CONTENTS

REPORT OF MANAGEMENT FOR 2020

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, 2020, 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

2020 will certainly go down in history for its singularity - the whole of society had to deal with the effects of a worldwide pandemic, with significant upheavals in people’s lives and behavior, and powerful impacts on the economic and social environment.

In March 2020, we set up our *Coronavirus Crisis Management Committee*, to ensure that decisions were taken fast, due to the rapid advance of the pandemic and its widespread, complex, systemic effects. We took various measures to protect our cash position, such as postponing investments, expenses, and payment of dividends, as well as renegotiating credits receivable from clients.

One of our great priorities was to ensure the safety and health of our employees: we put numerous measures in place, including adoption of home office working for a significant part of the workforce, and safety protocols in accordance with the health authorities’ proposals for our field teams. Unfortunately, some of our employees became victims of the pandemic. These are irreparable losses, a reason for extreme sadness and our solidarity with the families involved. We continue firmly to believe that respect for life is a non-negotiable asset for Cemig.

Our mission was to make it possible to continue to supply high quality energy to clients during the pandemic, also ensuring uninterrupted service to hospitals and other public services. In 2020 we achieved the best monthly average DEC outage rate in our history, down to 9.6 hours/year, or 9.4% better than in 2019.

And in this challenging environment, we again proved the resilience and sustainability of Cemig’s operations, also, in the financial dimension.

Even considering the retraction of economic activity, with the partial or total shutdown of retailers and industry for a large part of the year, we closed 2020 with profit of R$1,202 million, and Ebitda, adjusted for non-recurring events, of R$2,291 million - or 4.14% more than in 2019.

In their assessments, the rating agencies recognized these results and improvements with increases in their ratings during the year. Even with the effects and uncertainties of the pandemic, Fitch and Moody's both increased our overall credit ratings in the year, and in 2021 Standard&Poor's also increased our ratings: from B to BB- on the global scale, and from A+ to AA+ plus on the Brazilian scale - a significant increase of three 'notches'.

We maintain our continual quest for operational improvement and reduction of costs. This year, for the first time, we succeeded in bringing the operational expenses of our distribution business below the benchmark level established by the regulator, Aneel, for the purposes of tariff calculations. This is a result that should be celebrated, and which gives us even greater motivation to continue making the effort to increase our operational margins in the coming years, through reduction of non-technical energy losses and default. We have been doing this with increased inspections, and disconnections, and other measures producing efficiency, and expect this to enable us to achieve Ebitda higher than the regulatory reference level in the near future.

In 2020 we invested R$1,3 billion, and we have a robust investment program for the, in which we intend to invest approximately R$12 billion over the next five years. These significant investments will enable us to serve the clients of Minas Gerais better, and also to increase our regulatory remuneration base, generating more revenue, as well as reducing expenses on operation and maintenance of our assets.

We are recognized as a sustainable company, which concerns itself with the impact of its actions on the environment and on society - and we are also the company that most invests in culture in the State. We were once again included in the São Paulo *Stock Exchange Corporate Sustainability Index,* and in the *Dow Jones Sustainability Index*, in which we have been included since its creation in 1999. We are signatories of the UN Global Compact; and we have leading positions in several international and Brazilian sustainability ratings - representing recognition of the value of our shares from the point of view of sustainability.

Even living with the effects of the pandemic, we believe that in 2021 Brazil will already be presenting signs of economic recovery, which we confidently expect to have positive effects on our profitability.

Our Board of Directors and Executive Board, our body of managers, and our qualified workforce are committed and motivated to ensure the progress and sustainability of our operations, and with them, adequate return to stockholders, and delivery of the expectations of other stakeholders.

This results in our being optimistic in relation to Cemig D's future.

In preparation for this future, we concluded the review of our strategic planning at the beginning of 2021, centering on the objective of "Focus to Achieve", giving priority to the regulated businesses of generation and transmission where we have stockholding control, seeking security and the highest levels of efficiency, through a modern and sustainable management.

Additionally, in 2020 we began development of a new project for our organizational culture. In this project we will strengthen and re-emphasize our corporate values and expected patterns of behavior, in a way that is convergent with our ethical principles, in a more harmonic and productive environment.

We take this opportunity to express our thanks to our employees, stockholders and other stakeholders for their joint and continuing efforts to maintain the recognition of Cemig D as an outstanding major company in the Brazilian electric power sector.

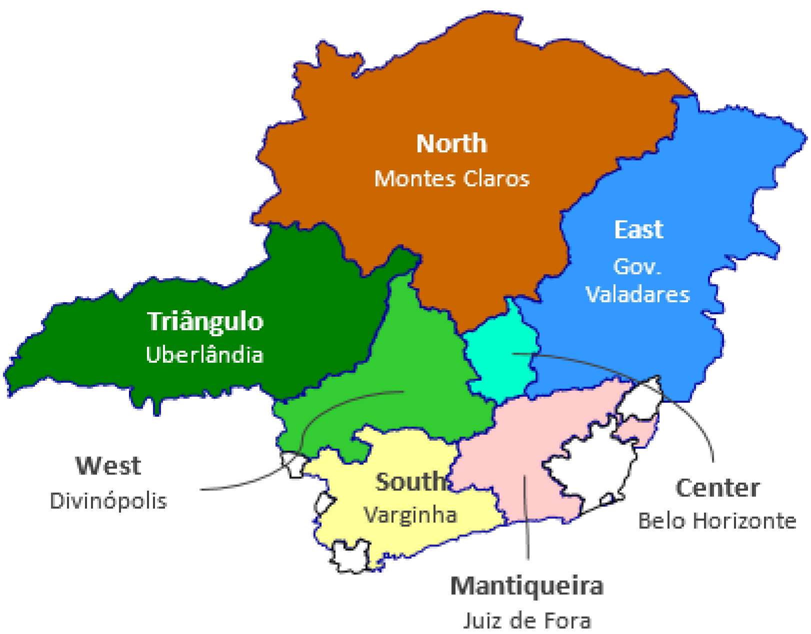
BRIEF HISTORY OF CEMIG DISTRIBUIÇÃO

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.

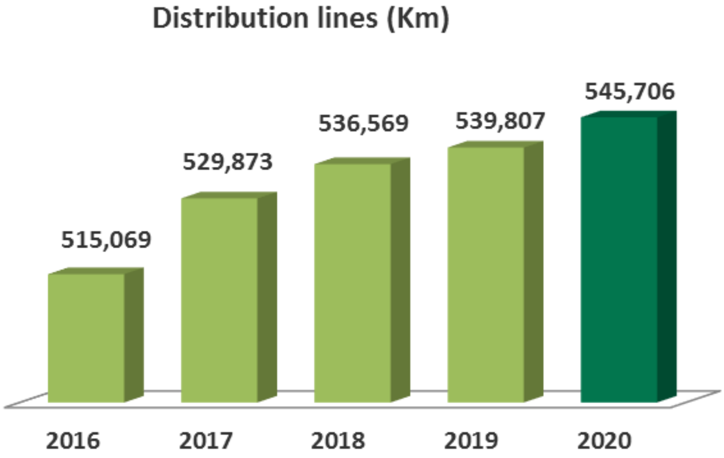
It is the largest distribution company in Latin America, with 545,706 km of distribution networks comprising 111,061 km in urban areas and 417,209 km in rural areas, and 17,436 km of distribution lines, with 8.7 million customers invoiced in 2020.

Cemig D also has the country's highest percentage of low-income customers benefiting from the Brazilian Social Tariff - serving an average of 881,000 qualifying customers with this profile, or 12% of its total of customers in the residential category.

Concession area



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.

REGULATORY ENVIRONMENT

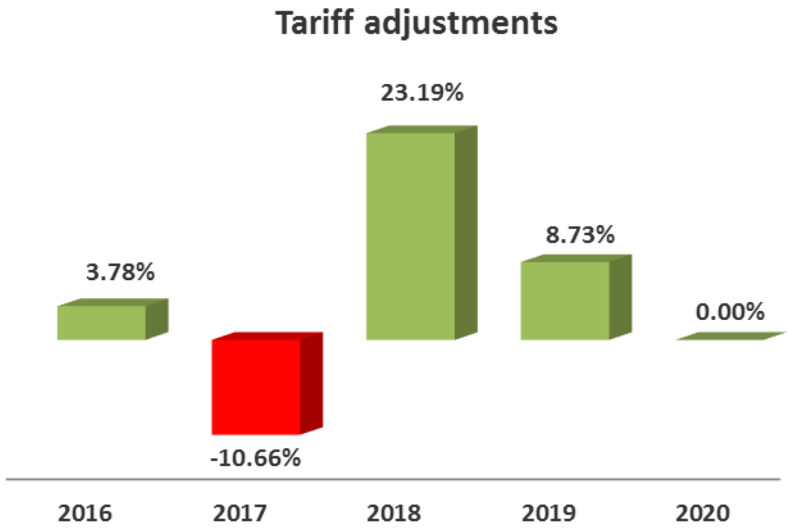
<u>The Annual Tariff Adjustment</u>

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 May 15, 2020, with the public calamity situation arising from the Covid-19 pandemic, the company applied to Aneel for deferment of application of the result of its tariff review process until June 30, 2020, to mitigate the effects on consumers in its concession area. The tariff in effect from May 2019 was extended. On June 25, 2020, the Council of Aneel finally approved the adjustment of Cemig's tariffs, with an average impact of 4.27%.

On August 5, 2020, the company submitted to Aneel a proposal for reimbursement of R$714 million to consumers in its concession area, equal to the financial component of the credit of PIS and Cofins taxes that Cemig has receivable under the ICMS court judgment, to help keep consumer tariffs lower at a moment when the whole of society was seeking to reduce the impacts of the pandemic. On August 18, 2020, Aneel approved a tariff adjustment with this component of reduction.

The level approved represented an average tariff reduction of 0.0%: the adjustment due to variation in 'Portion B' (manageable) costs, of 0.84%, was offset by the same negative percentage relating to the variation in non-controllable costs, plus the partial reimbursement of the PIS and Cofins tax credits referred to in the previous paragraph.



It is important to note that of the amount charged to clients in their electricity bills, only 22.1% stays with the Company for remuneration of investment, depreciation and the concession holder's costs: this portion is referred to as Portion B. The other 77.9% is passed through to the consumer to cover the Company's non-manageable costs, a major component of which is purchase of power supply, and taxes.

Revenue Management

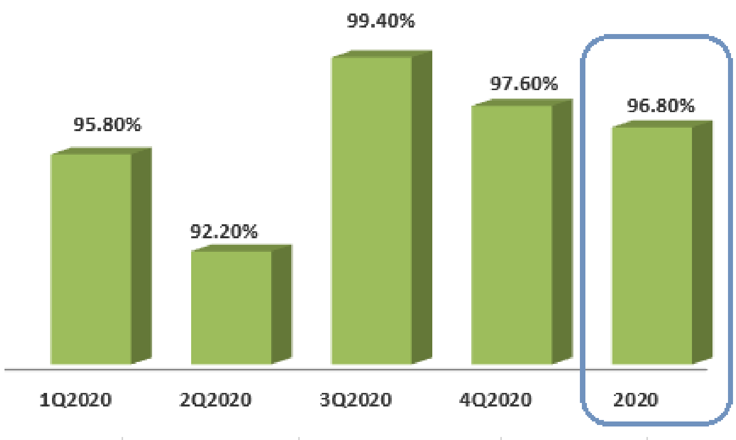
Cemig's project to deliver energy bills by email had reached 474,000 customers by the end of 2020, 54.90% more than at the end of 2019 (306,000). This is an important initiative in sustainability, and also has a direct effect on customer satisfaction, providing a sentiment of contributing to preservation of the environment.

