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REPORT OF MANAGEMENT FOR 2019

Dear Shareholders,

Cemig Distribuição S.A. ('Cemig D', 'Cemig Distribuição' 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 independent 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 independent 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 the Company's strategic planning, with participation by senior management and the whole management body, analyzing the main global trends in the energy sector, and Cemig D'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.

In 2019, one of the factors that most contributed to our success was the new level of efficiency and profitability 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 207.29% 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 407 employees.

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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.

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 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.

Another significant event for the 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$6 billion. Of this amount, R$2 billion is to be credited to Cemig D, resulting in a significant effect of nearly R$1.2 billion on our net profit, after tax which, 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$1.2 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 – total close to R$4 billion - to customers.

We are recognized as a sustainable company, concerned with the impact of its actions on the environment and on society. At the same time, we are the company that most invests in culture in the state of Minas Gerais. Cemig D's parent company - Cemig - was again included in the São Paulo Stock Exchange's Corporate Sustainability Index, and in the Dow Jones Sustainability Index, in which it has 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.

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In conclusion, we have good reasons for being optimistic about the future. Cemig D'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, stockholders and other shareholders, in jointly sustaining the recognition of Cemig D as an outstanding company and a leader in the Brazilian power industry.

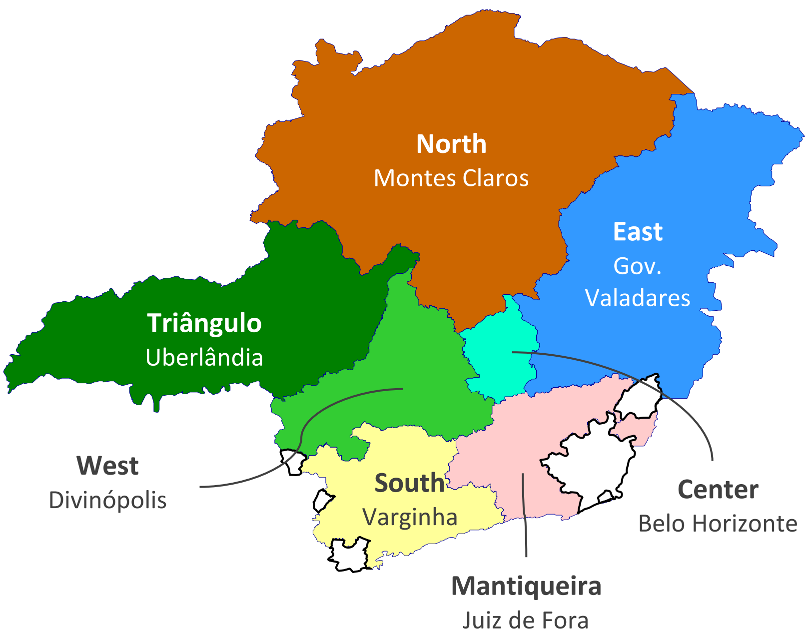
BRIEF HISTORY OF CEMIG DISTRIBUIÇÃO

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 8.5 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.

Concession area



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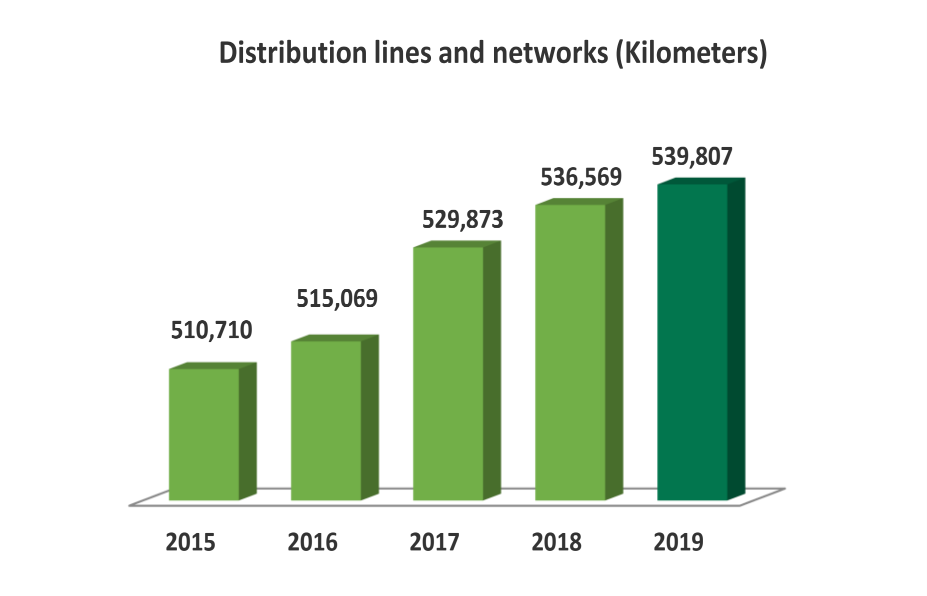
Changes in Cemig D’s sub-transmission and distribution line in the last five years.



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.

<u>Vision (of Cemig D’s parent company - Cemig - and shared with Cemig D in the applicable businesses):</u>

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

<u>Values</u>

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

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REGULATORY ENVIRONMENT

The Annual Tariff Adjustment

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 'Parcel B' - manageable costs. The remaining portion, of 7.13%, has a null effect on the Company's profit, since it consists of direct pass-throughs to the tariff of the following items of increased costs:

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

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 'Parcel 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) 'Parcel 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.

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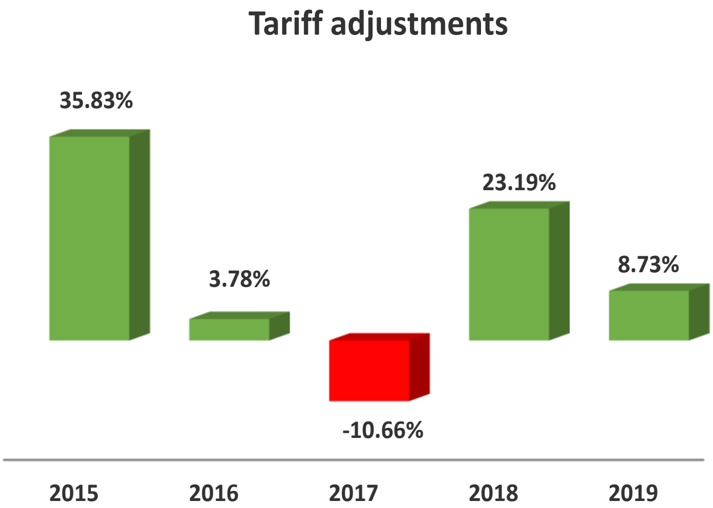
In the 774 municipalities of Minas Gerais State where Cemig distributes electric power D, more than 687 thousand customers are rural customers, and approximately 577,000 are classified as low-income customers. These customers benefit from a subsidy, enabling them to pay less than cost for the energy 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%.



Revenue Management

Cemig D'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".

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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.

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%.

The Company 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.

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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 80,000 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.

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.

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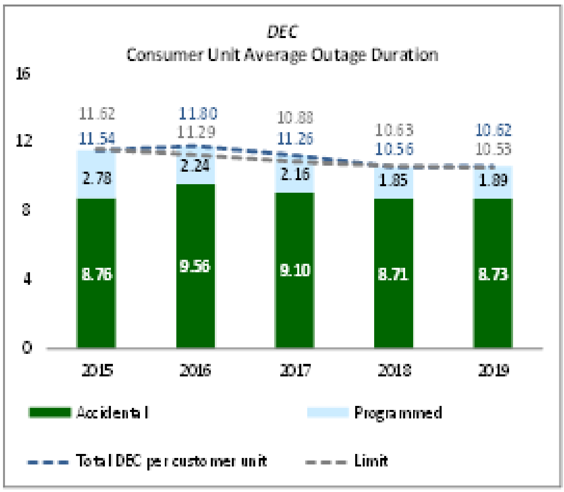

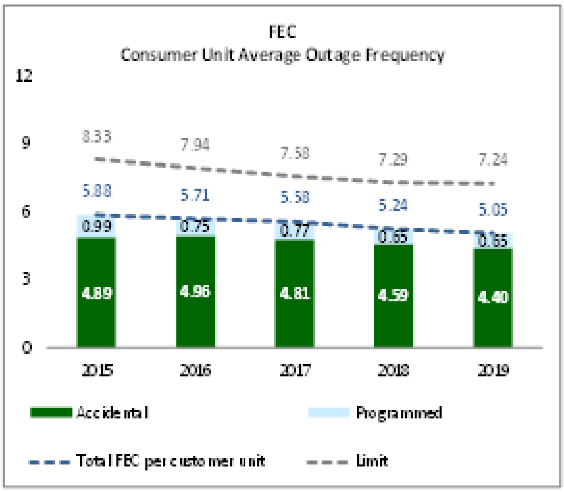

Service policy

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 and IOS 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.

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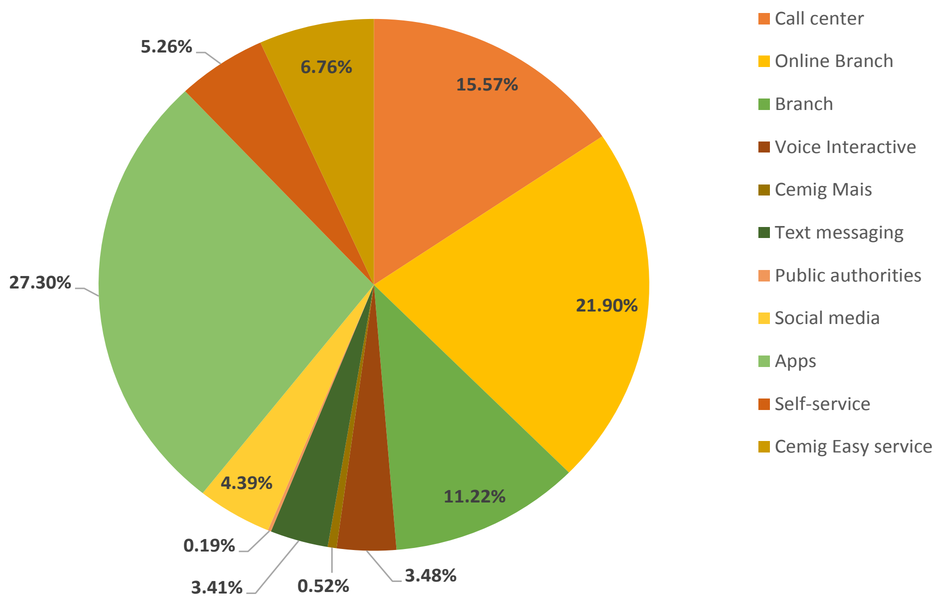
The site also has specialized service for specific market segments, with exclusive areas for clients of distributed generation; large-scale clients served at medium voltage; equipment and facility planners; and others. Cemig's 'Online Branch' had more than 13 million contacts in 2019.

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%).

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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.

FINANCIAL RESULTS

(The operational information was not examined by the independent auditors)

Net income for the year

Cemig Distribuição reports net income of R$1,644 million for 2019, compared to net income of R$535 million in 2018 - a year-on-year increase of 207.29%. 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)

Ebitda - R$ ’000	2019	2018	Change, %
Net income for the period	1,644	535	207.29
+ Income tax and Social Contribution tax	806	217	271.43
+ Net financial revenue (expenses)	(902)	187	-
+ Depreciation and amortization	652	595	9.58
= Ebitda	**2,200**	**1,534**	**43.42**

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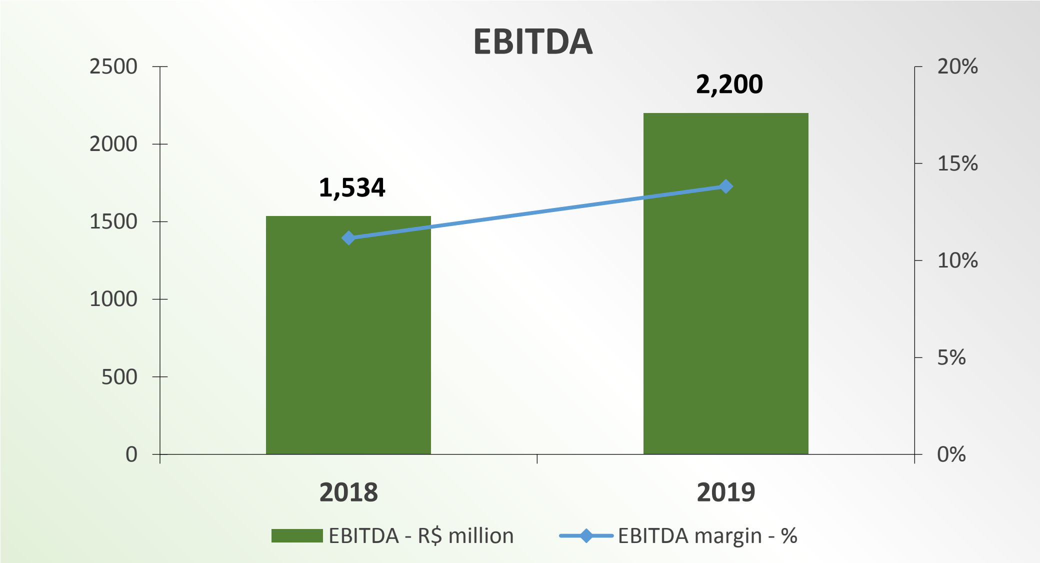

Ebitda is a non-accounting measure prepared by the Company, reconciled with its financial statements in accordance with the specifications in CVM Circular SNC/SEP 01/2007 and CVM Instruction 527 of October 4, 2012. It comprises: net income adjusted for the effects of net financial revenue (expenses), 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 Ebitda from January to September 2019 than in the same period in 2018 mainly reflects the amount of R$830,333 in recognition of the PIS/Pasep and Cofins taxes credits over ICMS. More details in Note 9.

In line with the higher Ebitda, Ebitda's margin was higher, at 13.82% in 2019 compared to 11.15% in the same period in 2018.

Operational revenue

The composition of the Company's revenue is as follows:

	2019	2018
Revenue from supply of energy - captive customers, in Cemig's concession area	19,967	17,885
Revenue from use of the energy distribution systems (TUSD) - free customers	2,747	2,067
CVA, and Other financial components in tariff increases	58	1,973
Distribution construction revenue	936	757
Adjustment to expectation from reimbursement of distribution concession financial assets	18	-
Fine for violation of continuity indicator	(58)	(44)
Recovery of PIS/Pasep and Cofins taxes credits over ICMS (note 9)	830	-
Other operating revenues	1,462	1,345
Taxes and charges reported as deductions from revenue	(10,041)	(10,226)
	15,919	**13,757**

Revenue from supply of energy - captive customers, in Cemig's concession area

Total revenue from energy sold to final customers in 2019 was R$19,967 million - or 11.64% higher than in the same period in 2018 (R$17,885 million). The main factors in this revenue, in 2019, were:

- The annual tariff adjustment for Cemig D, effective May 28, 2019 resulting in an average increase in customer tariffs of 8.73%;

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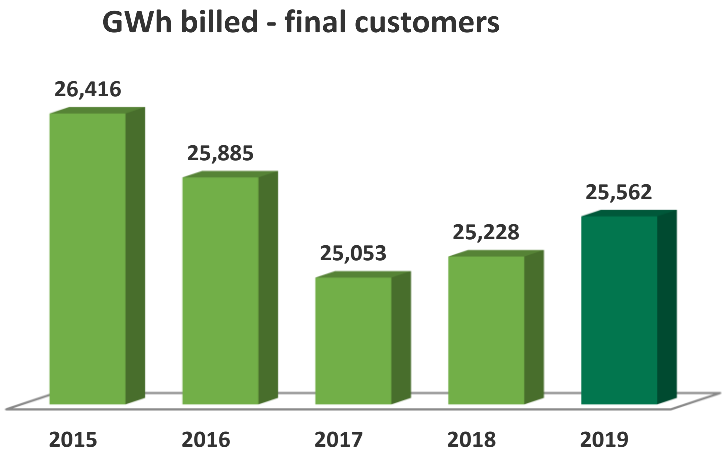
- The annual tariff adjustment for Cemig D, effective May 28, 2018 (full effect in 2019) resulting in an average increase in customer tariffs of 23.19%;
- Increase of 1.19% in the energy sold to final customers.

This table details Cemig D's market and the changes in sales of energy by customer category, comparing 2019 to 2018:



Customer type	MWh*		
	2019	2018	Change,%
Residential	10,538	10,266	2.65
Industrial	2,383	2,588	(7.92)
Commercial, services and others	5,215	5,190	0.48
Rural	3,792	3,614	4.93
Public authorities	905	871	3.90
Public lighting	1,357	1,384	(1.95)
Public services	1,372	1,315	4.33
Total	**25,562**	**25,228**	**1.32**

* Information in MWh has not been reviewed by independent auditors.

The main factors that explain the changes in the energy sold to final customers, were:

- increase of 4.93% in the volume sold to rural users mainly due to the higher consumption for irrigation, caused by lower rainfall in the beginning of 2019 than in the same period in 2018, and the higher temperatures in the same period above;

- increase of 2.65% in the volume sold to residential users, 3.90% to public authorities and 4.33% to public services, mainly due to the addition of new consumer units to the distribution network;

- decrease of 7.92% of consumption by the industrial user category, mainly due to the migration of Captive Client segment to the Free Market and also the reclassification of some customers in this category to the commercial and residential categories.

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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$2,747 million, compared to R$2,067 million in 2018 - year-on-year increase of 32.90%. The higher figure reflected the increase of approximately 17.44% 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. More details in Note 13.

Construction revenue

Infrastructure construction revenue in 2019 was R$936 million, or 23.65% more than the same period in 2018 (R$757 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, totaling R$830 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. More details in Note 9.

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Taxes and regulatory charges reported as Deductions from revenue

The taxes and charges that are recorded as deductions from operating revenue totaled R$10,041 million in 2019, or 1.81% less than 2018 (R$10,226).

