the subsidiary Cemig GT does not expect losses in realization of these amounts.

As specified by the regulator (Aneel), the valuation reports that support the amounts to be received by the Cemig GT in relation to the residual value of the plants, previously operated by Cemig GT, that were included in Lot D and for the *Volta Grande* plant have been submitted to the regulator. The Company and its subsidiaries does not expect any losses in the realization of these amounts.

In 2019, Plubic Hearing 003/2019 was opened to obtain inputs on improvement of the regulation of criteria and procedures for calculation of investments in revertible assets, not yet amortized or not depreciated, of generation concessions (whether extended or not), under Law 12,783/2013. Technical Note 096/2019 was published on September 30, 2019. However the Normative Resolution has not yet been voted on by the Council of Aneel; the Company's management does not expect losses in realization of these amounts.

16.4 Concession grant fee – Generation concessions

The concession grant fee paid by the Cemig GT for a 30-year concession contracts No. 08 to 16/2016, related to 18 hydroelectric plants of Auction 12/2015, won by Cemig GT, was an amount of R$ 2,216,353. The amount of the concession fee was recognized as a financial asset measured at amortized cost, as Cemig GT has an unconditional right to receive the amount paid, updated by the IPCA Index and remuneratory interest (the total amount of which is equal to the internal rate of return on the project), during the period of the concession.

The changes in concession financial assets are as follows:

SPC	Plants	2018	Monetary updating	Amounts received	2019
Cemig Geração Três Marias S.A.	Três Marias	1,369,900	171,675	(139,150)	1,402,425
Cemig Geração Salto Grande S.A.	Salto Grande	429,910	54,131	(43,883)	440,158
Cemig Geração Itutinga S.A.	Itutinga	160,601	22,855	(18,657)	164,799
Cemig Geração Camargos S.A.	Camargos	120,452	17,022	(13,889)	123,585
Cemig Geração Sul S.A.	Coronel Domiciano, Joasal, Marmelos, Paciência and Piau	157,217	23,815	(19,542)	161,490
Cemig Geração Leste S.A.	Dona Rita, Ervália, Neblina, Peti, Sinceridade and Tronqueiras	106,697	17,899	(14,839)	109,757
Cemig Geração Oeste S.A.	Cajurú, Gafanhoto and Martins	64,153	10,869	(9,020)	66,002
Total		**2,408,930**	**318,266**	**(258,980)**	**2,468,216**

SPC	Plants	2017	Monetary updating	Amounts received	2018
Cemig Geração Três Marias S.A.	Três Marias	1,330,134	173,892	(134,126)	1,369,900
Cemig Geração Salto Grande S.A.	Salto Grande	417,393	54,816	(42,299)	429,910
Cemig Geração Itutinga S.A.	Itutinga	155,594	22,990	(17,983)	160,601
Cemig Geração Camargos S.A.	Camargos	116,710	17,129	(13,387)	120,452
Cemig Geração Sul S.A.	Coronel Domiciano, Joasal, Marmelos, Paciência and Piau	152,170	23,884	(18,837)	157,217
Cemig Geração Leste S.A.	Dona Rita, Ervália, Neblina, Peti, Sinceridade and Tronqueiras	103,133	17,867	(14,303)	106,697
Cemig Geração Oeste S.A.	Cajurú, Gafanhoto and Martins	62,001	10,847	(8,695)	64,153
Total		**2,337,135**	**321,425**	**(249,630)**	**2,408,930**

Of the energy produced by these plants, 70% is sold in the Regulated Market (ACR) and 30% in the Free Market (ACL).

Sector assets and liabilities

16.5 Account for compensation of variation of parcel A items (CVA) and *Other financial components*

The Amendment that extended concession period of Cemig D guarantees that, in the event of termination of the concession contract, for any reason, the remaining balances (assets and liabilities) of any shortfall in payment or reimbursement through the tariff must also be paid by the grantor. The balances on (i) the CVA (*Compensation for Variation of Parcel 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 to monetary adjustment using the Selic rate and considered in the subsequent tariff adjustments.

The balance of these sector financial assets and liabilities, which are presented at net value, in assets or liabilities, in accordance with the tariff adjustments that have been authorized or are to be ratified, are as follows:

Balance sheet	2019			2018		
	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	**1,286,413**	**2,144,280**	**3,430,693**	**1,184,458**	**2,545,994**	**3,730,452**
Current assets	1,286,413	1,269,049	2,555,462	1,184,458	1,505,264	2,689,722
Non-current assets	-	875,231	875,231	-	1,040,730	1,040,730
Liabilities	**(882,425)**	**(1,666,654)**	**(2,549,079)**	**(1,140,507)**	**(1,509,252)**	**(2,649,759)**
Current liabilities	(882,425)	(1,032,876)	(1,915,301)	(1,140,507)	(902,341)	(2,042,848)
Non-current liabilities	-	(633,778)	(633,778)	-	(606,911)	(606,911)
Total current, net	**403,988**	**236,173**	**640,161**	**43,951**	**602,923**	**646,874**
Total non-current, net	**-**	**241,453**	**241,453**	**-**	**433,819**	**433,819**
Total, net	**403,988**	**477,626**	**881,614**	**43,951**	**1,036,742**	**1,080,693**

Financial components	2019			2018		
	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 'Parcel A'						
Energy Development Account (CDE) quota	118,775	29,398	148,173	1,172	220,016	221,188
Tariff for use of transmission facilities of grid participants	(18,157)	113,801	95,644	24,263	(5,577)	18,686
Tariff for transport of Itaipu supply	8,691	16,069	24,760	2,266	15,580	17,846
Alternative power source program (Proinfa)	10,542	(5,859)	4,683	3,106	5,154	8,260
ESS/EER System Service/Energy Charges	(161,253)	(135,703)	(296,956)	(246,181)	(287,474)	(533,655)
Energy bought for resale	661,108	631,920	1,293,028	667,149	1,401,917	2,069,066
Other financial components						
Over contracting of supply	(83,718)	215,508	131,790	(204,056)	(12,920)	(216,976)
Neutrality of Parcel A	(29,697)	(11,915)	(41,612)	53,008	(14,883)	38,125
Other financial items	(70,219)	(206,481)	(276,700)	(235,964)	(211,525)	(447,489)
Tariff Flag balances (1)	-	(102,976)	(102,976)	-	(11,215)	(11,215)
Excess demand and reactive power	(32,084)	(66,136)	(98,220)	(20,812)	(62,331)	(83,143)
TOTAL	**403,988**	**477,626**	**881,614**	**43,951**	**1,036,742**	**1,080,693**

(1) In 2017 and 2018 Cemig D over contracted and the gain arising from the sale of the excess of energy in the spot market was provisionally passed through to customers by Aneel in the tariff adjustments of 2018 and 2019, including the portion in excess of the limit of 105% of the regulatory load – thus reducing the tariff that was determined. To establish whether this is a voluntary over contracting, the Company considers that the portion above the regulatory limit will be recovered in the subsequent tariff adjustment, when Aneel publishes the Dispatch that makes the numbers in question official. The Company has no expectation of loss in relation to realization of these amounts. The Company recognizes this receivable asset, in the amount of R$ 216,852, as 'Other financial components', to be approved by Aneel in the next forthcoming tariff adjustments.

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

Changes in balances of financial assets and liabilities:

Balance at December 31, 2017	**(45,790)**
Additions	1,638,462
Amortization	334,602
Others – R&D Reimbursement	(114,782)
Payments from the Flag Tariff Centralizing Account	(793,822)
Updating – Selic rate (Note 31)	62,023
Balance at December 31, 2018	**1,080,693**
Additions	723,680
Amortization	(665,692)
Payments from the Flag Tariff Centralizing Account	(362,469)
Updating – Selic rate (Note 31)	105,402
Balance at December 31, 2019	**881,614**

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-through of funds from the Flag Account in 2019 totaled R$362,469 (R$793,822 in 2018) and were recognized as a partial realization of the CVA receivable previously constituted.

17. CONCESSION CONTRACT ASSETS

Under IFRS 15 / CPC 47 – *Revenue from contracts with customers*, concession infrastructure assets during the period of construction for which the right to consideration depends on satisfaction of a performance obligations are classified as Contract assets. The balances of these on December, 31, 2019 were as follows:

	2019	2018
Distribution – Infrastructure assets under construction	740,044	518,162
Gas – Infrastructure assets under construction	67,951	81,475
Transmission – Indemnity assets incorporated into the Assets Remuneration Base	347,691	492,405
Transmission – Assets remunerated by tariff	848,543	636,905
	2,004,229	**1,728,947**
Current	**171,849**	**130,951**
Non-current	**1,832,380**	**1,597,996**

Changes in concession contract assets are as follows:

	Transmission	Distribution	Gas	Total
Balance at December 31, 2017	**-**	**-**	**-**	**-**
Effects of initial adoption of CPC 47 / IFRS 15	1,092,271	531,750	89,497	1,713,518
Additions	95,712	726,713	70,228	892,653
Inflation adjustment	88,421	-	-	88,421
Amounts received	(161,527)	-	-	(161,527)
Adjustment to expected contract cash flow from the concession	12,934	-	-	12,934
Transfers to financial assets	-	(26,695)	-	(26,695)
Transfers to intangible assets	-	(671,577)	(78,250)	(749,827)
Transfers to PP&E	1,499	-	-	1,499
Provision for impairment	-	(42,029)	-	(42,029)
Balance at December 31, 2018	**1,129,310**	**518,162**	**81,475**	**1,728,947**
Additions	220,390	902,421	42,976	1,165,787
Inflation adjustment	33,598	-	-	33,598
Adjustment to expected contract cash flow from the concession	14,389	-	-	14,389
Amounts received	(153,583)	-	-	(153,583)
Disposals	(3,794)	-	(1,138)	(4,932)
Transfers to financial assets	(44,082)	(48,168)	-	(92,250)
Transfers to intangible assets	-	(629,706)	(55,362)	(685,068)
Transfers to PP&E	6	-	-	6
Provision for impairment	-	(2,665)	-	(2,665)
Balance at December 31, 2019	**1,196,234**	**740,044**	**67,951**	**2,004,229**

The amount of additions in the period ended December 31, 2019 includes R$20,733 under the heading Capitalized borrowing costs, as presented in Note 24.

On December 31, 2019 the Company posted a provision for impairment of certain assets in progress, totaling R$28,681 (R$42,029 on December 31, 2018); a loss of R$26,016 was posted in 2Q19. These amounts are recognized in Other costs and expenses in the Income statement. The Company has not identified any evidence of impairment of the others contract assets, with definite expected useful life. The Company doesn't have any contract asset with indefinite useful life.

Energy and gas distribution activities

The concession infrastructure assets still under construction are recognized initially as contract assets, considering the right of the subsidiaries Cemig D and Gasmig to charge for the services provided to customers or receive an indemnity at the end of the concession for assets not yet amortized. New assets are recorded initially as contract assets, measured at amortized cost, including capitalized borrowing costs. When the asset start operations, the construction performance obligation is concluded, and the assets are split into financial assets and intangible assets.

The transmission activity

The assets linked to the infrastructure of the transmission concession are now classified as contract assets, considering the performance obligations during the period of the concession, namely the obligations to build, operate and maintain transmission lines and keep them available. The assets posted in this line are:

Remaining balance to be received through RAP - The portion of the RAP relating to the facilities of the National Grid arising from the regulatory reintegration quota incorporated into the Remuneration Base, under Mining and Energy Ministry Order 120/2016 and Aneel Resolution 762/2017, is classified as a contractual asset, since satisfaction of the performance obligation linked to their construction occurs during their useful life (availability of the network).

The right to the consideration linked to these assets depends on the availability of the network, since they were reincorporated into the Remuneration Base by the renewal of the concession contract, under Law 12,783/2013, and will be received for the remaining period of their useful life, as and when the services of operation and maintenance are rendered.

Thus, the asset is recognized, under IFRS 15 / CPC 47, as a contract asset, representing the performance concluded prior to the right to receipt of the consideration, which will take place during the utilization of the infrastructure built, for the period of its useful life, in accordance with Aneel Resolution 762/2017, concomitantly with the provision of services of operation and maintenance, which are necessary for availability of the network.

The remaining balance of the indemnity for transmission, due to acceptance of the terms of Law 12,783/13, of R$347,691, at December 31, 2019 (R$492,405 at December 31, 2018, classified as financial assets) was incorporated into the Assets Remuneration Base and is being recovered through the Annual Permitted Revenue (RAP).

Transmission – Assets remunerated by tariff - For new assets related to improvements and upgrades of facilities constructed by transmission concession holders, the regulator (ANEEL) calculates an additional portion of Permitted Annual Revenue (RAP) from the date that the new facilities enter commercial operation.

Under the *Proret*, the revenue established in the Resolutions is payable to the transmission concession holders as from the date of start of commercial operation of the facilities. In the periods between tariff reviews, the revenues associated with the improvements and upgrades of facilities are provisional. They are then finally determined in the review immediately subsequent to the start of commercial operation of the facilities; this review then has effect starting on the date when commercial operations begin. The balance receivable on December 31, 2019 was R$848,543 (R$636,905 on December, 31, 2018).

A counterpart entry is posted for the activity of implementation of infrastructure (during the phase of works), linked to completion of performance, and of the performance obligations to operate and maintain, and not only to the passage of time. Revenue and costs related to formation of these assets are recognized as costs incurred.

18. INVESTMENTS

Investees	Control	Consolidated		Parent company	
		2019	2018	2019	2018
Cemig Geração e Transmissão	Subsidiary	-	-	5,217,692	5,064,127
Hidrelétrica Cachoeirão	Jointly-controlled	53,728	49,213		-
Guanhães Energia (1)	Jointly-controlled	131,076	-	-	-
Hidrelétrica Pipoca	Jointly-controlled	30,730	30,629	-	-
Retiro Baixo	Jointly-controlled	180,043	170,720	-	-
Aliança Norte (*Belo Monte* Plant)	Jointly-controlled	671,166	663,755	-	-
Madeira Energia (*Santo Antônio* Plant)	Affiliated	166,617	270,090	-	-
FIP Melbourne (*Santo Antônio* Plant)	Affiliated	384,809	470,022	-	-
Lightger (1)	Jointly-controlled	127,976	-	-	
Baguari Energia	Jointly-controlled	157,499	162,224	-	-
Aliança Geração	Jointly-controlled	1,191,550	1,216,860	-	-
Amazônia Energia (*Belo Monte* Plant)	Jointly-controlled	1,027,860	1,012,635	-	-
Cemig Distribuição	Subsidiary	-	-	4,708,208	4,642,358
TAESA	Jointly-controlled	1,213,193	1,143,189	1,213,193	1,143,189
Ativas Data Center	Affiliated	16,114	16,509	16,114	16,509
Gasmig	Subsidiary	-	-	1,410,950	1,439,005
Cemig Geração Distribuída	Subsidiary	-	-	10,798	2,741
LEPSA (2)	Subsidiary	-	-	-	5,099
RME (2)	Subsidiary	-	-	-	47,155
Efficientia	Subsidiary	-	-	17,156	17,532
UFV Janaúba Geração de Energia Elétrica Distribuída	Affiliated	10,050	9,042	-	-
Companhia de Transmissão Centroeste de Minas	Jointly-controlled	23,984	19,690	23,984	19,690
Axxiom Soluções Tecnológicas (1)	Jointly-controlled	12,996	-	12,996	8,301
Total of investments		**5,399,391**	**5,234,578**	**12,631,091**	**12,405,706**
Itaocara – provision for losses (3)	Jointly-controlled	(21,810)	-	-	-
Total		**5,377,581**	**5,234,578**	**12,631,091**	**12,405,706**

(1) With the cessation of control of Light, the remaining equity interest in these investees was recognized as an investment in affiliate or jointly-controlled subsidiaries, and measured by the equity method, in accordance with IFRS 10. For more details please see Notes 1 and 34.

(2) On April 24, 2019 Cemig completed merger of its wholly-owned subsidiaries RME and Lepsa, whose only material asset was the investment in Light. The book value used for merger was calculated by appraisal approved by Extraordinary General Meeting held on March 25, 2019.

(3) On December 31, 2019, the investee had negative shareholders' equity. Thus, after reducing the accounting value of its interest to zero, the Company recognized the provision for losses on investments, in the amount of R$21,810, resulting from contractual obligations assumed with the subsidiary and the other shareholders.

The Company's investees that are not consolidated are jointly-controlled entities, with the exception of the interests in the *'Santo Antônio'* power plant, UFV Janaúba Geração de Energia Elétrica Distribuída and Ativas Data Center. As per Note 1, on July 17, 2019 the Company ceased to have control of Light, as from completion of the restricted primary and secondary offering for distribution of shares carried out by that investee. As a result of the plan for sale of the investee being maintained, the Company classifies the investment as held for sale, in Current assets, as per Note 34.

a) Right to exploitation of the regulated activity

In the process of allocate the purchase price for of the acquisition of the jointly-controlled subsidiaries and affiliates, a valuation was made for the intangible assets relating to the right to operate the infrastructure. This asset is presented together with the acquisition cost of the investments in the previous table. These assets will be amortized over the remaining period of the concessions on a straight-line basis.

Changes in these assets are as follows:

PARENT COMPANY							
Investees	**2017**	**Amortization**	**Written off**	**Additions**	**2018**	**Amortization**	**2019**
Lightger	-	-	-	83,990	83,990	(2,501)	81,489
TAESA	188,745	(9,321)	-	-	179,424	(9,321)	170,103
Light	186,437	(20,499)	(165,938)	-			-
Gasmig	457,273	(15,257)	-	-	442,016	(15,256)	426,760
RME	43,365	(5,064)	(58,487)	20,186	-	-	-
TOTAL	**875,820**	**(50,141)**	**(224,425)**	**104,176**	**705,430**	**(27,078)**	**678,352**

CONSOLIDATED							
Investees	**2017**	**Amortization**	**Written off**	**Additions**	**2018**	**Amortization**	**2019**
Cemig Geração e Transmissão							
Retiro Baixo	28,344	(2,069)	-	5,691	31,966	(1,390)	30,576
Central Eólica Praias de Parajuru (1)	16,503	(1,415)	(15,088)	-	-	-	-
Central Eólica Volta do Rio (1)	11,035	(871)	(10,164)	-	-	-	-
Central Eólica Praias de Morgado (1)	23,956	(1,943)	(22,013)	-	-	-	-
Madeira Energia (*Santo Antônio* Plant)	151,384	(5,957)	(127,427)	-	18,000	(737)	17,263
Lightger	-	-	-	83,990	83,990	(2,501)	81,489
Aliança Geração	402,844	(25,310)	-	-	377,534	(25,309)	352,225
Aliança Norte (*Belo Monte* Plant)	54,546	(1,971)	-	-	52,575	(1,972)	50,603
TAESA	188,745	(9,321)	-	-	179,424	(9,321)	170,103
Light	186,437	(20,499)	(165,938)	-	-	-	-
RME	43,365	(5,064)	(58,487)	20,186	-	-	-
TOTAL	**1,107,159**	**(74,420)**	**(399,117)**	**109,867**	**743,489**	**(41,230)**	**702,259**

(1) Changes arising from the elimination of crossover holding of the assets between Cemig GT and Energimp that occurred in 2018. As from 2018 the investees *Central Eólica Praias de Parajuru* and *Central Eólica Volta do Rio* are being consolidated by Cemig GT.

b) This table shows the changes in investments in subsidiaries, jointly-controlled entities and affiliates:

PARENT COMPANY							
Investee	2018	Gain (loss) by equity method (Income statement)	Gain (loss) by equity method (Other comprehensive income)	Dividends	Additions / acquisitions	Others	2019
Cemig Geração e Transmissão	5,064,127	832,578	(220,974)	(458,039)	-	-	5,217,692
Cemig Distribuição	4,642,358	1,644,366	(718,083)	(860,433)	-	-	4,708,208
Ativas Data Center	16,509	(395)	-	-	-	-	16,114
Gasmig	1,439,005	141,296	-	(168,486)	-	(865)	1,410,950
Cemig Geração Distribuída	2,741	(1,336)	-	(944)	10,337	-	10,798
LEPSA (1)	5,099	9	-	-	-	(5,108)	-
RME (1)	47,155	6,652	-	-	-	(53,807)	-
Efficientia	17,532	1,080	-	(1,456)	-	-	17,156
Companhia de Transmissão Centroeste de Minas	19,690	4,294	-	-	-	-	23,984
Axxiom Soluções Tecnológicas	8,301	(4,402)	-	-	9,097	-	12,996
Taesa	1,143,189	210,269	-	(141,182)	-	917	1,213,193
	12,405,706	**2,834,411**	**(939,057)**	**(1,630,540)**	**19,434**	**(58,863)**	**12,631,091**

(1) Changes included in the Others column arise from the merger of RME and LEPSA in April 2019.

PARENT COMPANY										
Investee	**2017**	**Gain (loss) by equity method (Income statement)**	**Remeasurement of previously held equity interest in subsidiaries acquired (step-acquisition)**	**Gain (loss) by equity method (Other comprehensive income)**	**Dividends**	**Additions / acquisitions**	**Disposals**	**Reclassification to held for sale**	**Others**	**2018**
Cemig Geração e Transmissão(5)	4,793,832	590,783	83,990	(101,586)	(302,892)	-	-	-	-	5,064,127
Cemig Distribuição (2)/(6)	3,737,310	534,870	-	(348,311)	(282,435)	1,100,000	-	-	(99,076)	4,642,358
Cemig Telecom (1)	247,313	4,778	-	(416)	-	-	-	-	(251,675)	-
Ativas Data Center (1)	-	(607)	-	-	-	-	-	-	17,116	16,509
Rosal Energia (3)	106,897	15,389	-	-	(16,342)	-	(123,490)	-	17,546	-
Sá Carvalho (3)	102,536	17,703	-	-	(29,722)	-	(90,517)	-	-	-
Gasmig	1,418,271	168,523	-	-	(140,443)	-	-	-	(7,346)	1,439,005
Horizontes Energia (3)	53,165	12,346	-	-	(19,029)	-	(46,482)	-	-	-
Cemig Geração Distribuída	4,932	(1,877)	-	-	(314)	-	-	-	-	2,741
Cemig PCH (3)	96,944	29,134	-	-	(30,747)	-	(95,330)	-	(1)	-
LEPSA (2)	455,861	12,545	(21,569)	-	(7,689)	-	-	(412,474)	(21,575)	5,099
RME (2)	383,233	2,755	(52,186)	-	(1,200)	103,788	-	(335,067)	(54,168)	47,155
Light (2)/(4)	1,083,140	6,416	(209,046)	-	-	-	-	(837,361)	(43,149)	-
UTE Barreiro (3)	17,982	376	-	-	-	-	(18,358)	-	-	-
Empresa de Comercialização de Energia Elétrica (3)	18,403	48,207	-	-	(44,051)	-	(22,558)	-	(1)	-
Efficientia	7,084	1,609	-	-	(231)	9,070	-	-	-	17,532
Cemig Comercializadora de Energia Incentivada (3)	2,004	990	-	-	(220)	-	(2,774)	-	-	-
Companhia de Transmissão Centroeste de Minas	20,584	5,128	-	-	(6,022)	-	-	-	-	19,690
Cemig Trading (3)	29,206	49,036	-	-	(54,588)	-	(23,654)	-	-	-
Axxiom Soluções Tecnológicas	11,866	(3,565)	-	-	-	-	-	-	-	8,301
Taesa (2)	1,101,462	225,278	-	-	(208,131)	-	-	-	24,580	1,143,189
Cemig Overseas	158	(277)	-	-	-	57	-	-	62	-
	13,692,183	**1,719,540**	**(198,811)**	**(450,313)**	**(1,144,056)**	**1,212,915**	**(423,163)**	**(1,584,902)**	**(417,687)**	**12,405,706**

(1) Changes included in the *Others* column arise from the merger of Cemig Telecom in March 2018. For more details please see Note 1.

(2) The movement included in the Others column arises from first adoption of the new accounting pronouncements on January 1, 2018, recognized by the investees directly in equity without inclusion in the Income statement.

(3) The movement in the disposals column refers to the transfer to Cemig GT all ownership in Cemig's wholly-owned subsidiaries.

(4) In the discontinued operation column and assets classified as held for sale, shows the effects of the reclassification of the investment as non-current assets classified as held for sale, , in accordance with CPC 31/IFRS 5;

(5) The movement included in remeasurement of previously held equity interest in subsidiaries acquired column, refers to the remeasurement arises from business combination, in accordance with CPC 15 (R1)/IFRS 3, of previously held equity interest in Lightger.

(6) The Company Board of Directors authorized transfer to Cemig D of up to R$2,750,000, in the form of an Advance against Future Capital Increase ('*Adiantamento para Futuro Aumento de Capital'*, or AFAC). Of the total amount tranferred to Cemig D in the form of AFAC, 1,100,000 ocurred in 2018 and the remaining amount in the past periods. An Extraordinary General Shareholders' Meeting held on August 7, 2019 approved increase in the share capital of Cemig D by R$2,600,000, through subscription of the total amount of the funds from Advances for Future Capital Increase (AFACs), paid in by the Company.

CONSOLIDATED							
Investees	**31/12/2018**	**Gain (loss) by equity method (Income statement)**	**Dividends**	**Additions / acquisitions**	**Others**	**Remeasurement of equity interest held in subsidiaries after loss of control**	**31/12/2019**
Companhia de Transmissão Centroeste de Minas	19,690	4,294	-	-	-	-	23,984
Hidrelétrica Cachoeirão	49,213	10,473	(5,958)	-	-	-	53,728
Guanhães Energia (1)	-	(184)	-	-	-	131,260	131,076
Hidrelétrica Pipoca	30,629	4,475	(4,374)	-	-	-	30,730
Madeira Energia (Santo Antônio Plant)	270,090	(103,473)	-	-	-	-	166,617
FIP Melbourne (Santo Antônio Plant)	470,022	(85,213)	-	-	-	-	384,809
Lightger (1)	-	6	-	-	-	127,970	127,976
Baguari Energia	162,224	22,401	(27,126)	-	-	-	157,499
Amazônia Energia (Belo Monte Plant)	1,012,635	15,098	-	127	-	-	1,027,860
Aliança Norte (Belo Monte Plant)	663,755	6,458	-	953	-	-	671,166
Ativas Data Center	16,509	(395)	-	-	-	-	16,114
Taesa	1,143,189	210,270	(141,183)	-	917	-	1,213,193
Usina Hidrelétrica Itaocara S.A. (1) (2)	-	(49,710)	-	23,088	21,810	4,812	-
Aliança Geração	1,216,860	77,723	(103,033)	-	-	-	1,191,550
Retiro Baixo	170,720	12,659	(3,336)	-	-	-	180,043
UFV Janaúba Geração de Energia Elétrica Distribuída	9,042	1,008	-	-	-	-	10,050
Axxiom Soluções Tecnológicas (1)	-	(539)	-	9,097	-	4,438	12,996
Total of investments	**5,234,578**	**125,351**	**(285,010)**	**33,265**	**22,727**	**268,480**	**5,399,391**
Itaocara – provision for losses (2)	-	-	-	-	(21,810)	-	(21,810)
Total	**5,234,578**	**125,351**	**(285,010)**	**33,265**	**917**	**268,480**	**5,377,581**

(1) With the cessation of control of Light, the remaining equity interest in these investees was recognized as an investment in affiliates or jointly-controlled subsidiaries, and measured by the equity method, in accordance with IFRS 10. For more details please see Notes 1 and 34.