Management of payments and revenue collection

2020 was especially challenging for Cemig due to the completely unprecedented nature of the effects of the Covid-19 pandemic on its mechanisms of collection of amounts payable by clientes.

The tightest moment was in the second quarter, under the effects of actions restricting mobility, limiting the employment of collection tools, especially including disconnection and the strong retraction in the economy.

Receivables Collection Index (quarterly averages)



Indices began to improve only slowly, as from May and June, stabilizing in the third quarter, at a collection level higher than 97%, also as a result of the postponement plan for mitigating default.

The plan was based on daily monitoring of the indicators of revenue collection and default, with intensification and improvement of collection tools, widening of channels of communication, and flexible extension of the rules for payment by installments, applying sensitivity to the income situation of families during the pandemic.

Management of power losses

The indicator *Total losses in distribution* (IPTD) in 2020 was 12.57% in relation to the total energy injected into the distribution system. This was a reduction of 0.22% compared to the result of 12.79% for 2019. The IPTD for 2020 is made up of 8.77% in technical losses and 3.80% in non-technical losses. This is above the target set by Aneel for Cemig D in the current tariff cycle (2018-2022), which is 11.43% for 2020, and will be 11.20% at the end of 2022.

Cemig D has made significant investments in strengthening its electricity system at high, medium and low voltage to reduce technical losses: four new substations were energized in 2020, and medium-voltage networks were reconfigured.

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).

Seeking to accelerate reduction in the levels of non-technical losses, Cemig D made 484,000 inspections at consumer units throughout Minas Gerais state in 2020, or 58% more than the physical number of inspections made in 2019.

Through its Integrated Metering Center, Cemig remotely monitors large captive and free clients for high, medium and low voltage supply (220 clients at high voltage, approximately 15,000 clients at medium voltage, and 25,000 clients at low voltage). This ‘bullet-proofs’ approximately 60% of the energy billed by Cemig D. This ‘bullet-proofing’ aims to identify and prevent attempts to carry out or repeat fraud in the metering systems.

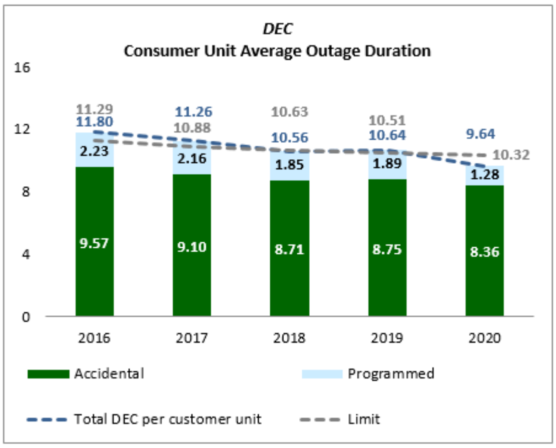
A series of additional measures is being taken for 2021, aiming to significantly reduce non-technical losses, with a target of coming within the regulatory threshold. These include maintaining a high level of inspections of consumers, replacement of obsolete meters, and re-registry of 1.2 million points of public illumination.

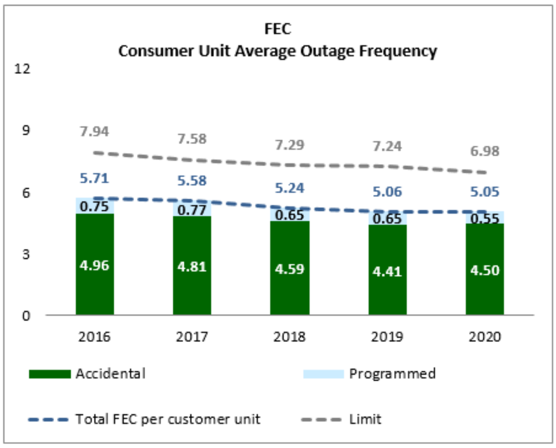
RELATIONSHIP WITH OUR CLIENTS

Quality of retail supply

The charts below show the continuing evolution of the FEC indicator of average Frequency of outages per consumer unit in recent years, with a value of 5.05 (average outages per year) in 2020. The outage Duration indicator, DEC, achieved its best-ever result in Cemig D’s history, at 9.64 hours per year, which compares to the regulatory limit of 10.32 hours.

We believe these results should be celebrated, and show the efficacy of our application of funds, and our commitment to continuous improvement and service to clients.





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.

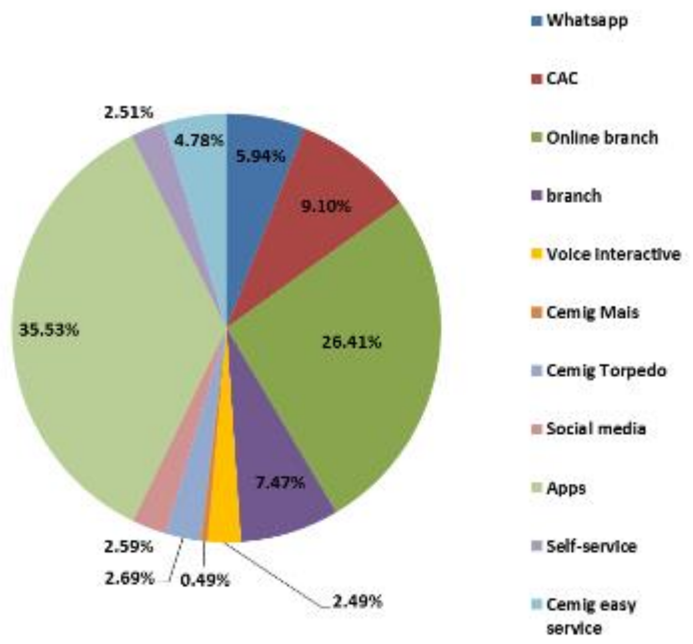
Cemig D is present in all the 774 municipalities of its concession area. In-person customer service is given by the '*Cemig Fácil'* service network, operating in 142 Branches and 635 Service Posts. In 2020 the Covid-19 pandemic required the company to adopt safety measures such as temporary closure of customer service branches, and scheduling of customer service appointments.

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 2020 was 11.32 million.

As well as its website, which received 21 million contacts in 2020, Cemig also has service channels via WhatsApp and Telegram for its main services. For the online channels, we highlight the '*Cemig Atende'* ('Cemig Serves') app, for smartphones and tablets on Android or IOS or Windows Phone platforms - which had 28.4 million contacts.

The total number of client contacts through the various channels in 2020 was 80 million.

The chart below shows the percentage participation of the various client communication channels in 2020.



Digital transformation

Cemig and IBM have signed a strategic partnership to transform the relationship with Cemig's more than 8.6 million clients in Minas Gerais State.

A new omni-channel operation will be developed - that is to say, convergence of the existing customer service channels: telephone, totem, WhatsApp, website, Telegram, SMS and the Cemig app - to provide an integrated service including voice recognition across the various platforms used by clients. Customers will be able to change the service channel without loss of the interaction that has taken place up to the moment of the change of channel. For example: a customer service interaction can start on WhatsApp, then change to the voice recognition assistant to answer questions, then change to the app for digitalization of personal documents, or for answers about how to install it.

The use of interfaces on all the channels, and the processes relating to dealing with customers' requests, will be reviewed, optimized and simplified, resulting in a significant improvement in service to customers.

In-person service to clients will be maintained, with trained and qualified teams pursuing superior levels of excellence, with the support of a platform of technological solutions which will make in-person customer service faster and more complete, resulting in the customer spending less time at the service branch.

The changes will be introduced gradually and continuously. Customers will begin to perceive and use the new experience by the end of the first half of 2021. The major innovations will take place in the subsequent months of this year and in 2022.

We are innovating and strengthening our commitment to be more digital, more agile, more technological, and closer to our customers.

Customer satisfaction

As a reference for Cemig's work in improving service to its clients, we highlight the *Quality Satisfaction Perception Index* (ISQP) award, researched and published annually by the Brazilian Electricity Distributors' Association (*Associação Brasileira das Distribuidoras de Energia Elétrica* - Abradee).

In the results published at the end of September 2020 we achieved a satisfaction index of 78.9%, up 5.8 percentage points from the survey's verdict in the previous year. This indicates we are on the right path in our quest for continuous improvement of service to clients.

FINANCIAL RESULTS

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

The Covid-19 pandemic

The World Health Organization - WHO declared Covid-19 to be a pandemic on March 11, 2020. This led Brazil's government authorities to adopt physical distancing as a means of containing spread of the virus, with negative impacts on a vast range of organizations, affecting their production processes, slowing down or stopping their supply chains, generating scarcity of labor, and closing stores, factories and facilities. In Brazil, several government measures were also imposed on the electricity sector to meet the demands of the crisis.

In response to the scenario as announced, Cemig created its *Coronavirus Crisis Management Committee* on March 23, 2020, with the aim of taking decisions to mitigate effects of the pandemic, protect Cemig's employees and clients, and ensure that services continued to be provided.

We describe the impacts of the Covid-19 pandemic in more detail in Note 1e (*Operational context*) - to these financial statements. In spite of the impacts of the pandemic on Cemig's balance sheets in 2020, we do not expect significant impacts over the long term.

Net income for the year

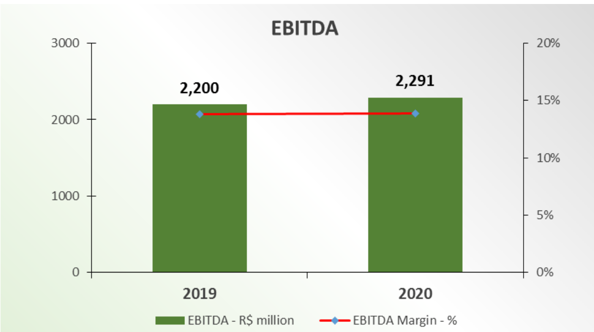
Cemig Distribuição reports net income of R$1,202 million for 2020, compared to net income of R$1,644 million in 2019. The following items describe the main variations between the two periods in revenues, costs, expenses and financial items:

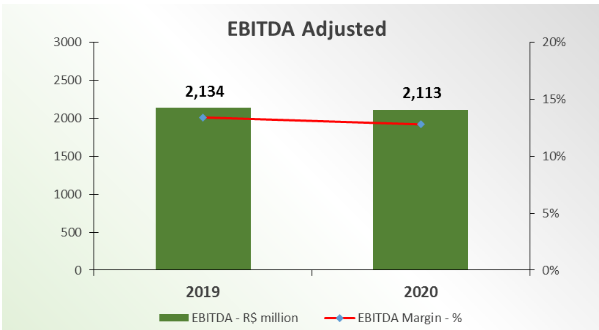
Ebitda (Earnings before interest, tax, depreciation and amortization)

Ebitda - R$ '000	2020	2019	Change, %
Net income for the period	1,202	1,644	(26.89)
+ Income tax and Social Contribution tax	430	806	(46.65)
+ Net financial revenue (expenses)	(9)	(902)	(99.00)
+ Depreciation and amortization	668	652	2.45
= Ebitda according to "CVM Instruction 527" (1)	**2,291**	**2,200**	**4.14**
- PIS/Pasep and Cofins over ICMS	-	(830)	-
+ Reversal of losses expected on receivables from Minas Gerais State (net of provisions made)	(178)	-	-
+ Tax provisions - Social Security contributions on profit sharing payments	-	764	-
= Ebitda Adjusted (2)	**2,113**	**2,134**	**(0.97)**

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

(2) The Company adjusts the EBITDA measured according to CVM Instruction 527 removing non-current items, which, because of their nature, do not contribute towards information on the potential of future cash generation, since they are extraordinary items.