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$2,213 million, compared to R$2,450 million in 2018 - reduction of 9.67%. 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.

The ACR account was created by the federal government by its Decree 8221/2014, regulated by Aneel Normative Resolution 612/2014, for the purpose of totally or partially covering electricity distributors' expenses on involuntary exposure to the spot market, and the dispatching of thermal plants, linked to Availability CCEARs (Regulated Market Power Purchasing Agreements).

The CDE-Energia account relates to reimbursement of CDE funds, passed through to distribution concession holders in 2013 to cover extraordinary expenses on purchase of power resulting from absence of contractual collateral, and from the adverse hydrological conditions, under Decree 7945/2013. The CDE-Energia quotas were paid only by the distributors that received funds in 2013, by pass-through to electricity tariffs paid by captive customers. The reimbursement began in 2015 and was completed 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.

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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$14,371 million in 2019, or 12.11% more than in 2018 (R$12,818 million). More details in Note 25.

The following paragraphs comment on the main variations:

Personnel expenses

Personnel expenses were R$869 million in 2019 compared to R$965 million in 2018 - reduction of 9.95%. This variation is mainly due to the following factors:

- expenses with the programmed voluntary retirement plan in the amount of R$15 million in 2019 compared to R$51 million in 2018;
- increase of 2.55% in the salaries starting in November 2019 due to the Collective Agreement;
- increase of 4.00% in the salaries starting in November 2018 (full effect in 2019) due to the Collective Agreement;
- reduction of 1.30% in the average number of employees, 4,342 in 2019 compared to 4,399 in 2018.

Employee profit sharing

The expense on employees’ and managers’ profit sharing was R$183 million in 2019, compared to R$51 million in 2018. The higher figure arises from the higher profit of Cemig D’s parent company - Cemig - the basis of calculation for profit shares (the collective agreements of Cemig D, Cemig Geração e Transmissão and Cemig are unified).

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Outsourced services

The expense on outsourced services in 2019 was R$1.016 billion, or 15.45% more than the expense of R$880 million in 2018. The main impacts arise from the factors detailed below, basically prioritizing action and expenses for the Company, 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 bought for resale

The expense on energy purchased for resale in 2019 was R$7,517 million, or 3.85% more than in 2018 (R$7,238 million). The main impacts result from the following factors:

- increase of 18.58% on the expenses on purchase of supply in the spot market: R$1,774 million in 2019, compared to R$1,496 million in 2018. This net result for spot-price supply is the net balance of revenues and expenses of transactions on the Power Trading Exchange (CCEE). The difference is mainly due to the volume of energy transacted on the CCEE, that was 64.91% lower, at 652,539 MWh in 2019, compared to 1,859,448 MWh in 2018;

- decrease of 10.13% on the expenses on power supply acquired at auctions was R$3,053 million in 2019, compared to R$3,397 in 2018. The reduction reflects replacement of contracts for the year 2019, in which prior contracts were replaced by contracts with less expensive prices;

- increase of 8.17% on expenses on supply acquired through physical guarantee quota contracts, at R$755 million in 2019, compared to R$698 million in 2018. This difference was basically due to the average price per MWh being 12.02% higher in 2019, at R$101.67, compared to 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. More details in Note 25c.

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Charges for use of the transmission network

Charges for use of the transmission network in 2019 totaled R$1,459 million, compared with 2018 (R$1,463 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$1,101 million, or 279.66% more than 2018 (R$290 million). This arises mainly from the following factors:

- variation of provisions for taxes, which represented the recognition of R$772 million in 2019, compared to the reversion of R$2 million in 2018. This variation results, mainly, of the Company's recognition, in the 3rd quarter of 2019, of a provision related to administrative and court proceedings opened against the Company, in the amount of R$764 million, 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. More details in Note 22.;

- provisions for employment-law legal actions amounting R$92 million in 2019, compared to a reversal of provisions of R$24 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. More details in Note 22;

- in counterpart, the provision for doubtful receivables was 26.57% lower, at R$199 million in 2019, compared to R$271 million in 2018. This difference reflects the Company's efforts in the year to renegotiate past due receivables from clients. Also contributing to the reduction was the adaptation adopted by the Company to the assumptions in its method of calculating the allowance for doubtful receivables when measuring the history of default, aiming to adapt the modeling of provisions made to the behavior of clients' debts. More details in Note 2.8.

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Net financial revenue (expenses)

Cemig reports net financial revenue in 2019 of R$902 million, compared to net financial expenses of R$187 million in 2018. The main factors were:

- monetary updating of the PIS/Pasep and Cofins taxes credits over ICMS, adding up to R$1,034 million. More details in Note 9;

- Higher revenue from monetary variation on the balances of the CVA account, and of Other financial components, in the tariff calculation: R$105 million in 2019, compared to R$62 million in 2018. This reflects the higher amount approved in the tariff increase of 2019 that in the tariff increase of the prior year. The positive and negative balances of CVA are updated by the Selic rate. There are more details in Note 13 to the financial statements.

For a breakdown of financial revenues and expenses see Note 26.

Income tax and social contribution tax

In 2019, the expense on income and the Social Contribution taxes totaled R$806 million, on pre-tax profit of R$2,450 million. In 2018, the expense on income and the Social Contribution taxes was R$217 million, on pre-tax profit of R$752 million.

These effective rates are reconciled with the nominal tax rates in Note 10c.

Liquidity and capital resources

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

<u>Cash and cash equivalents</u>

Cash and cash equivalents on December 31, 2019 totaled R$234 million, compared to R$451 million on December 31, 2018. No cash nor cash equivalents were held in any other currency than the Real.

<u>Cash flow from operations</u>

Net cash generated by operational activities in 2019 was R$1,214 million, compared to R$760 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, expressed in the change in the 'CVA' account ('Parcel A' items variation compensation) and the item Other financial components. In 2018 the expense on electricity was higher, mainly due to the low levels of reservoirs, reducing storage levels and causing thermal plants to be activated, resulting in an increase in the price of supply.

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Cash used in investment activities

The Company used net cash of R$548 million in investment activities in 2019, compared to net cash of R$896 million in 2018. The investments in assets of the concession in 2019 totaled R$916 million, compared to R$728 million in 2018. In counterpart, there was a net investment of R$167 million funds in securities, in 2018 - compared to R$368 million in redemptions of securities in 2019.

Cash flow in financing activities

Financing activities consumed a net cash expense of R$883 million in 2019, compared to net positive cash flow of R$1,586 million generated by financing activities in 2018. Net consumption of cash by financing activities in 2019 mainly reflects a higher volume of repayments of loans and financings than was raised in new funding transactions. In 2018 there was an Advance against future Capital Increase (AFAC) of R$1.100 billion.

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.

Corroborating these improvements, the principal international risk rating agencies made further upgrades in their credit risk ratings for the Company, recognizing the success in implementing measures that improve these companies' credit quality - improvement of the liquidity profile, refinancing of debts, greater operational efficiency, and increase in Ebitda, combined with a prudent strategy for management of liabilities.

This table shows Cemig D's ratings with the three principal agencies from December 2018 to December 2019:

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Fitch		Investment grade										Speculative grade											
National	*Global*	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	CC	C	RD/D		
dec - 18																							
dec - 19																							

Moodys		Investment grade										Speculative grade											
National	*Global*	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	
dec - 18																							
dec - 19																							

S&P		Investment grade										Speculative grade											
National	*Global*	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC	C	D
dec - 18																							
dec - 19																							

The details of funding raised, including costs and maturities, are given in Note 19.

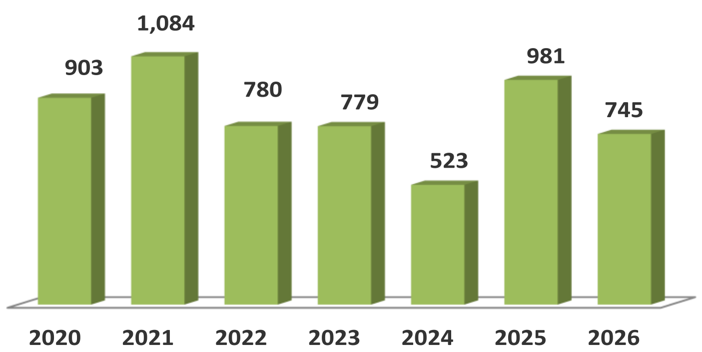
The Company has restrictive covenants applying to its seventh debenture issue, limiting the indebtedness of Cemig D itself, and of Cemig as guarantor. The company is confident, however, that with continuation of the disinvestment initiatives of the holding company, the consequent reduction in leverage, and operational efficiency, these financial covenants will be complied with.

The Company's debt on December 31, 2019 totaled R$5,795 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 the Company, where there is a significant portion indexed to the IPCA index, mostly because of the Company's seventh debenture issue. The average cost of the Company's debt is 3.28% p.a. in real terms, and 7.70% p.a. nominal.

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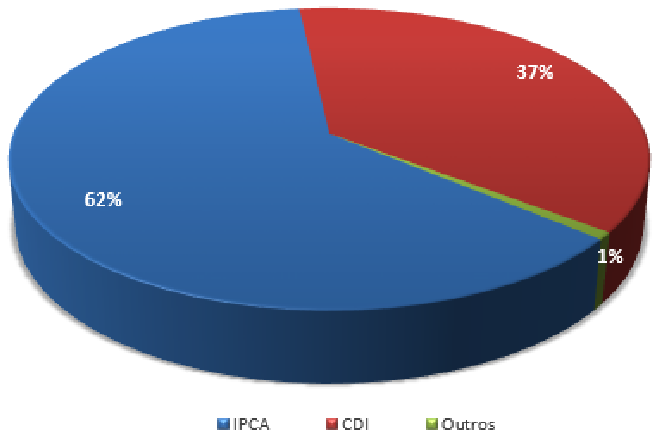
Main indexors of debt at December 31, 2019



INVESTMENTS

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 billion, 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.

<u>System expansion - Distribution of substations lines (69kV to 161kV)</u>

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.

<u>Expansion of the electricity system - networks (medium and low voltage)</u>

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

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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.

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 the 2019 net income, of R$1,644 million:

- R$82 million to the legal reserve;
- R$255 million in Interest on Equity, declared on December 16, 2019;
- R$605 million as minimum obligatory dividends;
- R$19 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;

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- R$682 million to be retained in Stockholders' equity for use, primarily, in the investment program.

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 INDEPENDENT AUDITORS

The Company's policies in contracting of services of independent 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 independent 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 independent auditors is adopted, with a frequency of 5 years. Currently the Company's independent auditors are Ernst &Young Auditores Independentes S/S. Since from the second semester of 2017 they are responsible for auditing the financial statements on December 31, 2019. The services provided by the Company's independent auditors have been as follows:

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Service	2019	As % of audit fees	2018	As % of audit fees
Auditing of financial statements	1,449	100%	1,323	100%
Auditing of the Public Digital Bookkeeping System (SPED)	220	15%	204	15%
Total	**1,669**		**1,527**	

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 D'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.

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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 D 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 D. These changes can be grouped into three trends - the "three D's": 1) **D**igitalization; 2) **D**ecarbonization; and 3) **D**ecentralization - 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 D created the *CemigTech* program, and the *Strategic Digital Technology Plan* - covering training, diagnosis, prospecting and technological ways forward, aiming to:

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- 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;
- Distributed Energy resources; and
- The 'Distribution Operations Center of the Future' project.

In 2019, Cemig D invested R$54 million in 43 R&D projects.

The Energy Efficiency Program

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

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

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.

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SOCIAL RESPONSIBILITY

Cemig D has a policy on communication with the community; and a communications plan. These from a part of the group of communication strategies adopted by the Company in its relationship with communities. They guide the social-environmental diagnosis which is prepared for every project or program.

The following are some of the highlights of 2019:

The Donation Concession Program: Under the Donations Concession Program, Cemig gives discounts of up to 25% on the standard tariffs charged in electricity bills, subject to a ceiling, to philanthropic institutions that provide social and health assistance free of charge. A total of 947 entities received this benefit in 2019, for a total of R$6.2 million in deductions on electricity bills. The program generates a saving for the institutions, which can be used for social welfare purposes. For the Company, the program also helps to reduce levels of default on electricity bills, since only institutions with no arrears can receive the benefit.

Corporate Volunteer Program: This program includes various measures 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 the improvement of society - and of a company's image and reputation. The program's aim is to stimulate and disseminate solidarity and voluntary work by employees, to promote human development and contribute to the well-being of the communities where Cemig operates. It is structured to leverage the potential of voluntary activities - migrating gradually on a scale from social assistance to participative citizenship and social transformation. In 2019, a total of 5,041 employee working hours were dedicated to planning and structuring the program, technical visits, and participations in training, courses and congresses. Outside working hours, Cemig volunteers donated 2,518 hours of their time.

Volunteers' Day, or 'V-Day', is a single day focused on mobilizing and fostering solidarity actions, held annually in a previously selected community, carried out in partnership with various companies of the Cemig group. In 2019, the V-Day coordination team assessed the needs and the work carried out in various institutions, and selected the BH Futuro Institute, which works for needy communities in the Aglomerado da Serra, a group of eight villages with an estimated population of 40,000. 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 clothing, footwear, accessories and toys were collected.

The Sponsorship Program: In the Sponsorship Program, donations in favor of philanthropic institutions are raised from third parties ('Sponsors'), by voluntary additions to their electricity bills, which are then 100% deposited in the institution's bank account. Sponsors who enroll in the program can choose which registered institutions to donate to, and the amount to be added to their electricity bill.

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Under this program a total of 438 institutions received approximately R$66 million in donations in 2019. In this program, Cemig D establishes a partnership with society - its customers, which become sponsors of the institutions - benefiting the community, and consequently underlining Cemig's own commitment to the development of local communities. The institutions, for their part, receive the donations securely, making use of the infrastructure and capillarity of Cemig.

The AI6% Program: One of the aims of this program is to awaken citizenship awareness in employees - in particular as they become aware that under Federal Law 8069/90 they can pay part of their income tax not to the government, but to projects that benefit socially vulnerable children and teenagers.
The Company, too, allocates part of its own income tax payment to projects able to raise funds through the Infancy and Adolescents Fund (FIA), under specific regulating legislation.

In 2019 ,546 Cemig employees participated in the AI6% campaign, voluntarily allocating a total of R$1.16 million to 95 municipalities to support projects of 181 charitable institutions - and Cemig also allocated part of its income tax payable, to the same FIAs. The amount invested by the Company was R$4.61 million. In total, R$5.77 million was allocated to serve approximately 27 children and teenagers.

The Fields of Light II Program: This project aims to install electric lighting on amateur football fields and multi-sport courts, providing improved quality of life and social empowerment to poorer communities by enabling them to practice sport, leisure and cultural activities, especially at night.

The planned investment for this program, of approximately R$15 million, was used for preparation of lighting plans, acquisition of materials, and execution of works. Of the planned total of 356 fields/courts to be illuminated in the project, 227 fields and 42 courts have been completed. The amount invested in 2019 was R$1.8 million.

Value added

The Value Added Statements (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$13,777, which compares to R$12,174 in 2018.

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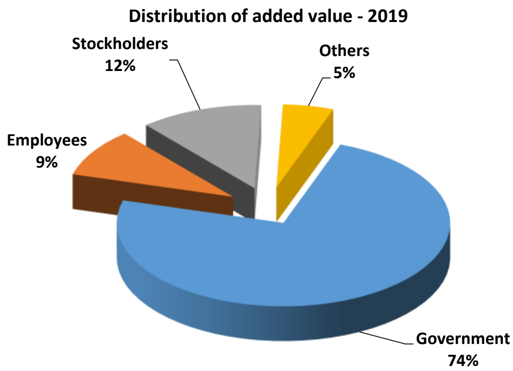
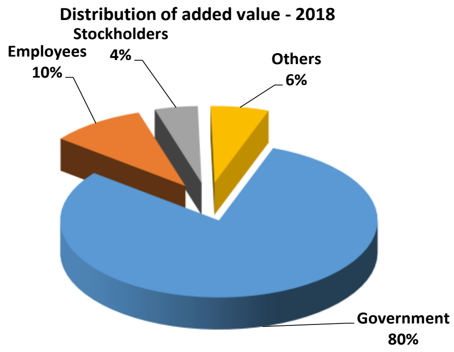


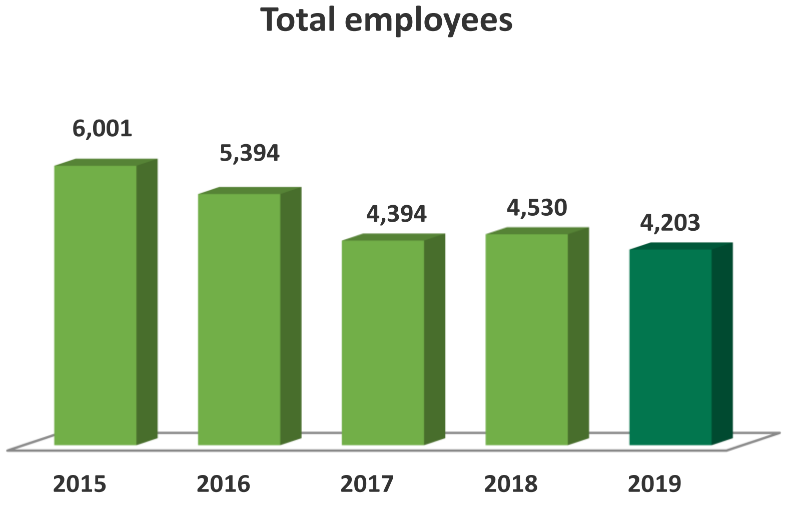


Human resources

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 6,001 employees in 2015 to 4,203 in 2019:



Cemig D's compensation strategy, aiming to maintain a balanced and efficient workforce, keeping the company attractive in the market, reflects a positioning compatible with the market, with competitive benefits and programs for employees' welfare. To this end, the Jobs, Careers and Compensation Plan is reviewed periodically.

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Provision of staff

Cemig D contracts new employees through recruiting from existing staff (internal mobility) and through external hiring (by public competition).