(2) On December 31, 2019, the investee had negative shareholders' equity. Thus, after reducing the accounting value of its interest to zero, the Company recognized the provision for losses on investments, in the amount of R$21,810, resulting from contractual obligations assumed with the subsidiary and the other shareholders

CONSOLIDATED									
Investees	**31/12/2017**	**Gain (loss) by equity method (Income statement)**	**Remeasurement of previously held equity interest in subsidiaries acquired (step-acquisition)**	**Dividends**	**Additions / acquisitions**	**Disposals**	**Reclassification to held for sale**	**Others**	**31/12/2018**
Companhia de Transmissão Centroeste de Minas	20,584	5,128	-	(6,022)	-	-	-	-	19,690
Light (1)	1,534,294	18,961	(230,614)	(7,689)	-	-	(1,254,786)	(60,166)	-
Axxiom Soluções Tecnológicas	11,866	(7,469)	-	-	-	-	(4,397)	-	-
RME (1)	383,233	2,755	(52,186)	(1,200)	103,788	-	(326,320)	(110,070)	-
Hidrelétrica Cachoeirão	57,957	10,065	-	(18,809)	-	-	-	-	49,213
Guanhães Energia	25,018	29,734	-	-	56,811	-	(111,563)	-	-
Hidrelétrica Pipoca	26,023	6,886	-	(2,280)	-	-	-	-	30,629
Madeira Energia (Santo Antônio Plant) (2) (4)	534,761	(162,564)	-	-	25,320	-	-	(127,427)	270,090
FIP Melbourne (Santo Antônio Plant) (4)	582,504	(138,634)	-	-	26,152	-	-	-	470,022
Lightger	40,832	2,815	83,990	(1,779)	-	-	(125,858)	-	-
Baguari Energia	148,422	28,411	-	(14,609)	-	-	-	-	162,224
Central Eólica Praias de Parajuru (3)	60,101	(6,011)	20,829	-	74,398	(3,437)	-	(145,880)	-
Central Eólica Volta do Rio (3)	67,725	(15,835)	58,864	-	92,298	(22,076)	-	(180,976)	-
Central Eólica Praias de Morgado (3)	50,569	(15,455)	-	-	-	(11,822)	-	(23,292)	-
Amazônia Energia (Belo Monte Plant)	866,554	80,001	-	-	69,157	-	-	(3,077)	1,012,635
Ativas Data Center	17,450	(1,370)	-	-	-	-	-	429	16,509
Taesa (1)	1,101,462	225,278	-	(208,131)	-	-	-	24,580	1,143,189
Renova	282,524	(282,524)	-	-	-	-	-	-	-
Usina Hidrelétrica Itaocara S.A.	3,699	(3,925)	-	-	5,421	-	(5,195)	-	-
Aliança Geração	1,242,170	65,354	-	(90,664)	-	-	-	-	1,216,860
Aliança Norte (Belo Monte Plant)	576,704	44,483	-	-	42,568	-	-	-	663,755
Retiro Baixo	157,773	10,394	-	(3,138)	5,691	-	-	-	170,720
UFV Janaúba Geração de Energia Elétrica Distribuída	-	(27)	-	-	9,069	-	-	-	9,042
Total do Investimento	**7,792,225**	**(103,549)**	**(119,117)**	**(354,321)**	**510,673**	**(37,335)**	**(1,828,119)**	**(625,879)**	**5,234,578**

(1) The movement included in the Others column arises from first adoption of the new accounting pronouncements on January 1, 2018, recognized by the investees directly in equity without inclusion in the Income statement. The column *Reclassification to held for sale* includes the effect of the reclassification of the investment in Light, Axxion, Lightger, Guanhães and Itaocara to *Non-current assets held for sale*, in accordance with CPC 31/IFRS 5.

(2) Due to the result of analysis of impairment indication, due to the recurring losses incurred by Madeira, a provision was recognized for loss of part of the residual added value of the investment in Madeira, to limit its balance to the minimum value of the excess of future economic benefits arising from use of the net fixed asset on December, 31, 2018, using the nominal WACC of 9.59% as the discount rate. The provision is presented in the statement of income for the year ended December, 31, 2018 as *Impairment loss on Investments*.

(3) Movements arising from the business combination between Cemig GT and Energimp. The rights to exploitation of the regulated activity are classified in the statements of financial position under Intangible.

(4) In October 2018 the subsidiary Cemig GT subscribed capital increases in Mesa and FIP Melbourne, of R$25,320 and R$26,152, respectively. These funds were entirely applied in capital contributions to Santo Antônio Energia S.A. ('Saesa' or '*Santo Antônio* Hydroelectric Plant').

Changes in dividends receivable are as follows:

	2019		2018	
	Consolidated	Parent company	Consolidated	Parent company
Opening balances	**119,743**	**945,584**	**76,893**	**603,049**
Investees' dividends proposed	285,010	1,630,540	354,321	1,144,056
Investees' dividends proposed held for sale	72,738	72,738	-	-
Withholding income tax on Interest on equity	(8,913)	(95,885)	(6,611)	(37,981)
Amounts received	(282,580)	(830,525)	(304,860)	(763,540)
Amounts received in absorption - RME and Luce	-	4,443	-	-
Ending balances	**185,998**	**1,726,895**	**119,743**	**945,584**

c) Information This table gives the main information on the subsidiaries and affiliates, not adjusted for the percentage represented by the Company's ownership interest:

Investee	Number of shares	2019			2018		
		Cemig interest (%)	Share capital	Equity	Cemig interest (%)	Share capital	Equity
Cemig Geração e Transmissão	2,896,785,358	100.00	2,600,000	5,136,203	100.00	2,600,000	4,980,136
Madeira Energia (Usina Santo Antônio)	12,034,025,147	15.51	10,619,786	3,704,760	15.51	10,619,786	4,656,593
Hidrelétrica Cachoeirão	35,000,000	49.00	35,000	109,649	49.00	35,000	100,434
Guanhães Energia	548,626,000	49.00	548,626	267,503	49.00	396,402	228,242
Hidrelétrica Pipoca	41,360,000	49.00	41,360	62,715	49.00	41,360	62,509
Baguari Energia (1)	26,157,300,278	69.39	186,573	226,984	69.39	186,573	233,793
Central Eólica Praias de Parajuru	71,834,843	100.00	71,835	89,188	100.00	71,835	79,594
Central Eólica Volta do Rio	138,867,440	100.00	138,867	57,901	100.00	138,867	84,355
Lightger	79,078,937	49.00	79,232	94,871	49.00	79,232	86,105
Aliança Norte (Usina Belo Monte)	41,893,675,837	49.00	1,208,071	1,266,453	49.00	1,206,127	1,247,307
Amazônia Energia (Usina Belo Monte) (1)	1,322,597,723	74.50	1,322,598	1,379,678	74.50	1,322,428	1,359,243
Aliança Geração	1,291,582	45.00	1,291,488	1,857,905	45.00	1,291,488	1,857,905
Retiro Baixo	225,350,000	49.90	225,350	299,532	49.90	222,850	278,065
Renova (1) (2)	41,719,724	36.23	N/D	N/D	36.23	2,919,019	(76,489)
Usina Hidrelétrica Itaocara S.A. (6)	69,282,514	49.00	69,283	(44,510)	49.00	22,165	10,470
Cemig Baguari	306,000	100.00	306	19	100.00	306	36
Cemig Ger. Três Marias S.A.	1,291,423,369	100.00	1,291,423	1,407,996	100.00	1,291,423	1,395,614
Cemig Ger. Salto Grande S.A.	405,267,607	100.00	405,268	446,318	100.00	405,268	440,083
Cemig Ger. Itutinga S.A.	151,309,332	100.00	151,309	183,617	100.00	151,309	178,544
Cemig Geração Camargos S.A.	113,499,102	100.00	113,499	136,140	100.00	113,499	131,570
Cemig Geração Sul S.A.	148,146,505	100.00	148,147	179,275	100.00	148,147	176,424
Cemig Geração Leste S.A.	100,568,929	100.00	100,569	126,802	100.00	100,569	120,686
Cemig Geração Oeste S.A.	60,595,484	100.00	60,595	72,648	100.00	60,595	69,898
Rosal Energia S.A.	46,944,467	100.00	46,944	127,994	100.00	46,944	124,897
Sá Carvalho S.A.	361,200,000	100.00	36,833	123,929	100.00	36,833	94,447
Horizontes Energia S.A.	39,257,563	100.00	39,258	57,397	100.00	39,258	54,953
Cemig PCH S.A.	45,952,000	100.00	45,952	97,731	100.00	45,952	92,987
Cemig Geração Poço Fundo S.A. (3)	1,402,000	100.00	1,402	3,638	100.00	16,902	18,406
Empresa de Serviços de Comercialização de Energia Elétrica S.A.	486,000	100.00	486	28,263	100.00	486	26,755
Cemig Comercializadora de Energia Incentivada S.A.	1,000,000	100.00	1,000	3,359	100.00	1,000	2,841
Cemig Trading S.A.	1,000,000	100.00	1,000	31,027	100.00	1,000	28,135
Cemig Distribuição (4)	2,359,113,452	100.00	5,371,998	4,803,771	100.00	2,771,998	4,642,358
Light	303,934,060	22.58	4,051,285	5,983,158	26.06	2,225,821	3,389,492
TAESA	1,033,496,721	21.68	3,042,035	4,926,923	21.68	3,042,034	4,572,051
Ativas Data Center	456,540,718	19.60	182,063	82,212	19.60	182,063	84,232
Gasmig	409,255,483	99.57	665,429	988,441	99.57	665,429	1,001,294
Cemig Geração Distribuída	174,281	100.00	174	10,798	100.00	174	2,741
LEPSA (5)	-	-	-	-	100.00	406,341	446,591
RME (5)	-	-	-	-	100.00	403,040	423,228
Efficientia	15,121,845	100.00	15,122	17,156	100.00	15,122	17,532
Companhia de Transmissão Centroeste de Minas	28,000,000	51.00	28,000	47,026	51.00	28,000	38,608
Axxiom Soluções Tecnológicas	58,365,000	49.00	58,365	26,522	49.00	46,600	16,943

(1) Jointly-control under a Shareholders' Agreement.

(2) In view of Renova's negative net equity, the Company reduced to zero the carrying value of its equity interests in this investee, at December 31, 2018. In addition, due to the issues described further in this note, relating to Renova, this investee has not conclued its financial statements for the period ended in December 31, 2019, and thus their account information is not disclosed.

(3) The Extraordinary General Meeting of Shareholders held on August 29, 2019 approved changes to the bylaws of the subsidiary, changing its name and its corporate objects. With the alteration, the name of Usina Termelétrica Barreiro S.A. was changed to Cemig Geração Poço Fundo S.A.

(4) An Extraordinary General Shareholders' Meeting held on August 7, 2019 approved increase in the share capital of Cemig D by R$2,600,000, through subscription of funds from Advances for Future Capital Increase (AFACs), paid in by the Company, without issuance of new shares.

(5) These investees were merged on April 24, 2019.

(6) Due to the shareholders' equity of Usina Hidrelétrica Itaocara S.A. having become negative, on December 31, 2019, the investee had negative shareholders' equity. Thus, after reducing the accounting value of its interest to zero, the Company recognized the provision for losses on investments, in the amount of R$21,810, resulting from contractual obligations assumed with the subsidiary and the other shareholders

The Company has direct and indirect equity interests in the following investees:

Consolidated	2019		2018	
	Direct stake, %	Indirect stake, %	Direct stake, %	Indirect stake, %
Amazônia	74.50%	5.76%	74.50%	12.46%
Renova (1)	36.23%	-	36.23%	8.39%
LightGer	49.00%	11.52%	49.00%	24.92%
Guanhães	49.00%	11.52%	49.00%	24.92%
Axxion	49.00%	11.52%	49.00%	24.92%
UHE Itaocara	49.00%	11.52%	49.00%	24.92%
Light	22.58%	-	26.06%	22.80%

(1) On October 15, 2019, Light sold the totality of its shares in the jointly-controlled entity Renova to CG I *Fundo de Investimento em Participações*. Further details as follows.

The main balances for the affiliated and jointly-controlled entities, at December 31, 2019 is as follows:

2019	Centroeste	Ativas Data Center	Taesa	Axxiom Soluções Tecnológicas	Lightger
Assets					
Current	28,817	32,979	2,736,401	33,915	86,758
Cash and cash equivalents	27,110	8,167	155,057	6,509	69,419
Non-current	35,177	106,668	7,419,245	25,780	124,500
Total assets	**63,994**	**139,647**	**10,155,646**	**59,695**	**211,258**
Liabilities					
Current	6,484	24,387	925,980	28,321	53,373
Loans and financings – Current	3,095	12,631	7,941	7,987	8,619
Non-current	10,483	33,048	4,302,871	4,852	63,014
Loans and financings – Non-Current	7,532	30,721	409,664	120	63,014
Equity	47,027	82,212	4,926,795	26,522	94,871
Total liabilities	**63,994**	**139,647**	**10,155,646**	**59,695**	**211,258**
Statement of income					
Net sales revenue	17,023	83,190	1,232,079	53,405	49,979
Cost of sales	(5,328)	(74,794)	(239,504)	(54,773)	(27,227)
Depreciation and amortization	(1,427)	(18,470)	(4,379)	(2,338)	(10,584)
Gross profit (loss)	**11,695**	**8,396**	**992,575**	**(1,368)**	**22,752**
General and administrative expenses	(1,798)	(7,451)	(126,364)	(10,829)	(1,531)
Finance income	1,885	72	81,258	186	3,982
Finance expenses	(2,241)	(2,855)	(335,162)	(1,581)	(7,411)
Operational profit (loss)	**9,541**	**(1,838)**	**612,307**	**(13,592)**	**17,792**
Share of (loss) profit, net, of subsidiaries and joint ventures	-	-	488,816	-	-
Income tax and social contribution tax	(1,122)	(273)	(99,264)	4,606	(2,942)
Net income (loss) for the year	**8,419**	**(2,111)**	**1,001,859**	**(8,986)**	**14,850**
Comprehensive income (loss) for the year					
Net income (loss) for the year	8,419	(2,111)	1,001,859	(8,986)	14,850
Comprehensive income (loss) for the year	**8,419**	**(2,111)**	**1,001,859**	**(8,986)**	**14,850**

2019	Hidrelétrica Cachoeirão	Hidrelétrica Pipoca	Retiro Baixo	Aliança Norte	Guanhães Energia
Assets					
Current	34,631	10,542	68,182	1,155	1,195
Cash and cash equivalents	30,341	2,395	55,676	1,113	422
Non-current	82,183	89,940	342,954	1,266,023	267,384
Total assets	**116,814**	**100,482**	**411,136**	**1,267,178**	**268,579**
Liabilities					
Current	7,165	11,196	33,939	725	1,062
Loans and financings – Current	-	6,581	13,703	-	484
Non-current	-	26,571	77,665	-	14
Loans and financings – Non-Current	-	26,454	68,468	-	-
Equity	109,649	62,715	299,532	1,266,453	267,503
Total liabilities	**116,814**	**100,482**	**411,136**	**1,267,178**	**268,579**
Statement of income					
Net sales revenue	37,844	30,260	70,341	-	-
Cost of sales	(16,832)	(14,575)	(30,119)	-	(1,502)
Depreciation and amortization	(2,773)	(3,143)	(8,841)	-	(10)
Gross profit (loss)	**21,012**	**15,685**	**40,222**	**-**	**(1,502)**
General and administrative expenses	-	(66)	(3,582)	(1,717)	-
Finance income	1,483	395	2,989	57	360
Finance expenses	(13)	(3,629)	(8,174)	(3)	(42)
Operational profit (loss)	**22,482**	**12,385**	**31,455**	**(1,663)**	**(1,184)**
Share of (loss) profit, net, of subsidiaries and joint ventures	-	-	-	18,867	-
Income tax and social contribution tax	(1,775)	(928)	(3,301)	-	(10)
Net income (loss) for the year	**20,707**	**11,457**	**28,154**	**17,204**	**(1,194)**
Comprehensive income (loss) for the year					
Net income (loss) for the year	20,707	11,457	28,154	17,204	(1,194)
Comprehensive income (loss) for the year	**20,707**	**11,457**	**28,154**	**17,204**	**(1,194)**

2019	Amazônia Energia	Madeira Energia	Baguari Energia	Aliança Geração
Assets				
Current	81	749,937	59,577	826,868
Cash and cash equivalents	67	77,538	8,827	700,451
Non-current	1,380,150	21,679,635	187,511	2,194,151
Total assets	**1,380,231**	**22,429,572**	**247,088**	**3,021,019**
Liabilities				
Current	553	1,176,997	15,571	591,190
Loans and financings – Current	-	73,428	-	152,305
Non-current	-	17,547,815	4,533	571,924
Loans and financings – Non-Current	-	10,924,960	-	68,518
Equity	1,379,678	3,704,760	226,984	1,857,905
Total liabilities	**1,380,231**	**22,429,572**	**247,088**	**3,021,019**
Statement of income				
Net sales revenue	-	3,197,523	68,433	1,015,746
Cost of sales	(199)	(2,508,203)	(23,132)	(629,653)
Depreciation and amortization	-	-	(8,868)	(122,102)
Gross profit (loss)	(199)	689,320	**45,301**	**386,093**
General and administrative expenses	(16)	(98,771)	-	(29,607)
Finance income	1	131,422	4,232	34,172
Finance expenses	(1)	(1,683,378)	(669)	(68,912)
Operational profit (loss)	**(215)**	**(961,407)**	**48,864**	**321,746**
Share of (loss) profit, net, of subsidiaries and joint ventures	20,481	-	-	16,264
Income tax and social contribution tax	-	9,574	(16,581)	(109,048)
Net income (loss) for the year	**20,266**	**(951,833)**	**32,283**	**228,962**
Comprehensive income (loss) for the year				
Net income (loss) for the year	20,266	(951,833)	32,283	228,962
Comprehensive income (loss) for the year	**20,266**	**(951,833)**	**32,283**	**228,962**

The main balances for the affiliated and jointly-controlled entities, at December 31, 2018 is as follows:

2018	Centroeste	Ativas Data Center	Taesa
Assets			
Current	18,722	17,196	1,679,363
Cash and cash equivalents	11	1,060	19,480
Non-current	36,574	105,776	6,750,218
Total assets	**55,296**	**122,972**	**8,429,581**
Liabilities			
Current	6,527	22,526	606,003
Loans and financings – Current	3,204	9,326	8,294
Non-current	10,161	16,214	3,251,526
Loans and financings – Non-Current	10,161	13,236	402,441
Equity	38,608	84,232	4,572,052
Total liabilities	**55,296**	**122,972**	**8,429,581**
Statement of income			
Net sales revenue	14,093	69,607	1,244,561
Cost of sales	(1,019)	(72,103)	(184,768)
Depreciation and amortization	-	-	(279)
Gross profit (loss)	**13,074**	**(2,496)**	**1,059,793**
General and administrative expenses	-	(16,102)	(138,869)
Finance income	1,086	579	53,203
Finance expenses	(2,973)	(2,578)	(274,588)
Operational profit (loss)	**11,187**	**(20,597)**	**699,539**
Share of (loss) profit, net, of subsidiaries and joint ventures	-	-	481,799
Income tax and Social Contribution tax	(1,132)	-	(110,033)
Net income (loss) for the year	**10,055**	**(20,597)**	**1,071,305**
Comprehensive income (loss) for the year			
Net income (loss) for the year	10,055	(20,597)	1,071,305
Comprehensive income (loss) for the year	**10,055**	**(20,597)**	**1,071,305**

2018	Hidrelétrica Cachoeirão	Hidrelétrica Pipoca	Retiro Baixo	Aliança Norte
Assets				
Current	22,771	11,994	46,994	478
Cash and cash equivalents	17,792	3,721	35,582	453
Non-current	84,902	94,867	354,135	1,247,161
Total assets	**107,673**	**106,861**	**401,129**	**1,247,639**
Liabilities				
Current	7,239	11,521	32,174	332
Loans and financings – Current	-	6,578	13,660	-
Non-current	-	32,831	90,890	-
Loans and financings – Non-Current	-	32,831	81,905	-
Equity	100,434	62,509	278,065	1,247,307
Total liabilities	**107,673**	**106,861**	**401,129**	**1,247,639**
Statement of income				
Net sales revenue	50,188	29,270	71,137	-
Cost of sales	(29,315)	(12,161)	(29,327)	-
Depreciation and amortization	(2,763)	(3,095)	(10,084)	-
Gross profit (loss)	**20,873**	**17,109**	**41,810**	**-**
General and administrative expenses	-	(324)	(3,945)	(2,481)
Finance income	1,593	596	1,953	995
Finance expenses	(169)	(4,033)	(10,511)	(1,093)
Operational profit (loss)	**22,297**	**13,348**	**29,307**	**(2,579)**
Share of (loss) profit, net, of subsidiaries and joint ventures	-	-	-	96,665
Income tax and social contribution tax	(2,218)	(1,203)	(2,835)	-
Net income (loss) for the year	**20,079**	**12,145**	**26,472**	**94,086**
Comprehensive income (loss) for the year				
Net income (loss) for the year	20,079	12,145	26,472	94,086
Comprehensive income (loss) for the year	**20,079**	**12,145**	**26,472**	**94,086**

2018	Amazônia Energia	Madeira Energia	Baguari Energia	Renova	Aliança Geração
Assets					
Current	111	618,230	44,420	294,783	711,921
Cash and cash equivalents	97	68,645	8,161	69	344,155
Non-current	1,359,669	22,453,401	201,025	1,228,919	2,277,501
Total assets	**1,359,780**	**23,071,631**	**245,445**	**1,523,702**	**2,989,422**
Liabilities					
Current	538	1,281,333	6,795	441,524	534,585
Loans and financings – Current	-	53,259	-	341,568	149,120
Non-current	-	17,133,705	4,857	1,158,667	596,932
Loans and financings – Non-Current	-	10,219,548	-	-	140,000
Equity	1,359,242	4,656,593	233,793	(76,489)	1,857,905
Total liabilities	**1,359,780**	**23,071,631**	**245,445**	**1,523,702**	**2,989,422**
Statement of income					
Net sales revenue	-	3,005,553	73,856	-	906,852
Cost of sales	-	(2,689,459)	(30,753)	(3,969)	(555,446)
Depreciation and amortization	-	-	(8,844)	(3,969)	(125,325)
Gross profit (loss)	-	316,094	43,103	(3,969)	351,406
General and administrative expenses	(1,278)	(194,849)	-	(93,123)	(31,091)
Finance income	2,213	127,777	3,038	1,045	30,345
Finance expenses	(2,076)	(1,880,828)	(950)	(84,317)	(67,013)
Operational profit (loss)	**(1,141)**	**(1,631,806)**	**45,191**	**(180,364)**	**283,647**
Share of (loss) profit, net, of subsidiaries and joint ventures	104,936	-	-	(675,933)	10,714
Income tax and social contribution tax	(684)	(111,830)	(4,041)	-	(96,042)
Net income (loss) for the year	**103,111**	**(1,743,636)**	**41,150**	**(856,297)**	**198,319**
Comprehensive income (loss) for the year					
Net income (loss) for the year	103,111	(1,743,636)	41,150	(856,297)	198,319
Comprehensive income (loss) for the year	**103,111**	**(1,743,636)**	**41,150**	**(856,297)**	**198,319**

Madeira Energia S.A. (‘MESA’) and FIP Melbourne

MESA is the parent company of Santo Antônio Energia S.A (‘SAESA’), whose objects are operation and maintenance of the *Santo Antônio* Hydroelectric Plant and its transmission system, on the Madeira River, and all activities necessary for operation of the plant and its transmission system. Between the shareholders include Furnas, Odebrecht Energia, SAAG and the Company.

On December 31, 2019 the investee MESA reported a loss of R$951,833 (R$1,743,636 on 2018) and current liabilities in excess of current assets by R$427,060 (R$663,103 on 2018). It should be noted that hydroelectric projects constituted using project finance structurally present negative net working capital in the first years of operation, because they are built using high levels of financial leverage. On the other hand, they have firm contracts for sales of energy supply over the long term as support and guarantee of payment of their debts. To balance the situation of negative working capital, in addition to its long-term sale contracts that ensure regularity in its operational cash flow, MESA count with the benefits of its debt reprofiling, that adjusted the flow of payments of the debt to its cash generation capacity, so that the investee does not depend on additional injections of capital by the shareholders.

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 the Market Arbitration Chamber, challenging the following: (a) the adjustment for impairment carried out by the Executive Board of MESA, in the amount of R$ R$678,551, relating to certain credits owed to Mesa by 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, for an amount greater than the claims; and (b) against the adjustment for impairment carried out by the Executive Board of MESA, in the amount of R$678,551, 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.

The arbitration judgment recognized the right of Cemig GT and SAAG in full, and ordered the 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 as of 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. This process is confidential under the Arbitration Regulations of the ICC.

Cemig GT and SAAG Investimentos S.A. applied to the judiciary for provisional remedy prior to the arbitration proceeding, to suspend the effects of the capital increase approved by an Extraordinary General Meeting of Shareholders of Mesa held on August 28, 2018. This application was refused at the first and second instances, but the decision is being challenged in an arbitration proceeding before the Market Arbitration Chamber, for which the Term of Arbitration was signed on June 10, 2019. This process is confidential under the Arbitration Regulations of the Market Arbitration Chamber.

Renova Energia S.A. ('Renova')

The investee Renova, currently in in-court reorganization, has been reporting recurring losses and presenting negative net working capital, net equity (uncovered liabilities), and negative gross margin throughout the year ended in December 31, 2019.

However, in view of the investee's negative net equity, the Cemig GT reduced the carrying value of its equity interests in Renova, at December 31, 2018, to zero. No further losses have been recognized, considering the non-existence of any legal or constructive obligations to the investee.

Additionally, considering the worsening Renova's financial conditions and a potencial application for in-court reorganization , the Company recognized, since June, 30 2019, an estimated loss on realization of the credits owned by that jointly-controlled entity at the total amount of the balances receivable, in the amount of R$ 688 million on December 31, 2019.

Change in control of Renova

On October 15, 2019, Light sold, for R$1.00, the totality of its shares in the jointly-controlled entity Renova, equivalent in total to 17.17% of the share capital of the company, to CG I Fundo de Investimento em Participações Multiestratégia, namely 7,163,074 shares and 98 preferred shares. Additionally, Lightcom Comercializadora de Energia S.A. signed an Assignment Agreement through which it assigned all the credits held against Renova to CG I. With the expiry of the period specified in the Shareholders' Agreement of Renova, the subsidiary Cemig GT did not exercise its right of first refusal nor its right of joint sale, and thus there has been no change in its direct equity interest in Renova.

Application by Renova for in-court reorganization

On October 16, 2019, the second State of São Paulo Bankruptcy and In-Court Reorganization Court granted the application for in-court reorganization applied for by Renova, and by the other companies of the group ('the Renova Group'), and determined, among other measures, the following: (i) Appointment of an independent company to act as judicial administrator; (ii) Suspension of actions and executions against the companies of the Renova Group for 180 days, under Article 6 of Law 11,101/2005; (iii) Presentation of accounts by the 30th of each month, while the in-court reorganization proceedings continue, on penalty of the controlling shareholders of the companies of the Renova Group being removed, and replaced by administrators, under Article 52, IV, of Law 11,101/2005; (iv) Dispensation of presentation of certificates of absence of debt so that the companies of the Renova Group can exercise their activities; and (v) Order to publish a tender, in the terms of §1 of Article 52 of Law 11,101/2005, with 15 days for presentation of qualifications and/or divergences of credits in relation to the in-court reorganization.

On December 17, 2019, Renova filed its in-court reorganization plan, which has to be approved by the General Meeting of Creditors according with the terms and conditions established by Law 11,101/2005. The jointly-controlled entity is in the process of discussing such plan and until the present date has not measured the possible effects on its accounting balances.

In this context, Renova signed with the Company Debtor in Possession (DIP) loan agreements, granting the Company priority over the other creditors, in the total amount of R$36,500, comprising R$20,000, R$6,500 and R$10,000 on January 28, 2020, December 27, 2019 and November 25, 2019 respectively. The funds of these loans, made under specific rules of in-court reorganization proceedings, are necessary to support the expenses of maintaining the activities of Renova, and were authorized by the second State of São Paulo Bankruptcy and In-Court Reorganization Court. They are guaranteed by a fiduciary assignment of shares in a company owning assets of a wind power project owned by Renova, and they also have priority of receipt in the in-court reorganization process. Additionally, Cemig GT made an Advance against Future Capital Increase to Renova, of R$5,000, on October 25, 2019.

Considering the non-existence of any legal or constructive obligations to the investee, the Company has concluded that the granted of in-court reorganization filed by Renova does not have any additional impact in its financial statements.

Amazônia Energia S.A. and Aliança Norte Energia S.A.

Amazônia Energia and Aliança Norte are shareholders of Norte Energia S.A. ('NESA'), which holds the concession to operate the *Belo Monte* Hydroelectric Plant. Through the jointly-controlled entities referred to above, Cemig GT owns an indirect equity interest in NESA of 11.69%.

On December 31, 2019 NESA had negative net working capital of R$ 3,309,499, and will spend further amounts on projects specified in its concession contract, even after conclusion of the construction and full operation of the Belo Monte Hydroelectric Plant. According to the estimates and projections, the situation of negative net working capital, and the future demands for investments in the hydroelectric plant, will be supported by revenues from future operations and/or raising of bank financings.

On September, 2015, NESA was awarded a preliminary injunction ordering the regulator to ‘abstain, until hearing of the application for an injunction made in the original case, from applying to Appellant any penalties or sanctions in relation to the Belo Monte Hydroelectric Plant not starting operations on the date established in the original timetable for the project, including those specified in an the regulator (Aneel) Normative Resolution 595/2013 and in the Concession Contract for the Belo Monte Hydroelectric Plant’. The legal advisers of NESA have classified the probability of loss as ‘possible’ and estimated the potential loss on December 31, 2019 to approximately R$ 1,962,000 (R$1,643,000 on December 31, 2018).

d) Business combination - Centroeste

On January 13, 2020, the Company concluded acquisition of the equity interest of 49% of the share capital held by Eletrobras in Centroeste, resulting in its now holding 100% of that investee. The acquisition, which resulted in the Company obtaining control, is the result of exercise of the right of first refusal for acquisition of the shareholding offered in Eletrobras Auction 01/2018, Lot P, held on September 27, 2018, and confirmed on January 15, 2019.

Centroeste operates in construction, operation and maintenance of the transmission facilities of the *Furnas-Pimenta* transmission line – part of the national grid.

The consideration paid for the acquisition is R$44,775, resulting from the price in the Tender Announcement, adjusted by the accumulated variation of the Selic rate up to the date of conclusion of the transaction, less all dividends and/or Interest on Equity paid or declared by Centroeste in favor of Eletrobras in the period.