Cemig D's Ebtida, measured according to CVM Instruction 527, increased 4.14% in 2020 compared to the same period in 2019, whereas the Ebtida margin increased from 13.82% to 13.88%. The adjusted Ebtida, with the removal of non-recurrent items, increased 0.97% in 2020 compared to the same period in 2019, whereas the adjusted Ebtida margin increased from 13.41% to 12.80%.

The higher Ebitda in 2020 than in the same period of 2019 mainly reflects: gain resulting from the successful legal action challenging inclusion of ICMS tax amounts in the basis for payment of PIS, Pasep and Cofins taxes; higher revenue from transport of electricity and revenue obtained from the Surpluses Sales Mechanism (Mecanismo de Vendas de Excedentes - MVE) on the CCCE (Power Trading Exchange).

The higher Adjusted Ebitda in 2020 than in the same period of 2019 mainly reflects Net revenue 9.42% higher, excluding the non-recurring effect of recognition, in the second quarter of 2019, of the gain of R$830 million resulting from the successful legal action challenging inclusion of ICMS tax amounts in the basis for payment of PIS, Pasep and Cofins taxes, and the effect of operational costs and expenses 11.12% higher (excluding the effect of amortization expense).

Operational revenue

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

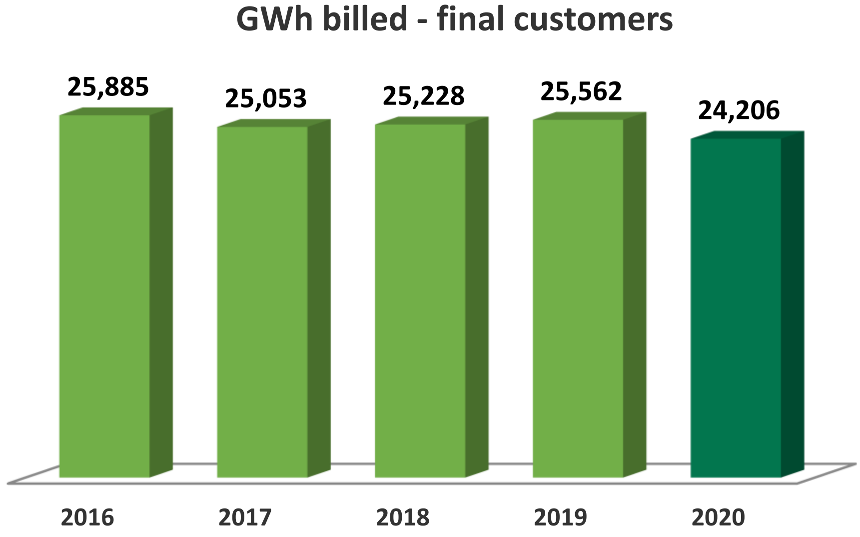
	2020	2019
Revenue from supply of energy - captive customers, in Cemig's concession area	19,174	19,967
Reimbursement of PIS/Pasep and Cofins over ICMS credits to customers- realization	266	-
Revenue from use of the energy distribution systems (TUSD) - free customers	3,046	2,747
CVA, and Other financial components	455	58
Distribution construction revenue	1,384	936
Mechanism for the sale of surplus	234	-
Adjustment to expectation from reimbursement of distribution concession financial assets	15	18
Fine for violation of service continuity indicator	(51)	(58)
Recovery of PIS/Pasep and Cofins	-	830
Other operating revenues	1,562	1,462
Deductions on revenue	(9,574)	(10,041)
	16,511	**15,919**

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

Total revenue from energy sold to final customers in 2020 was R$19,174 million - or 11.64% higher than in the same period in 2019 (R$19,967 million). The main factors in this revenue, in 2020, were:

- The annual tariff adjustment for Cemig D, effective May 28, 2019 resulting in an average increase in customer tariffs of 8.73%;
- decrease of 5.30% in the energy sold to final customers.

This table details Cemig D's market and the changes in sales of energy by customer category:



Customer type	GWh*		
	2020	2019	Var %
Residential	10,981	10,538	4.20
Industrial	1,773	2,383	(25.60)
Commercial, Services and Others	4,384	5,215	(15.93)
Rural	3,749	3,792	(1.13)
Public authorities	714	905	(21.10)
Public lighting	1,243	1,357	(8.40)
Public services	1,362	1,372	(0.73)
Total	**24,206**	**25,562**	**(5.30)**

* 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:

- reduction of 25.60% 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;
- reduction of 15.93% in volume of energy sold to the commercial and services customers mainly due to effects of the pandemic: (i) non-essential commercial establishments and services were totally or partially closed, or their in-person activity was reduced; and (ii) there was also significant migration of consumers to the Free Market and to mini- and micro- distributed generation.
- reduction of 21.10% in revenue from public authorities, due to the effects of the pandemic, which included suspension of in-person lessons in schools and colleges, and reduction or paralyzed of in-person activity in public agencies;
- increase of 4.20% in the volume sold to residential users mainly due to the number of consumers in this category being 2.1% higher, and also reflecting an increase in average monthly consumption by this user category, due to the effects of the pandemic.

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. From 2020 this was R$3,046 million, compared to R$2,747 million in the same period in 2019, an increase of 10.88%.

This difference mainly arises from the Company's annual tariff adjustment, in effect from May 28, 2019 (full effect by June 30, 2020), which was an increase of 15.47% for free clients, plus the effects of the Company's annual tariff adjustment in force from June 1, 2020, , which respectively affected Free Clients with increases 5.74%.

Additionally, the volume of energy transported in 2020 was 4.42% higher than the same period of 2019.

	GWh		
	2020	2019	Var %
Industrial	18,612	17,723	5.02
Commercial	1,300	1,320	(1.52)
Rural	32	17	88.24
Concessionaires	315	342	(7.89)
Total	**20,259**	**19,402**	**4.42**

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 2020 this represented a gain (posted in revenue) of R$455 million, whereas in the same period in 2019 it produced a revenue gain of R$58 million. 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.

More details in Note 12.

Construction revenue

Infrastructure construction revenue in 2020 was R$1,384 million, compared to R$936 million in the same period in 2019, an increase of 47.86%. This variation is mainly due to the execution of a larger proportion of the Investment Plan budget in assets related to distribution concession infrastructure.

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.

Revenue from the mechanism for the sale of energy surplus (MVE)

The revenue from the mechanism for the sale of energy surplus (MVE) were R$234 million in 2020, relating to offers of supply made at the end of 2019 by the Company. The MVE enables distributors to sell excesses of supply and, for sales related to amounts of the regulatory limit or involuntary exposure, enables part of the benefit gained to be passed through to the customers tariffs in the tariff adjustments.

PIS/Pasep and Cofins taxes credits over ICMS

The credits of PIS/Pasep and Cofins taxes (previously erroneously charged to include the amounts of ICMS taxes paid or due), totaling R$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 8.

Taxes and regulatory charges reported as Deductions from revenue

The taxes and charges that are recorded as deductions from operating revenue totaled R$9,574 in 2020 or 4.65% lower than the same period in 2019 (R$10,041).

Customer charges - the 'Flag' Tariff system

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.

Customer charges were, in 2020, at R$149, than the same period in 2019 (R$294 million) - or 49.32% lower year-on-year.

The difference reflects the application of the 'yellow' tariff flag in December 2019 (affecting the billing of January 2020), and January 2020. Aneel exceptionally ruled a temporary suspension of the systematic application of the flag tariff system, and set the 'green' flag until December, 31, 2020.

In 2019 the yellow flag was activated in May, July and October (influencing billing in June, August and November, 2019, respectively) and red flag in August 2019, resulting in increase on charges for the year.

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$14,889 million in 2020, or 3.60% higher than in 2019 (R$14,371 million).

The following paragraphs comment on the main variations. See more on the breakdown of Operating costs and expenses in Note 24.

Employee profit sharing

The expense on employees' and managers' profit sharing was R$92 million in 2020, compared to R$183 million in 2019. This basically reflects the change in the criteria for calculation of profit-sharing amounts between the two periods, in accordance with the Collective Agreements related to Cemig's Profit Sharing Program in 2019 and 2020.

Energy bought for resale

This expense was R$8,161 in 2020, or 8.57% higher year-on-year, compared to R$7,517 in the same period of 2019. This arises mainly from the following items:

- Expense on supply from Itaipu was 39.26% higher, at R$1,990 million in 2020, compared to R$1,429 million in 2019. The difference is mainly due to the increase of 31.8% in the average dollar quotation in 2020 compared to 2019 (R$5.23 and R$3.97, respectively), which has contributed to the rise in dollar energy price per KW (US$28.41/KW in 2020 and US$27.71/KW in 2019);

- expenses on energy acquired at auction in the regulated market were 10.35% higher, at R$3,369 million, compared to R$3,053 million in 2019. This increase reflects volume of energy acquired;

- increase of 227.54% with expenses on distributed generation ('geração distribuída'): R$678 million in 2020, compared to R$207 million in 2019. This reflects the higher number of generation units installed (63,845 in 2020, compared to 31,172 in 2019); and the higher volume of energy injected into the grid (1,008,589,663 MWh in 2020, compared to 412,290,475 MWh in 2019);
- The expense on purchase of supply at the spot price was lower 40.47% in 2020, at R$1,056 million, than 2019 (R$1,774 million). The result expressed for spot-price supply is the net balance between revenues and expenses of transactions on the Power Trading Chamber (CCEE). The lower figure is mainly due to the average spot price (PLD) being 22.06% lower, at R$177.00/MWh in 2020, compared to R$227.10/MWh in 2019, and also the position assumed by Cemig D in 2020, which was a creditor due to the lower consumption caused by the pandemic, contrasting with the position assumed in 2019.

This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the costs actually incurred is compensated for in the subsequent tariff adjustment. For more details please see Note 24c.

Charges for use of the transmission network

Charges for use of the transmission network in 2020 totaled R$1,799 million, compared with 2019 (R$1,459 million), an higher of 23.30%.