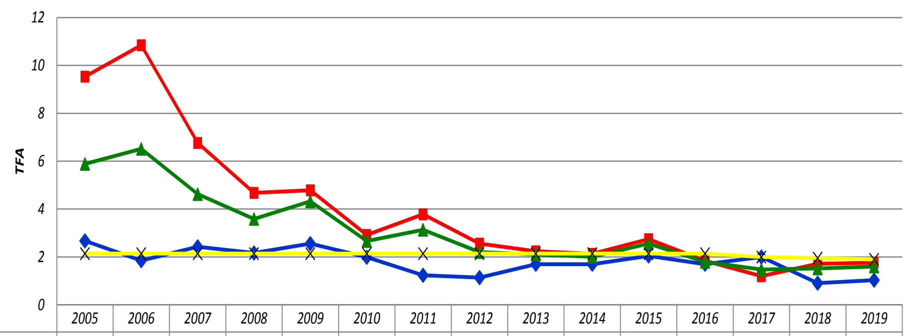
In 2019 Cemig D completed admissibility assessments of 165 new employees through public competitions, for staff at technical, operational, administrative, and university level, principally in essentially technical areas. This aims to ensure operational security of essential activities, and also support the entrepreneurial initiatives to continually increase productivity and operational efficiency. Administration of a sustainable turnover is essential for the company to be able to operate competitively in its market, with personnel costs in line with reality.

With the number of people retiring under the Voluntary Retirement Plan of 2019, there was a need to assess the possibility of reallocating personnel in certain areas of the organization, to sustain technical know-how where there was a high volume of retirements.

Health, Hygiene and Safety in the workplace

Cemig D 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 D 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 D: 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.

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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 D 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 155 new employees of its own: 61 electricians, 91 technicians and 3 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 an average increase in the hours of professional training - 37.05 hours in 2018 compared to 58.87 hours in 2019

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 8,697 participations in in-person technical training sessions for the Cemig D's own employees. In total, there were 247,445 person-hours of training.

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

Environment

In 2019, Cemig D invested R$9.5 million for environment purposes. The resources were applied on investments and expenses related to 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.

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Environmental licensing

As well as being a legal obligation, environmental licensing of Cemig D’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).

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.

Management of waste

Over the whole of 2019, 79.1 thousand tons of industrial wastes were allocated for disposal, with practically all of them sold or recycled.

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CEMIG
Distribuição S.A.

SOCIAL STATEMENT

AS OF DECEMBER 31, 2019 AND 2018

1) Basis of calculations	2019 Amount (R$ '000)	2018 Amount (R$ '000)
Net revenue (NR)	15,918,741	13,756,860
Operational profit (OP)	1,547,784	938,505
Gross payroll (GP)	869,289	965,345

2) Internal social indicators	2019 Amount (R$ '000)	% of GP	% of NR	2018 Amount (R$ '000)	% of GP	% of NR
Food	61,813	7.11	0.39	62,099	6.43	0.45
Mandatory charges/costs on payroll	230,615	26.53	1.45	214,889	22.26	1.56
Private pension plan	60,962	7.01	0.38	52,637	5.45	0.38
Health	38,634	4.44	0.24	35,701	3.70	0.26
Safety and medicine in the workplace	17,233	1.98	0.11	17,232	1.79	0.13
Education	709	0.08	0.00	944	0.10	0.01
Training and professional development	14,799	1.70	0.09	12,974	1.27	0.09
Provision for assistance for day-care centers	1,271	0.15	0.01	2,534	0.26	0.02
Profit sharing	76,400	8.79	0.48	2,246	0.23	0.02
Other expenses	12,462	1.43	0.08	10,534	1.09	0.08
Internal social indicators - Total	**514,898**	**59.23**	**3.23**	**411,067**	**42.58**	**2.99**

3) External social indicators	2019 Amount (R$ '000)	% of OP	% of NR	2018 Amount (R$ '000)	% of OP	% of NR
Education	4,240	0.27	0.03	1,088	0.12	0.01
Culture	24,592	1.59	0.15	6,051	0.64	0.04
Sport	3,696	0.24	0.02	2,507	0.27	0.02
Other donations / subsidies / ASIN Project / Sport	96,877	6.26	0.61	22,740	2.42	0.17
Total contributions to society	**129,405**	**8.36**	**0.81**	**32,386**	**3.45**	**0.24**
Taxes (excluding obligatory charges on payroll)	10,167,005	656.87	63.87	9,749,270	1,038.81	70.87
External social indicators - Total	**10,296,410**	**665.24**	**64.68**	**9,781,656**	**1,042.32**	**71.11**

4) Environmental indicators	2019 Amount (R$ '000)	% of OP	% of NR	2018 Amount (R$ '000)	% of OP	% of NR
Related to the company's operations	9,552	0.62	0.06	12,159	1.30	0.09
Total investment in the environment	**9,552**	**0.62**	**0.06**	**12,159**	**1.30**	**0.09**

5) Workforce indicators	2019	2018
Number of employees at end of period	4,203	4,530
Number of hirings during period	174	243
Number of outsourced employees	105	184
Number of interns	117	129
Employees' levels of schooling		
- University and university extension	762	735
- Secondary	3,348	3,532
- Primary	93	127
Number of employees over 45 years old	2,054	2,532
Number of women employed	551	588
% of supervisory positions held by women	10%	9%
Number of African-Brazilian employees	231	238
% of supervisory positions held by African-Brazilians	0%	0%
Number of employees with disabilities	150	157

6) Corporate citizenship	2019		
Ratio between highest and lowest compensation in the Company	26.46		
Total number of work accidents	20		
Who selects the company's social and environmental projects:	( ) senior management	(x) senior management and functional managers	( ) all employees
Who decides the company's work environment health and safety standards:	( ) senior management and functional managers	(x) all employees	( ) All + Accident Prevention Ctee.
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 employees
The profit-sharing program covers:	( ) senior management	( ) senior management and functional managers	(x) all employees
In selecting suppliers, the company's standards of ethics and social and environmental responsibility:	( ) are not considered	( ) are suggested	(x) are required
In relation to employee participation in volunteer work programs, the company:	( ) don't get involved	( ) 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 %
Total added value distributable (R$ '000)	In 2019: 13,777,057		
Distribution of added value (DVA)	73.80% government 11.93% stockholders	9.35% employees 4.92% others	80.01% government 9.66% empployees 4.39% stockholders 5.94% others

7) Other information	2019
Investments in environmental issues	R$9.5 million
Non-reusable wastes and materials	79 thousand tons
Revenue from sales of waste	R$14 million

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APPRECIATION

Cemig D’s management is grateful to its majority shareholder, the State of Minas Gerais, for the trust and support constantly shown throughout the year. The Company 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.

CEMIG D IN NUMBERS

Item	2019	2018
Service		
Number of customers (in million)	8,537	8,409
Number of employees	4,203	4,530
Number of customers per employee	2,031	1,856
Number of locations served	5,415	5,415
Number of counties (municipalities) served	774	774
Market		
Concession area (Km²)	567,478	567,478
Average residential consumption (KWh/annual)	1,513	1,506
Average supply rates - including ICMS tax (R$/MWh)		
Residential	917.43	843.30
Commercial	872.48	764.83
Industrial	663.46	623.20
Rural	542.57	496.15
DECi (hours) - indicator for outage	10.62	10.56
FECi (number of interruptions) - indicator for outage	5.05	5.24
Deprivation of supply per customer - minutes/month	53.10	50.25
Operating		
Number of energy substation	413	405
Distribution line (Km)	17,507	17,507
Distribution network (Km)		
Urban	108,576	108,576
Rural	410,486	410,486
Financial		
Net operational revenue, R$ mn	15,919	13,757
Operational margin, %	9.72	6.83
Ebitda, R$ mn	2,200	1,534
Profit, R$ mn	1,644	535
Earnings per share	697	227
Stockholders’ equity - R$ mn	4,708	4,642
Book value per share	2.00	1.97
Return on equity, %	34.93	11.52
Debt / Stockholder’s equity, %	417.37	307.51
Current liquidity ratio	1.06	1.16
General liquidity ratio	0.78	0.70

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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 without portfolio
Daniel Faria Costa	Chief Officer Cemigpar
Dimas Costa	Chief Trading Officer
Luciano de Araújo Ferraz	Chief Regulation and Legal

FISCAL COUNCIL	
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 Jacometti (majority)	vago (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 (Coordenador e Especialista Financeiro)	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 (Comercial)	Helton Andrade
Aline de Freitas Veloso (Rural)	Ennia Rafael de Oliveira Guedes Bueno
Erick Nilson Souto (Poder Público)	Tadahiro Tsubouchi
Ricardo Augusto Amorim Cesar (Procon)	Christiane Vieira Soares Pedersoli
Wantuil Dionisio Teixeira (Cemig)	Juliana Cardoso Amaral

BOARD OF DIRECTORS	
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 (preferencialista)	No
Marcelo Gasparino da Silva (minoritário)	No
vago (minority)	No
Marco Aurélio Dumont Porto (representante dos empregados)	No

INVESTOR RELATIONS

Cemig Investor Relations Management
Tel: +55 31 3506-5024 - 3506-5028
Fax: +55 31 3506-5025 - 3506-5026

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

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STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019 AND 2018

ASSETS

(Thousands of Brazilian Reais)

	Note	2019	2018
CURRENT			
Cash and cash equivalents	5	234,346	451,304
Marketable Securities	6	109,960	408,769
Customers and traders	7	3,021,551	2,859,862
Concession holders - Transport of energy	7	242,229	195,122
Recoverable taxes	8	29,101	53,841
Income tax and social contribution tax recoverable	10a	235,745	165,061
Inventories		31,408	26,826
Public Lighting Contribution		164,971	149,098
Reimbursement of tariff subsidy payments	12	93,673	82,470
Low-income subsidy		29,582	30,232
Concession financial and sector assets	13	640,161	646,874
Others		174,431	210,189
TOTAL CURRENT		**5,007,158**	**5,279,648**
NON-CURRENT			
Marketable Securities	6	305	56,199
Deferred Income tax and social contribution tax	10b	1,741,544	1,334,421
Recoverable taxes	8	5,141,553	181,663
Escrow deposits	11	1,766,042	1,707,668
Customers and traders	7	711	711
Concession holders - Transport of energy	7	70,412	75,161
Others credits		37,562	43,814
Concession financial and sector assets	13	701,164	829,562
Contractual assets	14	740,044	518,162
Intangible assets	15	8,938,620	8,890,070
Leasing - rights of use	16	212,948	-
TOTAL NON-CURRENT		**19,350,905**	**13,637,431**
TOTAL ASSETS		**24,358,063**	**18,917,079**

The Notes are an integral part of these Financial Statements.

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STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019 AND 2018

LIABILITIES

(Thousands of Brazilian Reais)

	Note	2019	2018
CURRENT			
Loans and financings	19	16,548	506,434
Debentures	19	886,401	994,181
Suppliers	17	1,534,689	1,199,055
Taxes payable	18	192,731	297,725
Payroll and related charges		130,861	193,052
Regulatory charges	20	283,361	369,284
Employees' and managers' profit shares		150,970	51,281
Post-employment obligations	21	201,241	181,862
Public Lighting Contribution		251,809	281,362
Interest on Capital, and dividends, payable	23	822,183	267,435
Leasing - obligations	16	64,034	-
Others		176,492	229,299
TOTAL CURRENT		**4,711,320**	**4,570,970**
NON-CURRENT			
Loans and financings	19	27,353	1,087,314
Debentures	19	4,864,620	3,675,479
Provisions	22	1,221,151	439,889
Post-employment obligations	21	4,359,058	3,220,182
Taxes payable	18	436	24,923
Regulatory charges	20	101,968	119,176
Pasep and Cofins taxes to be reimbursed to customers	18	4,193,329	1,123,680
Leasing - obligations	16	157,160	-
Others		13,460	13,108
TOTAL NON-CURRENT		**14,938,535**	**9,703,751**
TOTAL LIABILITIES		**19,649,855**	**14,274,721**
EQUITY	23		
Share capital		5,371,998	2,771,998
Advance against future capital increase		-	2,600,000
Profit reserves		1,329,789	545,856
Equity valuation adjustments		(1,993,579)	(1,275,496)
TOTAL EQUITY		**4,708,208**	**4,642,358**
TOTAL LIABILITIES AND EQUITY		**24,358,063**	**18,917,079**

The Notes are an integral part of these Financial Statements.

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STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais, except earnings per share)

	Note	2019	2018
NET REVENUE	24	15,918,741	13,756,860
OPERATING COSTS	25		
COST OF ENERGY			
Energy purchased for resale		(7,516,878)	(7,237,526)
Charges for use of the national grid		(1,458,939)	(1,463,469)
		(8,975,817)	(8,700,995)
OTHER COSTS			
Personnel and managers		(674,042)	(744,158)
Materials		(51,067)	(37,236)
Outsourced services		(901,917)	(772,772)
Depreciation and amortization		(532,842)	(528,545)
Operating provisions, net	25d	(894,736)	(24,835)
Infrastructure construction cost		(936,332)	(756,964)
Others		(65,123)	(55,517)
		(4,056,059)	(2,920,027)
TOTAL COST		**(13,031,876)**	**(11,621,022)**
GROSS PROFIT		**2,886,865**	**2,135,838**
OPERATING EXPENSES	25		
Selling expenses		(199,142)	(270,722)
General and administrative expenses		(447,411)	(481,158)
Other operating expenses, net		(692,528)	(445,453)
		(1,339,081)	(1,197,333)
Income before finance income (expenses) and taxes		**1,547,784**	**938,505**
Finance income	26	1,534,795	433,976
Finance expenses	26	(632,406)	(620,874)
Income before income tax and social contribution tax		**2,450,173**	**751,607**
Current income tax and social contribution tax	10c	(843,008)	(214,606)
Deferred income tax and social contribution tax	10c	37,201	(2,131)
NET INCOME FOR THE YEAR		**1,644,366**	**534,870**
Basic and diluted profit per shares, R$	23	**0.6970**	**0.2267**

The Notes are an integral part of these Financial Statements.

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STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais)

	2019	2018
Net income for the year	1,644,366	534,870
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 (note 21)	(1,088,005)	(527,744)
Income tax and social contribution tax on restatement of defined benefit plans (note 10)	369,922	179,433
	(718,083)	**(348,311)**
COMPREHENSIVE INCOME FOR THE YEAR	**926,283**	**186,559**

The Notes are an integral part of these Financial Statements.

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STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais, except where otherwise indicated)

	Share capital	Advance against future capital increase	Profit reserves	Equity valuation adjustments	Retained earnings	Total equity
BALANCES ON DECEMBER 31, 2017	**2,771,998**	**1,500,000**	**392,497**	**(927,185)**	**-**	**3,737,310**
Effects of first-time adoption of CPC 48 / IFRS 9, net of tax effects	-	-	-	-	(99,076)	(99,076)
Net income for the year	-	-	-	-	534,870	534,870
Adjustment of actuarial liabilities - restatement of obligations of the defined benefit plans, net of taxes	-	-	-	(348,311)	-	(348,311)
COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(348,311)**	**534,870**	**186,559**
Legal reserve	-	-	26,744	-	(26,744)	-
Interest on Equity (R$0,0424 per share)	-	-	-	-	(100,000)	(100,000)
Dividends under the by-laws (R$0,0773 per share)	-	-	-	-	(182,435)	(182,435)
Tax incentive reserves	-	-	9,237	-	(9,237)	-
Retained earnings reserve	-	-	117,378	-	(117,378)	-
Advance against future capital increase (note 23)	-	1,100,000	-	-	-	1,100,000
BALANCES ON DECEMBER 31, 2018	**2,771,998**	**2,600,000**	**545,856**	**(1,275,496)**	**-**	**4,642,358**
Net income for the year	-	-	-	-	1,644,366	1,644,366
Adjustment of actuarial liabilities - restatement of obligations of the defined benefit plans, net of taxes	-	-	-	(718,083)	-	(718,083)
COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(718,083)**	**1,644,366**	**926,283**
Advance against future capital increase (note 23)	2,600,000	(2,600,000)	-	-	-	-
Legal reserve	-	-	82,218	-	(82,218)	-
Interest on Equity (R$0,1081 per share)	-	-	-	-	(255,000)	(255,000)
Dividends under the by-laws (R$0,2566 per share)	-	-	-	-	(605,433)	(605,433)
Tax incentive reserves	-	-	19,422	-	(19,422)	-
Retained earnings reserve	-	-	682,293	-	(682,293)	-
BALANCES ON DECEMBER 31, 2019	**5,371,998**	**-**	**1,329,789**	**(1,993,579)**	**-**	**4,708,208**

The Notes are an integral part of these Financial Statements.