On December 31, 2018 and 2019, the Company held 51% of the share capital of the investee, without exercising control, according to its shareholders agreement. Thus, in the consolidated and individual financial statements of the holding company, the financial information of this investee was recognized by the equity method.

As specified in CPC 15 (R1)/IFRS 3 – Business combinations, the Company remeasured the interest previously held in the investments at fair value, and any difference between the fair value and the carrying value of the previously held interest was recognized in the statement of income for the year, as follows:

	Centroeste
Fair value on the acquisition date (1)	120,494
Equity interest held by the Company before the acquisition of control	51%
Company's original interest, valued at fair value on the acquisition date	**61,452**
Original book value	(23,983)
Restatement of prior holding in subsidiaries acquired, recognized in 2020	**37,469**

(1) The valuation of the net assets of the investee is preliminary and was calculated on the basis of Free cash flow to equity (FCFE), based on the cost of capital specific to transmission. Considering that the concession contract is identifiable and can be objectively and reliably measured, the added value is recognized separately in the subgroup of Intangible assets in the consolidated financial statements, and in the individual financial statements is considered to be part of the investment, in accordance with ICPC 09. The added value is amortized over the period of the concession.

The fair value of the net assets acquired, and the remeasurement of the previous held interest in the subsidiaries, which impacts will be recognized in 2020, is as follows:

	Centroeste
Total value of the consideration paid for 49% of the equity of Centroeste	44,775
Previously held interest, valued at fair value on the acquisition date – 51%	61,452
Advantageous purchase	14,267
Total	**120,494**
Intangible related to the concession contract (1)	73,467
Net value of other assets and liabilities	47,027
Fair value of net identifiable assets	**120,494**

(1) Intangible corresponding to the right of authorization to electric power transmission granted to the investees, identifiable and with defined useful life.

Assets	Fair value on the transaction date	Liabilities	Fair value on the transaction date
Current	**28,817**	**Current**	**6,484**
Cash and cash equivalents	27,110	Loans and financings	3,095
Other current assets	1,707	Interest on equity and dividends payable	2,388
Non-current	**108,644**	Other current liabilities	1,001
Contract assets	34,517	**Non-current**	**10,483**
Concession intangible assets	73,467	Loans and financings	7,352
Escrow deposits	389	Provisions	3,131
Other non-current assets	271	**Fair value of net identifiable assets**	**120,494**

The above, related to the right to exploitation of the regulated activity and the fair value of other assets and liabilities identified are presented in the operating segments of transmission.

a) Risks related to compliance with law and regulations

Jointly controlled investees:

Norte Energia S.A. ('NESA') - through Amazônia Energia and Aliança Norte

Investigations and other legal measures are in progress since 2015, conducted by the Federal Public Attorneys' Office, which involve other shareholders of NESA and certain executives of those other shareholders. In this context, the Federal Public Attorneys have started investigations on 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 affect the investee. In addition, based on the results of the independent internal investigation conducted by NESA and its other shareholders, an infrastructure write-down of the R$ 183,000 was already recorded at NESA, and reflected in the Company's financial statements through the equity pick effect in 2015.

On March 9, 2018 '*Operação Fortuna*' started, as a 49th phase of '*Operation Lava Jato*' ('Operation Carwash'). According to what has been disclosed by the media this operation investigates payment of bribes by the construction consortium of the *Belo Monte* power plant, comprising the companies Camargo Corrêa, Andrade Gutierrez, Odebrecht, OAS and J. Malucelli. Management of NESA believes that so far there are no new facts that have been disclosed by the 49th phase of 'Operation Carwash' that require additional procedures and internal independent investigation in addition to those already carried out.

The company's management, based on its knowledge of the matters described above and on the independent procedure carried out, believes that the conclusions presented in the report of the independent investigation are adequate and appropriate; as a result no adjustment has been made in the interim accounting information. The effects of any future alterations in the existing scenario will be reflected appropriately in the Company's interim accounting information.

Madeira Energia S.A. ('MESA')

Investigations and other legal measures are in progress since 2015, conducted by the Federal Public Attorneys' Office, which involve other indirect shareholders of MESA and certain executives of those other indirect shareholders. In this context, the Federal Public Attorneys have started investigations searching for irregularities involving contractors and suppliers of MESA and of its other shareholders. In response to allegations of possible illegal activities, the investee and its other shareholders started an independent internal investigation.

The independent internal investigation, concluded in February 2019, in the absence of any future developments such as any leniency agreements by third parties that may come to be signed or collaboration undertakings that may be signed by third parties with the Brazilian authorities, found no objective evidence enabling it to be affirmed that there were any supposed undue payments by MESA (SAESA) that should be considered for possible accounting write-off, pass-through or increase of costs to compensate undue advantages and/or linking of MESA with the acts of its suppliers, in the terms of the witness accusations and/or cooperation statements that have been made public.

The company's management, based on its knowledge of the matters described above and on the independent procedures carried out, believes that the conclusions presented in the report of the independent investigation are adequate and appropriate; as a result no adjustment has been made in the interim accounting information. The effects of any future alterations in the existing scenario will be reflected appropriately in the Company's interim accounting information.

Renova Energia S.A. ('Renova')

Since 2017 Renova is part of a formal investigation by the Civil Police of Minas Gerais State and other public authorities related to certain capital injections made by some of its controlling shareholders, including Cemig GT and capital injections made by Renova in certain projects under development in previous years.

On April 11, 2019, the Brazilian Federal Police commenced the '*Operation E o Vento Levou'* as part of the '*Lava Jato'* Investigation, and executed a search and seizure warrant issued by a Federal Court of São Paulo at Renova's head office in São Paulo, based on allegations and indications of misappropriation of funds harmful to the interests of Cemig. Based on the allegations being investigated, these events are alleged to have taken place before 2015. In July 25, 2019, the second phase of the operation occurred. The investigations of 'Operation Gone with the Wind' are still in progress, and according to a Market Notice published on April 11, 2019, Renova is collaborating fully with the authorities in relation to these investigations.

Renova has information that the Police investigations known as "*Operation Gone With the Wind*" and of the Minas Gerais State Civil Police have not yet been concluded; and that the governmental authorities may take additional time to complete all the proceedings of investigation of the facts. Thus there is a possibility that material information may be revealed in the future. If a criminal action is filed against agents who damaged Renova, Renova intends to act as auxiliary to the prosecution in any criminal proceedings, and subsequently sue for civil reparation for the damages suffered.

In 2019 the tax authority had previously issued an infringement notice against the indirectly controlled company *Espra*, questioning the calculation of income tax and social contribution tax, and payment of income tax withheld at source, relating to contracts signed for provision of services which allegedly did not have the due consideration, in the estimated amount of R$89,318 and R$1,788, respectively.

Due to these investigations, concomitantly, the governance bodies of Renova have requested opening of an internal investigation, conducted by an independent company with the support of an external law firm, the scope of which comprises assessment of any existence of irregularities, including noncompliance with: the Brazilian legislation related to acts of corruption and money laundering; Renova's Code of Ethics; and its integrity policies. Additionally, a monitoring committee was established in Renova which, jointly with the Audit Committee, accompanied this investigation. The internal investigation was concluded on February 20, 2020, and no concrete proofs of acts of corruption or diversion of funds to political campaigns were identified.

However, the independent investigators identified irregularities in the conduct of business and agreement of contracts by Renova, over the period 2014-18, including: (i) payments without evidence of the consideration of services, in the total amount of approximately R$ 40 million; (ii) payments not in accordance with the company's internal policies and good governance practices, in the total amount of approximately R$ 137 million; and (iii) failings in the internal controls of the investee.

In response to the irregularities found, and based on the recommendations of the Committee and legal advisers, the Board of Directors of Renova decided to take all the steps necessary to preserve the rights of the investee, continue with the measures to obtain reimbursement of the losses caused, and strengthen the company's internal controls.

Since the balance of investment maintained in Renova is zero at December 31, 2019, and since no contractual or constructive obligations in relation to the investee have been assumed by the company or its subsidiaries, it is not expected that any effects resulting from the in-court reorganization process, or the investigations, or the operational activities of this investee can significantly impact the Company's financial statements.

Other investigations

In addition to the cases above, there are investigations being conducted by the Public Attorneys' Office of the State of Minas Gerais ('MPMG') and by the Civil Police of the State of Minas Gerais ('PCMG'), which aim to investigate possible irregularities in the investments made by Cemig GT at Guanhães Energia and also at MESA. Additionally, on April 11, 2019 agents of the Brazilian Federal Police were in the Company's head office in Belo Horizonte to execute a search and seizure warrant issued by a São Paulo Federal Court in connection with the operation entitled "Gone with the Wind", as described above.

These proceedings are being investigated through the analysis of documents demanded by the respective authorities, and by hearing of witnesses.

Internal procedures for risks related to compliance with law and regulations

Taking into account the investigations that are being conducted at the Company, at Cemig GT and at certain investees, as described above, the governance bodies of the Company have authorized contracting a specialized company to analyze the internal procedures related to these investments (see note 27). This independent investigation is subject to oversight of an independent committee whose creation was approved by our Board of Directors.

On April 11, 2019, agents of the Brazilian Federal Police presented themselves at Company's head office in Belo Horizonte to execute a search and seizure warrant issued by a Federal Court of São Paulo in connection with the operation named '*Operação e o Vento Levou*' as previously described.

The first phase of Company's internal investigation was completed and the report was delivered on May 13, 2019. The second phase of the investigation was substantially concluded, and its preliminary report was delivered, on February 20, 2020. Considering the current status and preliminary results of the internal investigations, no effect was recorded in the financial statements as of December 31, 2019. The second phase of the investigation continues to be in effect, and it is planned to be concluded within the first half of 2020.

The Company will evaluate any changes in the future scenario and eventual impacts that could affect the Financial Statements, when applicable. The Company will collaborate with the relevant authorities and their analysis related to the investigations in progress.

19. PROPERTY, PLANT AND EQUIPMENT

Consolidated	2019			2018		
	Historical cost	Accumulated depreciation	Net value	Historical cost	Accumulated depreciation	Net value
In service						
Land	247,535	(19,178)	228,357	231,223	(16,174)	215,049
Reservoirs, dams and watercourses	3,279,784	(2,199,659)	1,080,125	3,282,178	(2,131,683)	1,150,495
Buildings, works and improvements	1,091,660	(818,141)	273,519	1,114,229	(800,430)	313,799
Machinery and equipment	2,597,685	(1,869,186)	728,499	2,772,738	(1,918,442)	854,296
Vehicles	20,616	(17,687)	2,929	31,747	(27,222)	4,525
Furniture and utensils	14,073	(10,939)	3,134	16,385	(12,718)	3,667
	7,251,353	**(4,934,790)**	**2,316,563**	**7,448,500**	**(4,906,669)**	**2,541,831**
In progress	**133,562**	**-**	**133,562**	**119,754**	**-**	**119,754**
Net property, plant and equipment	**7,384,915**	**(4,934,790)**	**2,450,125**	**7,568,254**	**(4,906,669)**	**2,661,585**

Parent company	2019			2018		
	Historical cost	Accumulated depreciation	Net value	Historical cost	Accumulated depreciation	Net value
In service						
Land	82	-	82	82	-	82
Buildings, works and improvements	55	(21)	34	408	(297)	111
Machinery and equipment	5,298	(4,379)	919	5,840	(4, 627)	1,213
Furniture and utensils	749	(698)	51	2,238	(1,878)	360
	6,184	**(5,098)**	**1,086**	**8,568**	**(6,802)**	**1,766**
In progress	**460**	**-**	**460**	**484**	**-**	**484**
Net property, plant and equipment	**6,644**	**(5,098)**	**1,546**	**9,052**	**(6,802)**	**2,250**

Changes in PP&E are as follows:

Consolidated	2018	Additions	Disposals	Depreciation	Transfers / capitalizations (2)	2019
In service						
Land (1)	215,049	-	(153)	(3,478)	16,939	228,357
Reservoirs, dams and watercourses	1,150,495	-	(4,756)	(80,045)	14,431	1,080,125
Buildings, works and improvements	313,799	-	(5,762)	(18,672)	(15,846)	273,519
Machinery and equipment	854,296	43	(80,501)	(78,720)	33,381	728,499
Vehicles	4,525	-	-	(1,538)	(58)	2,929
Furniture and utensils	3,667	-	(303)	(314)	85	3,135
	2,541,831	**43**	**(91,475)**	**(182,767)**	**48,932**	**2,316,564**
In progress	**119,754**	**70,347**	**(11,337)**	**-**	**(45,203)**	**133,561**
Net property, plant and equipment	**2,661,585**	**70,390**	**(102,812)**	**(182,767)**	**3,729**	**2,450,125**

(1) Certain land sites linked to concession contracts and without provision for reimbursement are amortized in accordance with the period of the concession.

(2) Balances of R$3,735 and R$6, respectively, were transferred from Intangible assets and concession contract assets to PP&E.

Consolidated	2017	Additions	Disposals	Depreciation	Transfer to Held for sale	Adjustment for business combination	Transfers / capitalizations	2018
In service								
Land (1)	211,272	-	(3)	(2,523)	-	-	6,303	215,049
Reservoirs, dams and watercourses	1,233,576	-	(2,041)	(81,296)	-	-	256	1,150,495
Buildings, works and improvements	331,362	-	(263)	(18,760)	-	-	1,460	313,799
Machinery and equipment	873,551	-	(9,086)	(69,826)	(255,758)	296,585	18,830	854,296
Vehicles	3,105	-	-	(1,429)	-	20	2,829	4,525
Furniture and utensils	3,395	-	(3)	(360)	-	136	499	3,667
	2,656,261	**-**	**(11,396)**	**(174,194)**	**(255,758)**	**296,741**	**30,177**	**2,541,831**
In progress	106,049	76,998	(22,522)	-	-	-	(40,771)	119,754
Net property, plant and equipment	**2,762,310**	**76,998**	**(33,918)**	**(174,194)**	**(255,758)**	**296,741**	**(10,594)**	**2,661,585**

(1) Certain land sites linked to concession contracts and without provision for reimbursement are amortized in accordance with the period of the concession.

Parent company	2018	Additions	Disposals	Transfer	Depreciation	2019
In service						
Land (1)	82	-	-	-	-	82
Buildings, works and improvements	111	-	(75)	-	(1)	35
Machinery and equipment	1,213	44	-	25	(363)	919
Furniture and utensils	360	-	(301)	-	(9)	50
	1,766	**44**	**(376)**	**25**	**(373)**	**1,086**
In progress	484	1	-	(25)	-	460
Net property, plant and equipment	**2,250**	**45**	**(376)**	**-**	**(373)**	**1,546**

Parent company	2017	Additions	Incorporation Telecom (1)	Transfer to Held for sale	Transfer (2)	Depreciation	Disposals	2018
In service								
Land (1)	-	-	82	-	-	-	-	82
Buildings, works and improvements	-	-	116	-	-	(5)	-	111
Machinery and equipment	1,338	-	262,137	(255,758)	-	(6,036)	(468)	1,213
Furniture and utensils	13	-	406		-	(59)		360
	1,351	**-**	**262,741**	**(255,758)**	**-**	**(6,100)**	**(468)**	**1,766**
In progress	459	25	9,025	-	(9,025)	-	-	484
Net property, plant and equipment	**1,810**	**25**	**271,766**	**(255,758)**	**(9,025)**	**(6,100)**	**(468)**	**2,250**

(1) This refers to the merger of subsidiary Cemig Telecom
(2) The amount of R$9,025 was transferred to inventories.

Depreciation rates, which take into consideration the expected useful life of the assets, are revised annually by Management.

Generation	(%)	Administration	(%)
Reservoirs, dams and watercourses	2	Software	20
Buildings – Machine room	2	Vehicles	14.29
Buildings – Other	3.33	IT equipment in general	16.67
Generator	3.33	General equipment	6.25
Water turbine	2.5	Buildings – Other	3.33
Pressure tunnel	3.13		
Command station, panel and cubicle	3.57		
Town planning and improvements	3.33		

The average annual depreciation rate for the year 2019 is 3.13%:

Hydroelectric Generation	Thermoelectric Generation	Wind Power Generation	Administration
2.83	4.13	4.87	8.29

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 reimbursed to the Company – with the exception of the concession contracts related to Lot D of Auction 12/2015. Management believes that the indemnity of these assets will be greater than the amount of their historic cost, after depreciation over their useful lives.

The residual value of the assets is the residual balance of the assets at the end of the concession contract which will be transferred to the grantor at the end of the concession contract and for which Cemig is entitled to receive in cash. For contracts under which Cemig does not have a right to receive such amounts or there is uncertainty related to collection of the amounts, such as in the case of 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.

20. INTANGIBLE ASSETS

The composition of the balance at December 31, 2019 and 2018 is as follow:

Consolidated	2019			2018		
	Historical cost	Accumulated amortization	Residual value	Historical cost	Accumulated amortization	Residual value
In service						
Useful life defined						
Temporary easements	11,749	(3,292)	8,457	11,749	(2,664)	9,085
Onerous concession	19,169	(12,609)	6,560	19,169	(11,930)	7,239
Assets of concession (1)	20,039,489	(8,522,488)	11,517,001	18,674,138	(7,994,650)	10,679,488
Others	77,159	(66,507)	10,652	84,868	(66,071)	18,797
	20,147,566	**(8,604,896)**	**11,542,670**	**18,789,924**	**(8,075,315)**	**10,714,609**
In progress	**81,801**	**-**	**81,801**	**62,582**	**-**	**62,582**
Net intangible assets	**20,229,367**	**(8,604,896)**	**11,624,471**	**18,852,506**	**(8,075,315)**	**10,777,191**

(1) The rights of authorization to generate wind energy granted to *Parajuru* and *Volta do Rio*, valued at R$ 126,678, and of the gas distribution concession, granted to Gasmig, valued at R$ 426,760, are included in the financial statements of the subsidiary Cemig GT and of the Company, respectively, and in accordance with Technical Interpretation ICPC 09, the investments and are classified in the consolidated balance sheet under Intangibles. These concession assets are amortized by the straight-line method, during the period of the concession.

Parent company	2019			2018		
	Historical cost	Accumulated amortization	Residual value	Historical cost	Accumulated amortization	Residual value
In service						
Useful life defined						
Software use rights	13,564	(9,593)	3,971	14,880	(8,946)	5,934
Brands and patents	8	(8)	-	8	(8)	-
Others	231	(73)	158	231	(73)	158
	13,803	**(9,674)**	**4,129**	**15,119**	**(9,027)**	**6,092**
In progress	**46**	**-**	**46**	**33**	**-**	**33**
Net intangible assets	**13,849**	**(9,674)**	**4,175**	**15,152**	**(9,027)**	**6,125**

Changes in Intangible assets are as follow:

Consolidated	2018	Additions	Disposals (2)	Amortization	Transfers (1)	2019
In service						
Useful life defined						
Temporary easements	9,085	-	-	(628)	-	8,457
Onerous concession	7,239	-	-	(679)	-	6,560
Assets of concession	10,679,488	891,167	(40,681)	(698,274)	685,301	11,517,001
Others	18,797	6,450	(197)	(4,719)	(9,679)	10,652
	10,714,609	**897,617**	**(40,878)**	**(704,300)**	**682,072**	**11,542,670**
In progress	62,582	36,029	-	-	(16,810)	81,801
Net intangible assets	**10,777,191**	**933,646**	**(40,878)**	**(704,300)**	**658,812**	**11,624,471**

(1) The transfers were made between Intangible assets, concession contract assets and property, plant and equipment as follows: (1) R$685,068 from concession contract assets to intangible assets; (2) (R$3,735) from intangible assets to property, plant and equipment and; and (3) (R$22,521) from intangible assets to concession financial assets.

(2) This includes the impairment, in the amount of R$21,684 recognized in the Income Statement under "Other expenses". The test of impairment of intangible assets, relating to the authorization for wind generation granted to Volta do Rio, recognized in 2018 as part of the business combination, arises from non-achievement of the operational performance expected in 2019 for the wind generation assets of the subsidiary. The Value in Use of the assets was calculated based on the projection of future expected cash flows for the operation of the assets of the subsidiary, brought to present value by the weighted average cost of capital defined for the company's activity, using the Firm Cash Flow (FCFF) methodology.

Consolidated	2017	Assets arising from business combination	Additions	Disposals	Effects of first-time adoption of IFRS 15	Amortization	Transfer to Held for sale	Transfers	2018
In service									
Useful life defined									
Temporary easements	9,759	-	-	-	-	(674)	-	-	9,085
Onerous concession	7,918	-	-	-	-	(679)	-	-	7,239
Assets of concession	10,435,391	162,106	-	-	(23,155)	(668,421)	-	773,567	10,679,488
Others	17,188	4,464	-	1,064	(115)	(5,125)	(6,947)	8,268	18,797
	10,470,256	**166,570**	**-**	**1,064**	**(23,270)**	**(674,899)**	**(6,947)**	**781,835**	**10,714,609**
In progress	**685,672**	**-**	**(621,247)**	**33,191**	**(3,971)**	**-**	**-**	**(31,063)**	**62,582**
Net intangible assets	**11,155,928**	**166,570**	**(621,247)**	**34,255**	**(27,241)**	**(674,899)**	**(6,947)**	**750,772**	**10,777,191**

Parent company	2018	Additions	Disposals	Amortization	2019
In service					
Useful life defined					
Softwares use rights	5,934	-	(197)	(1,766)	3,971
Others	158	-	-	-	158
	6,092	**-**	**(197)**	**(1,766)**	**4,129**
In progress	**33**	**13**	**-**	**-**	**46**
Net intangible assets	**6,125**	**13**	**(197)**	**(1,766)**	**4,175**

Parent company	2017	Incorporation Telecom (1)	Transfer to Held for sale	Transfers	Additions	Amortization	2018
In service							
Useful life defined							
Softwares use rights	41	11,716	(6,947)	2,345	-	(269)	6,886
Brands and patents	2	-	-	231	-	(1,027)	(794)
	43	**11,716**	**(6,947)**	**2,576**	**-**	**(1,296)**	**6,092**
In progress	**2,414**	**-**	**-**	**(2,576)**	**195**	**-**	**33**
Net intangible assets	**2,457**	**11,716**	**(6,947)**	**-**	**195**	**(1,296)**	**6,125**

(1) On March 31, 2018 Cemig Telecom was merged into the Company. More details in Note 1.

Concession assets

The portion of the distribution infrastructure that will be fully used up during the concession is recorded in Intangible assets. Assets linked to the infrastructure of the concession that are still under construction are posted initially as contract assets, as detailed in Note 17.

On September 19, 2019 the Third Amendment was signed to the concession contract for commercial operation of piped gas by the subsidiary Gasmig, replacing the contractual obligation to build the gas pipeline to serve the Nitrogenated Fertilizer Unit (UFN-V), to be built by Petrobras in the Minas Triangle region, for payment of a consideration to the concession-granting power, as a concession grant fee, of R$891,168. This amendment extended the period of Gasmig's concession contract to 2053. The grant fee was paid on September 26, 2019. Its amount will be added to the Remuneration Base of Assets of Gasmig, being taken into account in the process of tariff review by the concession-granting power as an intangible asset to be amortized up till the end of the concession contract, producing immediate effects in terms of setting and review of tariffs.

The intangible asset easements, onerous concessions, assets of concession, and others, are amortized by the straight-line method taking into account the consumption pattern of these rights. The amount of additions in 2019 includes R$2,002 of capitalized borrowing costs, as presented in Note 24.

The main amortization rates, which take into account the useful life that management expects for the asset, and reflect the expected pattern of their consumption, are as follows:

Energy	(%)	Administration	(%)
System cable – below 69 KV	6.67	Software	20.00
System cable – below 69 KV	3.57	Vehicles	14.29
Structure – Posts	3.57	General equipment	6.25
Overhead distribution transformer	4.00	Buildings	3.33
Circuit breaker – up to 69 kV	3.03		
Capacitor bank – up to 69 kV	6.67		
Voltage regulator – up to 69 kV	4.35		

Gas	(%)	Administration	(%)
Tubing	3.33	Software	20.00
Buildings, works and improvements	4.00	Vehicles	20.00
Improvements in leased properties	10.00	Data processing equipment	20.00
Machinery and equipment	5.00 a 20.00	Furniture	10.00

The annual average amortization rate is 4.01%:

Hydroelectric Generation	Wind Power Generation	Gas	Distribution	Administration
19.74	16.90	2.87	3.88	16.03

Under the regulations of the energy segment, property, plant and equipment used in the distribution concession are linked to these services, and cannot be withdrawn, disposed of, assigned or provided in guarantee without the prior express authorization of the Regulator.

21. LEASING TRANSACTIONS

As mentioned in Note 2.4, as from January 1, 2019 the standard IFRS 16 / CPC 06 (R2) – *Leases* came into effect.

The Company and its subsidiaries have valued their contracts and recognized a right to use and a liability for leasing, for the following contracts which contain leasing:

- Leasing of commercial real estate used for serving customers;
- Leasing of buildings used as administrative headquarters;
- Leasing of commercial vehicles used in operations.

The Company and its subsidiaries have opted to use the exemptions specified in the rule for short-term leasing operations (leasing transactions with a period of 12 months or less) without the option to purchase, and for low-value items. Thus, these leasing agreements are recognized as an expense in the income statement on the straight-line basis, over the period of the leasing. Their effects on net income from January to December 2019 were immaterial.

The discount rates were obtained by reference to the debts contracted by the Company and through quotations with potential investors in the Company's securities.

a) Right to use

The right to use was valued at cost, comprising the amount of the initial measurement of the leasing liabilities, and amortized on the straight-line basis up to the end of the period of leasing or of the useful life of the asset identified, as the case may be.

The breakdown of the balance for each type of asset identified is as follows:

	Consolidated		Parent company	
	31/12/2019	01/01/2019	31/12/2019	01/01/2019
Real estate property	206,045	238,482	3,330	19,844
Vehicles	70,676	103,557	-	-
Other	103	411	-	-
	276,824	**342,450**	**3,330**	**19,844**

Changes in the asset Right to Use are as follows:

Consolidated	Real estate property	Vehicles	Other	Total
Balances on December 31, 2018	-	-	-	-
Initial adoption on January 1, 2019	238,482	103,557	411	342,450
Addition	27,652	3,459	-	31,111
Settled	(12,969)	-	-	(12,969)
Amortization (1)	(36,657)	(38,765)	(308)	(75,730)
Remeasurement (2)	(10,463)	2,425	-	(8,038)
Balances on December 31, 2019	**206,045**	**70,676**	**103**	**276,824**

(1) Amortization of the Right of Use recognized in the Income Statement is net of use of the credits of PIS/Pasep and Cofins taxes on payments of rentals, a total R$4,563.

(2) The Company and its subsidiaries have identified events giving rise to revaluation and modifications of their principal contracts. The leasing liabilities are restated with adjustment to the asset of Right of Use.

Parent company	Real estate property
Balances on December 31, 2018	-
Initial adoption on January 1, 2019	19,844
Settled	(12,969)
Amortization (1)	(2,603)
Remeasurement	(942)
Balances on December 31, 2019	**3,330**

(1) Amortization of the Right of Use recognized in the Income Statement is net of use of the credits of PIS/Pasep and Cofins taxes on payments of rentals, a total R$217.

(2) The Company and its subsidiaries have identified events giving rise to revaluation and modifications of their principal contracts. The leasing liabilities are restated with adjustment to the asset of Right of Use.

b) Leasing liabilities

The liability for leasing agreements was measured at the present value of the minimum payments required by the contracts, discounted at the Company's marginal interest rate for borrowing.

The changes in the liabilities for leasing transactions have been as follows:

	Consolidated	Parent company
Balances on December 31, 2018	-	-
First adoption on January 1, 2019 (1)	342,450	19,844
Addition	31,111	-
Settled	(12,969)	(12,969)
Interest incurred (2)	36,007	529
Leasing paid	(95,664)	(2,856)
Interest in leasing contracts	(5,150)	(127)
Remeasurement (3)	(8,038)	(942)
Balances on December 31, 2019	**287,747**	**3,479**
Current liabilities	**85,000**	**1,646**
Non-current liabilities	**202,747**	**1,833**

(1) The Company's marginal borrowing rate applied to the liability for leasing recognized in the statement of financial position on the date of the initial application varied between 7.96% p.a. and 10.64% p.a., depending on the leasing contract period, and 13.17% p.a., respectively, for contracts with maturities of up to two years, two to five years and longer than five years. The rates applied to the contracts entered into during 2019 were 6.87% p.a., 7.33% p.a. and 8.08% p.a., for contracts with maturities, respectively, of up to three years, three to four years, and over four years. To determine the marginal borrowing rate, the Company used as a reference quotations obtained from financial institutions, these being a function of the Company's credit risk, and market conditions on the date of contracting.

(2) Financial revenues recognized in the Income Statement are net of incorporation of the credits for PIS/Pasep and Cofins taxes on payments of rentals, in the amounts of R$2,173 and R$44, for the consolidated and individual financial statements, respectively.

(3) The Company and its subsidiaries identified events that give rise to restatement and modifications of their principal contracts; the leasing liability was remeasured with an adjustment to the asset of Right of Use.