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).

The higher figure is mainly due to the annual adjustment in charges for use of the National Grid, which usually takes place in July, and had an higher effect of approximately 27.4% in 2020.

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. More details see note 12b.

Operating provisions

Operating provisions in 2020 totaled R$272 million, or 75.30% less than 2019 (R$1,101 million). This arises mainly from the following factors:

- Expected losses on doubtful receivables from clients 32.16% lower, at R$135 million in 2020, compared to R$199 million in 2019. This difference mainly reflects reversal of R$210 million on expected losses for debts for energy consumption and services owed by the direct and indirect administration of Minas Gerais State that will be able to be offset against ICMS tax owed to the state. For more information, see Note 7;
- variation of provisions for taxes were 94.69% lower, which represented the recognition of R$41 million in 2020, compared to recognition of R$772 million in 2019. This variation results, mainly, of the Company’s reassessment, based on the opinion of its legal advisers, of the chances of loss on administrative and court proceedings opened against the Company relating to social security contributions on the payment of profit shares to its employees, alleging that Company did not previously establish clear and objective rules for the distribution of these amounts. For further details, please see Note 21;

- provisions for employment-law legal actions were 56.52% lower amounting R$40 million in 2020, compared to R$92 million in 2019. The difference arises mainly from suspension of requests relating to differences in the basis for calculation of additional payment for hazardous work, in recognition of the effects of Supreme Court Precedent Judgment 1,046, which ruled that: (i) monetary adjustment applied to employment-law liabilities should be by the IPCA-E index in the pre-judicial phase, and as from service of notice, by application of the Selic rate; and (ii) that the Reference Rate (TR) is not applicable to any employment-law obligations; and

- net additional provisions for third-party liability legal actions were 78.26% higher, at R$41 million in 2020, compared to 2019, of R$23 million. The difference mainly arises from provisions made for legal actions for third party liability, claiming payment of indemnity for pain and suffering, and material and aesthetic damage, caused by accidents involving the electricity network.

Net financial revenue (expenses)

Cemig reports net financial revenue in 2020 of R$9 million, compared to net financial revenue of R$902 million in 2019. The main factors were:

- reduction of 97.58% on financial revenue of monetary updating of the PIS/Pasep and Cofins taxes credits over ICMS, at R$25 million in 2020, compared to R$1,034 million in 2019. This variation is mainly due to the recognition of financial updating of PIS/Pasep and Cofins taxes credits in the second quarter of 2019. More details in Note 8a;

- reduction of 69.52% in CVA monetary updating, at R$32 million in 2020, compared to R$105 million in 2019, mainly due to the lower Selic interest rate in 2020, in addition to the lower anual tariff adjustment compared to prior year;

- borrowing expenses on loans, financings and debentures were 56.04% higher in 2020, at R$142 million, than in 2019 (R$91 million). This mainly reflects the difference in levels of the IPCA inflation index - the main indexor used for updating the Company's debts - between the two periods, mainly because the substitution of debts in July 2019, through the Company's 7th Debenture Issue.

For a breakdown of financial revenues and expenses see Note 25

Income tax and social contribution tax

In 2020, the expense on income tax and the social contribution tax totaled R$430 million, on pre-tax profit of R$1,632 million. In 2019, the expense on income tax and the social contribution tax was R$806 million, on pre-tax profit of R$2,450 million.

These effective rates are reconciled with the nominal tax rates in Note 9c.

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.

Cash and cash equivalents

Cash and cash equivalents on December 31, 2020 totaled R$659 million, compared to R$234 million on December 31, 2019. No cash nor cash equivalents were held in any other currency than the Real.

Cash flow from operations

Net cash generated by operational activities in 2020 was R$5,457 million, compared to R$1,214 million in 2019. The higher figure in 2020 mainly reflects the amounts received in the year of: (i) R$1,404 million from the Covid Account, and (ii) R$1,186 million in release of court escrow deposits as a result of the successful legal action challenging the charging of Pasep and Cofins taxes on amounts paid in ICMS tax. In 2020 the Company began offsetting, against federal taxes payable, of the credits of PIS/Pasep and Cofins taxes (originally charged on amounts of ICMS tax also paid by the Company) that resulted from the Supreme Court judgment. This resulted in a lower outflow of cash for payment of taxes - totaling R$38 million in 2020 - than in 2019 (R$894 million).

Cash used in investment activities

The Company used net cash of R$3,819 million in investment activities in 2020, compared to net cash of R$548 million in 2019. This change basically reflects the higher volume of funds invested in the concession´s assets of R$1,353 million in 2020 compared to R$916 million in 2019. Addicionaly, the Company used higher volume of funds transferred to investments in securities in 2020 (R$2,466 million in 2020, compared to R$368 million in 2019), as a result of the higher volume of cash available in 2020.

Cash flow in financing activities

Cash consumed by financing activities in 2020 was R$1,213 million, comprising R$883 million in amortization of financings in 2019. Financial activity consumed in 2020 and 2019 arises from amortization of financings higher than new funding received.

Funding and debt management policy

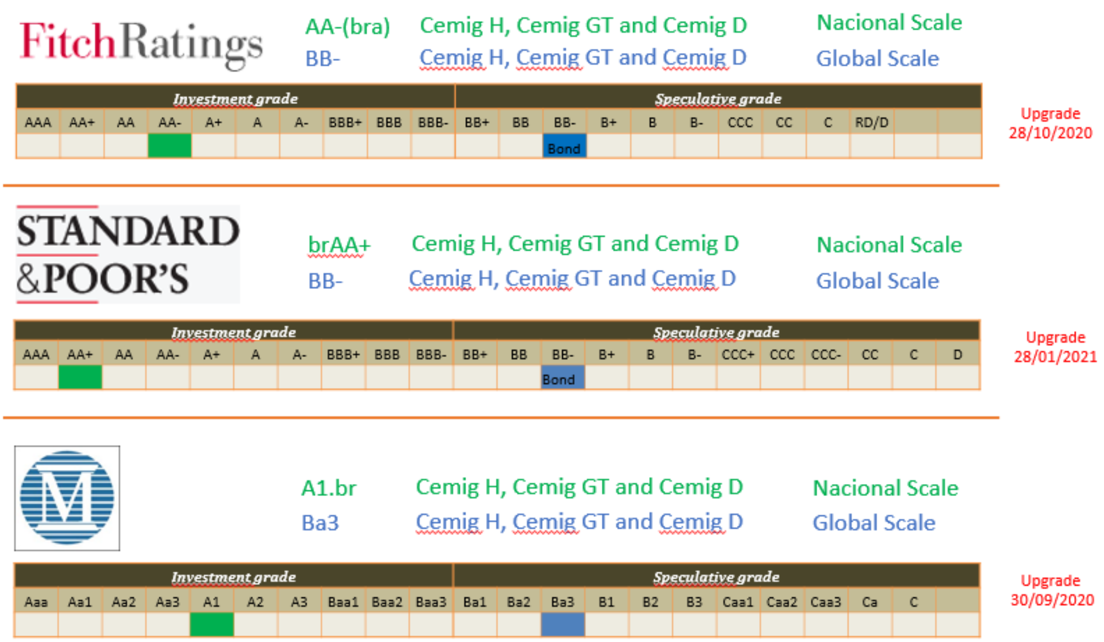
In 2020, especially after the first quarter, with the worsening of the crisis and uncertainties caused by the pandemic, the local market began to be more selective, with less availability of credit and higher spreads - but this scenario improved gradually, until conditions were better over the fourth quarter.

Within this scenario, Cemig showed resilience and maintained adequate liquidity for dealing with the crisis. We saw discrete variation in the company's market, and in default. We also benefited from a major liquidity event, with the release of the funds deposited in escrow, and also receipt of funds under the 'Covid Account', with no funds raised directly in its subsidiaries, Cemig D and Cemig GT. Continuing continued to improve its credit quality, amortizing a significant volume of R$812 million in debt.

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

In 2020, Moody's raised its rating for the Company on the Brazilian scale to A1, and on the global scale to Ba3; and Fitch increased its ratings on the Brazilian scale to AA-, and on the global scale to BB-. Further perception of the improvement came in January 2021, when Standard&Poor's increased Cemig's ratings on the Brazilian scale to BB-, and on the global scale to AA+.

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



The details of funding raised, including costs and maturities, are given in Note 18.

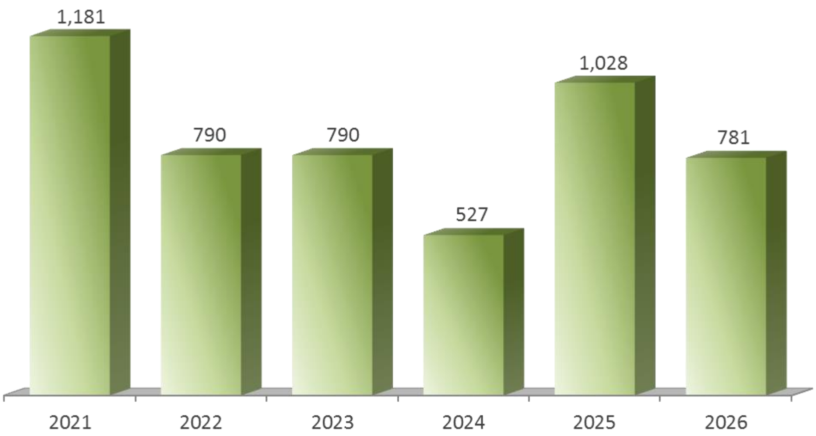
The Company has restrictive covenants applying to its seventh debenture issue, limiting the indebtedness of Cemig D itself, and of Cemig as guarantor. The company is confident, however, that with continuation of the disinvestment initiatives of the holding company, the consequent reduction in leverage,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

The Company’s debt on December 31, 2020 totaled R$5,097 million, with average tenor of 3.4 years.

This chart shows the present amortization timetable:

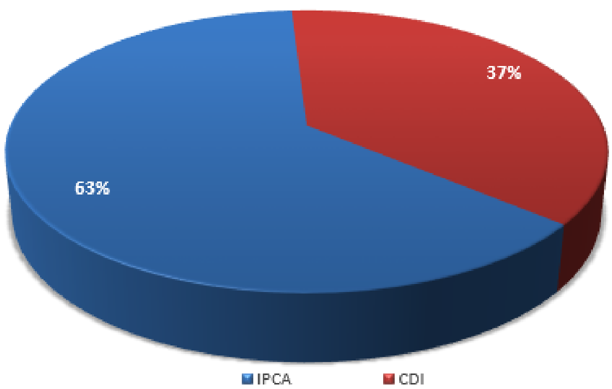
Debt amortization timetable

Position at December 2020 - 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 2.40% p.a. in real terms, and 7.02% p.a. nominal.

Main indexors of debt at December 31, 2020



INVESTIMENTS

Investments in distribution in 2020 totaled approximately R$1,270 million, with R$413 million and R$857 million in the high and médium/low voltage systems, respectively.

Cemig D is planning to strengthen its investment program, in line with the Cemig Group's strategic planning: it expects to invest between R$2 billion and R$2.5 billion each year, which will reflect positively in Cemig D's Regulatory Remuneration Base (BRR), and consequently increase revenue.