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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais)

	Note	2019	2018
CASH FLOW FROM OPERATIONS			
Net income for the period		1,644,366	534,870
Expenses (revenues) not affecting cash and cash equivalents:			
Post-employment obligations	21	317,300	273,383
Depreciation and amortization	15b and 16	652,208	594,922
Operating provisions	25d	1,100,647	290,171
Provision (reversal) for recoverable amount of contractual assets		2,665	42,029
Write-off of net residual value of unrecoverable Concession financial assets and Intangible assets	13a and 15b	15,991	22,908
Financial interest and inflation adjustment		383,253	489,736
Adjustment to expectation of contractual cash flow from the concession	13a	(17,839)	(325)
Amortization of transaction cost of loans and financings	19	25,737	12,606
Recovery of credits of PIS/Pasep and Cofins taxes paid on ICMS tax amounts	9	(1,821,153)	-
CVA (Parcel A Compensation) Account and Other Financial Components in tariff	24	(57,988)	(1,973,064)
Deferred income tax and social contribution tax	10c	(37,201)	2,131
		2,207,986	289,367
(Increase) / decrease in assets			
Customers and traders		(360,831)	(423,056)
Concession holders - Transport of energy		(42,358)	(73,656)
CVA (Parcel A Compensation) Account and Other Financial Components in tariff adjustment	13b	362,469	908,604
Recoverable taxes		(8,786)	52,060
Income tax and social contribution tax recoverable		(19,755)	(12,411)
Escrow deposits		(38,458)	(53,479)
Reimbursement of tariff subsidies		(15,873)	(271)
Low-income subsidy		(11,203)	(9,125)
Others		650	(3,572)
(Increase) / decrease in assets		33,351	(57,343)
		(100,794)	327,751
Increase / (decrease) in liabilities			
Suppliers		322,580	(485,365)
Taxes		(207,641)	(19,328)
Income tax and social contribution tax payable		843,008	-
Payroll and related charges		(62,191)	58,577
Public lighting tax		(29,553)	6,636
Regulatory charges		(105,823)	(48,854)
Post-employment obligations	21	(247,050)	(221,236)
Employees' and managers' profit sharing		99,689	48,106
Others		(166,765)	(111,701)
		446,254	(773,165)
Cash from (used by) operating activities		**2,553,446**	**(156,047)**
Interest paid on loans, financings and debentures	19	(441,750)	(406,841)
Interest paid in leasing contracts	16	(3,934)	-
Income tax and social contribution tax payable		(893,937)	(196,956)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**1,213,825**	**(759,844)**
CASH FLOW IN INVESTMENT ACTIVITIES			
Marketable Securities - cash investments		367,718	(167,461)
In intangible assets	15	(31,909)	(28,157)
In contractual assets	14	(883,762)	(700,349)
NET CASH FLOW FROM (USED IN) INVESTMENT ACTIVITIES		**(547,953)**	**(895,967)**
CASH FLOW IN FINANCING ACTIVITIES			
Loans, financings and debentures net	19	3,626,722	941,735
Leasing liabilities paid	16	(69,585)	-
Loans, financings and debentures, paid	19	(4,172,532)	(455,507)
Interest on capital and dividends, paid	23	(267,435)	-
Advance against future capital increase		-	1,100,000
NET CASH FROM (USED IN) FINANCIAL ACTIVITIES		**(882,830)**	**1,586,228**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**(216,958)**	**(69,583)**
Cash and cash equivalents at start of period	5	451,304	520,887
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**234,346**	**451,304**

The Notes are an integral part of these Financial Statements.

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STATEMENTS OF ADDED VALUE

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Thousands of Brazilian Reais)

	2019		2018	
REVENUES				
Sales of energy and services	24,175,237		23,225,361	
Distribution construction revenue	936,332		756,964	
Adjustment to expectation of reimbursement of distribution concession financial assets	17,839		325	
PIS/Pasep and Cofins tax credits	830,343		-	
Other revenues	47,229		55,181	
Provision for doubtful receivables	(199,142)		(270,722)	
	25,807,838		23,767,109	
INPUTS ACQUIRED FROM THIRD PARTIES				
Energy bought for resale	(8,173,285)		(7,919,703)	
Charges for use of national grid	(1,607,646)		(1,612,638)	
Outsourced services	(1,357,014)		(1,220,147)	
Materials	(527,507)		(370,765)	
Other operating costs	(1,247,916)		(308,933)	
	(12,913,368)		(11,432,186)	
GROSS VALUE ADDED	**12,894,470**		**12,334,923**	
RETENTIONS				
Depreciation and amortization	(652,208)		(594,922)	
NET ADDED VALUE PRODUCED BY THE COMPANY	**12,242,262**		**11,740,001**	
ADDED VALUE RECEIVED BY TRANSFER				
Financial revenues	1,534,795		433,976	
ADDED VALUE TO BE DISTRIBUTED	**13,777,057**		**12,173,977**	
DISTRIBUTION OF ADDED VALUE				
		%		%
Employees	**1,287,759**	**9.35**	**1,175,739**	**9.66**
Direct remuneration	832,281	6.04	739,496	6.07
Post-employment obligations and Other benefits	387,311	2.81	324,671	2.67
FGTS fund	53,439	0.39	43,874	0.36
Voluntary retirement program	14,728	0.11	67,698	0.56
Taxes	**10,167,005**	**73.80**	**9,739,510**	**80.01**
Federal	4,740,874	34.41	4,910,435	40.35
State	5,420,616	39.35	4,823,678	39.62
Municipal	5,515	0.04	5,397	0.04
Remuneration of external capital	**677,927**	**4.92**	**723,858**	**5.94**
Interest	658,379	4.78	649,332	5.33
Rentals	19,548	0.14	74,526	0.61
Remuneration of own capital	**1,644,366**	**11.93**	**534,870**	**4.39**
Interest on Equity	255,000	1.85	100,000	0.82
Dividends	605,433	4.39	182,434	1.50
Retained earnings	783,933	5.69	252,436	2.07
	13,777,057	**100.00**	**12,173,977**	**100.00**

The Notes are an integral part of these Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. OPERATING CONTEXT

Cemig Distribuição S.A. ('Cemig D', 'Cemig Distribuição' or 'the Company') is a Brazilian corporation registered for trading with the Brazilian Securities Commission (Comissão de Valores Mobiliários, or CVM), and in the Brazilian Register of Corporate Taxpayers (CNPJ) under No. 06.981.180/0001-16. A wholly-owned subsidiary of Companhia Energética de Minas Gerais - Cemig ('Cemig'), it was incorporated on September 8, 2004, and began operating on January 1, 2005, pursuant to the separation of activities ('unbundling') of Cemig. Its shares are not traded on any exchange. It is domiciled in Brazil, with head office in Belo Horizonte, Minas Gerais.

Its corporate objects are: To study, plan, project, build and commercially operate systems of distribution and sale of electricity and related services for which concessions are granted to it under any form of law.

Cemig Distribuição has a concession area of 567,478 km2, comprising approximately 97% of the Brazilian state of Minas Gerais, serving 8,505,861 customers, as of September 30, 2019 (information not audited by external auditors).

The Fifth Amendment to the concession contracts, signed with the Mining and Energy Ministry, extended the concession for 30 years, from January 1, 2016. The amendment establishes standards of service quality and economic-financial indicators that the Company must meet during the new concession period.

Based on the facts and circumstances at this date, management has assessed the Company's capacity to continue operating normally and believes firmly that its operations have the capacity to generate funds to enable the continuation of its business in the future. In addition, Management is not aware of any material uncertainties that could generate significant doubts about its ability to continue operating. Therefore, this financial statements information has been prepared on a going concern basis.

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2. BASIS OF PREPARATION

2.1. Statement of compliance

The 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.

Company's management confirms that all relevant and material 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 as of December 31, 2019.

2.2. Basis of measurement

These financial statements were prepared on a historical cost basis, except in the case of certain financial instruments which are measured at fair value, in accordance with the standards, as detailed in Note 28.

2.3. Functional currency and presentation currency

The financial statements are presented in Reais – R$, which is the functional currency of the Company. The information is expressed in thousands of Reais (R$ '000), except where otherwise indicated.

Transactions in foreign currency, corresponding to those not carried 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 of the assets and liabilities are recognized as financial revenues and expenses in the statements of income.

2.4. Use of estimates and judgments

Preparation of the 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.

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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 7;
- Deferred income tax and social contribution tax - Note 10;
- Financial assets and liabilities of the concession - Note 13;
- Concession contract assets - Note 14;
- Intangible assets and useful life of assets - Note 15;
- Leasing transaction - Note 16;
- Employee post-employment obligations -Note 21;
- Provisions - Note 22;
- Unbilled revenue - Note 24; and
- Financial instruments measurement and fair value measurement - Note 28.

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.

2.5. Regulatory accounting statements

Under the Electricity Sector Accounting Manual (MSCE), the Company is obliged to publish Regulatory Accounting Statements (Demonstrações Contábeis Regulatórias, or DCR's), presented independently from the corporate financial statements, and made available on the regulator's website and that of the Company by April 30 of the following year.

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

The Company has applied, for the first time, new accounting standards that became effective for annual periods beginning January 1, 2019 or later.

The nature and impact of each of the new standards and changes are described below:

<u>IFRS 16/CPC 06 (R2) - Leases</u>

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 of use the subject asset during the period of the leasing (an asset of right of 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 of use.

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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 of use.

The Company has made an analysis of the initial application of IFRS 16/CPC 06 (R2) in their financial statements as from January 1, 2019, and has 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 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 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 has considered the asset of right of 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:

	Jan. 1, 2019
Assets - right of use	261,332
Liabilities - Obligations referring to operational leasing agreements	(261,332)

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; and
- How the entity considers changes of facts and circumstances.

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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 has adopted the interpretation as from the date of coming into effect and has analyzed the tax treatments adopted which could generate uncertainties in the calculation of income taxes and which might potentially expose the Company to materially probable risks of loss. The conclusion of these analyses is that none of the significant positions adopted by the Company has been altered in relation to expectation of losses due to any questioning or challenge by the tax authorities and, therefore, no relevant effect was identified as a result of this standart.

Adoption of new standards effective as from January 1, 2019:

- 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;

- 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.

Other standards have been reviewed, but with no material impact on the Company's financial statements.

2.7. Standards issued but not yet effective

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

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 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.

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2.8. 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

Fair value through profit or loss: this includes the concession financial assets related to 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 recognizes a financial asset resulting from a concession contract when it has an unconditional contractual right to receive cash or another financial asset from, or under the direction of the grantor for the services of construction and maintenance of the infrastructure.

This category also include: cash equivalents and marketable securities that are not classified as amortized cost.

Amortized cost: This includes accounts receivables from customers, traders and energy transport concession holders; escrow deposits in litigation; restricted cash; marketable debt securities with the intention of holding them until maturity; assets and liabilities related to the CVA account and Other financial components in tariff adjustments; debt agreed with the pension fund (Forluz); the low-income subsidy; reimbursement of tariff subsidies; and other credits, loans and debentures and suppliers.

b) Customers, traders and energy transport concession holders

Accounts receivable from customers, traders and energy 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 Company 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.

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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 invoice amounts not yet billed, or not yet due, or less than 12 months past due, provisions for expected losses are measured on the basis of potential default events; or, if the credit risk of the financial instrument has increased significantly since its initial recognition, on the basis of credit losses expected for the whole life of the instrument.

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 are: (i) the history of the debt; (ii) negotiations in progress and the initiatives to realize the overdue credits; and (iii) assets guarantees.

Concession assets

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.

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

c) 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.

d) Impairment

In assessing impairment of financial assets, the Company uses 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 provision is recognized, adjusting the carrying value of the asset recoverable. The recoverable value 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.

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e) Employee benefits

The liability recorded in the statements of financial position related to retirement benefit pension plan obligations, is the greater of the amount to be paid in accordance with the terms of the pension plan for amortization of the actuarial obligations (see Note 21) and 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 statements of income.

f) 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.

According to ICPC 22/IFRIC 23, periodically, the Company evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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g) Government grants

The Company has 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 Company receives 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 statements as those subsidiaries acquire the right of receive them.

h) Operating revenue

In general, revenue from contracts with customers is recognized when the performance obligation is satisfied, at an amount that reflects the consideration to which the Company 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 in accordance with the sector's regulations. 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.

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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 CVA and other financial components revenues 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. More details in Note 13.

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

i) 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.

j) 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.

k) Profit distribution

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.

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3. CONCESSIONS

The Company 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.

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

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

Each year the Company has the right to request 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 Company'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 Company's costs, and to establish a factor based on scale gains, which will be applied in the annual tariff adjustments, for the purpose of sharing such gains with the Company's customers.

The Company 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 Company 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

The Fifth Amendment to its concession contracts, signed with the Mining and Energy Ministry is valid for 30 years, starting January 1, 2016.

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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; and
- 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 were met in the years ended December 31, 2019 and 2018.

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4. OPERATING SEGMENTS

The Company operates only in electricity distribution, and only in the Brazilian State of Minas Gerais. Its Income statement reflects this activity. Management believes that its Income statements and the other information contained in these Notes provide the required information about its sole operational segment.

5. CASH AND CASH EQUIVALENTS

	2019	2018
Bank accounts	192,772	92,756
Cash investments		
Bank certificates of deposit (1)	36,198	226,030
Overnight (2)	5,376	132,518
	41,574	**358,548**
	234,346	**451,304**

(1) *Bank Certificates of Deposit* (*Certificados de Depósito Bancário*, or CBDs), accrued interest 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 (70% to 104%) compared to 2018 (40% a 104%), according to operation.

(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).

Note 28 gives information in relation to the exposure of the Company to interest rate risks, and a sensitivity analysis of their effects on financial assets and liabilities.

6. MARKETABLE SECURITIES

	2019	2018
Bank certificates of deposit (1)	221	196
Financial Notes (LFs) - banks (2)	95,204	308,370
Treasury Financial Notes (LFTs) (3)	13,900	147,372
Debentures (4)	732	8,704
Others	208	326
	110,265	**464,968**
Current asset	**109,960**	**408,769**
Non-current asset	**305**	**56,199**

(1) In 2019 Bank Certificates of Deposit (*Certificados de Depósito Bancário*, or CDBs) were remunerated, depending on the transaction, at between 80% and 103.5% of the Interbank CD Rate published by Cetip. In 2018 this percentage was 80%.

(2) 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).

(3) *Treasury Financial Notes* (LFTs) are fixed-rate fixed-income securities which accrue interest at a rate that follows the daily variation of the Selic rate from the purchase date to maturity.

(4) Debentures are medium and long term debt securities, which give their holders a right of credit against the issuing company. The debentures have remuneration varying from 108.25% to 113% of the CDI Rate in 2019 (104.25% to 151% of CDI in 2018).

Note 28 provides a classification of these marketable securities. Investments in marketable securities of related parties are shown in Note 27.

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7. CUSTOMERS, TRADERS AND ENERGY TRANSPORT CONCESSION HOLDERS

Customer type	Balances not yet due		Balances past due			Total	
	Billed energy	Not yet billed energy	Up to 90 days	91 to 360 days	More than 360 days	2019	2018
Residential	660,322	337,228	413,977	141,377	76,050	1,628,954	1,588,577
Industrial	59,533	68,028	29,325	19,850	130,643	307,379	345,390
Commercial, services and others	367,979	191,235	106,377	56,467	94,525	816,583	741,981
Rural	138,206	73,687	74,680	48,459	21,271	356,303	342,549
Public authorities	57,159	36,618	54,682	82,606	190,969	422,034	299,679
Public lighting	2,074	31,547	-	946	95	34,662	43,464
Public services	68,627	30,542	6,649	7,436	19,823	133,077	128,291
Subtotal - customers	**1,353,900**	**768,885**	**685,690**	**357,141**	**533,376**	**3,698,992**	**3,489,931**
Concession holders - Transport of energy	76,419	192,265	16,452	5,529	76,764	367,429	338,014
Provision for doubtful receivables	(159,437)	(11,038)	(11,675)	(5,164)	(544,204)	(731,518)	(697,089)
	1,270,882	**950,112**	**690,467**	**357,506**	**65,936**	**3,334,903**	**3,130,856**
Current							
Customers and traders						**3,021,551**	**2,859,862**
Concession holders - Transport of energy						**242,229**	**195,122**
Non-current asset							
Customers and traders						**711**	**711**
Concession holders - Transport of energy						**70,412**	**75,161**

The Company's exposure to credit risk related to customers and traders is provided in Note 28. The transactions involving related parties is provided in Note 27.

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	127,747	133,652
Industrial	132,663	130,747
Commercial, services and others	153,819	181,993
Rural	30,248	31,846
Public authorities	200,302	119,343
Public lighting	1,123	4,694
Public services	30,829	27,084
Concession holders - Transport of energy	54,787	67,730
	731,518	**697,089**

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

Opening Balances	**489,538**
First-time adoption of CPC 48 / IFRS 9	150,114
Additions, net	270,722
Disposals	(213,285)
Balance at December 31, 2018	**697,089**
Additions, net (note 25)	199,142
Disposals	(164,713)
Balance at December 31, 2019	**731,518**

In 2019, as a result of changes in the principles of PECLD calculations presented in Note 2.8 b), the percentage of loss in relation to the Cemig D's revenue from energy supply caused a reduction in doubtful accounts of R$46 million at December 31, 2019.

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8. RECOVERABLE TAXES

	2019	2018
Current		
ICMS tax recoverable	25,743	34,724
COFINS tax	1,713	15,154
PIS-PASEP taxes	1,301	3,659
Others	344	304
	29,101	**53,841**
Non-current		
ICMS tax recoverable (2)	215,189	181,663
COFINS tax (1)	4,047,607	-
PIS-PASP taxes (1)	878,757	-
	5,141,553	**181,663**
	5,170,654	**235,504**

(1) Credits related to the exclusion of ICMS tax amounts from the basis for calculation of PIS/Pasep and Cofins taxes. More details in Note 9.
(2) 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.

9. PIS/PASEP AND COFINS TAXES CREDITS OVER ICMS - FINAL COURT JUDGMENT

On July 16, 2008, the Company 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 the 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 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 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 reversed the provision related to the escrow deposits made from 2008 to 2011, and also recognized a liability for reimbursement to their customers.

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 D 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, the Company applied for release of escrow deposits, the value of which was R$1,181,808 at December 31, 2019. On February 13, 2020, as a result of the decision of the 7th Federal Court of Belo Horizonte, Minas Gerais, the Company was able to receive the amounts deposited in escrow, which by then had updated value of R$1,186,402.

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Based on the opinion of its legal advisers, the Company believes that a portion of the credits to be received, should be reimbursed to its customers, considering a maximum period for calculation of the reimbursement of 10 years. Thus, the Company 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. More details in Note 18.

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 the Company, the credits will be offset, to accelerate recovery.

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	
Effects on the statements of financial position	
Recoverable taxes (July/2003 to May/2019)	4,926,364
Amounts to be restituted to customers (1)	(3,037,989)
Taxes payable (2)	(44,564)
Income tax and social contribution tax	(626,896)
Equity	**1,216,915**
Effects on net income	
Recovery of PIS/Pasep and Cofins taxes credits - Other operating revenues (note 9) (3)	830,343
Finance income (4)	1,034,352
PIS/Pasep and Cofins taxes charged on financial revenues (4)	(20,884)
Income tax and Social contribution tax	(626,896)
Net income for the period	**1,216,915**

(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, 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 Statements of income.