The potential right to recovery of PIS/Pasep and Cofins taxes embedded in the leasing consideration, according to the periods specified for payment, is as follows:

Cash flow	Consolidated		Parent company	
	Nominal	Adjusted to present value	Nominal	Adjusted to present value
Consideration for the leasing	703,754	287,747	8,368	3,479
Potential PIS/Pasep and Cofins (9.25%)	56,106	18,128	766	315

The Company, in full compliance with CPC 06 (R2) in statement and restatement of its liability for leasing and for Right of Use, used the technique of discounted cash flow, without considering projected future inflation in the flows to be discounted, as per the prohibition imposed by CPC 06 (R2). This prohibition could generate material distortions in the information to be provided, given the present reality of long term interest rates in the Brazilian economic environment. The Company has evaluated these effects, and concluded that they are immaterial for its financial statements.

The cash flows of the leasing contracts are, in their majority, updated by the IPCA inflation index, annually. Below is an analysis of maturity of its contracts:

	Consolidated (nominal)	Parent company (nominal)
2020	86,165	1,711
2021	58,136	305
2022	25,712	272
2023	25,644	264
2024	25,552	264
2025 at 2045	482,545	5,552
Undiscounted values	**703,754**	**8,368**
Embedded interest	(416,007)	(4,889)
Leasing liabilities	**287,747**	**3,479**

22. SUPPLIERS

	Consolidated	
	2019	2018
Energy on spot market – CCEE	401,482	139,375
Charges for use of energy network	144,975	122,374
Energy purchased for resale	763,652	775,336
Itaipu Binacional	242,766	268,004
Gas purchased for resale	143,358	123,664
Materials and services	383,658	372,499
	2,079,891	**1,801,252**

23. TAXES PAYABLE AND AMOUNTS TO BE RESTITUTED TO CUSTOMERS

a) Taxes payable and amounts to be restituted to customers

	Consolidated		Parent company	
	2019	2018	2019	2018
Current				
ICMS	111,608	167,886	-	1,587
Cofins	134,580	146,004	45,364	18,404
PIS/Pasep	29,298	31,664	9,827	3,988
INSS	24,819	22,730	1,684	2,226
Others (1)	58,542	41,541	35,765	18,809
	358,847	**409,825**	**92,640**	**45,014**
Non-current				
Cofins	757	25,280	79	-
PIS/Pasep	126	4,116	12	-
	883	**29,396**	**91**	**-**
	359,730	**439,221**	**92,731**	**45,014**
Amounts to be restituted to customers				
Non-current				
PASEP/COFINS	4,193,329	1,123,680	-	-
	4,193,329	**1,123,680**	**-**	**-**

(1) This includes the withholding income tax on Interest on equity. This payment, and the deduction, were made in the first month of 2020, in accordance with the tax legislation.

The amounts of PIS/Pasep and Cofins taxes to be reimbursed to customers refer to the credits to be received by Cemig D following the court judgment which excluded ICMS tax amounts from the basis for calculation of those taxes. For further information see Note 10.

24. LOANS, FINANCING AND DEBENTURES

Financing source	Principal maturity	Annual financial cost %	Currency	Consolidated			
				2019			2018
				Current	Non-current	Total	Total
MOEDA ESTRANGEIRA							
Banco do Brasil: Various Bonds (1) (4)	2024	Diverse	U$$	1,842	16,209	18,051	25,936
Eurobonds (2)	2024	9.25%	U$$	45,691	6,046,051	6,091,742	5,856,124
KFW (2)	2019	1.78%	EUR$	-	-	-	229
(-)Transaction costs				-	(18,656)	(18,656)	(21,319)
(±) Interest paid in advance (3)				-	(30,040)	(30,040)	(34,269)
Debt in foreign currency				**47,533**	**6,013,564**	**6,061,097**	**5,826,701**
BRAZILIAN CURRENCY							
Banco do Brasil S.A.(4) (11)	2022	146.50% of CDI	R$	-	-	-	502,531
Caixa Econômica Federal (4) (11)	2022	146.50% of CDI	R$	-	-	-	626,632
Caixa Econômica Federal (5)	2021	TJLP + 2.50%	R$	60,516	-	60,516	55,576
Caixa Econômica Federal (6)	2022	TJLP + 2.50%	R$	117,710		117,710	107,791
Eletrobrás (4)	2023	UFIR + 6.00% at 8.00%	R$	11,221	9,047	20,268	33,182
Large customers (4)	2024	IGP-DI + 6.00%	R$	3,485	2,097	5,582	4,985
Sonda (7)	2020	110.00% of CDI	R$	185	-	185	185
Promissory Notes – 9th Issue - Single series (4) (11)	2021	151.00% of CDI	R$	-	48,529	48,529	45,531
Promissory Notes – 1st Issue - Single series (8)	2019	107.00% of CDI	R$	-	-	-	425,571
(-) FIC Pampulha - Marketable securities of subsidiary companies (9)	2020	107.00% do CDI	R$	875,247	-	875,247	-
(-)Transaction costs				(3,031)	-	(3,031)	(23,508)
Debt in Brazilian currency					(277)	(277)	(12,524)
Total of loans and financings				**1,065,333**	**59,396**	**1,124,729**	**1,765,952**
Total de empréstimos e financiamento				**1,112,866**	**6,072,960**	**7,185,826**	**7,592,653**
Debentures - 3th Issue – 2nd Series (2)	2019	IPCA + 6.00%	R$	-	-	-	156,361
Debentures - 3th Issue – 3rd Series (2)	2022	IPCA + 6.20%	R$	396,330	691,659	1,087,989	1,049,331
Debentures - 6th Issue – 2nd Series (2)	2020	IPCA + 8.07%	R$	17,292	-	17,292	33,322
Debentures - 7th Issue – Single series (2) (12)	2021	140.00% of CDI	R$	289,381	288,686	578,067	1,022,646
Debentures - 3th Issue – 2nd Series (4)	2021	IPCA + 4.70%	R$	568,312	540,633	1,108,945	1,596,419
Debentures - 3th Issue – 3rd Series (4)	2025	IPCA + 5.10%	R$	42,109	948,784	990,893	955,722
Debentures - 5th Issue - Single Series (4) (11)	2022	146.50% of CDI	R$	-	-	-	1,580,121
Debentures - 6th Issue - Single Series (4) (11)	2020	CDI + 1.75%	R$	-	-	-	551,214
Debentures - 7th Issue – 1st Series (4)	2024	CDI + 0.45%	R$	274,083	1,890,000	2,164,083	-
Debentures - 7th Issue – 2nd Series (4)	2026	IPCA + 4.10%	R$	2,420	1,516,622	1,519,042	-
Debentures – 4th Issue – 1st Series (8)	2022	TJLP+1.82%	R$	10,930	19,393	30,323	39,857
Debentures – 4th Issue – 2nd Series (8)	2022	Selic + 1.82%	R$	4,395	8,677	13,072	17,367
Debentures – 4th Issue – 3th Series (8)	2022	TJLP + 1.82%	R$	11,955	22,476	34,431	46,180
Debentures – 4th Issue – 4th Series (8)	2022	Selic + 1.82%	R$	5,238	10,326	15,564	20,681
Debentures – 4th Issue – 7th Series (8)	2020	TJLP + 1.82%	R$	450	-	450	716
Debentures – 6th Issue – Single series (8)	2019	116.50% of CDI	R$	-	-	-	50,086
Debentures – 7th Issue – Single series (8)	2023	CDI + 1.50%	R$	20,018	60,000	80,018	100,033
(-) Discount on the issuance of debentures (10)				-	(21,606)	(21,606)	-
(-) Transaction costs				(9,530)	(18,828)	(28,358)	(40,881)
Total, debentures				**1,633,383**	**5,956,822**	**7,590,205**	**7,179,175**
Total				**2,746,249**	**12,029,782**	**14,776,031**	**14,771,828**

Financing source	Principal maturity	Annual financial cost %	Currency	Parent company			
				2019			2018
				Current	Non-current	Total	Total
BRAZILIAN CURRENCY							
Sonda (7)	2021	110.00% of CDI	R$	-	48,529	48,529	45,531
(-) Transaction costs				-	(277)	(277)	(450)
Total of loans and financings				-	**48,252**	**48,252**	**45,081**

(1) Net balance of the Restructured Debt comprising bonds at par and discounted, with balance of R$181,716, less the amounts given as Deposits in guarantee, with balance of R$163,666. Interest rates vary – from 2 to 8% p.a.; six-month Libor plus spread of 0.81% to 0.88% p.a.
(2) Cemig Geração e Transmissão;
(3) Advance of funds to achieve the yield to maturity agreed in the Eurobonds contract.
(4) Cemig Distribuição;
(5) Central Eólica Praias de Parajuru;
(6) *Central Eólica Volta do Rio*;
(7) Arising from merger of Cemig Telecom.
(8) Gasmig;
(9) FIC Pampulha has financial investments in marketable securities issued by subsidiaries of the Company. For more information on this fund, see Note 32.
(10) Discount on the sale price of the 2nd series of the Seventh issue of Cemig Distribuição.
(11) The funds incorporated into the cash position of Cemig D as a result of the distribution of its Seventh Issue of non-convertible debentures, on July 22, 2019, enabled full prepayment of the debtor balances of: the Ninth Issue of Promissory Notes, with final maturity in October 2019; the Sixth Issue of Non-convertible Debentures, with final maturity in June 2020; the Fifth Issue of Non-convertible Debentures, maturing at the end of June 2022; and Bank Credit Notes with final maturities in June 2022. These prepayments, made on July 24, 2019, total R$3,644 million including principal, interest and charges. These initiatives have balanced the cash flow and improved the Company's credit quality. The changes in the new debt profile consisted of extinction of existing contracts and signature of new contracts. The accounting effects of the transactions are reflected in accordance with CPC 48 (Financial instruments).
(12) On July 24, 2019 Cemig GT made extraordinary amortization of its Seventh Issue of Non-convertible ventures, in the amount of R$125 million, with final maturity in December 2021.

The debentures issued by the subsidiaries are non-convertible; there are no agreements for renegotiation, nor debentures held in treasury.

There are early maturity clauses 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.

On September 26, 2019, Gasmig concluded its First Issue of Commercial Promissory Notes, in a single series, in the amount of R$850,000, with maturity at 12 months and remunerative interest at 107% of the DI rate, without guarantee or surety. The proceeds from this issue were used in their entirety for payment of the concession grant fee for the gas distribution concession contract on September 26, 2019. For more information please see Note 20.

Funding raised

Financing source	Signature date	Principal maturity	Annual financial cost %	Amount
BRAZILIAN CURRENCY				
Debentures – 7th Issue – 1st Series (1)	July, 2019	2024	CDI + 0.454%	2,160,000
Debentures – 7th Issue – 2nd Series (1)	July, 2019	2026	4.10% of IPCA	1,500,000
Promissory Notes – 1st Issue (2)	September, 2019	2020	107.00% of CDI	850,000
(-)Transactions costs				(10,183)
(-)Discount on the issuance of debentures (3)				(23,095)
Total raised				**4,476,722**

(1) Cemig Distribuição
(2) Gasmig
(3) Discount on the sale price of the 2nd series of the debentures issued by Cemig Distribuição.

Guarantees

The guarantees of the debt balance on loans and financing, on December 31, 2019, were as follows:

	2019
Promissory notes and Sureties	9,247,367
Guarantee and Receivables	3,652,078
Receivables	309,213
Shares	608,385
Unsecured	958,988
TOTAL	**14,776,031**

The composition of loans, financing and debentures, by currency and index, with the respective amortization, is as follows:

Consolidated	2020	2021	2022	2023	2024	2025	2026	Total
Currency								
US dollar	47,533	-	-	-	6,062,260	-	-	6,109,793
Total, currency denominated	**47,533**	**-**	**-**	**-**	**6,062,260**	**-**	**-**	**6,109,793**
Index								
IPCA (1)	1,026,648	881,301	588,187	237,196	237,196	995,507	758,311	**4,724,346**
UFIR/RGR (2)	11,221	3,407	3,265	2,375	-	-	-	**20,268**
CDI (3)	1,465,331	906,683	569,535	560,000	270,000	-	-	**3,771,549**
URTJ/TJLP (4)	201,561	20,902	20,967	-	-	-	-	**243,430**
IGP-DI (5)	3,485	623	590	590	294	-	-	**5,582**
Total by index	**2,708,246**	**1,812,916**	**1,182,544**	**800,161**	**507,490**	**995,507**	**758,311**	**8,765,175**
(-)Transaction costs	(9,530)	(10,167)	(905)	(881)	(19,168)	(3,392)	(3,248)	**(47,291)**
(±)Interest paid in advance	-	-	-	-	(30,040)	-	-	**(30,040)**
(-) Discount	-	-	-	-	-	(10,803)	(10,803)	(21,606)
Overall total	**2,746,249**	**1,802,749**	**1,181,639**	**799,280**	**6,520,542**	**981,312**	**744,260**	**14,776,031**

Parent company	2020	2021	Total
Indexers			
CDI (3)	-	48,529	**48,529**
Total, governed by indexers	**-**	**48,529**	**48,529**
(-)Transaction costs	-	(277)	**(277)**
Overall total	**-**	**48,252**	**48,252**

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

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

Currency	Accumulated change in 2019, %	Accumulated change in 2018, %	Indexer	Accumulated change in 2019, %	Accumulated change in 2018, %
US dollar	4.02	17.13	IPCA	4.31	3.75
			CDI	5.97	6.40
			TJLP	(20.20)	(0.29)

The changes in loans, financing and debentures are as follows:

	Consolidated		Parent company	
	2019	2018	2019	2018
Initial balances	**14,771,828**	**14,397,697**	**45,081**	**-**
Balance of loans arising from merger with Cemig Telecom	-	-		65,032
Liabilities arising from business combination	-	163,367	-	-
Initial balance for consolidation purposes	**14,771,828**	**14,561,064**	**45,081**	**65,032**
Loans and financing obtained	4,510,000	2,996,269	-	-
(–) Transaction costs	(10,183)	(16,141)	-	-
Interest paid in advance	-	9,625	-	-
Discount in the issues of securities	(23,095)	-	-	
Financing obtained, net	**4,476,722**	**2,989,753**	**-**	**-**
Monetary variation	141,782	133,815	-	-
Exchange rate variation	225,992	582,193	-	-
Financial charges provisioned	1,249,632	1,287,260	2,998	3,109
Amortization of transaction cost	37,616	32,907	173	434
Financial charges paid	(1,264,800)	(1,290,348)	-	(894)
Amortization of financing	(4,883,218)	(3,526,800)	-	(22,600)
Subtotal	**14,755,554**	**14,769,844**	**48,252**	**45,081**
(-) FIC Pampulha - títulos de empresas controladas	20,477	1,984	-	-
Final balances	**14,776,031**	**14,771,828**	**48,252**	**45,081**

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. All other costs of loans are recorded as finance costs in the period in which they are incurred. Costs of loans include interest and other costs incurred by the Company and its subsidiaries in relation to the loan.

The subsidiaries Cemig D and Gasmig transferred to intangible assets and to concession contract assets the costs of loans and financing linked to construction in progress, as follows:

	2019	2018
Costs of loans and financing	1,249,632	1,287,260
Financing costs on intangible assets and contract assets (1) (Note 17 and 20)	(22,735)	(30,801)
Net effect in Profit or loss	**1,226,897**	**1,256,459**

(1) The average capitalization rate p.a. in 2019 was 6.79% (9.64% in 2018).

The amounts of the capitalized borrowing costs have been excluded from the statement of cash flows, in the additions to cash flow of investment activities, as they do not represent an outflow of cash for acquisition of the related asset.

Restrictive covenants

The Company and its subsidiaries have contracts with financial covenants as follows:

Title - Security	Covenant	Ratio required – Issuer	Ratio required Cemig (guarantor)	Ratio required – Parajuru and Volta do Rio	Compliance required
7th Debentures Issue Cemig GT (1)	Net debt / (Ebitda + Dividends received)	The following or less: 4.5 in 2019 3.0 in 2020 2.5 in 2021	The following or less: 3.5 in 2019 3.0 in 2020 2.5 in 2021	-	Half-yearly and annual
Eurobonds Cemig GT (2)	Net debt / Ebitda adjusted for the Covenant	The following or less: 4.5 on Dec. 31, 2019 4.5 on June, 30, 2020 3.0 on Dec. 31, 2020 3.0 on June, 30, 2021 2.5 on/after Dec. 31, 2021	The following or less: 3.5 on Dec. 31, 2019 3.5 on June, 30, 2020 3.0 on Dec. 31, 2020 3.0 on June, 30, 2021 3.0 on/after Dec. 31, 2021	-	Half-yearly and annual
7th Debentures Issue Cemig D	Net debt / Ebitda adjusted	The following or less: 3.8 on Dec, 31. 2019 3.5 on June, 30. 2020	The following or less: 3.5 on December, 31, 2019 3.5 on June, 30, 2020 3.0 on December, 31, 2020	-	Half-yearly and annual
Debentures GASMIG (3)	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	The following or less than 4.0 on Dec, 31.2019 The following or less than 2.5 on Dec, 31.2020	-	-	Annual
Financings Caixa Econômica Federal Parajuru and Volta do Rio (4)	Debt servicing coverage index	-	-	1.20 or more	Annual (during amortization)
	Equity / Total liabilities	-	-	20.61% or more (Parajuru) 20.63% or more (Volta do Rio)	Always
	Share capital subscribed in investee / Total investments made in the project financed	-	-	20.61% or more (Parajuru) 20.63% or more (Volta do Rio)	Always

(1) 7th Issue of Debentures by Cemig GT, as of December 31, 2016, of R$2,240 million.
(2) In the event of a possible breach of the financial covenants, interest will automatically be increased by 2% p.a. during the period in which they remain exceeded. There is also an obligation to comply with a 'maintenance' covenants – that the consolidated debt, shall have a guarantee for debt of 1.75x Ebitda (2.0 as of December 31, 2017); and a 'damage' covenant, requiring real guarantee for debt at Cemig GT of 1.5x Ebitda.
(3) If Gasmig does not achieve the required covenants, it must, within 120 days from the date of notice in writing from BNDES or BNDESPar, constitute guarantees acceptable the debenture holders fbyor 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. Certain contractually specified situations can cause early maturity of other debts (cross-default).
(4) The financing contracts with Caixa Econômica Federal for the Praias de Parajuru and Volta do Rio wind power plants have financial covenants with compliance relating to early maturity of the debt remaining balance. Compliance with the debt servicing coverage index is considered to be demandable only annually and during the period of amortization, which begins in July 2020.

The covenants remain in compliance as of December 31, 2019, with the exception non-compliance with the non-financial covenant of the loan contracts with the CEF of the subsidiaries Central Eólica Praias de Parajuru and Central Eólica Volta do Rio. Thus, exclusively to comply with the requirement of item 69 of CPC 26 (R1), the Company reclassified R$178,226 to current liabilities, referring to the loans of those subsidiaries, which were originally classified in non-current liabilities. Additionally, the Company assessed the possible consequences arising from this matter in their other contracts for loans, financings and debentures, and concluded that no further adjustments were necessary.

As of December 31, 2019, Company is in compliance with all financial covenants.

The information on the derivative financial instruments (swaps) contracted to hedge the debt servicing of the Eurobonds (principal, in foreign currency, plus interest), and the Company's exposure to interest rate risks, are disclosed in Note 33.

25. REGULATORY CHARGES

	Consolidated	
	2019	2018
Liabilities		
Global Reversion Reserve (RGR)	30,494	29,068
Energy Development Account (CDE)	58,327	122,217
Regulator inspection fee – ANEEL	2,620	2,329
Energy Efficiency Program	254,595	257,956
Research and development (R&D)	199,385	224,970
Energy System Expansion Research	3,206	2,536
National Scientific and Technological Development Fund	6,325	4,746
Proinfa – Alternative Energy Program	8,353	6,631
Royalties for use of water resources	9,767	5,804
Emergency capacity charge	26,325	30,994
Others	4,640	5,686
	604,037	**692,937**
Current liabilities	**456,771**	**514,412**
Non-current liabilities	**147,266**	**178,525**

26. POST-EMPLOYMENT OBLIGATIONS

Forluz Pension plan (a Supplementary retirement pension plan)

Cemig and its subsidiaries are sponsors 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 provides the following supplementary pension benefit plans available to its participants:

<u>Mixed Benefit Plan ('Plan B'):</u> 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. The actuarial risks related to Plan B occur only as from the option for the lifetime benefit at the moment of the participant's retirement. In this specific case the responsibility for the risk of insufficiency of reserves for coverage of the benefits (deficits) is in parity between the sponsors and the participants.

Funded Benefit 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 The benefit balances of Plan A have the characteristic of lifetime payment, and the responsibility for the risk of insufficiency of reserves to cover the benefits (deficits) is exclusively that of the Sponsors.

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.

Actuarial obligations and recognition in the financial statements

On this Note the Company discloses 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 33 (R1) /IAS 19 - *Employee Benefits*, and the independent actuarial opinion issued as of December 31, 2019.

Debt with the pension fund (Forluz)

The Company and its subsidiaries have recognized an obligation for past actuarial deficits relating to the pension fund in the amount of R$566,381 on December 31, 2019 (R$651,966 on December 31, 2018). This amount has been recognized as an obligation payable by Cemig and its subsidiaries, and will be amortized until June of 2024, through monthly installments calculated by the system of constant installments (known as the ‘Price’ table), and adjusted by the IPCA (Expanded National Customer Price) inflation index (published by the Brazilian Geography and Statistics Institute – IBGE) plus 6% per year. The Company is required to pay this debt even if Forluz has a surplus, thus, the Company maintain recorded 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’

Forluz and the sponsors Cemig, Cemig GT and Cemig D have signed a Debt Assumption Instrument to cover the deficit of Plan A for the years of 2015, 2016 e 2017. On December 31, 2019 the total amount payable by Cemig as a result of the Plan A deficit is R$550,151 (R$377,449 on December, 31, 2018, referring to the Plan A deficits of 2015 and 2016). The contracts were entered into in May 2017, March 2018 and April 2019, for the deficits, respectively, of 2015, 2016 and 2017. The monthly amortizations, calculated by the constant installments system (Price Table), will be paid up to 2031 for the 2015 and 2016 deficits, and up to 2033 for the 2017 deficit. Remuneratory interest applicable to the outstanding balance is 6% p.a., plus the effect of the IPCA. If the plan reaches actuarial surplus before the full period of amortization of the debt, also Company will not be required to pay the remaining installments and the contract will be extinguished.

Actuarial information

Consolidated	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	2019
Present value of obligations	13,285,833	3,102,178	60,504	573,876	17,022,391
Fair value of plan assets	(10,366,512)	-	-	-	(10,366,512)
Initial net liabilities	**2,919,321**	**3,102,178**	**60,504**	**573,876**	**6,655,879**
Adjustment to asset ceiling	52,815	-	-	-	52,815
Net liabilities in the statement of financial position	**2,972,136**	**3,102,178**	**60,504**	**573,876**	**6,708,694**

Consolidated	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	2018
Present value of obligations	11,073,328	2,343,799	47,552	427,383	13,892,062
Fair value of plan assets	(9,062,611)	-	-	-	(9,062,611)
Initial net liabilities	**2,010,717**	**2,343,799**	**47,552**	**427,383**	**4,829,451**
Adjustment to asset ceiling	158,893	-	-	-	158,893
Net liabilities in the statement of financial position	**2,169,610**	**2,343,799**	**47,552**	**427,383**	**4,988,344**

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 at December 31. 2017	**10,545,473**	**1,809,441**	**38,505**	**269,880**	**12,663,299**
Cost of current service	3,522	9,702	231	1,592	15,047
Interest on actuarial obligation	959,279	172,621	3,581	25,448	1,160,929
Actuarial losses (gains):					
Due to changes in demographic assumptions					
Due to changes in financial assumptions	466,630	401,690	8,149	26,800	903,269
Due to adjustments based on experience	(20,080)	68,231	(457)	112,824	160,518
	446,550	**469,921**	**7,692**	**139,624**	**1,063,787**
Benefits paid	(881,496)	(117,886)	(2,457)	(9,161)	(1,011,000)
Defined-benefit obligation at December 31. 2018	**11,073,328**	**2,343,799**	**47,552**	**427,383**	**13,892,062**
Cost of current service	935	14,109	329	2,555	17,928
Interest on actuarial obligation	963,077	208,235	4,225	38,405	1,213,942
Actuarial losses (gains):					
Due to changes in demographic assumptions	6,165	290	15	(55)	6,415
Due to changes in financial assumptions	2,058,532	575,763	11,311	130,034	2,775,640
Due to adjustments based on experience	83,209	91,155	(434)	(14,295)	159,635
	2,147,906	**667,208**	**10,892**	**115,684**	**2,941,690**
Benefits paid	(899,413)	(131,173)	(2,494)	(10,151)	(1,043,231)
Defined-benefit obligation at December 31. 2019	**13,285,833**	**3,102,178**	**60,504**	**573,876**	**17,022,391**

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

	Pension plans and retirement supplement plans
Fair value of plan assets at December 31, 2017	**8,546,329**
Return on investments	1,220,248
Contributions from employer	177,530
Benefits paid	(881,496)
Fair value of the plan assets at December 31, 2018	**9,062,611**
Return on investments	2,003,879
Contributions from employer	199,435
Benefits paid	(899,413)
Fair value of the plan assets at December 31, 2019	**10,366,512**

The amounts recognized in 2019 and 2018 statement of income are as follows:

Consolidated	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Current service cost	935	14,109	329	2,555	17,928
Interest on the actuarial obligation	963,077	208,235	4,225	38,405	1,213,942
Expected return on the assets of the Plan	(767,316)	-	-	-	(767,316)
Expense (recovery of expense) in 2019 according to actuarial calculation	**196,696**	**222,344**	**4,554**	**40,960**	**464,554**

Consolidated	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Current service cost	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)
Expense (recovery of expense) in 2018 according to actuarial calculation	**191,936**	**182,323**	**3,812**	**27,040**	**405,111**

Changes in net liabilities were as follows:

Consolidated	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Net liabilities at December 31, 2017	**2,068,355**	**1,809,441**	**38,505**	**269,880**	**4,186,181**
Expense recognized in Statement of income	191,936	182,323	3,812	27,040	405,111
Contributions paid	(177,530)	(117,886)	(2,457)	(9,161)	(307,034)
Actuarial losses	86,849	469,921	7,692	139,624	704,086
Net liabilities at December 31, 2018	**2,169,610**	**2,343,799**	**47,552**	**427,383**	**4,988,344**
Expense recognized in Statement of income	196,696	222,344	4,554	40,960	464,554
Contributions paid	(199,435)	(131,173)	(2,494)	(10,151)	(343,253)
Actuarial losses	805,265	667,208	10,892	115,684	1,599,049
Net liabilities at December 31, 2019	**2,972,136**	**3,102,178**	**60,504**	**573,876**	**6,708,694**
				2019	**2018**
Current liabilities				**287,538**	**252,688**
Non-current liabilities				**6,421,156**	**4,735,656**

Parent company	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Net liabilities at December 31, 2017	**333,484**	**111,568**	**2,659**	**11,786**	**459,497**
Expense recognized in Statement of income	31,668	10,774	257	1,281	43,980
Contributions paid	(8,735)	(7,223)	(155)	(335)	(16,448)
Actuarial losses	937	17,069	437	3,979	22,422
Net liabilities at December 31, 2018	**357,354**	**132,188**	**3,198**	**16,711**	**509,451**
Expense recognized in Statement of income	32,589	12,255	303	1,649	46,796
Contributions paid	(9,812)	(8,588)	(168)	(406)	(18,974)
Actuarial losses	123,661	47,926	1,504	3,144	176,235
Net liabilities at December 31, 2019	**503,792**	**183,781**	**4,837**	**21,098**	**713,508**
				31/12/2019	**31/12/2018**
Current liabilities				**23,747**	**13,774**
Non-current liabilities				**689,761**	**495,677**

Amounts recorded as current liabilities refer to contributions to be made by Cemig and its subsidiaries in the next 12 months for the amortization of the actuarial liabilities.

The amounts reported as ‘Expense recognized in the Statement of income’ refer to the costs of post-employment obligations, totaling R$408,464 in 2019 (R$337,005 in 2018), plus the finance expenses and monetary updating on the debt with Forluz, in the amounts of R$56,090 in 2019 (R$68,106 in 2018).