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.

PROPOSAL FOR ALLOCATION OF NET INCOME

The Board of Directors decided to propose to the Annual General Meeting to be held in April, 2021 the following proposal for allocation of the 2020 net income, of R$1,202 million:

- R$59 million to the legal reserve;
- R$348 million as dividends, in the form of Interest on Equity, declared on September 22 and December 23, 2020, to be paid in two equal installments, R$286 million until December 30, 2021 and R$62 million in 2022;
- R$17 million to be held in Shareholders' equity in the Tax incentives reserve, for tax incentive amounts gained in 2020 due to investment in the region of Sudene;
- R$778 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 2020, the Board held 21 meetings for decisions and presentations on various subjects such as strategic planning and budget, investment projects and acquisitions.

The Audit Committee 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 four members, with term of office of three years, each of whom may be re-elected only once. In 2020 it held 42 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. The Audit Board met 16 times in 2020.

RELATIONSHIP WITH EXTERNAL AUDITORS

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

Complying with the rules of the CVM, a turnover system of external auditors is adopted, with a frequency of 5 years. As from the Interim Financial Statements of June 2017, our auditors of our Financial Statements are Ernst & Young Auditores Independentes S.S.. The services provided by the Company's external auditors have been as follows:

Service	2020	As % of audit fees	2019	As % of audit fees
Auditing services:				
Auditing of financial statements	1,735	100.00	1,449	100.00
Additional services:				
Auditing of the Public Digital Bookkeeping System (SPED)	235	13.53	220	15.18
Total	**1,970**	**113.53**	**1,669**	**115.18**

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

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

AUDITING AND MANAGEMENT OF RISKS

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

In an annual procedure, the Executive Board and the Board of Directors approved Cemig's updated Corporate Top Risks Matrix in 2020.

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

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

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

Anti-fraud Policy

The Company has a policy of prohibiting any type of gift, direct or indirect, or form of money or that can be estimated in terms of money, goods, or services, including in the form of publicity or advertising, that has a political objective of favoring any political party or its members, whether militantly active or not. This Policy applies to Cemig, and its wholly-owned and other subsidiaries, and is in line with the 'Elections Law' - Federal Law 9,504 of September 30, 1997, as amended by Law 13,487 of October 6, 2017.

Cemig 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.

Cyber attack

On December 25, 2020 the Company and its economic group suffered a 'ransomware' attack that caused a partial and temporary interruption of its operations.

The Company made significant investments in privacy, protection and safety of information/cybersecurity, both through technologies and in processes and contracting of specialized resources for its teams. As part of these actions, measures were taken to combat access and/or any undue use of data, including investigations and audits of the information technology systems. As a result of these efforts, further incidents of undue use of data or other undesirable activities by outside agents were mitigated.

An audit and a forensic evaluation of the attack were also carried out, and no significant impacts on the financial statements of the Company and its subsidiaries were found.

Procedures for investigation of the allegations received

In 2020 the Company began internal procedures for investigation of the allegations received by the Minas Gerais State Public Attorneys' Office, of which the Company was informed in Official Letters, the content of which basically refers to alleged irregularities in public tender purchasing processes. The investigation is being conducted by a new Special Investigation Committee (*Comitê Especial de Investigação* - CEI), with support from specialized advisers.

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:

- create new training for the new types of business emerging in the country and the world;
- 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’, were being executed in 2020 for completion in 2021:

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

In 2020 Cemig D invested R$ 20.5 million, in 41 R&D projects, on a variety of themes, the following being highlights:

- Development of Synergetic Networks for Applications in Energy Distribution;
- Development of a Methodology Using Ground Penetrating Radar to Assess the Risk of Urban Trees Falling; and
- Artificial Intelligence in the Distribution Operation: the ‘Distribution Operations Center of the Future’ - an Integrated Space-Time Situation Awareness Hyper-Vision Platform.

The Energy Efficiency Program

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

Cemig D’s Energy Efficiency Program maintains a large number of projects in execution - a total 42 initiatives in progress at the end of 2020. They include projects from public Calls for Projects, held annually by the program, and also projects built directly by Cemig.

In 2020 this program invested approximately R$50 million in projects throughout Cemig D’s concession area, and made a further R$36.6 million available in a new public tender to select proposals for a portfolio of projects to be financed in 2021.

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.

SOCIAL RESPONSIBILITY

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

The following are some of the highlights of 2020:

Sponsorship Program: In the Sponsorship Program, donations in favor of the institutions are raised from third parties (the 'Sponsors'), by additions to their energy bills which are then 100% passed on to the institution's bank account. A total of 225 institutions received approximately R$60 million in donations in 2020.

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

The 2020 AI6% Campaign involved the participation of 1,548 employees, who voluntarily allocated R$1.2 million to benefit approximately 23,600 children and adolescents in vulnerable situations, served by 163 institutions. Cemig also allocated part of its income tax payable to the same FIAs, totaling R$890,000. Thus, a total of R$2.1 million was donated to entities spread out over 85 counties/municipalities in the Company's area of influence.

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

The You Program (Programa Você) aims to stimulate and disseminate the employees' solidarity and voluntary work, to promote human development and contribute to the well-being of communities where the company works. The Program is structured to maximize the potential of volunteers' ongoing actions - a path that migrates gradually from assistentialism to participative citizenship and social transformation. For this purpose, Cemig has been investing in projects that benefit young people in communities, pupils in public schools, and women in situations of social risk.

Due to the social isolation of the Covid-19 pandemic, requiring projects to avoid physical contact and major group meetings, Cemig reinvented its volunteer program in the year so as to be able to continue to contribute actions to the community for reduction of inequalities. As a result, it began adaptation of its projects to digital format.

'*V-Day*' - Cemig's online 'Volunteer Day' event: The Cemig group has held its traditional 'V-Day' since 2001. It focuses on mobilizing and fostering solidarity actions, held annually in a previously selected community. Due to the pandemic it was adapted to online format, to achieve isolation. This was a voluntary, collaborative event, with healthy competition to achieve seven challenges - one per week - plus additional challenges, all related to the UN Sustainable Development Goals.

177 volunteers from the Cemig group took part, together with 1,102 invited volunteers. The beneficiaries were 21,749 people, including the elderly, women with pathologies, the homeless, and children and teenagers. A total of 90 activities benefited 105 partner institutions, with 2,683 hours of voluntary work, 19,463 items collected (925.5 kilograms of food), and R$38,000 donated to civil society organizations.

Online mentoring: The objective of this program is to transform the life of socially vulnerable young people through online mentoring with volunteering Cemig professionals. The volunteer/mentor is connected with a young person starting their career, and deals with subjects such as planning of life, targets and career; a curriculum and LinkedIn workshop; preparation for interviews; networking; study grants; personal finance, and other subjects. The program lasted three months, and was directed to young people living in one of the communities of Belo Horizonte and the Grão Mogol region of Minas Gerais.

Online Energy Challenge: Realized jointly by the Cemig/Aneel Energy Efficiency Program and 'Você' (Voluntariado Cemig), this program uses an innovative method through tools of design thinking, immersion, ideation and prototyping. It was initially held in-person, but underwent changes to adapt to the pandemic, becoming 100% online. In the new version it has benefited young students from the cities of Itabira, São João Del Rei, Patos de Minas, Leopoldina, Montes Claros, João Monlevade, Alfenas, Iturama and Belo Horizonte.

In 2020, 390 volunteers took part, with a total of 3,537 hours of voluntary work by members of the Cemig Group workforce. A further 1,108 volunteers invited to participate in the Company's activities also took part.

Projects in culture, sport and health

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

Culture

Cemig is the largest incentivator of culture in Minas Gerais, and one of the largest in the country. In 2020, Cemig D allocated R$12.6 million for sponsorship of 25 cultural projects.

With the social distancing required by the Covid-19 pandemic, culture was one of the sectors with higher impact. Cemig strengthened its campaign of projects online through a cultural agenda publicized in social media, the press and radio. Cemig also supported more than 1,000 items of online content, including virtual visits, live sessions online, music, cinema and theater.

Cemig also sponsors major names in Minas Gerais culture, such as the Clóvis Salgado Foundation, the Inhotim Institute, the Minas Gerais Philharmonic Orchestra , the Galpão Group, Grupo Corpo, and other exponents of the state's culture. and the quality of the content sponsored by the Company in the new online reality arising from social distancing, earned several nominations for prizes, and awards, for institutions and artists.

Health:

In 2020, Cemig invested R$9.5 million, in various regions of Minas Gerais, providing various benefits to 64 hospital units: replacement of autoclaves, dryers, surgical installations, and also photovoltaic plants

Sport:

For the community, sports programs create social recovery and citizenship benefits, especially for children and teenagers, not only by encouraging sports but also by generating opportunities for local young people to become athletes. For Cemig, these projects enhance its image as a company committed to the development of healthy habits, and the welfare and development of the communities.

Cemig published two public requests for proposals in 2020, to select projects involving sport that qualify for Support Incentive funding under federal or state laws. A total of 189 projects were received (109 from the federal tender and 80 from the specific tender), and we allocated approximately R$4 million to the best-assessed projects.

Fund for the elderly

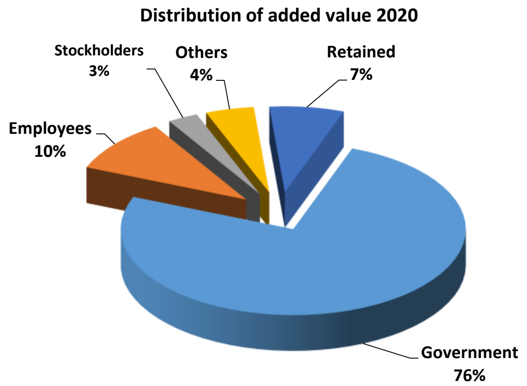
The population over 60 has increased, and their life expectancy also.

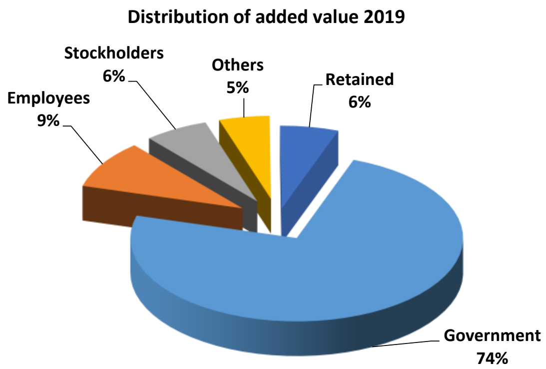
Through allocation of incentive-bearing funds, Cemig seeks to help with projects for protection of and service to the elderly in Minas Gerais state, with widening and improvement of the activities. Cemig also centers efforts on supporting proposals for structuring of Municipal and State Funds for the Elderly in the state, improving the activities destined for them.

Two Requests for Concepts from the public were launched in 2020 to select projects to support the elderly, aligned with the organizational guidelines. A total of 131 projects were received (85 from the federal tender and 46 from the specific tender), and approximately R$1.5 million was allocated to the best-assessed projects.