(3) This refers to the credits recognized in operating profit of 2019, amounting R$3,228,842, net of the amounts to be reimbursed to customers, of R$2,398,499.

(4) 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$22,658.

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 Company's customers as from June 2019, representing an average reduction of approximately 1% in the invoice amount.

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10. INCOME TAX AND SOCIAL CONTRIBUTION TAX

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 and to advance payments which will be offset against federal taxes eventually payable.

	2019	2018
Current		
Income tax	163,015	106,970
Social contribution tax	72,730	58,091
	235,745	**165,061**

b) Deferred income tax and social contribution tax

The Company 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:

Temporary differences of income tax and social contribution tax	2019	2018
Deferred tax assets		
Tax loss carryforwards	-	253,692
Post-employment obligations	1,411,395	996,506
Doubtful receivables	270,605	257,225
Impairment	18,299	16,478
Operating provisions	-	17,198
Provisions for contingencies	351,827	149,562
Administrative tax	5,625	6,000
Provision for profit shares	51,330	17,434
Others	5,003	2,200
	2,114,084	**1,716,295**
Deferred tax liabilities		
Adjustment to expectation of cash flow – Concession assets	(202,548)	(205,617)
Borrowing costs capitalized	(166,478)	(167,454)
Funding cost	(3,514)	(8,803)
	(372,540)	**(381,874)**
Total, net assets	**1,741,544**	**1,334,421**

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

Balances at December 31, 2017	**1,106,081**
Effects allocated to income statements	(2,131)
First-time adoption of CPC 48 / IFRS 9 - effects allocated to equity	51,038
Effect allocated to other comprehensive income	179,433
Balances at December 31, 2018	**1,334,421**
Effects allocated to income statements	37,201
Effect allocated to other comprehensive income	369,922
Balances at December 31, 2019	**1,741,544**

The deferred income tax and social contribution liabilities balances were offset against the corresponding assets balances.

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.

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

	2019
2020	321,898
2021	270,568
2022	270,568
2023	270,568
2024	270,568
2025 to 2027	425,948
2028 to 2029	283,966
	2,114,084

c) 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:

	2019	2018
Profit before income tax and social contribution tax	2,450,173	751,607
Nominal rate	34%	34%
Income tax and social contribution tax - nominal expense	(833,059)	(255,546)
Tax effects applicable to:		
Interest on equity	86,700	34,000
Tax incentives	50,380	18,714
Non-deductible contributions and donations	(8,911)	(3,133)
Non-deductible penalties	(100,647)	(11,355)
Others	(270)	583
Income tax and Social Contribution - effective gain (expense)	**(805,807)**	**(216,737)**
Effective rate	**32.89%**	**28.84%**
Current tax	**(843,008)**	**(214,606)**
Deferred tax	**37,201**	**(2,131)**

11. ESCROW DEPOSITS

	2019	2018
Labor Claims	280,542	262,715
Tax contingencies		
Income tax on Interest on Equity	11,105	10,796
PIS/Pasep and Cofins taxes (1)	1,181,808	1,148,604
Income tax and Social Security contribution on 'Anuênio' employee indemnity (2)	202,042	196,885
Others	34,113	35,590
	1,429,068	**1,391,875**
Others		
Regulatory	20,326	19,599
Third party	6,725	5,704
Customer relations	4,412	4,192
Court embargo	6,502	5,647
Others	18,467	17,936
	56,432	**53,078**
	1,766,042	**1,707,668**

(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 received these amounts, totaling R$1,186,402. More details in Note 9 - PIS/Pasep and Cofins taxes credits over ICMS - Final court judgement.

(2) More details in Note 22 - Provisions under the section relating to the 'Anuênio indemnity'.

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12. REIMBURSEMENT OF TARIFF SUBSIDIES

Subsidies on tariffs charged to users of distribution are reimbursed to distributors through the funds from the Energy Development Account (CDE).

In 2019, the amount recognized as subsidies revenues was R$1,079,262 (R$953,140 in 2018). Of such amounts, Company has a receivable of R$93,673, as of December 31, 2019 (R$82,470 in 2018) in current assets.

13. CONCESSION FINANCIAL AND SECTOR ASSETS AND LIABILITIES

	2019	2018
Financial assets related to infrastructure (a)	459,711	395,743
CVA (Parcel A Compensation) Account and Other Financial Components in tariff-setting (b)	881,614	1,080,693
	1,341,325	**1,476,436**
Current asset	**640,161**	**646,874**
Non-current asset	**701,164**	**829,562**

Financial assets related to infrastructure

The energy 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 D and the grantor authority (Aneel).

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

Balances at December 31, 2017	**369,762**
Transfers of contract assets (note 14)	26,695
Others transfers	(50)
Disposals	(989)
Adjustment of expectation of cash flow from the Concession financial assets	325
Balances at December 31, 2018	**395,743**
Transfers of contract assets (note 14)	48,168
Transfers to intangible assets (note 15)	(1,142)
Disposals	(897)
Adjustment of expectation of cash flow from the Concession financial assets	17,839
Balances at December 31, 2019	**459,711**

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

The Amendment that extended concession period, 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:

Statements of financial position	Dec. 31, 2019			Dec. 31, 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	Dec. 31, 2019			Dec. 31, 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 sources program (Proinfa)	10,542	(5,859)	4,683	3,106	5,154	8,260
ESS (System Service Charge) and EER (Reserve Energy Charge)	(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'						
Overcontracting of supply (1)	(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 components in tariff adjustments	(70,219)	(206,481)	(276,700)	(235,964)	(211,525)	(447,489)
Tariff Flag balances (2)	-	(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.

(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
Payments from the Flag Tariff Centralizing Account	(793,822)
Others - R&D Reimbursement	(114,782)
Updating – Selic rate	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	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.

14. CONCESSION CONTRACT ASSETS

Under IFRS 15 / CPC 47 - Revenue from contracts with customers, assets recognized in counterpart to concession infrastructure revenue for assets still under construction are posted initially as contractual assets, considering the Company's right 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 contractual assets, valued at acquisition cost, including capitalized borrowing costs. After the assets start operation, the performance obligation linked to construction having been concluded, the assets are split between financial assets and intangible assets.

Changes in concession contract assets are as follows:

Balances at December 31, 2017	-
Effects of initial adoption of CPC 47 / IFRS 15	531,750
Additions	726,713
Transfers to financial assets (note 13)	(26,695)
Transfers to intangible assets (note 15)	(671,577)
Provision for impairment	(42,029)
Balances at December 31, 2018	**518,162**
Additions	902,421
Transfers to financial assets (note 13)	(48,168)
Transfers to intangible assets (note 15)	(629,706)
Provision for impairment	(2,665)
Balances at December 31, 2019	**740,044**

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The amount of additions in the period ended December 31, 2019 includes R$18,659 (R$26,364 on December 31, 2018) under the heading Capitalized borrowing costs, as presented in Note 19.

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 statements. 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.

15. INTANGIBLE ASSETS

The portion of the distribution infrastructure that will be used during the concession is listed in intangible assets.

a) Balance composition

	2019			2018		
	Historic cost	Accumulated amortization	Amount	Historic cost	Accumulated amortization	Amount
Assets of concession	**20,901,165**	**(9,128,241)**	**11,772,924**	**20,308,857**	**(8,578,754)**	**11,730,103**
(-) 'Special obligations'	(4,184,097)	1,275,409	(2,908,688)	(4,019,750)	1,123,616	(2,896,134)
Net concession assets	**16,717,068**	**(7,852,832)**	**8,864,236**	**16,289,107**	**(7,455,138)**	**8,833,969**
Intangible assets in progress	74,384	-	74,384	56,101	-	56,101
Total intangible assets	**16,791,452**	**(7,852,832)**	**8,938,620**	**16,345,208**	**(7,455,138)**	**8,890,070**

b) Changes in intangible assets

Balances at December 31, 2017	**9,336,486**
Effects initial adoption of CPC 47 / IFRS 15	(531,750)
Additions	30,251
Other transfers	347
Disposals	(21,919)
Transfers of contract assets (note 14)	671,577
Depreciation and Amortization	(594,922)
Balances at December 31, 2018	**8,890,070**
Additions	33,911
Disposals	(15,094)
Transfers of contract assets (note 14)	629,706
Transfers of financial assets (note 13)	1,142
Depreciation and Amortization	(601,115)
Balances at December 31, 2019	**8,938,620**

The amount of additions in 2019 were R$33,911 and includes R$2,002 (R$2,094 in 2018) of capitalized borrowing costs, as presented in Note 19.

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:

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Energy	(%)	Administration	(%)
Power switch - below 69 KV	6.67	Software	20.00
System cable - below 69 KV	3.57	Vehicles	14.29
Structure - Light post	3.57	General equipment	6.25
Overhead distribution transformer	4.00	Buildings	3.33
Circuit breaker - below 69 kV	3.03		
Capacitor bank - below 69 kV	6.67		
Voltage regulator - below 69 kV	4.35		
Electronic energy meter	7.69		

The annual average amortization rate is 4.15%:

Distribution	Administration
3.88%	15.94%

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.

16. LEASING TRANSACTIONS

As mentioned in Note 2.5, as from January 1, 2019 the standard IFRS 16 / CPC 06 (R2) - Leases came into effect.

The Company has valued their contracts and recognized a right of 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 of use

The right of 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:

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	Dec. 31, 2019	Jan. 1, 2019
Real estate property	155,218	173,828
Vehicles	57,627	87,093
Others	103	411
	212,948	**261,332**

Changes in the asset Right of Use are as follows:

	Real estate property	Vehicles	Others	Total
Balances at December 31, 2018	-	-	-	-
Initial adoption at January 1, 2019	173,828	87,093	411	261,332
Additions	9,270	285	-	9,555
Amortization (1)	(21,916)	(31,952)	(308)	(54,176)
Remeasurement (2)	(5,964)	2,201	-	(3,763)
Balances at December 31, 2019	**155,218**	**57,627**	**103**	**212,948**

(1) Amortization of the Right of Use recognized in the Income Statements is net of use of the credits of PIS/Pasep and Cofins taxes on payments of rentals, a total R$3,083.

(2) The Company has 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:

Balances at December 31, 2018	-
Initial adoption at January 1, 2019 (1)	261,332
Additions	9,555
Interest incurred (2)	27,589
Leasing paid	(69,585)
Interest in leasing contracts	(3,934)
Remeasurement (3)	(3,763)
Balances at December 31, 2019	**221,194**
Current liabilities	**64,034**
Non-current liabilities	**157,160**

(1) The Company's marginal borrowing rate applied to the liability for leasing recognized in the statements 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 Statements are net of incorporation of the credits for PIS/Pasep and Cofins taxes on payments of rentals, in the amounts of R$1,571.

(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	Nominal	Adjusted to presente value
Consideration for the leasing	551,413	221,194
Potential PIS/Pasep and Cofins (9.25%)	43,279	13,844

The Company, in full compliance with CPC 06 (R2) in statements 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:

Maturity of installments	
2020	66,939
2021	47,657
2022	20,381
2023	20,331
2024	20,244
2025 to 2045	375,861
Undiscounted values	**551,413**
Embedded interest	(330,219)
Leasing liabilities	**221,194**

17. SUPPLIERS

	2019	2018
Energy on spot market - CCEE	389,220	114,896
Charges for use of energy network (1)	149,887	121,571
Energy purchased for resale	447,313	430,687
Itaipu Binacional	242,766	268,004
Materials and services	305,503	263,897
	1,534,689	**1,199,055**

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

18. TAXES PAYABLE AND AMOUNTS TO BE RESTITUTED TO CUSTOMERS

	2019	2018
Taxes and contributions		
Current		
ICMS	77,390	142,739
COFINS	68,253	102,900
PIS-PASEP	14,644	22,233
INSS	17,426	15,154
ISSQN	6,078	5,225
Others	8,940	9,474
	192,731	**297,725**
Non-current		
COFINS	375	21,439
PIS/PASEP	61	3,484
	436	**24,923**
	193,167	**322,648**
Amounts to be restituted to customers		
Non-current		
PASEP/COFINS (1)	4,193,329	1,123,680
	4,193,329	**1,123,680**

(1) The amounts of PIS/Pasep and Cofins taxes to be reimbursed to customers refer to the credits to be received by the Company. More details in Note 9.

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19. LOANS, FINANCING AND DEBENTURES

Financing source	2019						2018
	Principal maturity	Annual Financial cost (%)	Currency	Current	Non-current	Total	Total
Foreign currency							
Banco do Brasil S.A. - Various bonds (1)	2024	Several	US$	1,842	16,209	18,051	25,936
Debt in foreign currency				**1,842**	**16,209**	**18,051**	**25,936**
Brazilian currency							
Banco do Brasil S.A.	2022	146.50% of CDI	R$	-	-	-	502,531
Eletrobrás	2023	UFIR + 6.00% to 8.00%	R$	11,221	9,047	20,268	33,182
Large customers (2)	2024	IGP-DI + 6.00%	R$	3,485	2,097	5,582	4,985
Caixa Econômica Federal (5)	2022	146.50% of CDI	R$	-	-	-	626,632
Promissory Notes - 9th Note Issue - Single series (5)	2019	151.00% of CDI	R$	-	-	-	425,571
(-) FIC Pampulha: Marketable securities of Cemig (parent company of Cemig D's) subsidiary companies				-	-	-	(13,015)
(-) Transaction costs				-	-	-	(12,074)
Debt in Brazilian currency				**14,706**	**11,144**	**25,850**	**1,567,812**
Total of loans and financings				**16,548**	**27,353**	**43,901**	**1,593,748**
Debentures - 3rd Issue, 2nd Series (3)	2021	IPCA + 4.70%	R$	568,312	540,633	1,108,945	1,596,419
Debentures - 3rd Issue, 3nd Series (3)	2025	IPCA + 5.10%	R$	42,109	948,784	990,893	955,722
Debentures - 5rd Issue, Single series (3) (5)	2022	146.50% of CDI	R$	-	-	-	1,580,121
Debentures - 6rd Issue, Single series (3) (5)	2020	CDI + 1.75%	R$	-	-	-	551,214
Debentures - 7th Issue, 1th Series (3)	2024	CDI + 0.454%	R$	274,083	1,890,000	2,164,083	-
Debentures - 7th Issue, 2th Series (3)	2026	IPCA + 4.10%	R$	2,420	1,516,622	1,519,042	-
(-) Discount on the issuance of debentures (4)				-	(21,606)	(21,606)	-
(-) Transaction costs				(523)	(9,813)	(10,336)	(13,816)
Total, debentures				**886,401**	**4,864,620**	**5,751,021**	**4,669,660**
Overall total				**902,949**	**4,891,973**	**5,794,922**	**6,263,408**

(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) Financings under the heading of reimbursable injections of funds for execution of works at the following companies: CMM (IGP-DI Index + 6%); Mineradora Serra da Fortaleza (IGP-DI + 6%);

(3) Nominal, unsecured, book-entry debentures not convertible into shares, with no renegotiation clauses;

(4) Discount on the sale price of the 2nd series of the Seventh issue;

(5) The funds incorporated into the cash position of the Company 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).

There are early maturity clauses for cross-default in the event of non-payment by the Company, of any pecuniary obligation with individual or aggregate value greater than R$50 million.

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

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	2020	2021	2022	2023	2024	2025	2026	Total
Currency								
US dollar	1,842	-	-	-	16,209	-	-	18,051
Total, currency-denominated	**1,842**	**-**	**-**	**-**	**16,209**	**-**	**-**	**18,051**
Indexers								
IPCA (1)	612,841	540,633	237,196	237,196	237,196	995,507	758,311	3,618,880
UFIR/RGR (2)	11,221	3,407	3,265	2,375	-	-	-	20,268
CDI (3)	274,083	540,000	540,000	540,000	270,000	-	-	2,164,083
IGP-DI (4)	3,485	623	590	590	294	-	-	5,582
Total, governed by indexers	**901,630**	**1,084,663**	**781,051**	**780,161**	**507,490**	**995,507**	**758,311**	**5,808,813**
(-) Transaction costs	(523)	(899)	(881)	(881)	(512)	(3,392)	(3,248)	(10,336)
(-) Discount	-	-	-	-	-	(10,803)	(10,803)	(21,606)
Overall total	**902,949**	**1,083,764**	**780,170**	**779,280**	**523,187**	**981,312**	**744,260**	**5,794,922**

(1) Expanded National Customer Price (IPCA) Index;
(2) Fiscal Reference Unit (Ufir / RGR);
(3) CDI: Interbank Rate for Certificates of Deposit;
(4) 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

The changes in loans, financing and debentures are as follows:

Balances at December 31, 2017	**5,682,691**
Loans and financing obtained	950,000
(-) Transaction costs	(8,265)
Financing obtained, net	**941,735**
Monetary variation	89,891
Exchange rate variation	2,584
Financial charges provisioned	409,264
Amortization of transaction cost	12,606
Financial charges paid	(406,841)
Amortization of financing	(455,507)
Subtotal	**6,276,423**
(-) FIC Pampulha - issued securities of own company	(13,015)
Balances at December 31, 2018	**6,263,408**
Loans and financing obtained	3,660,000
(-) Transaction costs	(10,183)
Discount in the issues of securities (1)	(23,095)
Financing obtained, net	**3,626,722**
Monetary variation	90,814
Exchange rate variation	(7,854)
Financial charges provisioned	397,362
Amortization of transaction cost	25,737
Financial charges paid	(441,750)
Amortization of financing	(4,172,532)
Subtotal	**5,781,907**
(-) FIC Pampulha - issued securities of own company	13,015
Balances at December 31, 2019	**5,794,922**

(1) Discount on the sale price of the 2nd series of the Seventh issue of Cemig D.

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 in relation to the loan.