The independent actuary’s estimation for the expense to be recognized for 2020 is as follows:

Consolidated	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Current service cost	1,495	20,987	506	3,690	26,678
Interest on the actuarial obligation	886,651	215,075	4,216	40,695	1,146,637
Expected return on the assets of the Plan	(682,361)		-	-	(682,361)
Estimated total expense in 2020 as per actuarial report	**205,785**	**236,062**	**4,722**	**44,385**	**490,954**

The expectation for payment of benefits for 2020 is as follows:

Consolidated	Pension plans and retirement supplement plans – Forluz	Health plan	Dental plan	Life insurance	Total
Estimated payment of benefits	898,250	140,869	2,666	16,825	1,058,610

The Company and its subsidiaries Cemig GT and Cemig D have expectation of making contributions to the pension plan in 2020 of R$285,576 for amortization of the deficit of Plan A, and R$79,499 for the Defined Contribution Plan (recorded directly in the 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			
9.54	11.55	12.82	13.17	16.93

The main categories plan’s assets, as a percentage of total plan’s assets are as follows:

	Cemig, Cemig GT e Cemig D	
	2019	2018
Shares	9.51%	7.11%
Fixed income securities	72.28%	71.92%
Real estate property	3.79%	4.69%
Others	14.42%	16.28%
Total	**100.00%**	**100.00%**

The following assets of the pension plan, measured at fair value, are related to the Company:

	2019	2018	2017
Non-convertible debentures issued by the Company and subsidiaries	398,652	379,786	363,616
Shares issued by the Company	23,852	34,947	9,826
Real estate properties of the Foundation, occupied by the Company and subsidiaries	502,751	662,429	725,000
	925,255	**1,077,162**	**1,098,442**

This table provides the main actuarial assumptions:

	2019		
	Pension plans and retirement supplement plans	Health plan and Dental plan	Life insurance
Annual discount rate for present value of the actuarial obligation	6.87%	7.09%	7.19%
Annual expected return on plan assets	6.87%	Not applicable	Not applicable
Long-term annual inflation rate	3.61%	3.61%	3.61%
Estimated future annual salary increases	3.61%	Not applicable	4.85%
General mortality table	AT-2000 M S10% D10%	AT-2000 M S10% D20%	AT-2000 M S10% D20%
Disability table	Not applicable	Álvaro Vindas D30%	Álvaro Vindas D30%
Disabled mortality table	AT-49 M	MI-85 F	MI-85 F
Real growth of contributions above inflation	-	1%	-

	2018		
	Pension plans and retirement supplement plans	Health plan and Dental plan	Life insurance
Annual discount rate for present value of the actuarial obligation	9.02%	9.60%	9.57%
Annual expected return on plan assets	9.02%	Not applicable	Not applicable
Long-term annual inflation rate	4.01%	4.00%	4.00%
Estimated future annual salary increases	4.01%	Not applicable	6.08%
General mortality table	AT-2000 M S10% D10%	AT-2000 M S10% D20%	AT-2000 M S10% D20%
Disability table	Not applicable	Álvaro Vindas D30%	Álvaro Vindas D30%
Disabled mortality table	AT 49 M	Winklevoss D30%	Winklevoss D30%
Real growth of contributions above inflation (1)	-	1%	-

(1) Starting in 2018, Company adopted the assumption of real growth of the contributions above inflation at the rate of 1% p.a.

Below is a sensitivity analysis of the effects of changes in the main actuarial assumptions used to determine the defined-benefit obligation at December 31, 2019:

Effects on the defined-benefit obligation	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Reduction of one year in the mortality table	334,825	84,387	1,341	(14,837)	**405,716**
Increase of one year in the mortality table	(336,099)	(60,594)	(1,351)	15,812	**(382,232)**
Reduction of 1% in the discount rate	1,582,601	496,595	9,988	121,758	**2,210,942**

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-employment obligations for the business years ended December 31, 2019 and 2018.

27. PROVISIONS

Company and its subsidiaries are involved in certain legal and administrative proceedings at 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 and its subsidiaries are defendant

Company and its subsidiaries recorded provisions for contingencies in relation to the legal actions in which, based on the assessment of the Company's management 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:

Consolidated	2018	Additions	Reversals	Settled	2019
Labor	456,889	179,913	(43,766)	(95,716)	497,320
Civil					
Customer relations	18,876	20,642	(795)	(20,409)	18,314
Other civil actions	29,011	16,119	(12,286)	(15,077)	17,767
	47,887	**36,761**	**(13,081)**	**(35,486)**	**36,081**
Tax	51,894	1,236,419	(8,314)	(19,558)	1,260,441
Regulatory	36,691	2,368	(590)	(1,680)	36,789
Others	**47,310**	**13,752**	**(2,519)**	**(1,110)**	**57,433**
Total	**640,671**	**1,469,213**	**(68,270)**	**(153,550)**	**1,888,064**

Consolidated	2017	Additions	Reversals	Settled	2018
Labor	473,874	67,076	(25,387)	(58,674)	456,889
Civil					
Customer relations	18,632	17,273	(524)	(16,505)	18,876
Other civil actions	43,105	9,878	(14,340)	(9,632)	29,011
	61,737	**27,151**	**(14,864)**	**(26,137)**	**47,887**
Tax	57,048	4,670	(9,332)	(492)	51,894
Regulatory	39,812	8,593	(10,393)	(1,321)	36,691
Others	45,642	7,809	0	-2,184	47,310
Total	**678,113**	**115,299**	**(63,933)**	**(88,808)**	**640,671**

Parent company	2018	Additions	Reversals	Settled	2019
Labor	32,807	17,663	(2,266)	(6,026)	42,178
Civil					
Customer relations	931	267	(390)	(261)	547
Other civil actions	759	1,041	(531)	(13)	1,256
	1,690	**1,308**	**(921)**	**(274)**	**1,803**
Tax	11,269	178,351	(6,816)	(21,391)	161,413
Regulatory	17,180	476	(175)	(270)	17,211
Others	1,258	179	(615)	-	822
Total	**64,204**	**197,977**	**(10,793)**	**(27,961)**	**223,427**

Parent company	2017	Merger of Cemig Telecom	Additions	Reversals	Settled	2018
Labor	38,603	22	7,406	(7,620)	(5,604)	32,807
Civil					-	
Customer relations	1,024	-	697	(100)	(690)	931
Other civil actions	958	-	3,180	(444)	(2,935)	759
	1,982	-	**3,877**	**(544)**	**(3,625)**	**1,690**
Tax	7,473	-	4,076	(263)	(17)	11,269
Regulatory	13,959	-	4,190	-	(969)	17,180
Others	1,177	-	257	(67)	(109)	1,258
Total	**63,194**	**22**	**19,806**	**(8,494)**	**(10,324)**	**64,204**

The Company and its subsidiaries' management, in view of the extended period and the Brazilian judiciary, tax and regulatory systems, believes that it is not practical to provide information that would be useful to the users of these financial statements in relation to the the timing of any cash outflows, or any possibility of reimbursements, might occur.

The Company and its subsidiaries believe that any disbursements in excess of the amounts provisioned, when the respective claims are completed, will not significantly affect the Company and its subsidiaries' result of operations or financial position.

The details on the main provisions and contingent liabilities are provided 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'

Labor claims

Company and its subsidiaries are involved in various legal 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$1,678,903 (R$1,724,929 at December 31, 2018), of which R$487,101 (R$456,889 at December 31, 2018) has been recorded – the amount estimated as probably necessary for settlement of these disputes.

Alteration of the monetary updating index of employment-law cases

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

In a joint judgment published on November 1, 2018, the TST decided that the IPCA-E should be adopted as the index for inflation adjustment of employment-law debts for cases filed from March 25, 2015 to November 10, 2017, and the TR would continue to be used for the other periods. The estimated amount of the contingency is R$106,484 (R$87,573 at December 31, 2018), of which R$10,219 has been provisioned upon assessment by the Company of the effects of the decision of the Regional Employment-Law Appeal Court of the third region (TRT3) in May 2019, on the subject of the joint judgment published by the TST, in the cases for which the chances of loss have been classified as ‘probable’ and which are at execution phase. No additional provision has been made, since the Company, based on the assessment by its legal advisers, has assessed the chances of loss in the action as ‘possible’, as a result of the decision by the Federal Supreme Court, 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.

Customers claims

Company and its subsidiaries are involved in various civil actions relating to indemnity for moral injury and for material damages, arising, principally, from allegations of irregularity in measurement of consumption, and claims of undue charging, in the normal course of business, totaling R$67,771 (R$66,399 at December 31, 2018), of which R$18,314 (R$18,876 at December 31, 2018) has been recorded – this being the probable estimate for funds needed to settle these disputes.

Other civil proceedings

Company and its subsidiaries are involved in various civil actions claiming indemnity for moral and material damages, among others, arising from incidents occurred in the normal course of business, in the amount of R$299,921 (R$277,048 at December 31, 2018), of which R$17,767 (R$29,011 at December 31, 2018) has been recorded – the amount estimated as probably necessary for settlement of these disputes.

Tax

Company and its subsidiaries are involved in numerous administrative and judicial claims actions relating to taxes, including, among other matters, subjects relating to the Urban Property Tax (*Imposto sobre a Propriedade Territorial Urbana*, or IPTU); the Rural Property Tax (ITR); the Tax on Donations and Legacies (ITCD); the Social Integration Program (*Programa de Integração Social*, or PIS); the Contribution to Finance Social Security (*Contribuição para o Financiamento da Seguridade Social*, or Cofins); Corporate Income tax (*Imposto de Renda Pessoa Jurídica*, or IRPJ); the Social Contribution (*Contribuição Social sobre o Lucro Líquido*, or CSLL); and motions to tax enforcement. The aggregate amount of this contingency is approximately R$203,872 (R$160,420 at December 31, 2018), of which R$42,999 (R$46,472 at December 31, 2018) has been recorded – 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$78,883 (R$142,210 at December 31, 2018). Of this total, R$4,002 has been recognized (R$5,422 at December 31, 2018) – this being the amount estimated as probably necessary for settlement of these disputes. The company has been successful in its efforts to have its IPTU tax liability suspended, winning judgments in favor in some cases – this being the principal factor in the reduction of the total value of the contingency.

Social Security contributions on profit sharing payments

The Brazilian tax authority (*Receita Federal*) has filed administrative and court proceedings against the Company, relating to social security contributions on the payment of profit shares to its employees over the period 1999 to 2016, alleging that the Company did not comply with the requirements of Law 10,101/2000 on the argument that it did not previously establish clear and objective rules for the distribution of these amounts. In August 2019, the Regional Federal Court of the First Region published a decision against the Company on this issue. As a result the Company, based on the opinion of its legal advisers, reassessed the chances of loss from 'possible' to 'probable' for some portions paid as profit-sharing amounts, maintaining the classification of the chance of loss as 'possible' for the other portions, since it believes that it has arguments on the merit for defense and/or because it believes that the amounts questioned are already within the period of limitation.

The amount of the contingencies is approximately R$1,450,963 (R$1,264,460 on December 31, 2018), of which R$1,213,440 has been provisioned in 2019, this being the estimate of the probable amount of funds to settle these disputes.

Environmental

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$46,911 (R$15,154 at December 31, 2018), of which the amount of R$55 has been provisioned (R$1,257 on December 31, 2018), this being the estimate of the probable amount of funds to settle these disputes.

<u>Regulatory</u>

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$280,293 (R$259,800 at December 31, 2018), of which R$36,789 (R$36,691 at December 31, 2018) has been recorded as provision – the amount estimated as probably necessary for settlement of these disputes.

<u>Other legal actions in the normal course of business</u>

Breach of contract – Power line pathways and accesses cleaning services contract

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$40,762 (R$36,280 at December 31, 2018), this being estimated as the likely amount of funds necessary to settle this dispute.

'*Luz Para Todos'* Program

The Company 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 the '*Luz Para Todos'*. The estimated amount of the contingency is approximately R$321,567 (R$291,262 on December 31, 2018). Of this total, R$4,002 has been provisioned – the amount estimated as probably necessary for settlement of these disputes.

Other legal proceedings

Company and its subsidiaries are involved as plaintiff or defendant, in other less significant claims, related to the normal course of their operations including: environmental matters; provision of cleaning service in power line pathways and firebreaks, removal of residents from risk areas; and indemnities for rescission of contracts, on a lesser scale, related to the normal course of its operations, with an estimated total amount of R$451,941 (R$188,743 at December, 31, 2018), of which R$12,614 (R$11,030 at December, 31, 2018), the amount estimated as probably necessary for settlement of these disputes - has been provisioned.

Contingent liabilities – whose loss are assessed as 'possible', and the Company and its subsidiaries believe it has arguments of merit for legal defense

<u>Taxes and contributions</u>

Company and its subsidiaries are involved in numerous administrative and judicial proceedings in relation to taxes. Below are details of the main claims:

Indemnity of employees' future benefit (the 'Anuênio')

In 2006 the Company and its subsidiaries 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 an escrow deposit of R$121,834, which updated now represents the amount of R$282,071 (R$274,871 at December 31, 2018). The updated amount of the contingency is R$289,086 (R$303,584 at December 31, 2018) 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 filed administrative proceedings related to various matters: employee profit 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$112,311 (R$155,177 at December 31, 2018). 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 and its subsidiaries' declared offsetting, in Corporate income tax returns, of carry-forwards and undue or excess payment of federal taxes – IRPJ, CSLL, PIS/Pasep 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$160,277 (R$145,689 at December 31, 2018), and the chance of loss was classified as 'possible', since the relevant requirements of the National Tax Code (CTN) have been complied with.

Income tax withheld on capital gain in a shareholding transaction

The federal tax authority issued a tax assessment against 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 shareholding transaction relating to the purchase by Parati, and sale, by Enlighted, at 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$229,906 (R$221,414 at December 31, 2018), and the loss has been assessed as 'possible'.

The social contribution tax on net income (CSLL)

The federal tax authority issued a tax assessment against the Company and its subsidiaries 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$400,075 (R$349,760 at December 31, 2018). The Company has classified the chances of loss as 'possible', in accordance with the analysis of the case law on the subject.

ICMS (local state value added tax)

On December 26, 2019 the Tax Authority of Minas Gerais State issued an infringement notice against the subsidiary Gasmig, in the amount of R$ 4,446, relating to reduction of the calculation base of ICMS tax in the sale of natural gas to its customers over the full month of December 2014, alleging a divergence between the form of calculation used by Gasmig and the opinion of that tax authority. The claim comprises: principal of R$ 1,341; penalty payments of R$ 2,161; and interest of R$ 945. On January 23, 2020 a second infringement notice was issued, in the amount of R$ 4,330, for the period of the full month of January 2015, with the same allegation, comprising: principal of R$ 1,308; penalties of R$ 2,108; and interest of R$ 913.

Considering that the State of Minas Gerais, over a period of more than 25 years, has never made any allegations against the methodology of calculation by the Company, the managers, together with their legal advisers, believe that there is a defense under Article 100, III of the National Tax Code, which removes claims for penalties and interest; and that the contingency for loss related to these amounts is 'remote'. In relation to the argument on the difference between the amount of ICMS tax calculated by Gasmig and the new interpretation by the state tax authority, the probability of loss was considered 'possible'. On December 31, 2019 the amount of the contingency for the period relating to the rules on expiry by limitation of time is R$ 89,232.*ICMS (local state value added tax).*

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 Electricity Supply Contracts for public illumination signed between the Company and the various municipalities of its concession area, and restitution by the Company of the difference representing the amounts charged in the last 20 years, in the event that the courts recognize that these amounts were unduly charged. The actions are grounded on a supposed 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 subsidiary believes it has arguments of merit for defense in these claims, since the charge at present made is grounded on Aneel Normative Resolution 456/2000. As a result it has not constituted a provision for this action, the amount of which is estimated at R$959,269 (R$975,196 at December 31, 2018). The Company has assessed the chances of loss in this action as 'possible', due to the Customer Defense Code (*Código de Defesa do Consumidor*, or CDC) not being applicable, because the matter is governed by the specific regulation of the electricity sector, and because Cemig complied with Aneel Resolutions 414 and 456, which deal with the subject.

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

In a claim dating from August 2002, AES Sul Distribuidora challenged in the court the criteria for accounting of energy sale transactions in the wholesale energy market (*Mercado Atacadista de Energia*, or MAE) (predecessor of the present Wholesale Electricity Exchange Chamber – *Câmara de Comercialização de Energia Elétrica*, or CCEE), during the period of rationing. It obtained a favorable interim judgment on February 2006, which ordered the regulator (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 the regulator (Aneel) 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$343,469 (R$317,460 at December 31, 2018). On November 9, 2008 Cemig GT obtained an interim decision in the Regional Federal Appeal Court (*Tribunal Regional Federal*, or TRF) suspending the obligatory nature of the requirement to pay into court the amount that would have been owed under the Special Financial Settlement made by the CCEE. Cemig GT has classified the chance of loss as 'possible', since this action deals with the General Agreement for the Electricity Sector, in which the Company has the full documentation to support its arguments.

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

Resolution 3 of 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 Electricity 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 Electricity 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 from April through December 2013 using the criteria prior to 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 Resolution CNPE 3.

In June 2019 the case was set aside, since the action for annulment brought by APINE reached final judgment against which there was no further appeal. This made final and irreversible the court judgment that declared nullity of CNPE Resolution 3/2013 as to the part in which generation agents were included in the proportional sharing of the cost of the additional dispatch of plant to guarantee supply of energy. This results in the systemic structure of CNPE Resolution 8/2007 remaining definitively intact.

<u>Tariff increases</u>

Exclusion of customers classified as low-income

The Federal Public Attorneys' Office filed a class action against the Company and the regulator (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 paid in excess by customers. A decision was given in favor of the plaintiffs, but the Company and the regulator (Aneel) have filed an interlocutory appeal and await judgment. The amount of the contingency is approximately R$326,719 (R$302,890 at December 31, 2018). Cemig D has classified the chances of loss as 'possible' due to other favorable decisions on this matter.

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 Cemig GT to invest, since 1997, 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 Law with an analogous object) and thus a constitutional matter, on the issue of whether the state law is constitutional or not, so that the final decision is 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$165,299 (R$148,205 at December 31, 2018).

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$95,215 (R$87,159 at December 31, 2018).

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$425,927 (R$412,054 at December 31, 2018), and, based on the Opinion of the Public Attorneys' Office of the Audit Board of the State of Minas Gerais (Tribunal de Contas), 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 party in other disputes arising from alleged non-compliance with contracts in the normal course of business, for an estimated total of R$148,904 (R$90,288 at December 31, 2018). Cemig D has classified the chance of loss as 'possible', after analysis of the case law on this subject.

28. EQUITY AND REMUNERATION TO SHAREHOLDERS

a) Share capital

As of December 31, 2019, the Company's issued and share capital is R$7,293,763, represented by 487,614,213 common shares and 971,138,388 preferred shares, both of them with nominal value of R$5.00 (five Reais), as follows:

Shareholders	Number of shares on December 31, 2019					
	Common	%	Preferred	%	Total	%
State of Minas Gerais	248,516,953	51	11,323	-	248,528,276	17
Other entities of Minas Gerais State	19,896	-	1,411,276	-	1,431,172	-
FIA Dinâmica Energia S.A.	48,700,000	10	55,133,744	6	103,833,744	7
BNDES Participações	54,342,992	11	26,220,938	3	80,563,930	6
Others						
In Brazil	101,170,317	21	328,982,856	34	430,153,173	29
Foreign shareholders	34,864,055	7	559,378,251	57	594,242,306	41
Total	**487,614,213**	**100**	**971,138,388**	**100**	**1,458,752,601**	**100**

Shareholders	Number of shares on December 31, 2018					
	Common	%	Preferred	%	Total	%
State of Minas Gerais	248,480,146	51	-	-	248,480,146	17
Other entities of Minas Gerais State	56,703	-	647,647	-	704,350	-
FIA Dinâmica Energia S.A.	48,200,000	10	55,905,344	6	104,105,344	7
BNDES Participações	54,342,992	11	26,220,938	3	80,563,930	5
Others						
In Brazil	105,402,202	22	370,338,947	38	475,741,149	33
Foreign shareholders	31,132,170	6	518,025,512	53	549,157,682	38
Total	**487,614,213**	**100**	**971,138,388**	**100**	**1,458,752,601**	**100**

The Company's Share Capital may be increased by up to a limit of 10% (ten percent) of the share capital set in the by-laws, without need for change in the by-laws and upon decision of the Board of Directors, having previously heard statement of opinion issued by the Fiscal Council.

b) Earnings per share

Number of shares	2019	2018
Common shares already paid up	487,614,213	487,614,213
Shares in treasury	(69)	(69)
	487,614,144	487,614,144
Preferred shares already paid up	971,138,388	971,138,388
Shares in treasury	(560,649)	(560,649)
	970,577,739	970,577,739
Total	**1,458,191,883**	**1,458,191,883**

Basic and diluted earnings per share

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

The purchase and sale options of investments described in Note 33 could potentially dilute basic profit per share in the future; however, they have not caused dilution of profit per share in the periods presented here.

The calculation of basic and diluted earnings per share is as follows:

	2019	2018
Net income for the year attributed to equity holders of the parent	3,127,398	1,700,099
Minimum mandatory dividend from net income for the year - preferred shares	508,639	577,311
Net income for the year not distributed - preferred shares	1,572,958	554,281
Total earnings - preferred shares (A)	2,081,597	1,131,592
Minimum mandatory dividend from net income for the year - common shares	255,542	290,039
Net income for the year not distributed - common shares	790,259	278,468
Total earnings - common shares (B)	1,045,801	568,507
Basic earnings per preferred share (A / number of preferred shares)	**2.14**	**1.17**
Basic earnings per common share (B / number of common shares)	**2.14**	**1.17**

	2019	2018
Net income for the year from continuing operations attributed to equity holders of the parent	2,903,331	1,377,530
Minimum mandatory dividend from net income for the year from continuing operations – preferred shares	508,639	577,311
Net income for the year from continuing operations not distributed – preferred shares	1,423,818	339,573
Total earnings from continuing operations - preferred shares (A.1)	1,932,457	916,884
Minimum mandatory dividend from net income for the year from continuing operations - common shares	255,542	290,039
Net income for the year from continuing operations not distributed – common shares	715,332	170,607
Total earnings from continuing operations - common shares (B.1)	970,874	460,646
Basic earnings from continuing operations per preferred share (A.1 / number of preferred shares)	**1.99**	**0.95**
Basic earnings from continuing operations per common share (B.1 / number of common shares)	**1.99**	**0.95**

c) Equity valuation adjustments

Consolidated	2019	2018
Adjustments to actuarial liabilities – Employee benefits	(343,602)	(256,943)
Subsidiaries, jointly-controlled entities and affiliated company		
Adjustments to actuarial liabilities – Employee benefits	(2,650,198)	(1,681,484)
Deemed cost of PP&E	586,379	611,191
Translation adjustments	362	362
Others	139	87
	(2,063,318)	**(1,069,844)**
Equity valuation adjustments	**(2,406,920)**	**(1,326,787)**

The adjustments to post-employment benefit obligations comprise gains or losses resulting from re-measurements of the net defined-benefit obligation, in accordance with the actuarial report.

The amounts recorded as deemed cost of the generation assets represents its fair value determined using the replacement cost at initial adoption of IFRS on January 1, 2009. The valuation of the generation assets resulted in an increase in their book value, recorded in a specific line in Equity, net of the tax effects. These values are being realized based on the depreciation of the assets.

d) Reserves

Capital reserves

	2019	2018
Investment-related donations and subsidies	1,856,628	1,856,628
Goodwill on issuance of shares	394,448	394,448
Inflation adjustment of capital	7	7
Shares in treasury	(1,362)	(1,362)
	2,249,721	**2,249,721**

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

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

Profit reserves

	2019	2018
Legal reserve	853,018	853,018
Statutory reserve	57,215	57,215
Retained earnings reserve	5,500,330	3,965,160
Unrealized profit reserve	834,603	-
Incentive tax reserve	85,039	66,783
Reserve for mandatory dividends not distributed	1,419,846	1,419,846
	8,750,051	**6,362,022**

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 capital. The Company did not record legal reserve due to that reserve had reached its legal limit.

Statutory reserve

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

Retained earnings reserve

Retained earnings reserves refers to profits not distributed in prior years, to guarantee execution of the Company's Investment Program, and amortization of loans and financing. The retentions are supported by capital budgets approved by the Board of Directors in the years.

The calculation of the retained earnings reserve is as follows:

	2019	2018
Net income for the year	3,127,398	1,700,099
Expired dividends	-	42,464
Incentives tax reserve	(18,256)	(9,237)
Deemed cost realization	24,812	42,497
Adjustment for initial adoption of IFRS 9 and IFRS 15.	-	(157,266)
Dividends proposed	(764,181)	(867,350)
Unrealized profit reserve	(834,603)	-
Retained earnings reserve	**1,535,170**	**751,207**

Unrealized profit reserve

The Brazilian corporate law nº 6,404/76 allows the Company to create the unrealized profit reserve when the mandatory dividend, calculated as required by the Bylaws terms, exceeds the amount of the realized portion of the net income for the year.

In 2019, the parent Company presented a positive net share of profit of subsidiaries, jointly-controlled entities and affiliates of R$2,834,411, which can be regarded as unrealized portion of net income for the year, in accordance with the Brazilian corporate law. The share of profit of subsidiaries and joint ventures might not be realized in 2020, which means it might not be converted into cash, considering the macro-economic scenario that makes the possible impact of COVID-19 – coronavirus on investees' cash flows and financial results difficult to be assessed, as stated in Note 39.

In its turn, the unrealized profit reserve creation cannot jeopardize the payment of minimum mandatory dividends to preferred shares, which represents the amount of R$485,569, as described in further details in topic “f” of this Note. In addition, since the creation of the unrealized profit reserve is optional, the Management decided to propose the same proportion of dividend payment to shareholders owning common shares, considering the expectation of Company financial capacities.

Thus, since the mandatory dividends if distributed in their totality represents 50% of net income and would amount to R$1,563,699, plus the expectations of cash flow from profit for the year, as stated above, the Management proposed the creation of the unrealized profit reserve, in the amount of 834,603, whose calculation is described as follows.

	2019
Minimum dividend required by Bylaws (50% of net income)	1,563,699
Minimum mandatory dividend required by the Bylaws for the preferred shares	(485,569)
Dividend from net income for the year - common shares	(243,527)
Unrealized profit reserve	**834,603**

The unrealized profit reserve amounts can only be used to pay mandatory dividends. Hence, after these amounts are converted into cash, they must be included in the first declared dividend, except for their absorption by losses in subsequent years.

Incentives tax reserve

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 profit 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 Statement of income was R$18,256 in 2019 (R$9,237 in 2018), and it was subsequently transferred to the Incentives Tax reserve. The amount of the Tax incentives reserve on December 31, 2019 was R$85,039 (R$66,783 at December 31, 2018). This reserve cannot be used for payment of dividends.

Reserve for mandatory dividends not distributed

	2019
Dividends withheld, arising from the net income of 2015	622,530
Dividends withheld, arising from the net income of 2014	797,316
	1,419,846

These dividends were retained in Equity, in years 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.

e) Rights and preferences of the common and preferred shares.

Every holder of Cemig common shares has the right to vote in an election for members of our Board of Directors. Under the Brazilian Corporate Law, any shareholder holding at least 5% of Cemig's common shares in circulation may request adoption of a multiple vote procedure, which confers upon each share a number of votes equal to the present number of members of the Board of Directors and gives the shareholder the right to accumulate his or her votes in one sole candidate, or distribute them among several.

Under the Brazilian Corporate Law, holders of preferred shares representing at least 10% of Cemig's share capital, and also holders of common shares representing at least 15% of its share capital (other than the controlling shareholder) have the right to appoint a member of the Board of Directors and his or her respective substitute member in a separate election. If none of the holders of common or preferred shares qualifies under the minimum limits specified above, shareholders representing, in the aggregate, a minimum of 10% of the share capital may combine their holdings to elect a member of the Board of Directors, and that member's substitute member.

Under Article 171 of the Corporate Law, every shareholder has a generic right of first refusal in subscription of new shares, or securities convertible into shares, issued in any capital increase, in proportion to their percentage shareholding, except in the event of exercise of any option to acquire shares in our share capital. Shareholders are required to exercise their right of first refusal within 30 days from publication of the notice of increase of capital.

Every holder of Cemig preferred shares has preference in the event of share redemption.

The dividend rights of the preferred and common shares are described below:

f) 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 profits on the same conditions as the common shares have the right, when there is net income, to a minimum annual dividends 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 profits to pay dividends to its Shareholders. This guarantee is given by the State of Minas Gerais by Article 9 of State Law 828 of December 14, 1951 and 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 dividends per share will be the same for the holders of common shares and preferred shares.

Dividends declared are paid in two equal installments, the first by June 30 and the second by December 30, of the year following the generation of the profit to which they refer. The Executive Board decides the location and processes of payment, subject to these periods.