Value added

The Value Added Statement *(Demonstração do Valor Adicionado*, or DVA) is an indicator of the Company's generation of wealth, and its importance for society in general: the added value created in 2020 was R$12,220 million, which compares to R$13,777 million in 2019.



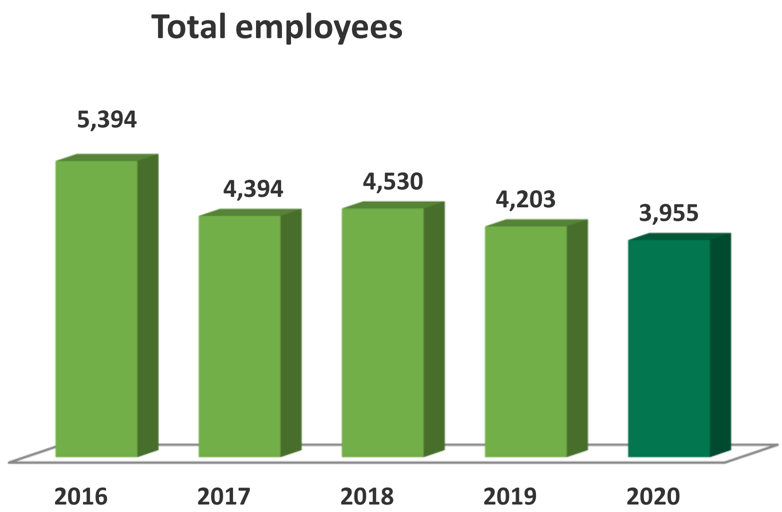


Human resources

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

Number of employees

In view of the reality imposed by the present conditions of 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 5,395 employees in 2016 to 3,955 in 2020:



Cemig, in 2020, through the public tenders in force, made it possible to hire 80 (eighty) new employees at Cemig D, aiming at filling vacancies in the technical-operational-administrative and university plan, recomposing the Company's staff, mainly , in essentially technical areas. This measure aims to guarantee the operational safety of essential activities and still support business actions, enabling the continuous search for increased productivity and operational efficiency.

We also approved a change in our personnel policy, to enable market professionals to be contracted for management positions in the company in cases where an external recruiting process is more appropriate, with a limit of up to 40% of all management posts. It is important to note that the Company will continue to encourage and give priority to professional growth of its employees, valuing recognized technical capacity and commitment in its employees.

Organization climate and culture

In February 2020, Cemig held its Engagement and Atmosphere Survey, to ascertain aspects of link, connection and engagement with the Company, and objective information on the themes that might interfere with the organizational climate.

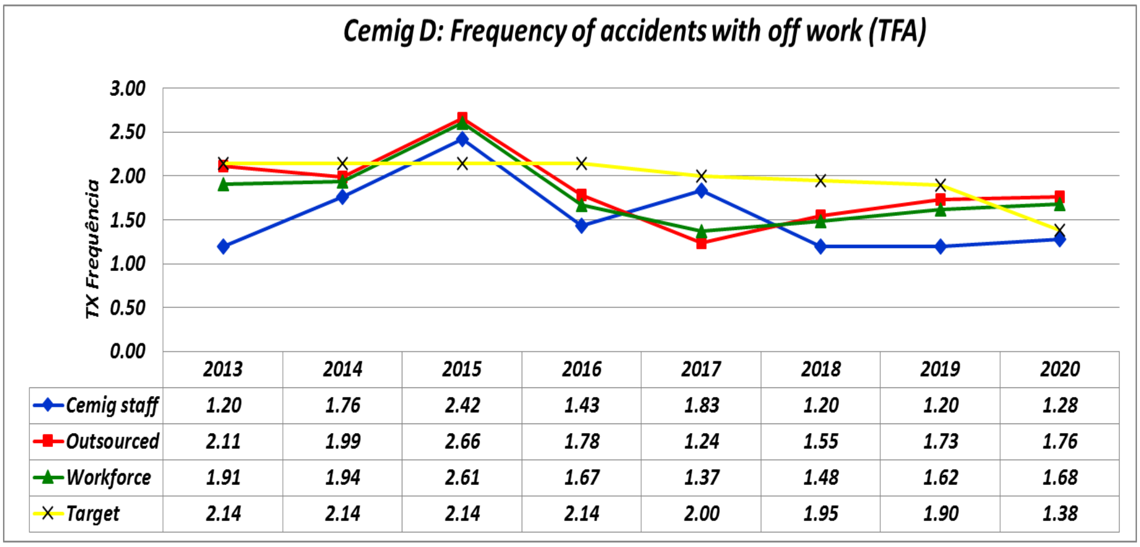
To identify and promote a new culture, making it possible to meet needs and obtain organizational results, in June 2020 Cemig began its “New Energies” program to enhance the potential of the culture. This seeks to develop behaviors that are not yet fully in place, but which are fundamental for taking Cemig to a more up-to-date management model, with more sustainable and perennial results. In July 2020 we carried out our “Cultural Mapping. It made it possible to identify the Company’s strong points, and the main challenges and targets to be set out for the coming years.

Health, Hygiene and Safety in the workplace

2020 was extremely atypical, due to the pandemic, which significantly altered working conditions and the company routine of activities since March, requiring adoption of protocols to protect the health and life of employees of our workforce.

The average Work accident frequency index with time off work (TFA) for the workforce of Cemig D has been continually reduced in recent years, reaching its lowest level in the Company’s history in 2017. At the end of 2019, this index was 1.62 accidents with time off work per million person-hours worked. The most recent calculation of the indicator (December 2020), was 1.68, or 9.46% higher than the result in 2019, and 21.74% higher than the upper limit of 1.38.

In response to these results, Cemig intensified its activities in health and safety, which involve the entire workforce, with a revision of safety procedures, increase in the number of training and recycling hours, and discussions with suppliers to improve quality indicators for 2021.



	2013	2014	2015	2016	2017	2018	2019	2020
Cemig staff	1.20	1.76	2.42	1.43	1.83	1.20	1.20	1.28
Outsourced	2.11	1.99	2.66	1.78	1.24	1.55	1.73	1.76
Workforce	1.91	1.94	2.61	1.67	1.37	1.48	1.62	1.68
Target	2.14	2.14	2.14	2.14	2.00	1.95	1.90	1.38

UniverCemig

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 2020 UniverCemig began professional training of 45 new employees of its own: 37 electricians, 6 technicians and 2 engineers, and trained 198 outsourced customer unit inspection technicians.

In 2020 there were 2,017 participations in in-person technical training sessions for the Group's own employees, in the total of 53,804 person-hours of training.

Training in the distance learning format played an important role in this period, with a considerable increase in demand: there were more than 13,918 participations, with a total of 29,442 person-hours of training, in 22 courses offered. These included training in health and safety protocols, safe use of energy, moral and sexual harassment, and training in, and annual subscription to, the Cemig Declaration of Ethical Principles and Code of Professional Conduct (2020). All these were made available to employees, members of the Audit Board, management, outsourced providers and trainees.

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

Environment

In 2020, Cemig D invested R$12.8 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.

Management of waste

Over the whole of 2020, 39.2 thousand tons of industrial wastes were allocated for disposal, with practically all of them sold or recycled.

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

SOCIAL STATEMENT

AS OF DECEMBER 31, 2020 AND 2019

1) Basis of calculations	2020 Amount (R$ '000)	2019 Amount (R$ '000)
Net revenue (NR)	16,511,662	15,918,741
Operational profit (OP)	1,622,899	1,547,784
Gross payroll (GP)	885,930	869,289

2) Internal social indicators	Amount (R$ '000)	% of GP	% of NR	Amount (R$ '000)	% of GP	% of NR
Food	58,076	6.56	0.35	61,813	7.11	0.39
Mandatory charges/costs on payroll	193,883	21.88	1.17	230,615	26.53	1.45
Private pension plan	53,295	6.02	0.32	53,292	7.01	0.38
Health	38,712	4.37	0.23	38,634	4.44	0.24
Safety and medicine in the workplace	18,424	2.08	0.11	17,233	1.98	0.11
Education	590	0.07	0.00	709	0.08	-
Training and professional development	12,483	1.41	0.08	14,799	1.70	0.09
Provision for assistance for day-care centers	1,333	0.15	0.01	1,271	0.15	0.01
Profit sharing	92,295	10.42	0.56	182,856	21.04	1.15
Other expenses	13,966	1.58	0.08	14,610	1.68	0.09
Internal social indicators - Total	**483,057**	**54.53**	**2.93**	**615,832**	**70.84**	**3.87**

3) External social indicators	Amount (R$ '000)	% of OP	% of NR	Amount (R$ '000)	% of OP	% of NR
Education	2,413	0.15	0.01	4,240	0.27	0.03
Culture	13,268	0.82	0.08	24,592	1.59	0.15
Sport	2,604	0.16	0.02	3,696	0.24	0.02
Other donations / subsidies / ASIN Project / Sport	117,702	7.25	0.71	96,877	6.26	0.61
Total contributions to society	**135,987**	**8.38**	**0.82**	**129,405**	**8.36**	**0.81**
Taxes (excluding obligatory charges on payroll)	9,235,275	569.06	55.93	10,167,005	656.87	63.87
External social indicators - Total	**9,371,262**	**577.44**	**56.76**	**10,296,410**	**665.23**	**64.68**

4) Environmental indicators	Amount (R$ '000)	% of OP	% of NR	Amount (R$ '000)	% of OP	% of NR
Related to the company's operations	12,771	0.79	0.08	9,552	0.62	0.06
Total investment in the environment	**12,771**	**0.79**	**0.08**	**9,552**	**0.62**	**0.06**

5) Workforce indicators	2020	2019
Number of employees at end of period	3,955	4,203
Number of hirings during period	86	174
Number of outsourced employees	81	105
Number of interns	-	117
Employees' levels of schooling		
- University and university extension	766	762
- Secondary	3,114	3,348
- Primary	76	93
Number of employees over 45 years old	1,964	2,054
Number of women employed	524	551
% of supervisory positions held by women	10%	10%
Number of African-Brazilian employees	220	231
% of supervisory positions held by African-Brazilians	0%	0%
Number of employees with disabilities	81	150

6) Corporate citizenship	2020		
Ratio between highest and lowest compensation in the Company	25.96		
Total number of work accidents	16		
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:	(X) does not get involved	( ) 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 229,280	Procon 33	In the courts 5.522
% of complaints and criticisms met or solved:	Company 47.60%	Procon 45.4%	In the courts 15.5%
Total added value distributable (R$ '000)	In 2020: 12.230.203		
Distribution of added value (DVA)	75.55% government 9,88% stockholders	10,03% employees 4,54% others	73,80% government 9.35% employees 11,93% stockholders 4,92% others

7) Other information	2020
Investments in environmental issues	R$12,7 million
Non-reusable wastes and materials	38,2 thousand of tons
Revenue from sales of waste	R$12,780 million