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The Company 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, financings and debentures	397,362	409,264
Financing costs on intangible assets and contractual assets (1) (Notes 14 and 15)	(20,661)	(28,458)
Net effect in Profit or loss	**376,701**	**380,806**

(1) The average capitalization rate p.a. in 2019 was 7.31% (9.45% in 2018).

Guarantees

The guarantees of the debt balance on loans and financing, on December 31, 2019, were as follows:

	2019
Promissory notes and Sureties	3,652,078
Receivables	2,098,943
Shares	37,147
Unsecured	6,754
TOTAL	**5,794,922**

Funding raised

Financing source	Date of start of resources	Principal maturity	Annual financial cost	Total
Brazilian currency				
Debentures - 7th Issue - 1th series	July, 2019	2024	CDI + 0.454%	2,160,000
Debentures - 7th Issue - 2th series	July, 2019	2026	IPCA + 4.10%	1,500,000
(-) Transaction costs				(10,183)
(-) Discount (1)				(23,095)
Total Funding				**3,626,722**

(1) Discount on the sale price of the 2nd series of the Seventh issue.

Restrictive covenants

The Company has contracts with financial covenants as follows:

Security	Covenant	Ratio required Cemig D- Issuer	Ratio required Cemig (guarantor)	Compliance required
7th debenture issue (1)	Net debt / (Ebitda adjusted)	The following or less: 3.8 on Dec. 31, 2019 3.5 on/after Jun. 30, 2020	Ratio to be the following, or less: 3.5 on Dec. 31, 2019 3.5 on Jun. 30, 2020 3.0 on/after Dec. 31, 2020	Half-yearly and anual

(1) The instrument described above has a restrictive covenant requiring specific ratios up to its maturity, as shown in the detailed table at the beginning of this Note.

The covenants remain in compliance as of December 31, 2019.

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20. REGULATORY CHARGES

	2019	2018
Liabilities		
Energy Efficiency	254,595	257,956
Research and development	78,227	89,601
Energy Development Account (CDE)	-	83,871
Global Reversion Reserve (RGR)	24,545	24,545
Emergency capacity charge	26,325	30,994
Aneel inspection charge	1,621	1,477
Customers charges - ‘Flag Tariff’ system	16	16
	385,329	**488,460**
Current liabilities	**283,361**	**369,284**
Non-current liabilities	**101,968**	**119,176**

21. POST-EMPLOYMENT OBLIGATIONS

Forluz Pension plan (a Supplementary retirement pension plan)

The Company is one of the 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:

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

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The Company 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 has recognized an obligation for past actuarial deficits relating to the pension fund in the amount of R$410,343 on December 31, 2019 (R$472,349 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 and 2017. On December 31, 2019 the total amount payable by Cemig as a result of the Plan A deficit is R$398,584 (R$273,462 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.

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Actuarial information

2019	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Present value of obligations	8,128,669	2,245,400	42,817	426,977	10,843,863
Fair value of plan assets	(6,314,174)	-	-	-	(6,314,174)
Initial net liabilities	**1,814,495**	**2,245,400**	**42,817**	**426,977**	**4,529,689**
Adjustment to asset ceiling	30,610	-	-	-	30,610
Net liabilities in the statement of financial position	**1,845,105**	**2,245,400**	**42,817**	**426,977**	**4,560,299**

2018	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Present value of obligations	6,815,908	1,695,721	33,979	316,299	8,861,907
Fair value of plan assets	(5,551,636)	-	-	-	(5,551,636)
Initial net liabilities	**1,264,272**	**1,695,721**	**33,979**	**316,299**	**3,310,271**
Adjustment to asset ceiling	91,773	-	-	-	91,773
Net liabilities in the statement of financial position	**1,356,045**	**1,695,721**	**33,979**	**316,299**	**3,402,044**

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:

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Defined-benefit obligation at December 31, 2017	**6,515,886**	**1,299,243**	**27,405**	**196,536**	**8,039,070**
Cost of current service	2,084	7,041	166	1,087	10,378
Interest on actuarial obligation	592,723	124,332	2,548	18,538	738,141
Actuarial losses (gains):					
Due to changes in demographic assumptions	(874)	-	-	-	(874)
Due to changes in financial assumptions	287,205	293,986	5,877	20,038	607,106
Due to adjustments based on experience	(39,066)	55,393	(266)	86,690	102,751
	247,265	349,379	5,611	106,728	708,983
Benefits paid	(542,050)	(84,274)	(1,751)	(6,590)	(634,665)
Defined-benefit obligation at December 31, 2018	**6,815,908**	**1,695,721**	**33,979**	**316,299**	**8,861,907**
Cost of current service	361	10,367	233	1,821	12,782
Interest on actuarial obligation	592,913	150,712	3,021	28,433	775,079
Actuarial losses (gains):					
Due to changes in demographic assumptions	4,177	228	12	(120)	4,297
Due to changes in financial assumptions	1,258,739	421,416	8,086	97,749	1,785,990
Due to adjustments based on experience	5,007	60,471	(781)	(9,894)	54,803
	1,267,923	482,115	7,317	87,735	1,845,090
Benefits paid	(548,436)	(93,515)	(1,733)	(7,311)	(650,995)
Defined-benefit obligation at December 31, 2019	**8,128,669**	**2,245,400**	**42,817**	**426,977**	**10,843,863**

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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	**5,256,817**
Return on investments	708,248
Contributions from employer	128,621
Benefits paid	(542,050)
Fair value of plan assets at December 31, 2018	**5,551,636**
Return on investments	1,166,483
Contributions from employer	144,491
Benefits paid	(548,436)
Fair value of plan assets at December 31, 2019	**6,314,174**

The amounts recognized in 2019 and 2018 statements of income are as follows:

2019	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Current service cost	361	10,367	233	1,821	12,782
Interest on the actuarial obligation	592,913	150,712	3,021	28,433	775,079
Expected return on the assets of the Plan	(470,561)	-	-	-	(470,561)
Expense (recovery of expense) in 2019 according to actuarial calculation	**122,713**	**161,079**	**3,254**	**30,254**	**317,300**

2018	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Current service cost	2,084	7,041	166	1,087	10,378
Interest on the actuarial obligation	592,723	124,332	2,548	18,538	738,141
Expected return on the assets of the Plan	(475,136)	-	-	-	(475,136)
Expense (recovery of expense) in 2018 according to actuarial calculation	**119,671**	**131,373**	**2,714**	**19,625**	**273,383**

Changes in net liabilities were as follows:

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Net liabilities at December 31, 2017	**1,298,969**	**1,299,243**	**27,405**	**196,536**	**2,822,153**
Expense recognized in statement of income	119,671	131,373	2,714	19,625	273,383
Contributions paid	(128,621)	(84,274)	(1,751)	(6,590)	(221,236)
Actuarial losses	66,026	349,379	5,611	106,728	527,744
Net liabilities at December 31, 2018	**1,356,045**	**1,695,721**	**33,979**	**316,299**	**3,402,044**
Expense recognized in statement of income	122,713	161,079	3,254	30,254	317,300
Contributions paid	(144,491)	(93,515)	(1,733)	(7,311)	(247,050)
Actuarial losses	510,838	482,115	7,317	87,735	1,088,005
Net liabilities at December 31, 2019	**1,845,105**	**2,245,400**	**42,817**	**426,977**	**4,560,299**
				Dec. 31, 2019	**Dec. 31, 2018**
Current liabilities				201,241	181,862
Non-current liabilities				4,359,058	3,220,182

Amounts recorded as current liabilities refer to contributions to be made by the Company in the next 12 months for the amortization of the actuarial liabilities.

The amounts reported as 'Expense recognized in the statements of income' refer to the costs of post-employment obligations, totaling R$276,663 in 2019 (R$224,041 in 2018), plus the finance expenses and monetary updating on the debt with Forluz, in the amounts of R$40,637 in 2019 (R$49,342 in 2018).

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The independent actuary's estimation for the expense to be recognized for 2020 is as follows:

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Current service cost	848	15,299	360	2,705	19,212
Interest on the actuarial obligation	542,546	155,733	2,985	30,288	731,552
Expected return on the assets of the Plan	(415,724)	-	-	-	(415,724)
Estimated total expense in 2020 as per actuarial report	**127,670**	**171,032**	**3,345**	**32,993**	**335,040**

The expectation for payment of benefits for 2020 is as follows:

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Estimated payment of benefits	543,986	100,274	1,858	12,228	658,346

The Company has expectation of making contributions to the pension plan in 2020 of R$206,900 for amortization of the deficit of Plan A, and R$54,135 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:

	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
Non-convertible debentures issued by the Company	195,339	187,451
Real estate properties of the Foundation, occupied by the Company	343,408	431,380
	538,747	**618,831**

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This table provides the main actuarial assumptions:

	2019			2018		
	Pension plans and retirement supplement plans	Health plan and Dental plan	Life insurance	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%	9.02%	9.13%	9.16%
Annual expected return on plan assets	6.87%	Not applicable	Not applicable	9.02%	Not applicable	Not applicable
Long-term annual inflation rate	3.61%	3.61%	3.61%	4.01%	4.01%	4.01%
Estimated future annual salary increases	3.61%	Not applicable	4.85%	4.01%	Not applicable	5.26%
General mortality table	AT-2000 M S10% D10%	AT-2000 M S10% D20%	AT-2000 M S10% D20%	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%	Not applicable	Álvaro Vindas D30%	Álvaro Vindas D30%
Disabled mortality table	AT-49 M	MI-85 F	MI-85 F	AT 49 M	Winklevoss D30%	Winklevoss D30%
Real growth of contributions above inflation (1)	-	1.00%	-	-	1.00%	-

(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	204,672	60,682	944	(10,941)	255,357
Increase of one year in the mortality table	(205,422)	(43,482)	(951)	11,661	(238,194)
Reduction of 1% in the discount rate	967,448	364,353	7,154	91,775	1,430,730

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.

22. PROVISIONS

The Company is 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 is defendant

The Company 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:

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	2018	Additions	Reversals	Settled	2019
Labor	366,951	129,778	(37,411)	(76,403)	382,915
Civil					
Customer relations	17,945	20,375	(404)	(20,149)	17,767
Other civil actions	28,084	14,933	(11,755)	(14,933)	16,329
	46,029	35,308	(12,159)	(35,082)	34,096
Tax	2,111	772,684	(227)	(220)	774,348
Environmental	1,209	-	(1,207)	-	2
Regulatory	16,990	111	(415)	(111)	16,575
Others	6,599	8,305	(31)	(1,658)	13,215
Total	**439,889**	**946,186**	**(51,450)**	**(113,474)**	**1,221,151**

	2017	Additions	Reversals	Settled	2018
Labor	384,247	41,570	(17,710)	(41,156)	366,951
Civil					
Customer relations	17,608	16,532	(425)	(15,770)	17,945
Other civil actions	41,896	6,698	(13,812)	(6,698)	28,084
	59,504	23,230	(14,237)	(22,468)	46,029
Tax	5,000	411	(2,889)	(411)	2,111
Environmental	2	1,207	-	-	1,209
Regulatory	23,647	4,073	(10,393)	(337)	16,990
Others	8,577	1,588	(2,015)	(1,551)	6,599
Total	**480,977**	**72,079**	**(47,244)**	**(65,923)**	**439,889**

The Company's 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 timing of any cash outflows, or any possibility of reimbursements.

The Company's believes that any disbursements in excess of the amounts provisioned, when the respective claims are completed, will not significantly affect the Company's 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'.

<u>Labor claims</u>

The Company is 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$1,434,014 (R$1,495,681 at December 31, 2018), of which R$373,754 (R$366,951 at December 31, 2018) has been recorded - the amount estimated as probably necessary for settlement of these disputes.

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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$97,487 (R$80,731 at December 31, 2018), of which R$9,161 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 April 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

The Company is 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$56,211 (R$51,806 at December 31, 2018), of which R$17,767 (R$17,945 at December 31, 2018) has been recorded - this being the probable estimate for funds needed to settle these disputes.

Other civil proceedings

The Company is 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$228,500 (R$219,513 at December 31, 2018), of which R$16,329 (R$28,084 at December 31, 2018) has been recorded - the amount estimated as probably necessary for settlement of these disputes.

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Tax

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$950,209 (R$742,792 on December 31, 2018), of which R$772,684 has been provisioned in 2019, this being the estimate of the probable amount of funds to settle these disputes.

Other tax claims

The Company is 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 Social Integration Program (Programa de Integração Social, or PIS-Pasep) and the Contribution to Finance Social Security (Contribuição para o Financiamento da Seguridade Social, or Cofins). The aggregate amount of the contingency is approximately R$54,579 (R$41,326 at December 31, 2018), of which R$1,218 (R$2,111 at December 31, 2018) has been recorded - the amount estimated as probably necessary for settlement of these disputes.

Regulatory

The Company is involved in numerous administrative and judicial proceedings, challenging, principally: alleged violation of targets for continuity indicators in retail supply of energy and 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$208,537 (R$207,586 at December 31, 2018), of which R$16,575 (R$16,990 at December 31, 2018) has been recorded as provision - the amount estimated as probably necessary for settlement of these disputes.

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'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

The Company is involved as plaintiff or defendant, in other less significant claims, related to the normal course of their operations including: environmental matters; 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$381,826 (R$110,856 at December, 31, 2018), of which R$9,215 (R$7,808 at December, 31, 2018), the amount estimated as probably necessary for settlement of these disputes.

Contingent liabilities - whose loss are assessed as 'possible', and the Company and its subsidiaries believe it has arguments of merit for legal defense.

Taxes and contributions

The Company is 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 paid an indemnity to its employees, totaling R$127,058, in exchange for rights to future payments (referred to as the Anuênio) for time of service, which would otherwise be incorporated, in the future, into salaries. The Company did not pay income tax 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$202,042 (R$196,885 at December 31, 2018). The updated amount of the contingency is R$207,067 (R$217,451 at December 31, 2018) and, based on the arguments above, management has classified the chance of loss as 'possible'.

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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 has presented defenses and await judgment. The amount of the contingency is approximately R$93,571 (R$96,469 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's 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 is contesting the non-homologation of the amounts offset. The amount of the contingency is R$41,944 (R$35,913 on 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.

The Social Contribution tax on net income (CSLL)

The federal tax authority issued a tax assessment against the Company for the years of 2012 and 2013, alleging undue non-addition, or deduction, of amounts relating to the following items in calculating the Social Contribution tax on net income: (i) taxes with liability suspended; (ii) donations and sponsorship (Law 8,313/91); and (iii) fines for various alleged infringements. The amount of this contingency is R$305,571 (R$227,080 on 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.

Regulatory matters

Public Lighting Contribution (CIP)

The Company is defendant 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).

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The Company believes it has arguments of merit for defense in these claims, since the charge at present made is grounded on Aneel Normative Resolution 456/2000. As a result it has not constituted a provision for this action, the amount of which is estimated at R$30,015 (R$33,220 on December 31, 2018).

Tariff increases

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 the Company 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). The Company has classified the chances of loss as 'possible' due to other favorable decisions on this matter.

Other contingent liabilities

Contractual imbalance

The Company 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 on December 31, 2018). The Company has classified the chance of loss as 'possible', after analysis of the case law on this subject.

23. EQUITY AND REMUNERATION TO SHAREHOLDERS

a) Share capital

As of December 31, 2019 the Company's issued and outstanding share capital is R$5,371,998 (R$2,771,998 on December 31, 2018), represented by 2,359,113,452 nominal common shares, fully subscribed, without nominal value, wholly owned by Cemig (Companhia Energética de Minas Gerais).

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 by the Fiscal Council.

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b) Advance against future capital increase

The Extraordinary General Meeting of Shareholders held on August 7, 2019 authorized conversion of the Advance against Future Capital Increase ('AFAC'), in the amount of R$2,600,000, into share capital. As a result the share capital was increased from R$2,771,998, represented by 2,359,113,452 nominal common shares, fully subscribed and paid up, without nominal value, to R$5,371,998, the number and characteristics of the shares being unchanged.

c) Earnings per share

Profit per share was calculated based on the weighted average number of the Company's shares (it has only common shares) in each of the periods referred to, as follows:

	2019	2018
Total number of shares	2,359,113,452	2,359,113,452
Net income for the period	1,644,366	534,870
Basic and diluted profit per common share (R$)	**0.6970**	**0.2267**

The Company does not have any dilutive instruments. Hence its diluted profit per share is the same as its basic profit per share.

d) Equity valuation adjustments

These refer to the adjustments to post-employment benefit obligations, which comprise gains or losses resulting from re-measurements of the net defined-benefit liability, in accordance with an actuarial opinion - of which the balance at December 31, 2019 was R$1,993,579 (R$1,275,496 on December 31, 2018).

e) Dividends

The Company's by-laws state that 50% of the net profit in each business period must be allocated to payment of mandatory dividends to the Company's sole shareholder.

Dividends declared, whether mandatory or extraordinary, are paid in 2 (two) equal installments, by June 30 and December 31 of the year following the generation of the profit. The Executive Board decides the location and processes of payment, subject to these periods.

Article 9 of Law 9,249 of December 26, 1995, allows Interest on Equity paid to shareholders to be deductible from taxable profit for the purposes of income and the social contribution taxes. In the case of the Company, Interest on Equity is calculated as shareholders' equity multiplied by the TJLP long-term interest rate.

On December 16, 2019 the Executive Board decided to pay Interest on Equity in the amount of R$255,000 for 2019. The tax benefit arising from the payments was R$86,700. This is recognized in the Statements of income for 2019.

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	2019
Mandatory dividends	
Net income for the year	1,644,366
Mandatory dividend - 50% of Net income	822,183
Income tax withheld at source on Interest on Equity	38,250
	860,433
Dividends declared	
Dividends under the by-laws	605,433
Interest on capital	255,000
	860,433
Dividends per share	
Mandatory minimum dividend (in R$)	0.3647

This table provides the changes on dividends and interest on capital payable:

Balances at December 31, 2017	-
Dividends proposed	182,435
Interest on Equity declared	100,000
Income tax on Interest on Equity	(15,000)
Balances at December 31, 2018	**267,435**
Dividends proposed	605,433
Interest on Equity declared	255,000
Income tax on Interest on Equity	(38,250)
Payment	(267,435)
Balances at December 31, 2019	**822,183**

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 that the profit for 2019, in the amount of R$1,644,366:

On December 16, 2019 the Executive Board decided to pay Interest on Equity in the amount of R$255,000 for 2019. The tax benefit arising from the payments was R$86,700. This is recognized in the Statements of income for 2019.
R$255,000 for payment of the mandatory minimum dividends as of Interest on Equity, declared on December 16, 2019.