Calculation of the minimum dividends proposed

The calculation of the minimum dividends proposed for distribution to Shareholders as a result of the 2019, as mentioned in the previous paragraph, is as follows:

	2019	2018
Calculation of Minimum Dividends required by the By-laws for the preferred shares		
Nominal value of the preferred shares to be capitalized	4,855,692	4,855,692
	4,855,692	**4,855,692**
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	485,569
Equity	15,886,615	14,578,719
Preferred shares as a percentage of Equity (net of shares held in Treasury)	66.56%	66.56%
Portion of Equity represented by the preferred shares	**10,574,131**	**9,703,595**
Percentage applied to the portion of Equity	3.00%	3.00%
Amount of the dividends by the second payment criterion	**317,224**	**291,108**
Minimum Dividends required by the Bylaws for the preferred shares	**485,569**	**485,569**
Calculation of the Minimum Dividend under the by-laws based on the net income for the period		
Mandatory dividend		
Net income for the year	3,127,398	1,700,099
	50.00%	50.00%
Mandatory dividends – 50% of Net income	1,563,699	850,050
Unrealized profit reserve	(834,603)	-
Withholding income tax on Interest on equity	35,085	17,300
	764,181	**867,350**
Dividends recorded, as specified in the by-laws		
Interest on Equity	400,000	210,000
Ordinary dividends	364,181	657,350
	764,181	**867,350**
Total dividends for the preferred shares	**508,639**	**577,311**
Total dividends for the common shares	**255,542**	**290,039**
Unit value of dividends – R$		
Minimum dividends required by the by-laws for the preferred shares	0.50	0.50
Mandatory dividends (including withholding income tax on Interest on Equity)	0.52	0.59
Dividends proposed: Common (ON) shares	0.52	0.59
Dividends proposed: Preferred (PN) shares	0.52	0.59

This table provides the changes on dividends and interest on capital payable:

	Consolidated	Parent company
Balances at December, 31, 2018	**863,703**	**861,420**
Proposed dividends	764,181	764,181
Dividends proposed for non-controlling shareholder.	727	-
Tax withheld at source on Interest on Equity	(35,085)	(35,085)
Dividends retained – Minas Gerais state government (Note 13)	(147,798)	(147,798)
Dividends paid	(701,137)	(700,199)
Balances at December, 31, 2019	**744,591**	**742,519**

g) Allocation of net income for 2019 – Management's proposal

The Board of Directors decided to propose to the Annual General Meeting to be held on April 30, 2020 the following allocation of the net income for 2019, totaling R$3,127,398, less R$24,812 from realization of the deemed cost of PP&E.

- R$764,181 for payment of the mandatory minimum dividends to Company's holders, as follows:
  - R$400,000 in the form of Interest on Equity, to be paid in two equal installments, by June 30, 2019 and by December 31, 2020, to shareholders whose names were on the Company's Nominal Share Registry on December 23, 2019;
  - R$364,181 as dividends of 2019, to be paid by December 31, 2020, to holders whose names are in the Company's Nominal Share Registry on the date of the AGM.
- R$834,603 to be recorded as Unrealized Profit Reserve, considering the positive net share of profit of subsidiaries, jointly-controlled entities and affiliates not yet converted into cash.
- R$1,535,170 to be held in the Retained earnings reserve, to ensure the Company's consolidated investments planned for 2020, as per capital budget.
- R$18,256 to be recorded as Incentives Tax reserve, in reference to the tax incentive amounts obtained in 2019 in relation to the investments made in the region of Sudene.

Under the Brazilian corporate law, if Cemig GT and Cemig D pay dividends for the year of 2019, which are not yet converted into cash by the investees until the present date, the reversal of unrealized profit reserve will be included as part of the calculation of minimum dividend required by the Bylaws for the year of 2020.

h) Capital increase – Proposal by management

Considering that on December 31, 2019 the profit reserves, with the exclusion of the Tax Incentive reserves, exceed the registered share capital by R$536,646, the Board of Directors will submit to the Annual General Meeting a proposal for increase of the registered share capital from R$7,293,763 to R$7,593,763, as per Article 199 of the Corporate Law of 1976 (Law 6404/76).

i) Non-controlling shareholders interests

The changes in the equity held by non-controlling shareholders are shown below:

Investee	Gasmig	Light S.A	LightGer	Guanhães	Axxion	UHE Itaocara	Total
Balance at Dec. 31, 2018	**4,306**	**1,277,098**	**21,973**	**50,158**	**4,402**	**2,671**	**1,360,608**
Net profit attributed to non-controlling shareholders	675	-	-	-	-	-	**675**
Capital Increase to non-controlling shareholders	-	-	-	10,291	-	-	**10,291**
Other comprehensive income	(4)	-	-		-	-	**(4)**
Proposed dividends to non-controlling shareholders (1)	(727)	-	-	-	-	-	**(727)**
Derecognition of the carrying amount of non-controlling interests in Light (Note 34)	-	(1,277,098)	(21,973)	(60,449)	(4,402)	(2,671)	**(1,366,593)**
Balance at Dec. 30, 2019	**4,250**	-	-	-	-	-	**4,250**

(1) Dividends totaling R$489, and Interest on Equity of R$238, were declared for non-controlling shareholders for the 2018 business year, imputed against the obligatory dividends for the 2019 business year.

Net profit allocated to non-controlling interests:

Company	Consolidated	
	2019	2018
Gasmig	675	761
Total	**675**	**761**

29. REVENUE

Revenues are measured at the fair value of the consideration received or to be received and are recognized on a monthly basis as and when: (i) Rights and obligations of the contract with the customer are identified; (ii) the performance obligation of the contract is identified; (iii) the price for each transaction has been determined; (iv) the transaction price has been allocated to the performance obligations defined in the contract; and (v) the performance obligations have been complied.

Consolidated	2019	2018
Revenue from supply of energy(a)	26,927,559	24,871,995
Revenue from use of the electricity distribution systems (TUSD) (b)	2,722,444	2,044,599
CVA, and Other financial components (c)	57,988	1,973,064
Transmission revenue		
Transmission concession revenue (d)	504,314	410,852
Transmission construction revenue (e)	220,390	95,712
Transmission indemnity revenue (f)	155,013	250,375
Generation Indemnity Revenue	-	55,332
Distribution construction revenue (e)	979,308	801,778
Adjustment to expectation of cash flow from indemnifiable financial assets of distribution concession (g)	17,839	325
Revenue on financial updating of the Concession Grant Fee (h)	318,266	321,427
Energy transactions on the CCEE (i)	431,994	217,218
Supply of gas	2,298,114	1,995,406
Fine for violation of service continuity indicator	(57,897)	(44,326)
Recovery of PIS/Pasep and Cofins (note 10)	1,427,786	-
Other operating revenues (j)	1,723,059	1,584,094
Deductions on revenue (k)	(12,335,871)	(12,311,634)
Net operating revenue	**25,390,306**	**22,266,217**

a) Revenue from energy supply

These items are recognized upon delivery of supply, and the revenue is recorded as and when billed, based on the tariff approved by the regulator for each class of customer.

This table shows energy supply by type of customer:

	GWh (1)		R$	
	2019	2018	2019	2018
Residential	10,538,342	10,266,434	9,668,228	8,658,157
Industrial	16,024,427	17,689,182	4,759,705	4,892,887
Commercial, services and others	9,567,381	8,380,346	5,438,774	4,683,418
Rural	3,795,374	3,615,402	2,058,354	1,793,459
Public authorities	904,879	871,325	653,551	574,975
Public lighting	1,357,293	1,383,878	614,318	585,260
Public services	1,371,992	1,315,479	724,904	646,399
Subtotal	**43,559,688**	**43,522,046**	**23,917,834**	**21,834,555**
Own consumption	37,827	41,244	-	-
Unbilled revenue	-	-	133,930	47,602
	43,597,515	**43,563,290**	**24,051,764**	**21,882,157**
Wholesale supply to other concession holders (2)	11,447,786	11,991,355	2,942,687	3,001,538
Wholesale supply unbilled, net	-	-	(66,892)	(11,700)
Total	**55,045,301**	**55,554,645**	**26,927,559**	**24,871,995**

(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)

These are recognized upon the distribution infrastructure become available to customers, and the fair value of the consideration is calculated according to the TUSD tariff of those customers, set by the regulator.

c) The CVA account, and Other financial components

The results from variations in (i) the CVA account (*Parcel A Costs Variation Compensation Account*), and in (ii) *Other financial components* in calculation of tariffs, refer to the positive and negative differences between the estimated non-manageable costs of the subsidiary Cemig D and the cost actually incurred. The amounts recognized arise from balances recorded in the current year, homologated or to be homologated in tariff adjustment processes. For more information please see Note 16.

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, in the amout of R$14,389 in 2019 (R$12,934 in 2018). The Company is subject to the pecuniary penalty named Variable Portion (Parcela Variável, or PV) which is applied by the Concession-granting Power as a result of any unavailabilities or operational restrictions on facilities that are part of the National Grid. This penalty is recognized as a reduction of revenue from operation and maintenance of the transmission network in the period in which it occurs. The effects of the Variable Portion in transmission revenue were R$8,842 in 2019 (R$11,497 in 2018).

e) Construction revenue

Construction revenue corresponds to the performance obligation to build the infrastructure which becomes the investment in concession assets made by the subsidiaries in the year. Recognition of this revenue is directly related to the expenditure incurred on the addition of the contracted assets. Considering that the regulatory model does not provide for specific remuneration for construction or improvement of the infrastructure of the concession; that constructions and improvements are substantially executed through outsourced parties; and that all construction revenues is related to the construction of the infrastructure of the energy distribution services, Company's management concluded that construction contract revenue has zero profit margin.

f) Transmission indemnity revenue

Corresponded to updating, by the IPCA index, of the balance of transmission indemnity receivable. For further information, please see Note 16.

g) Adjustment to expected cash flow from financial assets on residual value of infrastructure asses of distribution concessions

Income from the Regulatory Remuneration Asset Base.

h) Revenue on financial updating of the Concession Grant Fee

Represents the inflation adjustment using the IPCA inlfation index, plus interest, on the Concession Grant Fee for the concession awarded as Lot D of Auction 12/2015. See Note 16.

i) Energy transactions on the CCEE (Wholesale Trading Chamber)

The revenue from transactions made through the Wholesale Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) is the monthly positive net balance of settlements of transactions for purchase and sale of energy in the Spot Market, through the CCEE, for which the consideration corresponds to the product of energy sold at the Spot Price.

j) Other operating revenues

Consolidated	2019	2018
Charged service	17,351	13,915
Services rendered	183,292	188,361
Subsidies (1)	1,266,021	1,136,097
Rental and leasing	188,887	90,404
Reimbursement for decontracted supply	64,640	144,433
Other	2,868	10,884
	1,723,059	**1,584,094**

(1) Revenue recognized for the tariff subsidies applied to users of transmission and distribution services, including Low-income subsidy, reimbursed by Eletrobras.

k) Deductions on revenue

Consolidated	2019	2018
Taxes on revenue		
ICMS	6,357,695	5,656,793
Cofins	2,395,494	2,547,105
PIS/Pasep	521,228	552,969
Others	8,061	7,456
	9,282,478	**8,764,323**
Charges to the customer		
Global Reversion Reserve (RGR)	16,007	19,178
Energy Efficiency Program (PEE)	68,584	64,309
Energy Development Account (CDE)	2,448,472	2,603,050
Research and Development (R&D)	40,662	38,241
National Scientific and Technological Development Fund (FNDCT)	40,662	38,241
Energy System Expansion Research (EPE of MME)	20,331	19,121
Customer charges – Proinfa alternative sources program	52,042	39,971
Energy services inspection fee	29,555	26,231
Royalties for use of water resources	43,010	44,487
Customer charges – the 'Flag Tariff' system	294,004	654,470
Others	64	12
	3,053,393	**3,547,311**
	12,335,871	**12,311,634**

30. OPERATING COSTS AND EXPENSES

The operating costs are as follows:

	Consolidated		Parent company	
	2019	2018	2019	2018
Personnel (a)	1,271,518	1,410,491	26,768	35,879
Employees' and managers' profit sharing	263,008	76,761	17,426	9,677
Post-employment benefits – *Note 26*	408,464	337,005	44,036	40,629
Materials	91,138	104,416	3,396	1,438
Outsourced services (b)	1,238,550	1,087,409	36,569	34,521
Energy bought for resale (c)	11,286,174	11,084,194	-	-
Depreciation and amortization (1)	958,234	834,593	4,525	1,278
Operating provisions (reversals) and adjustments for operating losses (d)	2,401,106	466,768	188,461	59,677
Charges for use of the national grid	1,426,278	1,479,414	-	-
Gas bought for resale	1,435,728	1,238,085	-	-
Construction costs (e)	1,199,698	897,490	-	-
Other operating expenses, net (f)	499,115	403,601	6,079	18,076
	22,479,011	**19,420,227**	**327,260**	**201,175**

(1) Net of PIS/Pasep and Cofins taxes applicable to amortization of the Right of Use, in the amount of R$4,563 in the statements and R$217 in the Parent company statements.

For details about the discontinued operating costs and expenses, see Note 34.

a) Personnel

2019 Programmed Voluntary Retirement Plan ('PDVP')

On December 2018, the Company launched the Programmed Voluntary Retirement Plan for 2019 ('the 2019 PDVP'). Those eligible – any employees who had worked with the Company for 25 years or more by December 31, 2018 – were able to join from January 7 to 31, 2019. The program will pay the standard legal payments for severance – 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 under the legislation, but with no additional premium.

On March 2019 the Company launch again the 2019 PDVP program, for those joining between April 1 and 10, 2019, with some changes in the requirements for joining, but with the same financial conditions.

A total of R$87,087 has been appropriated as expense related to the relaunch of 2019 PDVP, corresponding to acceptance by 613 employees. A total of R$65,596 has been appropriated as expense, including severance payments, corresponding to acceptance by 458 employees, appropriated as expense in 2018 and R$21,491 (155 employees), appropriated as expense in March, 2019.

b) Outsourced services

	Consolidated		Parent company	
	2019	2018	2019	2018
Meter reading and bill delivery	127,947	128,732	-	-
Communication	68,552	79,782	2,171	12,683
Maintenance and conservation of electrical facilities and equipment	403,690	323,395	29	28
Building conservation and cleaning	109,598	110,088	248	850
Contracted labor	16,912	21,209	15	356
Freight and airfares	6,958	7,372	1,216	1,974
Accommodation and meals	13,970	11,918	198	233
Security services	17,989	20,350	-	
Consultant	23,822	15,851	8,327	8,824
Maintenance and conservation of furniture and utensils	5,381	4,101	15	15
Information technology	63,026	58,969	1,313	3,071
Maintenance and conservation of vehicles	2,944	2,147	3	1
Disconnection and reconnection	70,366	61,653	-	-
Environmental services	13,853	13,803	-	-
Legal services	27,850	27,013	1,616	3,128
Tree pruning	45,991	27,895	-	-
Cleaning of power line pathways	61,342	41,267	-	-
Copying and legal publications	21,473	21,112	428	767
Inspection of customer units	14,124	9,562	-	-
Other expenses	122,762	101,190	20,990	2,591
	1,238,550	**1,087,409**	**36,569**	**34,521**

c) Energy purchased for resale

Consolidated	2019	2018
Supply from Itaipu Binacional	1,429,355	1,350,891
Physical guarantee quota contracts	714,957	679,153
Quotas for Angra I and II nuclear plants	269,173	266,846
Spot market	1,886,472	1,817,746
Proinfa Program	375,442	324,545
‘Bilateral’ contracts	310,979	483,836
Energy acquired in Regulated Market auctions	3,021,012	3,345,848
Energy acquired in the Free Market	4,097,596	3,871,297
Distributed generation (‘Geração distribuída’)	206,863	-
PIS/Pasep and Cofins credits	(1,025,675)	(1,055,968)
	11,286,174	**11,084,194**

d) Operating provision (reversals) and adjustments for operating losses

	Consolidated		Parent company	
	2019	2018	2019	2018
Estimated losses on doubtful accounts receivables (Note 8)	237,733	264,416	-	-
Estimated losses on other accounts receivables (1)	10,706	(4,927)	1,277	7
Estimated losses with related parties (3) (note 32)	688,031	-	-	-
Contingency provisions (reversals) (Note 27) (2)				
Labor claims	136,147	41,689	15,397	(214)
Civil	23,680	12,287	387	3,333
Tax	1,228,105	(4,662)	171,535	3,813
Environmental	(1,202)	1,239	-	-
Regulatory	1,778	(1,800)	301	4,190
Other	12,435	2,613	(436)	190
	1,400,943	**51,366**	**187,184**	**11,312**
	2,337,413	**310,855**	**188,461**	**11,319**
Adjustment for losses				
Put option – RME and LEPSA	-	48,358	-	48,358
Put option – SAAG (Note 33)	63,693	107,555	-	-
	63,693	**155,913**	**-**	**48,358**
	2,401,106	**466,768**	**188,461**	**59,677**

(1) The estimated losses on other accounts receivable are presented in the statements of income as operating expenses.

(2) The provisions for contingencies of the holding company are presented in the consolidated profit and loss account for the year as operating expenses.

(3) Estimated losses on amounts receivable from Renova, as a result of the assessment of credit risk.

e) Construction costs

Consolidated	2019	2018
Personnel and managers	85,469	69,960
Materials	595,244	378,907
Outsourced services	421,430	364,019
Others	97,555	84,604
	1,199,698	**897,490**

f) Other operating expenses (revenues), net

	Consolidated		Parent company	
	2019	2018	2019	2018
Leasing and rentals (1)	19,572	93,572	2,156	5,143
Advertising	8,655	18,652	583	1,461
Own consumption of energy	20,582	26,511	-	-
Subsidies and donations	40,103	22,040	-	2,796
Onerous concession	2,958	2,681	-	-
Insurance	12,222	6,527	1,865	1,634
CCEE annual charge	6,115	6,317	1	1
Net loss (gain) on deactivation and disposal of assets	92,054	6,690	529	-
Forluz – Administrative running cost	30,086	28,001	1,460	1,255
Collection agents	87,792	78,328	-	-
Obligations deriving from investment contracts (2)	32,088	-	-	-
Taxes and charges	10,347	8,899	895	630
Other expenses (3)	136,541	105,383	(1,410)	5,156
	499,115	**403,601**	**6,079**	**18,076**

(1) A As from January 1, 2019, the amounts related to leasing and rentals are recognized in accordance with CPC 06 (R2I /IFRS 16, as shown in notes 2.4 and 21. The Company and its subsidiaries have operational leasing contracts relating, mainly, to vehicles and buildings used in its operational activities. Their amounts are not material in relation to the total costs of the Company and its subsidiaries. In relation to this, there are remaining leasing arrangements and rentals that do not qualify for recognition under CPC 06/IFRS 16.

(2) This refers to the group of amounts of cases realized and cases provisioned arising from the agreement made between Aliança Geração, Vale S.A. e Cemig. The action is provisioned at the cost of R$98 million, of which Cemig is responsible for R$32 million.

(1) The losses recorded on assets in progress (canceled works) are net of the reversal of the provisions constituted in prior periods. Includes the adjustment of R$21,684 for impairment of intangible assets.

31. FINANCE INCOME AND EXPENSES

	Consolidated		Parent company	
	2019	2018	2019	2018
FINANCE INCOME				
Income from financial investments	102,440	115,658	11,769	13,456
Interest on sale of energy	361,044	352,053	-	76
Monetary variations	29,623	19,296	2	36
Monetary variations – CVA (Note 16)	105,402	62,023	-	-
Monetary updating of escrow deposits	49,702	34,176	17,525	18,666
PIS/Pasep and Cofins charged on finance income (1)	(128,033)	(68,040)	(64,166)	(26,753)
Gains on financial instruments –swap (Note 33)	997,858	893,301	-	-
Finance income from advance payments	4,809	28,345	2	123
Inflation adjustment in arbitration case	-	76,896	-	-
Borrowing costs paid by related parties	47,654	56,320	59	-
Monetary updating on PIS/Pasep and Cofins taxes credits over ICMS (Note 10)	1,580,463	-	306,082	-
Others	55,888	135,651	1,480	3,944
	3,206,850	**1,705,679**	**272,753**	**9,548**
FINANCE EXPENSES				
Charges on loans and financings (Note 24)	(1,226,897)	(1,256,459)	(2,998)	(3,109)
Cost of debt – amortization of transaction cost (Note 24)	(37,616)	(32,907)	(173)	(434)
Foreign exchange variations - loans and financing (Note 24)	(225,992)	(582,193)	-	-
Foreign exchange variations – Itaipu	(13,054)	(29,038)	-	-
Monetary updating – loans and financings (Note 24)	(141,782)	(133,815)	-	-
Monetary updating – onerous concessions	(2,912)	(3,068)	-	-
Charges and monetary updating on post-employment obligations (Note 26)	(56,090)	(68,106)	(2,760)	(3,351)
Monetary updating – Advance sales of energy supply (Note 8)	(1,457)	(11,088)		-
Leasing – Inflation adjustment (Note 21)	(33,834)	-	(485)	-
Finance income of P&D and PEE	(23,598)	(23,596)		
Others	(83,341)	(83,891)	(20,274)	(16,071)
	(1,846,573)	**(2,224,161)**	**(26,690)**	**(22,965)**
NET FINANCE INCOME (EXPENSES)	**1,360,277**	**(518,482)**	**246,063**	**(13,417)**

(1) The PIS/Pasep and Cofins expenses apply to Interest on Equity.

32. RELATED PARTY TRANSACTIONS

Cemig's main balances and transactions with related parties and its jointly-controlled entities are as follows:

COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2019	2018	2019	2018	2019	2018	2019	2018
Shareholder								
Minas Gerais State Government								
Current								
Customers and traders (1)	345,929	244,960	-	-	166,263	163,152	-	-
ICMS tax – early payment (2)	-	-	-	-	-	10,902	-	-
Non-current								
Accounts Receivable – AFAC (3)	115,202	245,566	-	-	17,448	18,182	-	-
Jointly-controlled entity								
Aliança Geração								
Current								
Transactions with energy (4)	-	-	13,622	12,957	39,623	34,510	(165,595)	(164,568)
Provision of services (5)	626	1,792	-	-	7,195	11,884	-	-
Interest on Equity, and dividends	103,033	90,664	-	-	-	-	-	-
Contingency (6)	-	-	32,088	-	-	-	(32,088)	-
Baguari Energia								
Current								
Transactions with energy (4)	-	-	924	969	-	-	(7,958)	(10,614)
Provision of services (5)	-	211	-	-	1,021	898	-	-
Madeira Energia								
Current								
Transactions with energy (4)	5,745	5,669	57,860	64,111	67,648	70,491	(729,647)	(778,455)
Advance for future energy supply (7)	-	6,785	-	-		8,767	-	-
Reimbursement due to cancelled contract (8)	3,504	42,046	-	-	4,246	1,532	-	-
Non-current								
Reimbursement for cancelled contract (8)	-	3,504	-	-	-	-	-	-
Norte Energia								
Current								
Transactions with energy (4)	-	130	24,459	23,413	21,566	15,913	(227,625)	(202,301)
Advance for future power supply (9)	40,081	-	-	-	-	-	-	-
Lightger								
Current								
Transactions with energy (4)	-	-	1,541	-	-	-	(21,011)	(21,132)
Hidrelétrica Pipoca								
Current								
Transactions with energy (4)	-	-	1,387	1,303	-	-	(18,698)	(19,154)
Retiro Baixo								
Current								
Transactions with energy (4)	-	-	567	544	4,916	4,151	(5,210)	(4,751)
Interest on Equity, and dividends	6,474	5,718	-	-	-	-	-	-
Hidrelétrica Cachoeirão								
Current								
Interest on Equity, and dividends	2,536	2,460	-	-	-	-	-	-
Renova								
Current								
Transactions with energy (4)	-	-	-	515	4,447	-	-	(81,453)
Non-current								
Accounts Receivable (10)	-	594,323	-	-	93,708	106,078	(688,031)	-
Loans from related parties (11)	16,559	-	6,418	-	58	-	-	-
Light								
Current								
Transactions with energy (4)	312	374	1,311	502	97,560	60,364	(9,110)	(1,116)
Interest on Equity, and dividends	72,737	10,261	-	-	-	-	-	-
Taesa								
Current								
Transactions with energy (4)	-	-	8,523	8,295	-	-	(96,347)	(109,313)
Provision of services (5)	170	130	-	-	594	556	-	-
Hidrelétrica Itaocara								
Current								
Adjustment for losses (12)	-	-	21,809	-	-	-	-	-

COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2019	2018	2019	2018	2019	2018	2019	2018
Axiom								
Current								
Provision of services (13)	-	-	3,306	195	-	-	-	-
Centroeste								
Current								
Interest on Equity, and dividends	1,218	1,218		-		-		-
Other related parties								
FIC Pampulha								
Current								
Cash and cash equivalents	36,434	273,570		-		-		-
Marketable securities	742,561	727,011		-	7,947	1,106,421		-
(-) Marketable securities issued by subsidiary companies (Note 24)	(3,031)	(23,508)		-		-		-
Non-current								
Marketable securities	1,825	101,151		-		-		-
Forluz								
Current								
Post-employment obligations (14)	-	-	144,828	123,184	-	-	(196,696)	(191,937)
Supplementary pension contributions – Defined contribution plan (15)	-	-	-	-	-	-	(77,530)	(78,423)
Administrative running costs (16)	-	-		-	-	-	(30,085)	(28,000)
Operating leasing (17)	178,504	-	35,458	1,778	-	-	(55,212)	(46,066)
Non-current								
Post-employment obligations (14)	-	-	2,827,308	2,046,426	-	-	-	-
Operating leasing (17)	-	-	149,415	-	-	-	-	
Cemig Saúde								
Current								
Health Plan and Dental Plan (18)	-	-	140,830	120,344	-	(226,898)		(186,134)
Non-current								
Health Plan and Dental Plan (18)	-	-	3,021,852	2,271,007	-	-		-

The main conditions and characteristics of interest with reference to the related party transactions are:

(1) Refers to sale of energy supply to the Minas Gerais State government. The price of the supply is set by the regulator (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, up to November 2019. Twenty installments were unpaid at December 31, 2019. These receivables have guarantee in the form of Cemig's right to retain dividends and Interest on Equity otherwise payable to the State (in proportion to the State's equity interest in the Company), for as long as any payments are overdue or in default. The amount of the Public Lighting Contribution relating to the debt recognition agreement at December 31, 2019 is R$189,685.

(2) Refers to financial income from ICMS tax anticipation, as per Minas Gerais State Decree 47,488.

(3) This refers to the recalculation of the inflation adjustment of amounts relating to the Advance against Future Capital Increase (AFAC), which were returned to the State of Minas Gerais. These receivables have guarantee in the form of Cemig's right to retain dividends and Interest on Equity otherwise payable to the State (in proportion to the State's equity interest in the Company), for as long as any payments are overdue or in default. For further information, see Note 13.

(4) The transactions in sale and purchase of energy between generators and distributors take place through auctions in the Regulated Market, and are organized by the federal government. In the Free Market, transactions are made through auctions or through direct contracting, under the applicable legislation. Transactions for transport of energy, on the other hand, are carried out by transmission companies and arise from the centralized operation of the National Grid, executed by the National System Operator (ONS).

(5) Refers to a contract to provide plant operation and maintenance services.

(6) This refers to the aggregate amounts of legal actions realized and legal actions provisioned arising from the agreement made between Aliança Geração, Vale S.A. and Cemig. The action is provisioned in the amount of R$98 million, of which Cemig's portion is R$32 million.

(7) In 2017, 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. The last installment was paid in January 2019.

(8) Refers to reimbursement due to termination of contract related to change of the "power purchase agreements" (CCEARs) between Santo Antônio Energia S.A., a subsidiary of Madeira Energia, and Cemig Distribuição – totaling R$84,092, to be settled in 24 monthly installments, with inflation adjustment by the Selic rate and maturities up to January 2020. The outstanding amount at December 31, 2019 was R$3,504.

(9) Refers to advance payments for energy supply made in 2019 to Norte Energia, established by auction and by contract registered with the CCEE (Wholesale Trading Exchange). In full-year 2020 Norte Energia S.A. will deliver contracted supply in the amount of R$40,081. There is no financial updating of the contract.

(10) As mentioned in Note 18(b), in June 2019, due to the uncertainties related to continuity of Renova, an estimated loss on realization of the receivables was recorded for the full value of the balance, R$688 million.

(11) On November 25 and December 27, 2019, DIP loan contracts under In-court reorganization proceedings, referred to as 'DIP' and 'DIP 2', were entered into between the Company and the investee Renova Energia S.A., which is in in-court reorganization, in the amounts of R$10 million and R$6.5 million, respectively. The contracts specify interest equal to 100% of the accumulated variation in the DI rate, plus an annual spread, applied pro rata die (on 252-business-days basis), of 1.083% for the DIP contract and 2.5% for the DIP2 contract, up to the date of respective full payment. The proceeds of this loan were allocated to the investee's minimum cash needs. The contracts specify a guarantee, given by the investee and its guarantor, through surety and a fiduciary assignment on the shares of the special-purpose company Mina de Ouro, which represents 120% of the principal value of the loan, according to an independent valuation. The amount of R$6.5 million was passed through in January 2020.

(12) A liability was recognized corresponding to the Cemig GT's interest in the share capital of Hidrelétrica Itaocara, due to its negative equity (see Note 15).

(13) This refers to a contract for development of management software between Cemig D and Axxiom Soluções Tecnológicas S.A., instituted in Aneel Dispatch 2657/2017;

(14) The contracts of Forluz are updated by the Expanded Customer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA) calculated by the Brazilian Geography and Statistics Institute (IBGE) plus interest of 6% p.a. and will be amortized up to the business year of 2031 (see Note 26).

(15) The Company's contributions to the pension fund for the employees participating in the Mixed Plan, and calculated on the monthly remuneration, in accordance with the regulations of the Fund.
(16) 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.
(17) Rental of the Company's administrative head offices, in effect up to November 2020 (able to be extended every five years, up to 2035) and August 2024 (able to be extended every five years, up to 2034), with annual inflation adjustment by the IPCA index and price reviewed every 60 months. Aiming at costs reduction, in November, 2019, Cemig returned the Aureliano Chaves building to Forluz.
(18) Post-employment obligations relating to the employees' health and dental plan (see Note 26).