CEMIG D IN NUMBERS

Item	2020	2019
Service		
Number of customers (in million)	8,697	8,537
Number of employees	3,955	4,203
Number of customers per employee	2,199	2,031
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)	1,544	1,513
Average supply rates - including ICMS tax (R$/MWh)		
Residential	899.33	917.43
Commercial	929.54	872.48
Industrial	693.47	663.46
Rural	582.82	542.57
DECi (hours) - indicator for outage	9.64	10.62
FECi (number of interruptions) - indicator for outage	5.05	5.05
Deprivation of supply per customer - minutes/month	48.20	53.10
Operating		
Number of energy substation	417	413
Distribution line (Km)	17,436	17,441
Distribution network (Km)		
Urban	111,061	109,054
Rural	417,209	413,312
Financial		
Net operational revenue, R$ mn	16,512	15,919
Operational margin, %	9.83	9.72
Ebitda, R$ mn	2,291	2,200
Profit, R$ mn	1,202	1,644
Earnings per share	509	697
Stockholders' equity - R$ mn	6,022	4,708
Book value per share	2.55	2.00
Return on equity, %	19.95	34.93
Debt / Stockholder's equity, %	317.49	417.37
Current liquidity ratio	1.45	1.06
General liquidity ratio	0.83	0.78

COMPOSITION OF BOARD OF DIRECTORS, AUDIT COMMITTEE AND EXECUTIVE BOARD

THE EXECUTIVE BOARD	
NAMES	**POSITION**
Reynaldo Passanezi Filho	Chief Executive Officer
Marney Tadeu Antunes	Chief Distribution and Sales Officer
Leonardo George de Magalhães	Chief Finance and Investor Relations Officer
Paulo Mota Henriques	Chief Generation and Transmission Officer
Maurício Dall'Agnese	Chief Officer Cemigpar
Dimas Costa	Chief Trading Officer
Eduardo Soares	Chief Regulation and Legal

BOARD OF DIRETORS	
SITTING MEMBERS	**SUBSTITUTE MEMBERS**
Márcio Luiz Simões Utsch - Presidente (majority)	No
vacant (majority)	No
Cledorvino Belini (majority)	No
José Reinaldo Magalhaes (majority)	No
Afonso Henriques Moreira Santos (majority)	No
José João Abdalla Filho (preferencialist)	No
Marcelo Gasparino da Silva (minority)	No
Paulo César de Souza e Silva (minority)	No
Marco Aurélio Dumont Porto (employee representatives)	No

AUDIT BOARD	
SITTING MEMBERS	**SUBSTITUTE MEMBERS**
Gustavo de Oliveira Barbosa (Chair)	Igor Mascarenhas Eto (majority)
Fernando Scharlack Marcato (majority)	Carlos Eduardo Amaral Pereira da Silva (majority)
Elizabeth Jucá e Mello Jacomet (majority)	Fernando Passalio de Avelar (majority)
Michele da Silva Consales Torres (preferred shares)	Ronaldo Dias (preferred shares)
Cláudio Morais Machado (minority)	Carlos Roberto de Albuquerque Sá (minority)

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

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

INVESTOR RELATIONS

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

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

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019
ASSETS
(Thousands of Brazilian Reais)

	Note	2020	2019
CURRENT			
Cash and cash equivalents	5	659,045	234,346
Marketable securities	6	2,104,119	109,960
Customers and traders	7	2,989,608	3,021,551
Concession holders - Transport of energy	7	257,540	242,229
Recoverable taxes	8	1,483,677	29,101
Income tax and social contribution tax recoverable	9a	128,539	235,745
Inventories		29,312	31,408
Public lighting contribution		179,406	164,971
Reimbursement of tariff subsidy payments	11	82,616	93,673
Low-income subsidy		43,072	29,582
Concession financial and sector assets	12	-	640,161
Others credits		135,835	174,431
TOTAL CURRENT		**8,092,769**	**5,007,158**
NON-CURRENT			
Marketable Securities	6	472,371	305
Deferred Income tax and social contribution tax	9b	1,747,020	1,741,544
Recoverable taxes	8	2,888,626	5,141,553
Escrow deposits	9a	66,667	-
Customers and traders	10	527,628	1,766,042
Concession holders - Transport of energy	7	120,041	711
Others credits	7	34,085	70,412
Concession financial and sector assets		13,865	37,562
Contract assets	12	662,739	701,164
Intangible assets	13	1,141,599	740,044
Leasing - rights of use	14	9,207,269	8,938,620
TOTAL NON-CURRENT	15	166,344	212,948
TOTAL ASSETS		**17,048,254**	**19,350,905**
CURRENT		**25,141,023**	**24,358,063**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019

LIABILITIES
(Thousands of Brazilian Reais)

	Note	2020	2019
CURRENT			
Loans, financing and debentures	18	1,181,014	902,949
Suppliers	16	1,783,607	1,534,689
Taxes payable	17	234,490	192,731
Payroll and related charges		138,444	130,861
Regulatory charges	19	267,696	283,361
Employees' and managers' profit shares		73,691	150,970
Post-employment obligations	20	213,283	201,241
Public lighting contribution		304,869	251,809
Sector financial liabilities	12	231,322	-
Interest on Capital, and dividends, payable		309,434	822,183
PIS/Pasep and Cofins taxes to be refunded to customers	17	448,019	-
Leasing liabilities	15	38,521	64,034
Others		338,794	176,492
TOTAL CURRENT		**5,563,184**	**4,711,320**
Não circulante			
Loans, financing and debentures	18	3,916,226	4,891,973
Provisions	21	1,246,762	1,221,151
Post-employment obligations	20	4,433,298	4,359,058
Regulatory charges	19	234,237	101,968
PIS/Pasep and Cofins taxes to be refunded to customers	17	3,569,837	4,193,329
Leasing liabilities	15	139,241	157,160
Others		16,607	13,896
TOTAL NON-CURRENT		**13,556,208**	**14,938,535**
TOTAL LIABILITIES		**19,119,392**	**19,649,855**
EQUITY	**22**		
Share capital		5,371,998	5,371,998
Profit reserves		2,653,670	1,329,789
Equity valuation adjustments		(2,004,037)	(1,993,579)
TOTAL EQUITY		**6,021,631**	**4,708,208**
TOTAL LIABILITIES AND EQUITY		**25,141,023**	**24,358,063**

The Notes are an integral part of these Financial Statements.

.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Thousands of Brazilian Reais, except earnings per share)

	Note	2020	2019
Revenue	**23**	**16,511,662**	**15,918,741**
OPERATING COSTS	**24**		
COST OF ENERGY AND GAS			
Energy purchased for resale		(8,160,921)	(7,516,878)
Charges for use of the national grid		(1,799,091)	(1,458,939)
		(9,960,012)	(8,975,817)
OTHER COSTS			
Personnel		(683,963)	(674,042)
Materials		(45,867)	(51,067)
Outsourced services		(939,471)	(901,917)
Amortization		(563,136)	(532,842)
Operating provisions, net	24d	(137,011)	(894,736)
Infrastructure construction cost		(1,384,334)	(936,332)
Others		(52,900)	(65,123)
		(3,806,682)	(4,056,059)
TOTAL COST		**(13,766,694)**	**(13,031,876)**
GROSS PROFIT		**2,744,968**	**2,886,865**
OPERATING EXPENSES	**24**		
Selling expenses		(135,265)	(199,142)
General and administrative expenses		(430,193)	(447,411)
Other operating expenses, net		(556,611)	(692,528)
		(1,122,069)	**(1,339,081)**
Income before finance income (expenses) and taxes		**1,622,899**	**1,547,784**
Finance income	25	520,191	1,534,795
Finance expenses	25	(511,223)	(632,406)
Income before income tax and social contribution tax		**1,631,867**	**2,450,173**
Current income tax and social contribution tax	9c	(430,401)	(843,008)
Deferred income tax and social contribution tax	9c	88	37,201
Net income for the year from continuing operations		**1,201,554**	**1,644,366**
Basic and diluted earnings per shares, R$	22	0.51	0.70

The Notes are an integral part of these Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Thousands of Brazilian Reais)

	2020	2019
NET INCOME FOR THE YEAR	1,201,554	1,644,366
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 20)	(15,846)	(1,088,005)
Income tax and social contribution tax on restatement of defined benefit plans (note 9)	5,388	369,922
	(10,458)	**(718,083)**
COMPREHENSIVE INCOME FOR THE YEAR	**1,191,096**	**926,283**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(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, 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**
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)	-
Advance against future capital increase (note 22)	2,600,000	(2,600,000)	-	-	-	-
BALANCES ON DECEMBER 31, 2019	**5,371,998**	**-**	**1,329,789**	**(1,993,579)**	**-**	**4,708,208**
Net income for the year	-	-	-	-	1,201,554	1,201,554
Adjustment of actuarial liabilities - restatement of obligations of the defined benefit plans, net of taxes	-	-	-	(10,458)	-	(10,458)
COMPREHENSIVE INCOME FOR THE YEAR	**-**	**-**	**-**	**(10,458)**	**1,201,554**	**1,191,096**
Retained dividends	-	-	469,896	-	-	469,896
Legal reserve	-	-	59,230	-	(59,230)	-
Interest on Equity (R$0.1473 per share)	-	-	-	-	(347,569)	(347,569)
Tax incentive reserves	-	-	16,952	-	(16,952)	-
Retained earnings reserve	-	-	777,803	-	(777,803)	-
SALDOS EM 31 DE DEZEMBRO DE 2020	**5,371,998**	**-**	**2,653,670**	**(2,004,037)**	**-**	**6,021,631**

The Notes are an integral part of these Financial Statements.