- R$82,218 related to 5% of net income to be allocated to the Legal Reserve;
- R$255,000 for payment of the mandatory minimum dividends as of Interest on Equity, declared on December 16, 2019;
- R$605,433 for payment of the mandatory minimum dividends;
- R$19,422 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;
- R$682,293 to be held in Shareholders' Equity in the Retained earnings reserve, to guarantee execution of the Company's Investment Program for 2020.

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f) Profit reserves

The composition of the profit reserves:

	2019	2018
Profit reserves		
Legal reserve	333,948	251,730
Reserve for tax incentives - SUDENE	37,308	17,886
Retained profit reserve	958,533	276,240
	1,329,789	**545,856**

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, is as follows:

	2019	2018
Net profit for the period	1,644,366	534,870
Legal reserve	5%	5%
Legal reserve constituted	**82,218**	**26,744**

Retained earnings reserves

This refers to profits not distributed in prior years, to guarantee execution of the Company's Investment Program, and amortizations of loans and financings. The retentions are supported by capital budgets approved by the Board of Directors in the Business year in question.

Incentives tax reserve

The Company to reduction of 75% in income tax, including the tax paid at the additional rate, calculated on the basis of the operating profit in the region of Sudene (the Development Agency for the Northeast), for 10 years starting in 2014. The amount of the Tax incentives reserve on December 31, 2019 was R$37,308 (R$17,886 on December 31, 2018). This reserve cannot be used for payment of dividends.

24. REVENUE

The revenue of the Company is as follows:

	2019	2018
Revenue from supply of energy - captive customers, in Cemig's concession area (a)	19,966,951	17,885,000
Revenue from use of the energy distribution systems (TUSD) - free customers (b)	2,746,532	2,066,845
CVA, and Other financial components in tariff increases (c)	57,988	1,973,064
Distribution construction revenue (d)	936,332	756,964
Adjustment to expectation from reimbursement of distribution concession financial assets (e)	17,839	325
Fine for violation of continuity indicator	(57,897)	(44,326)
Recovery of PIS/Pasep and Cofins (note 9)	830,343	-
Other operating revenues (f)	1,461,663	1,344,778
Taxes and charges reported as deductions from revenue (g)	(10,041,010)	(10,225,790)
	15,918,741	**13,756,860**

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a) Revenue from supply of energy

This table shows supply of energy by type of customer:

	MWh (*)		R$	
	2019	2018	2019	2018
Residential	10,538,342	10,266,434	9,668,234	8,657,641
Industrial	2,383,097	2,588,370	1,581,092	1,613,072
Commercial, services and others	5,214,433	5,190,325	4,549,469	3,969,715
Rural	3,792,159	3,614,059	2,057,510	1,793,128
Public authorities	904,879	871,325	653,551	574,975
Public lighting	1,357,293	1,383,878	614,319	585,260
Public services	1,371,992	1,315,479	724,904	646,399
Subtotal	**25,562,195**	**25,229,870**	**19,849,079**	**17,840,190**
Own consumption	37,827	41,244	-	-
Unbilled revenue	-	-	117,872	44,810
Total	**25,600,022**	**25,271,114**	**19,966,951**	**17,885,000**

(*) Information in MWh has not been reviewed by external auditors.

b) Revenue from use of network - Free Customers

A significant part of the large industrial customers in the concession area of Cemig D have the status of ‘Free Clients’. Most of them are buying their supply from Cemig’s generation and transmission company, Cemig GT. Thus, the charges for the use of the distribution network (‘TUSD’) of these Free Clients are made, separately, by Cemig D. They are recorded in the item ‘Revenue from use of the network’.

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

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. More details in Note 13b.

d) Distribution construction revenue

Construction revenue corresponds to the performance obligation to build the infrastructure which becomes the investment in concession assets made by the Company 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.

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e) Adjustment to expected cash flow from financial assets on residual value of infrastructure asses of distribution concessions

Revenue from the variation of the fair value of the Regulatory Remuneration Asset Base.

f) Other operating revenues

	2019	2018
Charged service	17,351	13,915
Other services	10,582	20,354
Subsidies (1)	1,248,458	1,117,210
Rental and leasing	190,833	97,015
CCEE energy transactions	(6,561)	7,586
Reimbursement for decontracted supply (2)	-	84,092
Others	1,000	4,606
	1,461,663	**1,344,778**

(1) Revenue recognized for the governmental subsidies on tariffs applicable to certain customers of distribution services, including the low-income-user subsidies - which are reimbursed by Eletrobras;

(2) 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. The amount was settled in 24 monthly installments, with inflation adjustment by the Selic rate and maturities up to January 2020. More details in Note 27.

g) Deductions on revenue

	2019	2018
Taxes on revenue		
ICMS	5,418,597	4,821,866
PIS-PASEP	349,309	383,994
COFINS	1,608,939	1,768,648
ISSQN	756	927
	7,377,601	**6,975,435**
Charges to the customer		
Engergy Efficiency Program (PEE)	68,584	64,309
Energy Development Account (CDE)	2,213,435	2,450,044
Research and Development (R&D)	27,434	25,724
National Scientific and Technological Development Fund (FNDCT)	27,434	25,724
Energy System Expansion Research (EPE of MME)	13,717	12,862
Customer charges - the 'Flag Tariff' system	294,004	654,470
Energy Services Inspection Charge	18,801	17,222
	2,663,409	**3,250,355**
	10,041,010	**10,225,790**

25. OPERATING COSTS AND EXPENSES

	2019	2018
Personnel (a)	869,289	965,345
Employees' and managers' profit shares	182,856	50,506
Post-employment obligations	276,663	224,041
Materials	62,632	57,526
Outsourced services (b)	1,015,880	880,318
Energy purchased for resale (c)	7,516,878	7,237,526
Amortization (note 15b)	601,115	594,922
Amortization of Right of Use - Leasing	51,093	-
Operating provisions (d)	1,100,647	290,171
Charges for use of the national grid	1,458,939	1,463,469
Infrastructure construction cost (e)	936,332	756,964
Other operating expenses, net (f)	298,633	297,567
	14,370,957	**12,818,355**

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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$65,312 has been appropriated as expense related to the relaunch of 2019 PDVP, corresponding to acceptance by 407 employees. A total of R$50,584 has been appropriated as expense, including severance payments, corresponding to acceptance by 365 employees, appropriated as expense in 2018 and R$14,728 (108 employees), appropriated as expense in March 2019.

b) Outsourced services

	2019	2018
Meter reading and bill delivery	126,801	126,940
Maintenance and conservation of electrical facilities and equipment	361,850	293,016
Communication	64,623	65,858
Building conservation and cleaning	81,246	79,019
Cleaning of power line pathways	57,484	37,223
Disconnection and reconnection	70,366	61,653
Tree pruning	45,991	27,895
Costs (recovery of costs) of proceedings	17,997	18,169
Maintenance and conservation of furniture and utensils	4,194	3,004
Information technology	47,413	42,976
Contracted labor	9,964	12,620
Accommodation and meals	9,844	8,571
Security services	9,396	9,847
Bill printing	1,147	1,779
Maintenance and conservation of vehicles	2,481	1,755
(Recovery of) costs of printing and legal publications	18,484	17,681
Consultancy	6,605	3,429
Transport expenses - legal entities	5,685	6,815
Inspection of customer units	14,124	9,562
Freight and airfares	3,168	2,870
Other expenses	57,017	49,636
	1,015,880	**880,318**

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c) Energy purchased for resale

	2019	2018
Supply from Itaipu Binacional	1,429,355	1,350,891
Physical guarantee quota contracts	754,595	698,310
Quotas for Angra I and II nuclear plants	269,172	266,846
Spot market	1,773,539	1,496,314
‘Bilateral’ contracts	310,979	292,661
Energy acquired in Regulated Market auctions	3,053,341	3,397,462
Proinfa Program	375,442	324,545
Distributed generation (‘Geração distribuída’)	206,862	92,673
PIS/Pasep and Cofins credits	(656,407)	(682,176)
	7,516,878	**7,237,526**

d) Operating provision (reversals)

	2019	2018
Estimated losses on doubtful accounts receivables (note 7) (1)	199,142	270,722
Estimated losses on other accounts receivable (reversals) (1)	6,769	(5,386)
Contingency provisions (reversals) (note 22)		
Employment-law cases	92,367	23,860
Civil cases	23,149	8,993
Tax	772,457	(2,478)
Environmental	(1,207)	1,207
Regulatory	(304)	(6,320)
Others	8,274	(427)
	894,736	24,835
	1,100,647	**290,171**

(1) The estimated losses on other accounts receivable are presented in the Statements of income as operating expenses.

e) Infrastructure construction cost

	2019	2018
Personnel	76,240	63,417
Materials	464,875	313,239
Outsourced services	341,127	339,823
Financial charges	20,661	28,458
Acquisition of buildings	2,870	1,736
Taxes and charges	1,641	592
Other	28,918	9,699
	936,332	**756,964**

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f) Other operating expenses (revenues), net

	2019	2018
Leasing and rental costs (1)	14,887	71,530
Advertising	4,044	8,336
Own consumption of energy	21,992	26,511
Subsidies and donations	29,032	13,092
CCEE anual charge	3,128	2,868
Insurance	4,136	1,825
Forluz - Administrative running cost	21,782	20,309
Net loss (gain) on deactivation and disposal of assets	38,256	21,234
Collection agentes	87,792	78,328
Taxes and charges	6,753	6,305
Provision (reversal) for recoverable amount (2)	2,665	42,029
Aneel penalty (3)	29,296	-
Recalculation of quality indicators as determined by Aneel (4)	19,653	-
Other expenses	15,217	5,200
	298,633	**297,567**

(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 2.2 and 15. 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) The losses recorded on assets in progress (canceled works) are net of the reversal of the provisions constituted in prior periods.

(3) Penalty payment applied by the regulator arising from disagreement on method of calculating quality indicators.

(4) Amounts resulting after recalculation of the quality indicators for the period from 2016 through May 2019. From this date there was a change in the methodology for calculation of the indicators, to adjust the Company's understanding to the understanding of the Regulator. This amount corresponds to the expectation of amounts to be reimbursed to customers on their electricity bills - the method for this reimbursement is under study by the regulator.

26. FINANCE INCOME AND EXPENSES

	2019	2018
FINANCE INCOME		
Income from cash investments	36,058	19,046
Arrears fees on sale of energy	341,840	339,458
Foreign exchange variations - loans and financings (note 19)	7,854	-
Inflation adjustments	11,210	6,531
Monetary updating on escrow deposits	19,916	3,777
Inflation adjustments - CVA (note 13b)	105,402	62,023
PIS/Pasep and Cofins taxes charged on financial revenues	(51,221)	(28,177)
Monetary updating on PIS/Pasep and Cofins taxes credits over ICMS (note 9)	1,034,352	-
Others	29,384	31,318
	1,534,795	**433,976**
FINANCE EXPENSES		
Costs of loans and financings (note 19)	(376,701)	(380,806)
Amortization of transaction cost (note 19)	(25,737)	(12,606)
Forluz - Inflation adjustments charges	(40,637)	(49,342)
Foreign exchange variations - loans and financings (note 19)	-	(2,584)
Foreign exchange variations – Itaipu	(13,054)	(29,038)
Loans and financings - Inflation adjustments (note 19)	(90,814)	(89,891)
R&D and PEE - Inflation adjustments	(17,021)	(17,851)
Leasing - Inflation adjustment (note 16)	(26,018)	-
Inflation adjustment - Others	(7,545)	(1,835)
Others	(34,879)	(36,921)
	(632,406)	**(620,874)**
NET FINANCE INCOME (EXPENSES)	**902,389**	**(186,898)**

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27. RELATED PARTY TRANSACTIONS

Cemig D’s main balances and transactions with related parties are as follows:

COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2019	2018	2019	2018	2019	2018	2019	2018
Controlling shareholder								
Minas Gerais State Government								
CURRENT								
Customers and Traders (1)	345,929	244,960	-	-	166,263	163,152	-	-
ICMS - Advances (2)	-	-	-	-	-	10,902	-	-
CEMIG								
CURRENT								
Cooperation Working Agreement (3)	-	-	7,234	20,268	-	-	(32,444)	(57,253)
Provision of services (4)	-	4,465	-	2,339	4,082	-	(1,693)	(18,172)
Transactions in energy (5)	-	512	-	-	1,011	2,250	-	-
Interest on Equity and dividends	-	-	822,183	267,435	-	-	-	-
Other related parties								
Cemig Geração e Transmissão								
CURRENT								
Cooperation Working Agreement (2)	-	-	1,669	-	-	-	(7,479)	(663)
Transactions in energy (5)	972	1,191	30,618	24,061	27,538	25,477	(270,418)	(248,199)
Loan contract (6)	-	-	-	-	-	-	-	(9,263)
Aliança Geração								
CURRENT								
Transactions in energy (5)	-	-	7,620	7,172	39,102	33,912	(82,449)	(78,159)
Madeira Energia								
CURRENT								
Reimbursement for decontracted supply (7)	3,504	42,046	-	-	4,246	85,624	-	-
NON-CURRENT								
Reimbursement for decontracted supply (7)	-	3,504	-	-	-	-	-	-
Norte Energia								
CURRENT								
Transactions in energy (5)	-	-	24,459	23,413	-	-	(217,358)	(202,301)
Baguari Energia								
CURRENT								
Transactions in energy (5)	-	-	924	885	-	-	(7,958)	(7,635)
TAESA								
CURRENT								
Transactions in energy (5)	-	-	7,268	6,835	-	-	(83,595)	(91,238)
Axxiom								
CURRENT								
Provision of services (8)	-	-	3,177	128	-	-	-	-
Retiro Baixo								
CURRENT								
Transactions in energy (5)	-	-	567	544	4,916	4,151	(5,042)	(4,843)
FIC Pampulha								
CURRENT								
Cash and cash equivalents	5,376	132,518	-	-	-	-	-	-
Marketable securities	109,567	421,460	-	-	689	1,347	-	-
(-) Marketable securities issued by own company (Note 19)	-	(13,015)	-	-	-	-	-	-
NON-CURRENT								
Marketable securities	269	56,003	-	-	-	-	-	-
FORLUZ								
CURRENT								
Post-employment obligations (9)	-	-	104,928	89,247	-	-	(122,713)	(119,671)
Supplementary pension contributions - Defined contribution plan (10)	-	-	-	-	-	-	(52,794)	(52,637)
Administrative running costs (11)	-	-	-	-	-	-	(21,782)	(20,309)
Operational leasing (12)	135,147	-	24,396	1,375	-	-	(37,060)	(30,421)
NON-CURRENT								
Post-employment obligations (9)	-	-	1,740,177	1,266,798	-	-	-	-
Operational leasing (12)	-	-	115,498	-	-	-	-	-

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COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2019	2019	2019	2019	2019	2018	2018	2019
Cemig Saúde								
CURRENT								
Health Plan and Dental Plan (13)	-	-	95,231	86,025	-	-	(164,333)	(134,087)
NON-CURRENT								
Health Plan and Dental Plan (13)	-	-	2,192,986	1,643,675	-	-	-	-

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 on 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 on December 31, 2019 is R$189,685 and is recorded as a provision for doubtful account (PECLD);

(2) Refers to financial income from ICMS tax anticipation, as per Minas Gerais State Decree 47,488;

(3) Technical Cooperation Working Agreement between Cemig, Cemig D and Cemig GT, instituted by Aneel Dispatch 3,208/2016. Principally includes reimbursement of expenses related to sharing of infrastructure, personnel, transport, telecoms and IT;

(4) This refers to a service agreement between Cemig Telecomunicações (merged into Cemig on March 31, 2018) and Cemig D and Cemig GT, instituted by Dispatch 2735/2016;

(5) The transactions in purchase and sale of electricity between generators and distributors take place through auctions in the Regulated Market, organized by the federal government. In the Free Market, the transactions are carried out either through auctions, or by direct contracting between the parties - as specified in Article 28, §3º, I, of Law 13.303 of June 30, 2016. Operations in transport of electricity, on the other hand, are carried out by the transmission companies, and arise from the centralized operation of the National Grid, executed by the National System Operator (ONS).;

(6) Refers to a loan contract for R$630,000 between the Company and Cemig GT, settled in December 2018;

(7) 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;

(8) 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;

(9) 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) and will be amortized up to business year 2024 (More details in Note 21);

(10) 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;

(11) Funds for annual current administrative costs of the Pension Fund in accordance with the specific legislation of the sector. The amounts are estimated as a percentage of the Company's payroll;

(12) Rental of the Company's administrative head offices, in effect 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;

(13) Post-employment obligations relating to the employees' health and dental plan (More details in Note 21).

Cash investments in FIC Pampulha

Cemig D 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.

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
				Cemig D 4.42% (1)	Cemig D 24.47% (1)
ETAU (2)	Debentures	108.00% of CDI	Dec. 1, 2019	-	2,463
LIGHT	Promissory Note	CDI + 3.50%	Jan. 22, 2019	-	1,754
GASMIG	Promissory Note	107.00% of CDI	Sep. 25, 2020	447	-
				447	**4,217**

(1) Participation percentage of Cemig D in FIC Pampulha.
(2) Empresa de Transmissão do Alto Uruguai S.A.