Dividends receivable from equity investees' investments

Dividends receivable	Consolidated		Parent company	
	2019	2018	2019	2018
Cemig GT	-	-	781,769	659,622
Cemig D	-	-	822,183	267,435
Gasmig	-	-	46,578	-
Light	72,737	-	72,737	12,319
Aliança Geração	103,033	90,664	-	-
Others (1)	10,228	29,079	3,628	6,208
	185,998	**119,743**	**1,726,895**	**945,584**

(1) The subsidiaries grouped in 'Others' are identified in the table above under "Interest on Equity, and Dividends".

Loans from related parties

On September 18, 2018 a loan agreement of R$400,000 was signed between Cemig GT (lender) and Cemig (borrower) to be settled in a single payment in December 2019, bears interest at 125.52% of the CDI rate. As a guarantee, Cemig signed a promissory note in the amount of R$442,258, corresponding to the amount of the debt plus the estimated interest for the 15-month period of the agreement. On March, 13, 2019, R$46,598 was amortized, and in July 19, 2019, this loan was settled in full, in the amount of R$377,980.

Guarantees on loans, financing and debentures

Cemig has provided guarantees on loans, financing and debentures of the following related parties – not consolidated in the financial statements because they relate to jointly-controlled entities or affiliated companies:

Related party	Relationship	Type	Objective	2019	Maturity
Norte Energia (NESA)	Affiliated	Surety	Financing	2,555,049	2042
Light (1)	Affiliated	Counter-guarantee	Financing	683,615	2042
Santo Antônio Energia (SAESA) (2)	Affiliated	Guarantee	Financing	939,262	2034
Santo Antônio Energia (SAESA) (2)	Affiliated	Surety	Debentures	423,693	2037
Centroeste	Jointly-controlled entity	Surety	Financing	5,328	2023
				4,606,947	

(1) Related to execution of guarantees of the Norte Energia financing.
(2) Corporate guarantee given by Cemig to Saesa.

At December 31, 2019, Management believes that there is no need to recognize any provisions in the Company's financial statements for the purpose of meeting any obligations arising under these sureties and/or guarantees.

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

Cemig and its subsidiaries and affiliates invest part of their financial resources in an investment fund which has the characteristics of fixed income and obeys the Company's cash investment policy. The amounts invested by the fund at December 31, 2019 are reported in Marketable 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 marketable securities of related parties are as follows:

Issuer of security	Type	Annual contractual conditions	Maturity	2019	2018				
				Total 2.,93%	Cemig 4.65%	Cemig GT 0.75%	Cemig D 24.47%	Others subsidiaries 14.33% (1)	Total 44.20%
ETAU (1)	Debentures	108.00% of CDI	Dec. 01, 2019	-	468	75	2,463	1,442	4,448
LIGHT	Promissory Note	CDI + 3.50%	Jan. 22, 2019	-	334	54	1,754	1,130	3,272
				-	**802**	**129**	**4,217**	**2,572**	**7,720**

(1) Empresa de Transmissão do Alto Uruguai S.A.

Remuneration of key management personnel

The total costs of key personnel, comprising the Executive Board, the Fiscal Council, the Audit Committee and the Board of Directors in 2019 and 2018, are within the limits approved at a General Shareholders' Meeting, and the effects on the income statements of the years ended, are as follows:

	2019	2018
Remuneration	24,768	34,088
Profit sharing (reversal)	5,648	4,170
Assistance benefits	1,592	2,342
Total	**32,008**	**40,600**

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Financial instruments classification and fair value

The main financial instruments, classified in accordance with the accounting principles adopted by the Company, are as follows:

	Level	2019		2018	
		Balance	Fair value	Balance	Fair value
Financial assets					
Amortized cost (1)					
Marketable securities – Cash investments	2	102,109	102,109	116,513	116,513
Customers and Traders; Concession holders (transmission service)	2	4,600,605	4,600,605	4,172,611	4,172,611
Restricted cash	2	12,337	12,337	90,993	90,993
Accounts receivable from the State of Minas Gerais (AFAC)	2	115,202	115,202	245,566	245,566
Concession financial assets – *CVA* (Parcel 'A' Costs Variation Compensation) Account and *Other financial components*	3	881,614	881,614	1,080,693	1,080,693
Reimbursement of tariff subsidies	2	96,776	96,776	90,845	90,845
Low-income subsidy	2	29,582	29,582	30,232	30,232
Escrow deposits	2	2,540,239	2,540,239	2,501,512	2,501,512
Concession grant fee – Generation concessions	3	2,468,216	2,468,217	2,408,930	2,408,930
Reimbursements receivable – Transmission		1,280,652	1,280,651	1,296,314	1,296,314
Accounts receivable – Renova	2	-	-	532,393	532,393
Reimbursement – Decontracting of supply	2	-	-	97,284	97,284
Reimbursement – Assignment of contract		-	-	10,196	10,196
		12,127,332	**12,127,332**	**12,674,082**	**12,674,082**
Fair value through profit or loss					
Cash equivalents – Cash investments		326,352	326,352	783,288	783,288
Marketable securities					
Bank certificates of deposit	2	267	267	-	-
Treasury Financial Notes (LFTs)	1	94,184	94,184	253,868	253,868
Financial Notes – Banks	2	557,018	557,018	434,735	434,735
Debentures	2	103	103	7,118	7,118
		977,924	**977,924**	**1,479,009**	**1,479,009**
Derivative financial instruments (Swaps)	3				
Derivative financial instruments (Ativas and Sonda Put options)	3	1,690,944	1,690,944	813,335	813,335
Concession financial assets – Distribution infrastructure	3	2,614	2,614	4,460	4,460
Reimbursements receivable – Generation	3	483,374	483,374	395,743	395,743
		816,202	816,202	816,202	816,202
		3,971,058	**3,971,058**	**3,508,749**	**3,508,749**
Financial liabilities		**16,098,390**	**16,098,390**	**16,182,831**	**16,182,831**
Amortized cost (1)					
Loans, financing and debentures	2				
Debt with pension fund (Forluz)	2	(14,776,031)	(14,776,031)	(14,771,828)	(14,771,828)
Deficit of pension fund (Forluz)	2	(566,381)	(566,381)	(651,966)	(651,966)
Concessions payable	3	(550,151)	(550,151)	(377,449)	(377,449)
Suppliers	2	(19,692)	(19,692)	(18,747)	(18,747)
Leasing transactions (2)	2	(2,079,891)	(2,079,891)	(1,801,252)	(1,801,252)
Advances from customers	2	(287,747)	(287,747)	-	-
		-	-	(79,405)	(79,405)
Fair value through profit or loss		**(18,279,893)**	**(18,279,893)**	**(17,700,647)**	**(17,700,647)**
Derivative financial instruments (SAAG put options)	3				
		(482,841)	(482,841)	(419,148)	(419,148)
		(482,841)	**(482,841)**	**(419,148)**	**(419,148)**
		(18,762,734)	**(18,762,734)**	**(18,119,795)**	**(18,119,795)**

(1) On December 31, 2019 and 2018, the book values of financial instruments reflect their fair values.
(2) Leasing transactions have been recognized in accordance with initial adoption of IFRS 16 / CPC 06 (R2). For more information see Note 21.

At initial recognition the Company and its subsidiaries measures its financial assets and liabilities at fair value and classifies them according to the accounting standards currently in effect. *Fair value* is a measurement based on assumptions that market participants would use in pricing an asset or liability. The Company uses the following classification to its financial instruments:

- 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 model.

- 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, and/or of derivatives linked to them which are to be settled by delivery of unquoted securities. Fair value is determined based on generally accepted valuation techniques, such as on discounted cash flow analysis or other valuation techniques such as, for example, New Replacement Value (*Valor novo de reposição*, or VNR).

For assets and liabilities that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization.

Fair value calculation of financial positions

<u>Distribution infrastructure concession financial assets, and transmission concession financial assets – Assets remunerated by tariff</u>: These are measured at New Replacement Value (*Valor novo de reposição*, or VNR), according to criteria established by the Concession-granting power ('Grantor'), based on fair value of the concession assets in service and which will be revertible at the end of the concession, and on the weighted average cost of capital (WACC) defined 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 respectively. Changes in concession financial assets are disclosed in Note 16.

<u>Indemnifiable receivable – transmission</u>: These are measured at New Replacement Value (*Valor novo de reposição*, or VNR), according to criteria established by the Concession-granting power ('Grantor'), based on fair value of the assets to be indemnify as a result of acceptance of the terms of Law 12,783/13, 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.

<u>Indemnifiable receivable – generation</u>: measured at New Replacement Value (VNR), as per criteria set by regulations of the grantor power, based on the fair value of the assets to be indemnify at the end of the concession.

Marketable securities: Fair value of marketable securities is determined taking into consideration the market prices of the investment, or market information that makes such calculation possible, considering future interest rates and exchange of investments to similar securities. The market value of the security is deemed to be its maturity value discounted to present value by the discount rate obtained from the market yield curve.

Put options: The Company adopted the Black-Scholes-Merton method for measuring fair value of the SAAG, RME 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.

Swaps: Fair value was calculated based on the market value of the security at its maturity adjusted to present value by the discount rate from the market yield curve.

Other financial liabilities: Fair value of its loans, financing and debentures were determined using 133.37% of the CDI rate – based on its most recent funding. For the loans, financing, debentures and debt renegotiated with Forluz, with annual rates between IPCA + 4.70% to 8.07% and CDI + 0.38% to 2.24%, Company believes that their carrying amount is approximated to their fair value.

b) Derivative financial instruments

Put options

Company holds options to sell certain securities (put options) for which it has calculated the fair value based on the *Black and Scholes Merton* (BSM) model, considering the following assumptions: exercise price of the option; closing price of the underlying asset as of December 31, 2019; risk-free interest rate; 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, 2019 and 2018, the options values were as follows:

	2019	2018
Put option – SAAG	482,841	419,148
Put / call options – Ativas and Sonda	(2,614)	(4,460)
	480,227	**414,688**

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 Customer 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 profit and 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 hold direct equity interests at Mesa. However, neither SAAG nor Mesa have its share 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, 2019 is ascertained based on free cash flow (FCFE), expressed by equity pick-up 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 at Bovespa.

Based on the analysis performed, a liability of R$482,841 was recorded in the Company's financial statements (R$419,148 on December 31, 2018), 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:

	Consolidated
Balance at December 31, 2017	**311,593**
Adjustment to fair value	107,555
Balance at December 31, 2018	**419,148**
Adjustment to fair value	63,693
Balance at December 31, 2019	**482,841**

Cemig GT performed the sensitivity analysis 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 2.29% to 6.29% p.a., and for volatility between 13% and 73% p.a., were used, resulting in estimates of minimum and maximum price for the put option of R$467,156 and R$499,151, respectively.

This option can potentially dilute basic profit per share in the future; however, they have not caused dilution of profit per share in the years presented.

Sonda options

As part of the shareholding restructuring, CemigTelecom and Sonda signed a Purchase Option Agreement (issued by Cemig Telecom) and a Sale Option Agreement (issued by Sonda). With the merger of Cemig Telecom into Cemig, on March 31, 2018, the option contract became an agreement between Cemig and Sonda.

This resulted in Cemig 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 year prior to the exercise date. The exercise price of the call option will be equivalent to seventeen 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 statements for 2019. 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 in 2019; 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 valuation prepared by the same specialized consulting firm responsible for calculating the options. The valuation base date is December 31, 2019, the same date as the closing of the Company's Financial Statements, and the methodology used to calculate the fair value of the company is discounted cash flow (DCF) based on the value of the shares transaction of Ativas by Sonda, occurred on October 19, 2016. The calculation of the risk-free interest rate was based on yields of National Treasury Bills. Maturity was calculated assuming exercise date of December 31, 2021.

Considering that the exercise prices of the options are contingent upon the future financial results of Ativas, the estimated exercise prices on the maturity date was based on statistical analyses and information of comparable listed companies.

Swap transactions

Considering that part of the loans and financings of the Company's subsidiaries is denominated in foreign currency, the companies use derivative financial instruments (swaps) to protect the servicing associated with these debts (principal plus interest).

The derivative financial 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 notional amount of derivative transactions are not presented in the statement of financial position, since they refer to transactions that do not require cash as only the gains or losses actually incurred are recorded. The net result of those transactions on December 31, 2019 was a positive adjustment of R$997,858 (positive adjustment of R$892,643 on December 31, 2018), which was posted in finance income (expenses).

The counterparties of the derivative transactions are the banks Bradesco, Itaú, Goldman Sachs and BTG Pactual and Cemig is guarantor of the derivative financial instruments contracted by Cemig GT.

This table presents the derivative instruments contracted by Cemig GT as of December 31, 2019 and 2018.

Assets (1)	Liability (1)	Maturity period	Trade market	Notional amount (2)	Unrealized gain / loss		Unrealized gain / loss	
					Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
US$ exchange variation + Rate (9.25% p.y.)	Local currency + R$ 150.49% of CDI	Interest: Half-yearly Principal: Dec. 2024	Over the counter	US$1,000,000	813,534	1,235,102	679,530	626,888
US$ exchange variation + Rate (9.25% p.y.)	Local currency + R$125.52% of CDI	Interest: Half-yearly Principal: Dec. 2024	Over the counter	US$500,000	108,532	455,842	32,781	186,447
					922,066	**1,690,944**	**712,311**	**813,335**

1) For the US$1 billion Eurobond issued on December 2017: (i) for the principal, a call spread was contracted, with floor at R$ 3.25/US$ and ceiling at R$ 5.00/US$; and (ii) a swap was contracted for the total interest, for a coupon of 9.25% p.a. at an average rate equivalent to 150.49% of the CDI. For the additional US$500 issuance of the same Eurobond issued on July 2018: (1) a call spread was contracted for the principal, with floor at R$ 3.85/US$ and ceiling at R$ 5.00/US$; and (2) a swap was contracted for the interest, resulting in a coupon of 9.25% p.a., with an average rate equivalent to 125.52% of the CDI rate.
2) In millions of US$.

In accordance with market practice, Cemig GT uses a mark-to-market method to measure its derivatives financial instruments for its Eurobonds. The principal indicators for measuring the fair value of the swap are the B3 future market curves for the DI rate and the dollar. The Black & Scholes model is used to price the call spread, and one of parameters of which is the volatility of the dollar, measured on the basis of its historic record over 2 years.

The fair value at December 31, 2019 was R$1,690,944 (R$813,335 in December 31, 2018), which would be the reference if Cemig GT would liquidate the financial instrument on that date, but the swap contracts protect the Company's cash flow up to the maturity of the bonds in 2024 and they have carrying value of R$922,066 at December 31, 2019 (R$712,311 in December 31, 2018).

Cemig GT is exposed to market risk due to having contracted this hedge, the principal potential impact being a change in future interest rates and/or the future exchange rates. Based on the futures curves for interest rates and dollar, Cemig GT prepare a sensitivity analyses and estimates that in a probable scenario its results would be affected by the swap and call spread at the end of the period in the amount of R$1,044,833 for the option (call spread), partially compensated by R$266,137 for the swap – comprising a total of R$1,310,970.

Cemig GT has measured the effects on its net income of reduction of the estimated fair value for the 'probable' scenario, analyzing sensitivity for the risks of interest rates, exchange rates and volatility changes, by 25% and 50%, as follows:

	Base scenario Dec. 31, 2019	'Probable' scenario:	'Possible' scenario exchange rate depreciation and interest rate increase 25%	'Remote' scenario: exchange rate depreciation and interest rate increase 50%
Swap (asset)	6,427,369	6,004,214	5,175,929	4,404,928
Swap (liability)	(5,774,089)	(5,738,077)	(5,855,347)	(5,965,125)
Option / Call spread	1,037,664	1,044,833	433,862	100,005
Derivative hedge instrument	**1,690,944**	**1,310,970**	**(245,556)**	**(1,460,192)**

The same methods of measuring marked to market of the derivative financial instruments described above were applied to the estimation of fair value.

c) Financial risk management

Corporate risk management is a management tool that is 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 monitor the financial risk of transactions that could negatively affect the Company's liquidity or profitability, recommending hedge protection strategies to minimize the Company's exposure to foreign exchange rate risk, interest rate risk, and inflation risks, which are effective, in alignment with the Company's business strategy.

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

Exchange rate risk

Cemig and its subsidiaries are exposed to the risk of appreciation in exchange rates, with effect on loans and financing, suppliers, and cash flow. The net exposure to exchange rates is as follows:

Exposure to exchange rates	2019		2018	
	Foreign currency	R$	Foreign currency	R$
US dollar				
Loans and financing (Note 24)	(1,515,814)	(6,109,793)	(1,518,029)	(5,882,060)
Suppliers (Itaipu Binacional)	(60,229)	(242,766)	(69,994)	(268,004)
	(1,576,043)	**(6,352,559)**	**(1,588,023)**	**(6,150,064)**
Euro				
Loans and financing (Note 24)	-	-	(52)	(229)
Net liabilities exposed		**(6,352,559)**		**(6,150,293)**

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 2020 will be an depreciation of the dollar by 0.76%, to R$4.00. The Company has prepared a sensitivity analysis of the effects on the Company's net 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	Base Scenario	'Probable' scenario US$=R$4.00	'Possible' scenario US$= R$5.00	'Remote' scenario US$=R$6.00
US dollar				
Loans and financings	(6,109,793)	(6,063,257)	(7,579,072)	(9,094,886)
Suppliers (Itaipu Binacional)	(242,766)	(240,917)	(301,146)	(361,375)
	(6,352,559)	**(6,304,174)**	**(7,880,218)**	**(9,456,261)**
Net liabilities exposed	(6,352,559)	(6,304,174)	(7,880,218)	(9,456,261)
Net effect of exchange rate fluctuation	-	**48,385**	**(1,527,659)**	**(3,103,702)**

Company has entered into swap operations to replace the exposure to the US dollar fluctuation with exposure to fluctuation in the CDI Rate, as described in more detail in the item 'Swap Transactions' in this Note.

Interest rate risk

The Company is 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	2019	2018
Assets		
Cash equivalents – Cash investments (Note 6) – CDI	326,352	783,288
Marketable securities (Note 7) – CDI / SELIC	753,681	812,234
Accounts receivable – Renova (Note 32) – CDI	-	532,393
Restricted cash – CDI	12,337	90,993
CVA and in tariffs (Note 16) – SELIC	881,614	1,080,693
Reimbursement due to termination of contract (Note 32) – SELIC / CDI	-	97,284
Reimbursement related to cancelled contracts – CDI	-	10,196
	1,973,984	**3,407,081**
Liabilities		
Loans, financing and debentures (Note 24) – CDI	(3,771,549)	(4,919,571)
Loans, financing and debentures (Note 24) – TJLP	(243,430)	(249,454)
Advance sales of energy supply – CDI	-	(79,405)
	(4,014,979)	**(5,248,430)**
Net liabilities exposed	**(2,040,995)**	**(1,841,349)**

Sensitivity analysis

In relation to the most significant interest rate risk, Company estimates that, in a probable scenario, at December 31, 2020 Selic and TJLP rates will be 4.25% and 5.03%, respectively. The Company has made a sensitivity analysis of the effects on its net income arising from increases in rates of 25% and 50% in relation to the 'probable' scenario. Fluctuation in the CDI rate accompanies the fluctuation of Selic rate.

Risk: Increase in Brazilian interest rates	2019	2020		
	Book value	'Probable' scenario Selic 4.2500% TJLP 5.0285%	'Possible' scenario Selic 5.3125% TJLP 6.2856%	'Remote' scenario Selic 6.7500% TJLP 7.5428%
Assets				
Cash equivalents (Note 6)	326,352	340,222	343,689	347,157
Marketable securities (Note 7)	753,681	785,712	793,720	801,728
Restricted cash	12,337	12,861	12,992	13,123
CVA and *Other financial components* – SELIC	881,614	919,083	928,450	937,817
	1,973,984	**2,057,878**	**2,078,851**	**2,099,825**
Liabilities				
Loans and financing (Note 24) – CDI	(3,771,549)	(3,931,840)	(3,971,913)	(4,011,985)
Loans and financing (Note 24) – TJLP	(243,430)	(255,671)	(258,731)	(261,791)
	(4,014,979)	**(4,187,511)**	**(4,230,644)**	**(4,273,776)**
Net assets (liabilities) exposed	**(2,040,995)**	**(2,129,633)**	**(2,151,793)**	**(2,173,951)**
Net effect of fluctuation in interest rates		**(88,638)**	**(110,798)**	**(132,956)**

Increase in inflation risk

The Company and its subsidiaries are exposed to risk of increase in inflation, due to their having more liabilities than assets indexed to the variation of inflation indicators, as follows:

Exposure to increase in inflation	2019	2018
Assets		
Concession financial assets related to Distribution infrastructure - IPCA (1)	483,374	395,743
Receivable from Minas Gerais state government (Debt recognition agreement) – IGPM index (Note 13 and 32)	-	247,010
Receivable from Minas Gerais state government (AFAC) – IGPM (Note 13 and 32)	115,202	245,566
Receivable for residual value – Transmission – IPCA (Note 16)	1,280,652	1,296,314
Concession Grant Fee – IPCA (Note 16)	2,468,216	2,408,930
	4,347,444	**4,593,563**
Liabilities		
Loans, financing and debentures – IPCA and IGP-DI (Note 24)	(4,729,928)	(3,791,340)
Debt with pension fund (Forluz) – IPCA	(566,381)	(651,966)
Deficit of pension plan (Forluz) – IPCA	(550,151)	(377,449)
	(5,846,460)	**(4,820,755)**
Net assets (liabilities) exposed	**(1,499,016)**	**(227,192)**

(1) Portion of the concession financial assets relating to the Regulatory Remuneration Base of Assets ratified by the regulator (Aneel) after the 3rd tariff review cycle.

Sensitivity analysis

In relation to the most significant risk of reduction in inflation index, reflecting the consideration that the Company has more assets than liabilities indexed to inflation indices, the Company estimates that, in a probable scenario, at December 31, 2020 the IPCA inflation index will be 3.43% and the IGPM inflation index will be 4.88%. The Company has prepared a sensitivity analysis of the effects on its net income arising from a reduction in inflation of 25% and 50% in relation to the 'probable' scenario.

Risk: increase in inflation	2019	2020		
	Amount Book value	'Probable' scenario IPCA 3.4293% IGPM 4.8766%	'Possible' scenario (25%) IPCA 4.2866% IGPM 6.0958%	'Remote' scenario (50%) IPCA 5.1440% IGPM 7.3149%
Assets				
Concession financial assets related to Distribution infrastructure – IPCA (1)	483,374	499,950	504,094	508,239
Accounts receivable from Minas Gerais state government (AFAC) – IGPM index (Note 32)	115,202	120,820	122,224	123,629
Receivable for residual value – Transmission – IPCA (Note 16)	1,280,652	1,324,569	1,335,548	1,346,529
Concession Grant Fee – IPCA (Note 16)	2,468,216	2,552,859	2,574,019	2,595,181
	4,347,444	**4,498,198**	**4,535,885**	**4,573,578**
Liabilities				
Loans, financing and debentures – IPCA and IGP-DI	(4,729,928)	(4,892,131)	(4,932,681)	(4,973,235)
Debt agreed with pension fund (Forluz) – IPCA	(566,381)	(585,804)	(590,659)	(595,516)
Deficit of pension plan (Forluz)	(550,151)	(569,017)	(573,734)	(578,451)
	(5,846,460)	**(6,046,952)**	**(6,097,074)**	**(6,147,202)**
Net liability exposed	**(1,499,016)**	**(1,548,754)**	**(1,561,189)**	**(1,573,624)**
Net effect of fluctuation in IPCA and IGP–M indices		**(49,738)**	**(62,173)**	**(74,608)**

(1) Portion of the Concession financial assets relating to the Regulatory Remuneration Base of Assets ratified by the regulator (Aneel) after the 4rd tariff review cycle.

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 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 investing principles established in the Company's Cash Investment Policy. 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 risk, applying operational limits for each bank, based on assessments that take into account their ratings, exposures and balance sheet. 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.

Any reduction in the Company's ratings could result in a reduction of its ability to obtain new financing and could also make refinancing 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, debts with the pension fund, loans, financing and debentures, at floating and fixed rates, including future interest up to contractual maturity dates, is as follows:

Consolidated	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):						
- loating rates						
Loans, financing and debentures	36,299	1,118,862	1,335,321	14,572,158	1,911,185	18,973,825
Onerous concessions	223	452	1,983	8,858	12,655	24,171
Debt with pension plan (Forluz) (Note 26)	12,024	24,241	110,558	556,875	-	703,698
Deficit of the pension plan (FORLUZ) (Note 26)	5,317	10,710	122,728	211,937	630,621	981,313
	53,863	**1,154,265**	**1,570,590**	**15,349,828**	**2,554,461**	**20,683,007**
- Fixed rate						
Suppliers	1,785,887	292,868	988	-	148	2,079,891
	1,839,750	**1,447,133**	**1,571,578**	**15,349,828**	**2,554,609**	**22,762,898**

Parent company	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, financing and debentures	-	-	-	51,688	-	51,688
Related party Loan						
Debt with pension plan (Forluz) (Note 26)	592	1,193	5,439	27,398	-	34,622
Deficit of the pension plan (FORLUZ) (Note 26)	262	527	6,038	10,427	31,027	48,281
	854	**1,720**	**11,477**	**89,513**	**31,027**	**134,591**
- Fixed rate						
Suppliers	2,705	-	-	-	-	2,705
	3,559	**1,720**	**11,477**	**89,513**	**31,027**	**137,296**

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 uses numerous tools of communication and collection to avoid increase in default. These include: telephone contact, emails, text messages, collection letters, posting of customers 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 customers is considered to be low. The credit risk is also reduced by the extremely wide customers' base.

The allowance for doubtful accounts receivable recorded on December 31, 2019, considered to be adequate in relation to the credits in arrears receivable by the Company, was R$809,725.

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 and its subsidiaries manage the counterparty risk of financial institutions based on an internal policy.

This Policy assesses and scales the credit risks of the institutions, the liquidity risk, the market risk of the investment portfolio and the Treasury operational risk. All investments are made in financial securities that have fixed-income characteristics, always indexed to the CDI rate. The Company does not carry out any transactions that would bring volatility risk into its financial statements.

As a management instrument, Cemig and its subsidiaries divide 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, having companies of the Group as 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 one percentage point above the minimum set by the Brazilian Central Bank.

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 50%	Between 6% and 9%
A2	Between R$ 1.0 billion and R$ 3.5 billion	Maximum 30%	Between 5% and 8%
B	Between R$400 million and R$ 1.0 billion	Maximum 30%	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 energy supply

Sale or purchase of energy supply in the spot market to cover a positive or negative exposure of supply contracted, to serve the captive market of Cemig D, is an inherent risk to the energy distribution business. The regulatory agent limits for 100% pass-through to customers the 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 95% 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. Company's management is continually monitories its contracts for purchase of energy supply to mitigate the risk of exposure 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 introduced changes to the present contract, conditional upon compliance by the distributor with new criteria for quality, and for economic and 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 the minimum parameters for economic/financial sustainability for two consecutive years, results in opening of proceedings for termination of the concession.

The efficiency criteria for continuity of supply and for economic and for financial management, required to maintain the distribution concession, were met in the year ended December 31, 2019.

Hydrological risk

The greater part of the energy sold by the Company's subsidiaries is generated by hydroelectric plants. A prolonged period of drought can result in lower water volumes in the reservoirs of these plants, which can lead to an increase in the cost of acquisition of 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 could pressure costs of acquisition of supply for the distributors, causing a greater need for cash, and could result in future increases in tariffs.

Risk of debt early maturity

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.

On December, 31, 2019, the Company and its subsidiaries was compliant with all the covenants for financial index requiring half-yearly and annual compliance, except for non-compliance with the non-financial covenant of the loan contracts with the CEF of the subsidiaries Central Eólica Praias de Parajuru and Central Eólica Volta do Rio. More details in Note 24.

Capital management

This table shows comparisons of the Company's net liabilities and its Equity on December 31, 2019 and 2018:

	Consolidated		Parent company	
	2019	2018	2019	2018
Total liabilities	34,036,187	43,915,346	1,865,610	1,987,772
(–) Cash and cash equivalents	(535,757)	(890,804)	(64,356)	(54,330)
(–) Restricted cash	(12,337)	(90,993)	(129)	(129)
Net liabilities	**33,488,093**	**42,933,549**	**1,801,125**	**1,933,313**
Total equity	**15,890,865**	**15,939,327**	**15,886,615**	**14,578,719**
Net liabilities / equity	**2.11**	**2.70**	**0.11**	**0.13**

34. ASSETS AS HELD FOR SALE AND DISCONTINUED OPERATIONS

On December 31, 2019 and 2018 assets and liabilities classified as held for sale, and the results of discontinued operations, were as follows:

Consolidated and Parent company	2019
	Investments
Assets	1,258,111
Liabilities	-
Net Asset	**1,258,111**
Attributed to discontinuing operations	224,067
Attributed to continuing operations	72,738

	2018					
	Consolidated			Parent company		
	Investments	Telecom assets	Total	Investments	Telecom assets	Total
Assets	19,446,033	-	19,446,033	1,573,967	-	1,573,967
Liabilities	(16,272,239)	-	(16,272,239)	-	-	-
Net Asset	**3,173,794**	**-**	**3,173,794**	**1,573,967**	**-**	**1,573,967**
Attributed to equity holders of the parent	1,817,746	-	1,817,746	1,573,967	-	1,573,967
Attributed to non-controlling interests	1,356,048	-	1,356,048	-	-	-
Net income (loss) from discontinued operations	**72,880**	**290,542**	**363,422**	**31,465**	**276,012**	**307,477**
Attributed to equity holders of the parent	32,027	290,542	322,569	31,465	276,012	307,477
Attributed to non-controlling interests	40,853	-	40,853	-	-	

On November 27, 2018, the Board of Directors of the Company decided, in the context of Cemig's disinvestment program, to maintain as a priority for 2019 the firm commitment to sale of the shares in Light S.A. owned by Cemig, on conditions that are compatible with the market and also in accordance with the interests of shareholders.

Additionally, the Company has assessed that its investment in Light now meets the criteria of CPC 31 – *Non-current assets held for sale and discontinued operations*; and that its sale in the near future is considered to be highly probable. The Company has also evaluated the effects on the investments held in the companies LightGer, Axxiom, Guanhães and UHE Itaocara, which are jointly controlled by the Company and by Light.

Disposal of interest in and control of Light

On July 17, 2019, together with the public offering of shares by Light, the Company sold 33,333,333 shares that it held in that investee, at the price per share of R$ 18.75, in the total amount of R$625,000.

Additionally, with completion of the public offering of shares by Light, the Company's equity interest in the total capital of this investee was reduced from 49.99% to 22.58%. This limited its right of voting in meetings of shareholders, and consequently its ability to direct material activities of the investee.

Thus, as from that date, with the alteration of the equity interest in Light, the Company ceased to have the power ensuring it control over that investee. In these circumstances, the Company wrote down the values of assets and liabilities of its former subsidiary, and recognized, at fair value, its remaining equity interest as an investment in an affiliate or jointly-controlled entity, in accordance with IFRS 10 / CPC 36 (R3) – *Consolidated financial statements.*

Since the Company maintains its firm commitment to dispose of the remaining equity interest in Light by the end of 2019, the investment in that company continues to be classified in Assets held for sale, in accordance with CPC 31 / IFRS 5 – *Non-current assets held for sale*, *and discontinued operations*, at its fair value, subtracting the cost of sale. The difference between the book value of the remaining equity interest and its fair value was recognized in the net income for the period from continuing operations.

The Company also wrote down the assets and liabilities of the former subsidiaries *Itaocara, Guanhães, LightGer* and *Axxiom*, and recognized its remaining equity interest in these investees at fair value as investments in jointly-controlled subsidiaries, valued by the equity method. These investments, which are jointly controlled with Light, were not classified under Held for sale and Discontinued operations, since the company does not have the intention of selling these interests. For more information, see Note 18.

The accounting effects arising from the equity interest in and control of Light are shown in this table:

2019	Profit/loss on disposal of equity interest	Remeasurement of remaining equity interest					
	Light	Light	Lightger	Guanhães	Axxion	Itaocara	Total
Prior equity interest – Assets held for sale	(514,597)	(1,059,370)	(125,858)	(141,357)	(4,397)	(5,195)	(1,850,774)
Revenue disposal of equity interest	625,000	-	-	-	-	-	625,000
Remeasurement at fair value of remaining equity interest	-	1,258,111	127,970	131,260	4,438	4,812	1,526,591
Others	-	-	-	3,234	5,093	-	8,327
Effects on the income statement, before taxes	**110,403**	**198,741**	**2,112**	**(6,863)**	**5,134**	**(383)**	**309,144**
Income tax and social contribution tax	(37,537)	(47,540)	-	-	-	-	(85,077)
Total Assets	**72,866**	**151,201**	**2,112**	**(6,863)**	**5,134**	**(383)**	**224,067**

Of the total gain resulting from the disposal of control of Light, totaling R$ R$224,067, the amount of R$72,866 refers to the capital gain, net of tax, resulting from the sale of 33,333 shares, considering as a cost of these shares the multiplication of the percentage of the equity interest sold by the asset maintained for sale on the date of the disposal. The restatement of the remaining equity interest in Light at fair value used the sale price of the shares on the date of the loss of control (Level 1 in the fair value hierarchy), less the estimated costs for the sale (estimated at R$28,538).

This table gives information on the assets and liabilities of Light, which Company interest is classified as asset held for sale on December 31, 2019:

	2019		2019
ASSETS		**LIABILITIES**	
Cash and cash equivalents	1,678,028	Suppliers	2,546,345
Customers and traders	2,536,599	Loans and financings	1,387,318
Recoverable taxes	216,028	Taxes	172,339
Financial assets of sector	549,547	Other current liabilities	1,071,554
Other current assets	374,024	**Total, current liabilities**	**5,177,556**
Total, current assets	**5,354,226**		
Customers and traders	1,113,040	Loans and financings	7,379,222
Recoverable taxes	6,257,037	Taxes	348,485
Concession financial assets	5,357,767	Deferred taxes	400,484
Property, plant and equipment	1,586,955	Other non-current liabilities	4,307,477
Intangible assets	2,836,915	**Total, non-current liabilities**	**12,435,668**
Investments	579,344		
Other non-current assets	758,484	Share capital	4,051,285
Total, non-current assets	**18,489,542**	Capital reserves	3,179
		Profit reserves	1,957,524
		Equity valuation adjustments	218,556
		Shareholders' Equity	**6,230,544**
Total Assets	**23,843,768**	**Total, Liabilities**	**23,843,768**

Maintenance of the interest in Light as an asset held for sale

In 2019, Management has not completed the process of desinvestment of the entire investment in Light due to external factors.

Cemig's management continues to have a firm commitment in 2020 to dispose of the remaining equity interest in Light, ratified by the decision on the Company's 2020 budget. Additionally, the Company has revised the next steps of plan for sale of the remaining interest in Light S.A., which remains unchanged, and estimates that conclusion of the process in 2020 is highly probable. Thus, the asset, which is available for sale in its present state, is classified at December 31, 2019 as an asset held for sale, in accordance with CPC 31/IFRS 5 – Non-current assets held for sale, and discontinued operations.

In view of the fact that reporting of the value of an investment by the equity method ceases as from the moment when it is classified as Held for sale, the dividends declared by the investee in December 2019, in the amount of R$ 72,738, were recognized in the income statement under Going concern operations.

35. INSURANCE

The Company and its subsidiaries maintain insurance policies to cover damages on 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 statements, and consequently were not examined by the external auditors.

	Coverage	Coverage period	Amount insured (1)	Annual premium (1)
Companhia Energética de Minas Gerais				
Facilities in buildings	Fire	Jan. 8, 2020 to Jan. 8, 2021	R$8,661	R$2
Cemig Geração e Transmissão				
Air transport / Aircraft	Fuselage Third party	April 29, 2019 to April 29, 2020 April 29, 2019 to April 29, 2020	US$4,385 US$14,000	US$49
Warehouse stores	Fire	Nov. 2, 2019 to Nov. 2, 2020	R$20,771	R$20
Buildings	Fire	Jan. 8, 2020 to Jan. 8, 2021	R$275,773	R$75
Telecoms equipment (3)	Fire	Jan. 8, 2019 to Jan. 8, 2020	R$2,650	R$2
Operational risk - Transformers above 15MVA and other power distribution equipment with value above R$1,000	(2)	Dec. 7, 2019 to Dec. 7, 2020	R$959,243	R$1,262
Cemig Distribuição				
Air transport / Aircraft / Guimbal equipment	Fuselage Third party	April 29, 2019 to April 29, 2020	US$3,370 US$14,000	US$34
Warehouse stores	Fire	Nov. 2, 2019 to Nov. 2, 2020	R$120,007	R$117
Buildings	Fire	Jan. 8, 2019 to Jan. 8, 2020	R$744,134	R$201
Telecoms equipment (3)	Fire		R$31,083	R$28
Operational risk – Transformers above 15MVA and other energy distribution equipment with value above R$ 1,000 (2)	Total	Dec. 7, 2019 to Dec. 7, 2020	R$528,071	R$695
Gasmig				
Gas distribution network / Third party	Third party	Dec. 15, 2019 to Dec. 15, 2020	R$60,000	R$398
Own vehicle fleet (Operation)	Damage to third parties only	Jul. 7, 2019 to Jul. 7, 2020	R$500	R$3
Own vehicle fleet (Directors)	Full cover	Oct. 25, 2019 to Oct. 25, 2020	R$100	R$2
Facilities – multirisk	Robbery, theft and fire	Jan. 1, 2020 to Jan. 1, 2021	R$41,374	R$44.8

(1) Amounts expressed in R$ '000 or US$'000.
(2) Maximum indemnity limit: R$ 231
(3) Contracting of a new policy is in progress.

The Company and its subsidiaries, except for its aircraft, does not have third party liability insurance covering accidents, and is not seeking proposals for this type of insurance. Additionally, 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.

36. COMMITMENTS

Cemig and its subsidiaries have contractual obligations and commitments that include, mainly purchase of energy from Itaipu, as follows:

	2020	2021	2022	2023	2024	After 2025	Total
Purchase of energy from Itaipu	1,701,227	1,538,050	1,537,912	1,567,925	1,551,030	32,724,454	40,620,598
Purchase of energy – auctions	4,408,643	4,080,857	4,034,567	4,281,313	4,724,086	55,729,536	77,259,002
Purchase of energy – 'bilateral contracts'	334,424	333,518	333,518	333,518	223,322	147,784	1,706,084
Quotas of Angra 1 and Angra 2	295,527	289,053	291,332	299,304	301,752	6,352,342	7,829,310
Transport of energy from Itaipu	239,871	251,157	264,301	251,212	237,782	1,441,069	2,685,392
Other energy purchase contracts	3,618,849	3,347,187	3,808,010	3,679,343	3,912,612	35,082,451	53,448,452
Physical quota guarantees	844,520	757,428	717,926	680,755	653,048	13,601,081	17,254,758
Total	11,443,061	10,597,250	10,987,566	11,093,370	11,603,632	145,078,717	200,803,596

37. THE ANNUAL TARIFF ADJUSTMENT

On May, 28, 2019, the regulator (Aneel) approved the Annual Tariff Adjustment for Cemig D. This provided a tariff increase of 8.73%, whereas 1.60% corresponded to Cemig D's manageable costs (Portion B) and the remaining portion, of 7.13%, has zero economic effect, not affecting profitability, since it represents direct pass-through, within the tariff, relating to the following items: (i) increase of 0.34% in non-manageable ('Parcel A') costs – mainly purchase of energy supply and transmission charges; (ii)) increase of 9.24% in the financial components of the current process, led by the CVA currently being processed, which had an effect of 10.79%; and (iii) 2.45% was withdrawn from the financial components of the prior process. The increase is in effect from May 28, 2019 to May 27, 2020.

38. NON-CASH TRANSACTIONS

On 2019, 2018 and 2017, the Company had the following transactions not involving cash, which are not reflected in the Cash flow statement:

- Capitalized financial costs of R$22,735 on 2019 (R$ 30,801 on 2018).
- Except for the cash arising from the merger of the subsidiaries RME and LUCE amounting R$ 22,444, this transaction did not generate effects in the Company's cash flow.
- Settlement of receivables from State of Minas Gerais through retention of dividends in the total amount of R$17,892 and R$129,906, on July 28, 2019 and on December 27, 2019, respectively.

39. SUBSEQUENT EVENTS

Covid 19 and the Coronavirus – Impacts for the Company

The Company is closely monitoring the possible impacts of Covid-19 on its business and the market in which it operates. It is not yet possible to estimate the effects on its equity situation and results arising from the pandemic, and from the contraction of economic activity. It can only be highlighted that there is likely to be a reduction in energy consumption and consequently in revenue from sale of energy, and also an increase in default, as well as an alteration of assumptions used for calculation of fair value and recoverable amount of certain financial and non-financial assets.

The Company has implemented a series of precautionary measures so that its employees are not exposed to risk situations. These include: restricting national and international travel; suspending technical visits and events at Cemig's facilities; using remote means of communication; adopting work-from-home policies for certain groups of employees; etc.

The Company may adopt additional measures to reduce the exposure of its employees to the risks of infection, ensuring continuity of the provision of their services, which are essential to society.

* * * * * * * * * * * *

(The original is signed by the following signatories)

Reynaldo Passanezi Filho
Chief Executive Officer

Dimas Costa
Chief Trading Officer

Maurício Fernandes Leonardo Júnior
Chief Finance and Investor Relations Officer

Ronaldo Gomes de Abreu
Chief Distribution Officer

Daniel Faria Costa
Chief Officer Cemigpar

Paulo Mota Henriques
Chief Generation and Transmission Officer

Luciano de Araújo Ferraz
Chief Regulation and Legal

Leonardo George de Magalhães
Controller
CRC-MG 53.140

Carolina Luiza F. A. C. de Senna
Financial Accounting and Equity Interests Manager
Accountant – CRC-MG 77.839

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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 - CEMIG
Belo Horizonte - MG

Opinion

We have audited the individual and consolidated financial statements of Companhia Energética de Minas Gerais - CEMIG (the "Company"), identified as Parent company and Consolidated, respectively, which comprise the statements of financial position as at December 31, 2019, and the statements 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 - CEMIG as at December 31, 2019, 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

Risk regarding the ability of jointly-controlled entity Renova Energia S.A. to continue as a going concern

As disclosed in Note 18 to the individual and consolidated financial statements, on December 17, 2019, under the terms of Law No. 11101/05, the in-court reorganization plan of jointly-controlled entity Renova Energia S.A. and some of its subsidiaries was filed with the second State of São Paulo Bankruptcy and In-Court Reorganization Court. The jointly-controlled entity shall submit the in-court reorganization plan to the General Meeting of Creditors approval in accordance with the terms and conditions established by the referred Law. The jointly-controlled entity is in the process of discussing such plan and up to the present date has not measured the possible effects on its accounting balances. In addition, the jointly-controlled entity has incurred recurring losses and, as at December 31, 2019, has negative net working capital, equity deficit and negative gross margin. These events or conditions indicate the existence of relevant uncertainty that may raise significant doubt about the ability of this jointly-controlled entity to continue as a going concern. Our opinion is not modified 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 a separate 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.

Risks related to compliance with laws and regulations

As mentioned in Note 18 to the individual and consolidated financial statements, investigations and other legal measures are currently being conducted by public authorities in connection with the Company and certain investees regarding certain expenditures and their allocations, which involve and also include some of the investees' other shareholders and certain executives of the Company, of the investees and of these other shareholders. The governance bodies of the Company have authorized the engagement of a specialized company to analyze the internal procedures related to these certain investments and to ascertain such claims.

This matter was considered significant for our audit, as it involves significant judgment and due to the inherent complexity of the investigation processes.

How our audit addressed this matter

Our audit procedures involved, but were not limited to, (i) evaluating process and controls implemented by management over identification, risk assessment, measurement, accounting recognition and disclosure of information related to ongoing investigations, including an analysis of the reporting channel, handling of complaints and communicating the results to the Company's governance bodies; (ii) evaluating the report issued on February 20, 2020 by the specialized company engaged by Company to investigate such allegations; (iii) understanding and monitoring the main actions taken by management and governance bodies in relation to such allegations. Interactions occurred with the Audit Board, Audit Committee, members of the Special Investigation Committee and management, as well as the Company's Compliance department; (iv) following up investigation updates since the issuance of the specialized company's report, as mentioned in item (ii); (v) performing procedures to identify and test unusual transactions; (vi) involving our investigations professionals to perform shadow investigation procedures and assess if the Company's investigation process was conducted in accordance with the applicable practices; and (vii) involving experienced audit professionals to define the testing strategy, review the audit supporting documentation, and 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 internal investigation processes, which are consistent with management's assessment, we considered that the procedures adopted by management, as well as the related disclosures in Note 18, are acceptable in the context of the financial statements taken as a whole.

Impairment of certain investments in affiliates and jointly-controlled entities

As disclosed in Note 18 to the financial statements, the Company and its subsidiaries have investments in affiliates and jointly-controlled entities carried under the equity method in the amount R$5,399,391 thousand and assesses annually, or whenever applicable, the need to recognize any additional impairment loss on the Company's and its subsidiaries' total net investment in these investees. In 2019, as a result of this analysis, the Company and its subsidiaries concluded that there was indication of impairment of their direct and indirect investments in Madeira Energia S.A., Norte Energia S.A., Renova Energia S.A. and Guanhães Energia S.A. and, consequently, conducted the analysis, determined their recoverable amounts, and recognized losses, where applicable.

This matter was considered significant for our audit, considering the relevance of Company's and its subsidiaries' assets account balances, specially related to investments accounted for under the equity method, subjectivity of management's fair value estimates, that are based on assumptions affected by future market and economic conditions, and to the existence of certain specific circumstances related to certain investees and joint ventures' delayed operations start-up and going concern risks.

How our audit addressed this matter

Our audit procedures included, but were not limited to (i) evaluating process and controls implemented by management to identify impairment indications on investments and to estimate their net recoverable amount, as applicable; including controls over management's review of the significant assumptions underlying the fair value determination; (ii) evaluating the

significant assumptions used to estimate fair value; comparing the significant assumptions used to estimate cash flows to current industry and economic trends; comparing relevant inputs to Company's operating data and performing sensitivity analysis to evaluate the fair value; (iii) involving our valuation specialists to assist in evaluating the discount rate used in the fair value calculation; 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 investments in affiliates and jointly-controlled entities account balances, 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 18, are acceptable in the context of the financial statements taken as a whole.

PIS/Pasep and COFINS tax credits

As disclosed in Note 10 to the individual and consolidated financial statements, in 2019, the Company and its subsidiaries recognized PIS/Pasep and COFINS tax credits of R$ 6,069,918 thousand arising from an Ordinary Action decided in favor of the Company and its subsidiaries, against which there is no appeal, recognizing their right to exclude the ICMS amounts from the calculation basis of PIS/Pasep and Cofins taxes, backdated as from five years prior to the action initial filing– that is, from July 2003.

Additionally, supported by its legal advisors' opinion, the Company recorded an account payable of R$ 3,037,989 thousand referring to the amount of the tax credits to be reimbursed to the customers of the subsidiary Cemig Distribuição S.A..

This matter was considered significant for our audit due to its complexity, necessary judgment of management, high volume of documentation analyzed, existence of divergences on the calculation methodology interpretation between some court decisions and the Brazilian tax authorities' position, and the absence of precedents and formal guidance from the regulator (ANEEL) regarding the period to determine the amount and methodology to reimburse the tax credits to the customers of the distribution segment.

How our audit addressed this matter

Our audit procedures included, but were not limited to (i) evaluating process and controls implemented by management to determine the amounts and recoverability of tax credits to be recognized, including controls over management's projections used in its recoverability assessment and the underlying significant assumptions used to determine the amounts to be reimbursed to the costumers; (ii) testing the completeness and accuracy of the underlying data used by the Company and its subsidiaries; (iii) reconciling the reports used to calculate the tax credits amounts with the general ledger and appropriate tax documentation; (iv) reprocessing the financial income calculation; (v) involving our tax professionals to evaluate the court dispute decision in favor of the Company and its subsidiaries, conclusions and legal basis presented on its legal advisor's opinions, including those that supports the amounts to be reimbursed to its customers, and to assist in evaluating the calculation basis, the support documentation, recoverability assessment and financial income calculation over tax credits recognized; and (vi) involving experienced audit professionals to define the testing strategy, review the audit supporting documentation, and 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 PIS/Pasep and COFINS tax credits recognized and related amounts to be reimbursed to the customers, which are consistent with management's assessment, we considered that the assumptions adopted by management to determine the tax credits amounts and the underlying significant assumptions used to determine the amounts to be reimbursed to the costumers, as well as the related disclosures in Note 10, are acceptable 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, 2019, 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 NBC TG 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.

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 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:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.

- Obtained 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.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded 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 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 to cease to continue as a going concern.

- Evaluated 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.

- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and 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 scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

We also provided 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 determined 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 19, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Shirley Nara S. Silva
Accountant
CRC-1BA022650/O-0

Companhia Energética de Minas Gerais

OPINION OF THE AUDIT BOARD

The members of the Audit Board of Companhia Energética de Minas Gerais (Cemig), undersigned, in performance of their function under the law and the Company's by-laws, have examined the financial statements for the business year ended December 31, 2019 and the related complementary documents, approved by the Company's Board of Directors, on March 19, 2020. After verifying these documents, and considering the examinations carried out by this Board and the explanations provided by the Company's Management in relation to acts of managements and the related records in the 2019 financial year, an so based on the unqualified Opinion of Ernst &Young Auditores Independentes (EY issued on March 19, 2020, hereby express the following favorable opinion, namely that these statements are adequately presented in all material aspects, and thus merit approval by the shareholders in the Annual General Meeting to be held in 2020.

Belo Horizonte, March 19, 2020.

(Signed by:)

Gustavo de Oliveira Barbosa

Cláudio Morais Machado

Elizabeth Jucá e Mello Jacometti

Marco Aurélio de Barcelos Silva

Rodrigo de Mesquita Pereira

DIRECTORS' STATEMENT OF REVIEW OF THE FINANCIAL STATEMENTS

CEMIG
Companhia Energética de Minas Gerais

STATEMENT

We hereby state, for the due purpose, under the responsibility of our positions, that in the 3126th meeting of the Executive Board of Companhia Energética de Minas Gerais (Cemig), held on March 09, 2020, we approved the conclusion, on that date, of the Company's financial statements for the business year 2019; and also submission to the Board of Directors, for decision and submission to the Annual General Meeting, of the Report of Management, the Financial Statements for 2019 and the related complementary documents. In relation to those documents, we declare that we have reviewed, discussed and agree with the said Financial Statements.

Belo Horizonte, March. 19, 2020.

(Signed by)

Reynaldo Passanezi Filho – Executive Officer
Daniel Faria Costa – Chief Officer Cemigpar
Dimas Costa – Chief Trading Officer
Luciano de Araújo Ferraz – Chief Regulation and Legal
Maurício Fernandes Leonardo Júnior – Chief Finance and Investor Relations Officer
Paulo Mota Henriques – Chief Generation and Transmission Officer
Ronaldo Gomes de Abreu – Chief Distribution and Sales Officer

DIRECTORS' STATEMENT OF REVIEW OF THE REPORT BY THE EXTERNAL AUDITORS ON THE FINANCIAL STATEMENTS

CEMIG
Companhia Energética de Minas Gerais

STATEMENT

We hereby state, for the due purpose, under the responsibility of our positions, that in the 3126th meeting of the Executive Board of Companhia Energética de Minas Gerais (Cemig), held on March 09, 2020, we approved the conclusion, on that date, of the Company's financial statements for the business year 2019; and also submission to the Board of Directors, for decision and submission to the Annual General Meeting, of the Report of Management, the Financial Statements for 2019 and the related complementary documents. In relation to those documents, we declare that we have reviewed, discussed and agree with the opinions expressed by the representatives of the Independent External Auditors.

Belo Horizonte, March. 19, 2020.

(Signed by)

Reynaldo Passanezi Filho – Executive Officer
Daniel Faria Costa – Chief Officer Cemigpar
Dimas Costa – Chief Trading Officer
Luciano de Araújo Ferraz – Chief Regulation and Legal
Maurício Fernandes Leonardo Júnior – Chief Finance and Investor Relations Officer
Paulo Mota Henriques – Chief Generation and Transmission Officer
Ronaldo Gomes de Abreu – Chief Distribution and Sales Officer

REPORT OF THE AUDIT COMMITTEE

SUMMARY OF THE REPORT OF THE AUDIT COMMITTEE – March 19, 2020

INTRODUCTION

The purpose of the Audit Committee, a statutory body of Companhia Energética de Minas Gerais ('Cemig'), Cemig Distribuição S.A. ('Cemig D'), Cemig Geração e Transmissão S.A. ('Cemig GT') and their related subsidiaries, is to advise the Board of Directors on the exercise of its functions of audit and inspection, and, among other duties specified in its Internal Regulations, evaluate and state opinions on: the quality and integrity of the accounting statements; adherence to the rules of law, the bylaws and regulations; and the effectiveness of the systems of internal control, and of independent and external auditing. The assessments made by the Committee are based (i) on information received from Management, from the external auditors, from internal audits, and from those responsible for management of risk and internal controls; and (ii) on its own analyses arising from direct observation. It is a function of the Committee, with the technical and operational support of the Company's Compliance area, to carry out analysis of the appropriateness of nominations to the post of Manager or member of the Audit Board by carrying out background checks of integrity and compliance.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee comprises: Mr. Pedro Carlos de Mello, Coordinator of the Committee and elected on June 06, 2018; and the committee members Mr. Márcio de Lima Leite elected on April 24, 2019 and Mr. Roberto Tommasetti elected on May 15, 2019.

ACTIVITIES CARRIED OUT IN THE SCOPE OF ITS DUTIES IN YEAR OF 2019

In 2019 the Committee met 47 times. At the beginning of the first half of 2020 it has met 9 times. It has taken part in meetings of the Board of Directors four times. Six meetings were held jointly with the Audit Board in 2019, and one so far in the first half of 2020. The Committee has maintained permanent contact with the managers of the various areas of the Company, aiming to accompany the work carried out, and obtain input information on which to base its assessments. Eleven meetings were held with participation by the external auditors, Ernst and Young Auditores Independentes, to become aware of methodology, planning and results of the work, with a view to preparation of the Financial Statements at December, 31, 2018. The Committee met with members of the Executive Board of the Company to deal with subjects related to general aspects of the management of the institution, in particular those relating to accounting, internal controls, internal auditing, management of capital, financial management and management of risks. The Committee has presented recommendations for enhancement of processes, and accompanied the implementations of improvements that it has recommended, and also recommendations in relation to internal and external audits, indicated in the course of its work. The Committee has maintained regular contacts with the Company's Board of Directors, and has also issued opinions of aspects related to its duties under regulations, and provided information to that Board on its activities.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS
The work carried out by the Office of the General Manager for Compliance and Corporate Risk Management (GC) and, later, by the Deputy Director of Support in the Management of Compliance, Corporative Risks and Internal Controls, were the subject of accompaniment by the Committee. The Audit Committee considers that the activity of the Company's management in ensuring the effectiveness of the institution's systems of internal controls and risk management is positive (although in its opinion some points require more attention).

INTERNAL AUDITING
Several meetings have been held with the General Manager and the Managers of Internal Auditing (AI), with a view to accompanying the work carried out by these units. The Committee has made an assessment of the scope and quality of the audits carried out, and the level of independence of the area – assessing it to be positive. In the work carried out by internal auditing, no failures to comply with the legislation in effect and/or the internal rules were found of which the degree of severity could put the solidity and continuity of the Company at risk.

EXTERNAL AUDITING
The Committee met with the external auditors, Ernst and Young Auditores Independentes S.S., to ascertain the principal events in the works carried out in the preparation of the financial statements for 2019, and in their assessment of the Company's present internal controls. The Committee considers the work carried out to be satisfactory, and has not identified any situations that could affect the objectivity and independence of the external auditors.

THE FINANCIAL STATEMENTS
The Committee has accompanied the process of preparation of the financial statements for 2019, examining trial balances, balance sheets and explanatory notes, and has considered the financial statements, the Report of Management, the Report of the External Auditors and other documents destined for publication. It has taken cognizance of the accounting practices used in the preparation of the financial statements, which are aligned with the fundamental principles of accounting and with Brazilian corporate legislation, and which adequately portray the institution's equity situation.

CONCLUSION
By the closing date of this report the Audit Committee had not received any reports of any accusation of non-compliance with rules, or absence of controls, or any act or omission by the Company's Management, that might indicate the existence of fraud, failings or errors that might put at risk the continuity of the institution or the fidelity of its accounting statements. Based on the considerations above, the Audit Committee, having duly weighed and considered its responsibilities and the natural limitations arising from the scope of its activity, recommends to the Board of Directors that the Financial Statements of Cemig, Cemig D and Cemig GT for 2019 should be approved.

Belo Horizonte, March.19, 2020.

The Audit Committee

PEDRO CARLOS DE MELLO – Coordinator

MÁRCIO DE LIMA LEITE - Member

ROBERTO TOMMASETTI - Member

CAPITAL BUDGET

In accordance with Clause 196 of the Corporate Law and Article 25, § 1, Sub-item IV of CVM (‘*Comissão de Valores Mobiliários*’) Instruction 480, we present for analysis and subsequent approval of submission to the Ordinary General Meeting of Shareholders to be held by April 30, 2020, the proposal for the consolidated Capital Budget for the 2020 business year, in thousands of Reais. The planned amount of capital budget will be achieved exclusively by allocating resources from Company’s operations, including the amount of R$1,535,170 from retained earnings for the period of 2019.

Investments planned for 2020	
Energy distribution system	952,759
Energy Subtransmission system	546,933
Energy generation system	91,705
Energy transmission system	244,285
Contributions to subsidiaries and associates	295,485
Infrastructure and others	205,901
Total	**2,337,068**