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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	8,802	14,357
Profit shares	2,065	2,127
Assistance benefits	837	1,523
Total	**11,704**	**18,007**

28. 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	14,147	14,147	61,096	61,096
Customers and Traders; Concession holders - Transport of energy	2	2,912,869	2,912,869	2,885,896	2,885,896
Customers - Accounts receivable from Minas Gerais State	2	422,034	422,034	244,960	244,960
Restricted cash	2	1,196	1,196	155	155
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	93,673	93,673	82,470	82,470
Low-income subsidy	2	29,582	29,582	30,232	30,232
Escrow deposits	2	1,766,042	1,766,042	1,707,668	1,707,668
Receivable amount of related party transactions - Reimbursement of decontracting of supply	2	3,504	3,504	45,550	45,550
		6,124,661	**6,124,661**	**6,138,720**	**6,138,720**
Fair value through profit or loss					
Cash equivalents - cash investments	2	41,574	41,574	358,548	358,548
Marketable securities					
Treasury Financial Notes (LFTs)	1	13,900	13,900	147,372	147,372
Financial Notes - Banks	2	82,203	82,203	252,367	252,367
Debentures	2	15	15	4,133	4,133
		96,118	96,118	403,872	403,872
Concession financial assets - Distribution infrastructure	3	459,711	459,711	395,743	395,743
		597,403	**597,403**	**1,158,163**	**1,158,163**
		6,722,064	**6,722,064**	**7,296,883**	**7,296,883**
Financial liabilities					
Amortized cost (1)					
Loans, financings and debentures	2	(5,794,922)	(5,794,922)	(6,263,408)	(6,263,408)
Debt with pension fund (Forluz)	2	(410,343)	(410,343)	(472,349)	(472,349)
Deficit of pension fund (Forluz)	2	(398,584)	(398,584)	(273,462)	(273,462)
Suppliers	2	(1,534,689)	(1,534,689)	(1,199,055)	(1,199,055)
Leasing transactions	2	(221,194)	(221,194)	-	-
		(8,359,732)	**(8,359,732)**	**(8,208,274)**	**(8,208,274)**

(1) On December 31, 2019 and 2018, the book values of financial instruments reflect their fair values.

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At initial recognition the Company 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).

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 13.

<u>Marketable securities:</u> 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.

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Other financial liabilities: fair value of its loans, financing and debentures were determined using 127.27% 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 + 4.10% to 6.00% and CDI + 0.38% to 2.24%, Company believes that their carrying amount is approximated to their fair value.

b) 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

The Company is 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 financings (note 19)	4,478	18,051	6,695	25,936
Suppliers (Itaipu binacional) (note 17)	60,229	242,766	69,177	268,004
Net liabilities exposed	**64,707**	**260,817**	**75,872**	**293,940**

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 Dec. 31, 2019	‘Probable’ scenario: US$1 = R$4.00	‘Possible’ scenario: US$1 = R$5.00	‘Remote’ scenario: US$1 = R$6.00
US dollar				
Loans and financings (note 19)	18,051	17,914	22,392	26,870
Suppliers (Itaipu binacional) (note 17)	242,766	240,917	301,146	361,375
Net liabilities exposed	**260,817**	**258,831**	**323,538**	**388,245**
Net effect of exchange rate variation		**(1,986)**	**62,721**	**127,428**

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Interest rate risk

The Company is exposed to the risk of increase in Brazilian domestic interest rates, on December 31, 2019. 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 5)	41,574	358,548
Marketable securities (note 6)	110,265	464,968
CVA and Other financial components in tariffs (note 13)	881,614	1,080,693
Receivable amount of related party transactions - Reimbursement of decontracting of supply (note 27)	3,504	45,550
	1,036,957	**1,949,759**
Liabilities		
Loans, financings and debentures - CDI rate (note 19)	(2,164,083)	(3,673,054)
	(2,164,083)	**(3,673,054)**
Net liabilities exposed	**(1,127,126)**	**(1,723,295)**

Sensitivity analysis

In relation to the most significant interest rate risk, Company estimates that, in a probable scenario, on December 31, 2020 Selic rate will be 4.25%. 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	Dec. 31, 2019	On December 31, 2020		
	Book value	'Probable' scenario: Selic 4,2500%	'Possible scenario': Selic 5,3125%	'Remote' scenario: Selic 6,3750%
Assets				
Cash equivalents - cash investments (note 5)	41,574	43,341	43,783	44,224
Marketable securities (note 6)	110,265	114,951	116,123	117,294
CVA and Other financial components in tariffs - Selic rate (note 13)	881,614	919,083	928,450	937,817
Receivable amount of related party transactions - Reimbursement of decontracting of supply (note 27)	3,504	3,653	3,690	3,727
	1,036,957	**1,081,028**	**1,092,046**	**1,103,062**
Liabilities				
Loans, financings and debentures - CDI rate (note 19)	(2,164,083)	(2,256,057)	(2,279,050)	(2,302,043)
	(2,164,083)	**(2,256,057)**	**(2,279,050)**	**(2,302,043)**
Net liabilities exposed	**(1,127,126)**	**(1,175,029)**	**(1,187,004)**	**(1,198,981)**
Net effect of variation in interest rates		**(47,903)**	**(59,878)**	**(71,855)**

Increase in inflation risk

The Company is exposed to risk of increase in inflation, on December 31, 2019, as follows:

Company's exposure to arising in inflation	2019	2018
Assets		
Concession financial assets related to infrastructure - IPCA index (*)	459,711	395,743
Receivable from Minas Gerais state government (Debt recognition agreement) - IGPM index	422,034	247,010
	881,745	**642,753**
Liabilities		
Loans, financings and debentures - IPCA index (note 19)	(3,618,880)	(2,552,141)
Debt agreed with pension fund (Forluz) - IPCA index (note 21)	(410,343)	(472,349)
Forluz deficit solution plan - IPCA index (note 21)	(398,584)	(273,462)
	(4,427,807)	**(3,297,952)**
Net liabilities exposed	**(3,546,062)**	**(2,655,199)**

(*) Portion of the concession financial assets relating to the Regulatory Remuneration Base of Assets ratified by the regulator (Aneel).

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Sensitivity analysis

In relation to the most significant risk of rise in inflation index the Company estimates that, in a probable scenario, on 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 rise in inflation of 25% and 50% in relation to the 'probable' scenario.

Risk: increase in inflation	Dec. 31, 2019	On December 31, 2020		
	Book value	'Probable' scenario: IPCA 3,4300% IGPM 4,8800%	'Possible' scenario: IPCA 4,2875% IGPM 6,1000%	'Remote' scenario: IPCA 5,1450% IGPM 7,3200%
Assets				
Concession financial assets related to infrastructure - IPCA index (*)	459,711	475,479	479,421	483,363
Receivable from Minas Gerais state government - IGPM index (note 27)	422,034	442,629	447,778	452,927
	881,745	**918,108**	**927,199**	**936,290**
Liabilities				
Loans, financings and debentures - IPCA index (note 19)	(3,618,880)	(3,743,008)	(3,774,039)	(3,805,071)
Debt agreed with pension fund (Forluz) - IPCA index (note 21)	(410,343)	(424,418)	(427,936)	(431,455)
Forluz deficit solution plan - IPCA index (note 21)	(398,584)	(412,255)	(415,673)	(419,091)
	(4,427,807)	**(4,579,681)**	**(4,617,648)**	**(4,655,617)**
Net liabilities exposed	**(3,546,062)**	**(3,661,573)**	**(3,690,449)**	**(3,719,327)**
Net effect of variation in IPCA and IGPM indexes		**(115,511)**	**(144,387)**	**(173,265)**

(*) Portion of the concession financial assets relating to the Regulatory Remuneration Base of Assets ratified by the regulator (Aneel).

Liquidity risk

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.

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The greater part of the electricity sold by the Company is generated by hydroelectric plants. A prolonged period of scarce rainfall can result in lower water volumes in the plants' reservoirs, possibly causing increased costs of acquisition of electricity, or reduction of revenues due to implementation of wide-ranging programs for saving of electricity. Prolonged generation of electricity using the thermal plants potentially leads to cost increases for the electricity distributors, causing a greater need for cash, and could result in future increases in tariffs.

On December 31, 2019 the Company had positive net working capital of R$295,838 and reported net profit of R$1,644,366. Management monitors the Company's cash flow, and for this purpose assesses measures to adjust the present situation of its financial assets and liabilities to the levels considered appropriate to meet its needs.

The Company estimates that the cash balances, cash flow from operations, and raising of new funding and financings are sufficient to meet the need for working capital, investments, debt servicing, and other cash needs in the next 12 months.

The flow of payments of the Company's obligation to suppliers, including future interest up to contractual maturity dates, is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial instruments at (interest rates):						
- Floating rates						
Loans, financings and debentures	9,287	653,559	424,377	4,499,480	1,911,185	7,497,888
Debt with pension plan (Forluz)	8,711	17,562	80,100	403,456	-	509,829
Deficit of the pension plan (Forluz)	3,852	7,759	88,916	153,549	456,885	710,961
	21,850	**678,880**	**593,393**	**5,056,485**	**2,368,070**	**8,718,678**
- Fixed rate						
Suppliers	1,255,041	278,685	963	-	-	1,534,689
	1,276,891	**957,565**	**594,356**	**5,056,485**	**2,368,070**	**10,253,367**

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 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$731,518.

In relation to the risk of losses resulting from insolvency of the financial institutions at which the Company has deposits, a Cash Investment Policy was approved and has been in effect since 2004.

The Company 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.

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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, the Company divides the investment of its funds into direct purchases of securities (own portfolio) and investment funds. The investment funds invest the funds exclusively in fixed income products, 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) (1)
A1	Over R$3.5 billion	Minimum 50%	Between 6.0% and 9.0%
A2	R$1 billion to R$3.5 billion	Maximum 30%	Between 5.0% and 8.0%
A3	R$400 million to R$1 billion	Maximum 30%	Between 5.0% and 7.0%

(1) 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 D also sets two concentration limits:

1. No bank may have more than 30% of the Group's portfolio.
2. The A1 banks should have at least the amount of 50% of the available resources.

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.

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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 (the Fifth Amendment, signed with the Mining and Energy Ministry) for 30 years from January 1, 2016. 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.

Risk of debt early maturity

The Company has 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 was compliant with all the covenants for financial index requiring half-yearly and annual compliance. More details in Note 19.

c) Capital management

This table shows comparisons of the Company's net liabilities and its Equity on December 31, 2019 and 2018:

	2019	2018
Total liabilities	19,649,855	14,274,721
(-) Cash and cash equivalents	(234,346)	(451,304)
(-) Restricted cash	(1,196)	(155)
Net liabilities	**19,414,313**	**13,823,262**
Total equity	**4,708,208**	**4,642,358**
Net liabilities / equity	**4.12**	**2.98**

29. INSURANCE

The Company 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 independent auditors.

Assets	Coverage	Coverage period	Amount insured (1)	Annual premium (1)
Air transport / Aircraft	Fuselage Third party	Apr. 29, 2019 to Apr. 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, 2020 to Jan. 8, 2021	R$744,134	R$201
Telecoms equipment (2)	Fire	Jul. 8, 2019 to Jul. 8, 2020	R$31,083	R$28
Operational risk - Transformers above 15MVA and other power distribution equipment with value above R$1,000 (3)	Total	Dec. 7, 2019 to Dec. 7, 2020	R$528,071	R$695

(1) Amounts expressed in R$ '000 or US$'000;

(2) Contracting of a new policy is in progress;

(3) Maximum indemnity limit: R$230,662 thousand.

The Company, except for its aircraft, does not have third party liability insurance covering accidents, and is not seeking proposals for this type of insurance. Additionally, 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.

30. COMMITMENTS

The Company has contractual obligations and commitments that include, mainly purchase of energy and leasing, as follows:

	2020	2021	2022	2023	2024	After 2025	Total
Purchase of energy from Itaipu	1,404,502	1,387,948	1,418,281	1,461,428	1,461,428	30,689,978	37,823,565
Transport of energy from Itaipu	239,871	251,157	264,301	251,212	237,782	1,441,069	2,685,392
Purchase of energy - auctions	3,291,704	3,433,541	3,521,711	3,601,320	4,034,986	55,236,849	73,120,111
Purchase of energy - 'bilateral contracts'	325,568	324,687	324,687	324,687	217,408	143,871	1,660,908
Quotas of Angra 1 and Angra 2	284,104	277,881	280,072	287,736	290,089	6,079,189	7,499,071
Physical quota guarantees	796,440	796,440	796,440	796,440	796,440	16,725,233	20,707,433
	6,342,189	**6,471,654**	**6,605,492**	**6,722,823**	**7,038,133**	**110,316,189**	**143,496,480**

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31. 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 (Parcel 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.

32. NON-CASH TRANSACTIONS

On 2019 and 2018, the Company capitalized borrowing costs of R$20,661 on 2019 (R$28,458 on 2018). These transactions are not reflected in the Cash flow statements.

33. 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 possible effects on its equity situation and results arising from the pandemic, and from the retraction 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 value 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: 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.

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CAPITAL BUDGET

In accordance with Clause 196 of the Corporate Law and Article 25, § 1, Sub-item IV of CVM Instruction 480, we present for analysis and subsequent approval of submission to the Ordinary General Meeting of Stockholders to be held by April 30, 2020, the proposal for the consolidated Capital Budget for the 2020 business year, in thousands of Reais. The estimated amount for the Capital Budget will be served exclusively by own resources from the Company's operations, including the amount of R$682,293 thousand from the retained earnings for the year of 2019.

Investments planned for 2020	
Electrical sub-transmission system	546,933
Electrical distribution system (médium and low voltage)	952,759
Infrastructure and Others	194,815
	1,694,508

****

(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 without portfolio

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 financial statements

To the shareholders and Management of:
Cemig Distribuição S.A.
Belo Horizonte - MG

Opinion

We have audited the financial statements of Cemig Distribuição S.A., which comprise the statement 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 financial position of Cemig Distribuição S.A. as at December 31, 2019, and its 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 financial statements section of our report. We are independent of the Company 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.

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 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 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.

PIS/Pasep and COFINS tax credits

As disclosed in Note 9 to the financial statements, in 2019, the Company recognized PIS/Pasep and COFINS tax credits of R$ 4,926,364 thousand arising from an Ordinary Action decided in favor of the Company, against which there is no appeal, recognizing its 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 its customers.

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.

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 review of the underlying significant assumptions used to determine the amounts to be reimbursed to the customers; (ii) testing the completeness and accuracy of the underlying data used by the Company; (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, 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 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.

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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 customers, as well as the related disclosures in Note 9, are acceptable in the context of the financial statements taken as a whole.

Service concession's infrastructure

As disclosed in Notes 13, 14 and 15 to the financial statements, as at December 31, 2019, the Company has concession-related financial, contract and intangible assets totaling R$459,711 thousand, R$740,044 thousand and R$8,938,620 thousand, respectively, representing the service concession's infrastructure.

The amount of investments in infrastructure for concession services is an essential part of the methodology applied by the granting authority to define the tariff to be charged by the Company to final consumers, under the terms of the Concession Agreement. Definition of which costs are eligible and should be capitalized as infrastructure cost is subject to Management's judgment. During 2019, the Company recognized in its assets investments in the concession infrastructure amounting to R$ 936,332 thousand. Additionally, determination of expenditures that qualify as concession infrastructure investment also has direct impact on evaluation of concession financial assets, which represent the amounts invested by the Company that will not be fully amortized by the end of the concession term, and consequently will be indemnified by the granting authority.

Due to the specific aspects of the capitalization process, the subsequent evaluation of infrastructure expenditures, in addition to the materiality of amounts involved, we considered this matter significant for our audit.

How our audit addressed this matter

Our audit procedures involved, but were not limited to, evaluating the design and operational effectiveness of the Company's internal controls over accounting for infrastructure investments, including the apportionment of indirect costs, policies defined by the Company for such accounting and their applicability to accounting standards in force, and comparison of costs with historical data and observable industry standards.

As part of our procedures, we also recalculated the financial assets recorded by the Company, and compared the calculation-related inputs with external market information and criteria established by the granting authority, in addition to evaluating the changes in the last tariff revisions, and we assessed the adequacy of the Company's disclosures on this matter.

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Based on the results of the audit procedures performed, which are consistent with management's assessment, we considered the estimates prepared by management to be acceptable, as well as the related disclosures in Notes 13, 14 and 15 in the context of the financial statements taken as a whole.

Other matters

Statement of value added

The statement 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, was submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if this statement is 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, this statement of value added was prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement and are consistent in relation to the overall financial statements.

Other information accompanying the financial statements and the auditor's report

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the 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 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 financial statements

Management is responsible for the preparation and fair presentation of the 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.

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In preparing the 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 financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

OPINION OF THE FISCAL COUNCIL

OPINION

The members of the Audit Board of Cemig Distribuição S.A., 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

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DIRECTORS' STATEMENTS OF REVIEW OF THE FINANCIAL STATEMENTS

DECLARATION

We hereby state, for the due purpose, under responsibility of our positions, that in the 891th meeting of the Executive Board of Cemig Distribuição S.A. - Cemig D, 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 without portfolio
Ronaldo Gomes de Abreu - Chief Distribution and Sales Officer

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DIRECTORS'S STATEMENTS OF REVIEW OF THE REPORT BY THE INDEPENDENT AUDITORS THE FINANCIAL STATEMENTS

STATEMENTS

We hereby state, for the due purposes, under the responsibility of our positions, that at the 891th meeting of the Executive Board of Cemig Distribuição S.A. (Cemig D), 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, 2019.

(Signed by:)

aa.) Reynaldo Passanezi Filho - Chief Executive Officer
Daniel Faria Costa - Chief Officer for Management of Holdings
Dimas Costa - Chief Trading Officer
Luciano de Araújo Ferraz - Chief Regulation and Legal1
Maurício Fernandes Leonardo Júnior - Chief Finance and Investor Relations Officer
Paulo Mota Henriques - Chief without portfolio
Ronaldo Gomes de Abreu - Chief Distribution Officer

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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.

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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.

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Belo Horizonte, March.19, 2020.

The Audit Committee

PEDRO CARLOS DE MELLO - Coordinator

MÁRCIO DE LIMA LEITE - Member

ROBERTO TOMMASETTI - Member

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