.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Thousands of Brazilian Reais)

	Note	2020	2019
CASH FLOW FROM OPERATIONS			
Net income for the period		1,201,554	1,644,366
Expenses (revenues) not affecting cash and cash equivalents:			
Post-employment obligations	20	335,041	317,300
Depreciation and amortization	14b and 15a	668,414	652,208
Operating provisions	24d	272,276	1,100,647
Provision (reversal) for recoverable amount of contract assets	13	1,571	2,665
Write-off of net residual value of unrecoverable Concession financial assets and Intangible assets	12a and 14b	36,363	15,991
Refunded of PIS/Pasep and Cofins over ICMS credits to customers - realization	23	266,320	-
Financial interest and inflation adjustment		330,625	383,253
Adjustment to expectation of contractual cash flow from the concession	12a	(15,465)	(17,839)
Amortization of transaction cost of loans and financings	18	2,039	25,737
Recovery of credits of PIS/Pasep and Cofins taxes paid on ICMS tax amounts		-	(1,821,153)
CVA (Parcel A Compensation) Account and Other Financial Components in tariff	23	(454,741)	(57,988)
Deferred income tax and social contribution tax	9c	(88)	(37,201)
		2,643,909	2,207,986
(Increase) / decrease in assets			
Customers and traders		(222,652)	(360,831)
Concession holders - Transport of energy		21,016	(42,358)
CVA (Parcel A Compensation) Account and Other Financial Components in tariff adjustment	12b	1,466,945	362,469
Recoverable taxes		(564,516)	(8,786)
Income tax and social contribution tax recoverable		(16,915)	(19,755)
Escrow deposits		1,248,952	(38,458)
Public lighting tax		(14,435)	(15,873)
Reimbursement of tariff subsidies	11	11,057	(11,203)
Low-income subsidy		(13,490)	650
Others		64,389	33,351
		1,980,351	(100,794)
Increase / (decrease) in liabilities			
Suppliers		202,141	322,580
Taxes		571,369	(207,641)
Income tax and social contribution tax payable		430,401	843,008
Payroll and related charges		7,583	(62,191)
Public lighting tax		53,060	(29,553)
Regulatory charges	19	116,604	(105,823)
Post-employment obligations	20	(264,605)	(247,050)
Provisions	21	(111,400)	(113,474)
Employees' and managers' profit sharing		(77,279)	99,689
Others		189,831	(53,291)
		1,117,705	446,254
Cash from operating activities		**5,741,965**	**2,553,446**
Interest paid on loans, financings and debentures	18	(244,027)	(441,750)
Interest paid in leasing contracts	15	(2,902)	(3,934)
Income tax and social contribution tax payable		(37,999)	(893,937)
NET CASH FROM OPERATING ACTIVITIES		**5,457,037**	**1,213,825**
CASH FLOW IN INVESTMENT ACTIVITIES			
Marketable securities - cash investments		(2,466,225)	367,718
Intangible assets	14	(39,031)	(31,909)
Contract assets	13	(1,313,744)	(883,762)
NET CASH FLOW USED IN INVESTMENT ACTIVITIES		**(3,819,000)**	**(547,953)**
CASH FLOW IN FINANCING ACTIVITIES			
Proceeds from Loans, financings and debentures	18	-	3,626,722
Leasing liabilities paid	15b	(63,346)	(69,585)
Loans, financings and debentures, paid	18	(811,705)	(4,172,532)
Interest on capital, and dividends, paid		(338,287)	(267,435)
NET USED IN FINANCIAL ACTIVITIES		**(1,213,338)**	**(882,830)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD		**424,699**	**(216,958)**
Cash and cash equivalents at start of period	5	234,346	451,304
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	**659,045**	**234,346**

The Notes are an integral part of these Financial Statements.

STATEMENTS OF ADDED VALUE

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Thousands of Brazilian Reais)

	2020		2019	
REVENUES				
Sales of energy and services	24,685,844		24,175,237	
Distribution construction revenue	1,384,334		936,332	
Adjustment to expectation of reimbursement of distribution concession financial assets	15,465		17,839	
Recovery of PIS/Pasep and Cofins tax credits	-		830,343	
Other revenues	35,522		47,229	
Provision for doubtful receivables	(135,265)		(199,142)	
	25,985,900		25,807,838	
INPUTS ACQUIRED FROM THIRD PARTIES				
Energy bought for resale	(8,868,888)		(8,173,285)	
Charges for use of national grid	(1,982,469)		(1,607,646)	
Outsourced services	(1,607,254)		(1,357,014)	
Materials	(745,489)		(527,507)	
Other operating costs	(413,774)		(1,247,916)	
	(13,617,874)		(12,913,368)	
GROSS VALUE ADDED	**12,368,026**		**12,894,470**	
RETENTIONS				
Depreciation and amortization	(668,414)		(652,208)	
NET ADDED VALUE PRODUCED BY THE COMPANY	**11,699,612**		**12,242,262**	
ADDED VALUE RECEIVED BY TRANSFER				
Financial revenues	520,191		1,534,795	
ADDED VALUE TO BE DISTRIBUTED	**12,219,803**		**13,777,057**	
DISTRIBUTION OF ADDED VALUE				
		%		%
Employees	**1,228,327**	**10.05**	**1,287,759**	**9.35**
Direct remuneration	725,163	5.93	832,281	6.04
Post-employment obligations and Other benefits	415,331	3.40	387,311	2.81
FGTS fund	42,249	0.35	53,439	0.39
Voluntary retirement program	45,584	0.37	14,728	0.11
Taxes	**9,235,275**	**75.58**	**10,167,005**	**73.80**
Federal	3,956,998	32.38	4,740,874	34.41
State	5,273,798	43.16	5,420,616	39.35
Municipal	4,479	0.04	5,515	0.04
Remuneration of external capital	**554,647**	**4.54**	**677,927**	**4.92**
Interest	542,782	4.44	658,379	4.78
Rentals	11,865	0.10	19,548	0.14
Remuneration of own capital	**1,201,554**	**9.83**	**1,644,366**	**11.93**
Interest on Equity	347,569	2.84	255,000	1.85
Dividends	-	-	605,433	4.39
Retained earnings	853,985	6.99	783,933	5.69
	12,219,803	**100.00**	**13,777,057**	**100.00**

The Notes are an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020 AND 2019 AND FOR THE YEARS ENDED ON DECEMBER 31, 2020 AND 2019

(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 city, 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.

The Company has a concession area of 567,478 km², comprising approximately 97% of the Brazilian state of Minas Gerais, serving 8,669,160 customers, on September 30, 2020 (data not reviewed 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 interim financial information has been prepared on a going concern basis.

1.1. Covid-19

On March 11, 2020, the World Health Organization characterized Covid-19 as a pandemic, reinforcing the restrictive measures recommendations to prevent the virus dissemination worldwide. These measures are based, mainly, on social distancing, which have been causing major negative impact on entities, affecting their production process, interrupting their supply chains, causing workforce shortages and closing of stores and facilities. The economies around the world are developing measures to handle the economic crisis and reduce any possible effect, especially by their central banks and fiscal authorities.

Government measures aimed at Brazilian energy sector

Several measures were implemented by the Brazilian government, specifically aimed at energy sector, which include:

- the provisional normative act. 950/2020 issued in April 8, 2020, which provides for 100% discount in the calculation of social energy tariff ('Tarifa Social de Energia Elétrica'), from April 1, 2020 to June 30, 2020, applicable to customers included in low-income residential subclass, with energy consumption less than or equal to 220 kWh/month. The act also authorizes the Federal Government to allocate resources to Energy Development Account (CDE), limited to R$900 million, to cover the tariff discounts established;

- expansion on the limit of total amount of energy that can be declared by energy distributors in the process of the mechanism for the sale of surplus ('Mecanismo de Venda de Excedentes' - MVE), during 2020, from 15% to 30%, for the purpose of facilitating contractual reductions;
- provision of financial resources available in the reserve fund in April 2020, by CCEE, in accordance with Aneel Dispatch n. 986/2020, dedicated to reduce future regulatory fees. The Company was granted with R$122 million;

- under Resolution 878/2020, issued on March 24, 2020, the regulator has implemented some measures in an attempt to maintain the public service of energy supply, which include: prohibiting energy supply suspension due to default of certain categories of customers (residential), for 90 days, extended to July 31, 2020, prioritizing emergency assistance and energy supply to services and activities regarded as essential, drawing up specific contingency plans to assist health care units and hospital services, among others. Under Resolution 879/2020, issued in July 21, 2020, the regulator changed the Resolution 878/2020, as of august, 2020, maintaining the prohibition of energy supply suspension only to low income residential subclass, revoking the provisions applied to the other residential subclasses and related to services and activities regarded as essential;

- authorization to create the 'Covid-account', under the Decree 10,350/2020 issued on May 18, 2020, as detailed in the following topic.

Conta-Covid

“Covid-account” (‘Conta-covid’)

On May 18, 2020, in order to cope with the public calamity caused by the Covid-19 pandemic, the Decree n. 10,350/20 authorized the creation of ‘Covid-account’, to support the energy distribution sector, which is the basis of the energy sector financial flow, aimed to either cover the distribution agents revenue/cash flow deficit or to anticipate their revenues, related to (i) over-contracted purchases due to market retraction, (ii) “CVA” sector assets (iii) maintaining the neutrality of regulatory charges, (iv) compensation for the delay in applying tariff adjustments until June 30, 2020 and (v) anticipation of “parcel B” revenues as determined by Aneel regulation.

On June 23, 2020, the regulator issued the Normative Resolution n. 885/2020, which set out the criteria and procedures to manage the ‘Covid-account’, as well as regulated the use of the CDE regulatory charge.

On January 26, 2021, Aneel issued the Dispatch nº 181/2021, which defined the monthly charge to be paid in order to amortize the loan, as well as the respective coverage to be included into the tariff to pay the charge. The annual quote of ‘CDE-Covid-Account’ will be paid by the distribution agents through the tariff charge included in the energy tariff and in the tariff of use of distribution system (‘TUSD’).

The amount received by Cemig D will be converted, updated by Selic rate, as a tariff negative financial component in the tariff processes of 2021, ensuring the neutrality.

Cemig D joined the financial compensation mechanism under the Covid-account (‘Conta-Covid’), in order to boost its cash flow enabling it to meet its financial obligations, in spite of the collection reduction resulting of the economic crises. The total amount from the “Covid-Account “received by Cemig D, in installments, was R$1,404,175. The first installment was received in July, 2020, in the amount of 1,186,390, whist the remaining was received until December, 2020, affecting positively the balance of cash and equivalent cash as well of market securities at December 31, 2020.

There are some rules applied to distribution agents entitled to the Covid-account resources, such as (i) relinquishing any intention to reduce or end the purchase of energy from generators because of a reduction in the sales caused by the pandemic crises, until December 2020; (ii) in the event of default on payments, limiting their dividend payments to the legal minimum of 25% of net income and (iii) renounce the right to complain in court or arbitral tribunals on the conditions, procedures or obligations determined in legal and regulatory provisions on Covid-account. Notwithstanding, the right to request an extraordinary tariff review is fully preserved.

Due to the statements of renunciations established in the Acceptance Document under the Normative Resolution 885/2020, on July 3, 2020 Cemig D’s Shareholders Extraordinary General Meeting approved alteration to its by-laws, to include §4 on Clause 33 limiting the distribution of mandatory dividend or interest on equity to the legal minimum, exceptionally for the cases and conditions that the regulator may demand, by rule or by contract, in order to mitigate a situation of financial imbalance caused by any fact or event attributable to a third party, or overriding government rulings, or expressly recognized force majeure.

Company's initiatives

On March 23, 2020, the Company established the Coronavirus Crisis Management Committee ('Comitê Diretor de Gestão da Crise do Coronavírus') to ensure its readiness to making decisions because of the fast-changing situation, which became more widespread, complex and systemic.

Also, in line with recommendations to maintain social-distancing measures, the Company has implemented an operational contingency plan and several precautionary measures to keep its employees healthy and safe, including: security and health technicians contacting operational staff on a daily basis; interacting daily with subcontractors Social Service department to monitor the evolution of suspicious cases; changing the schedule to prevent gatherings; restricting national and international travel; suspending technical visits and events at Company's facilities; using remote means of communication; adopting work-from-home policies for a substantial number of employees, providing face masks for employees in external service or in service into its facilities, and requiring outsourcings providers to put the same procedures in place.

In August the Company began the plan for the gradual return-to-office, which is in compliance with measures for prevention, control and mitigation of risks of Covid-19 transmission in work environments.

In-person service to the general public was suspended temporarily, and resumed, subject to appointment, from August 3, 2020, in the municipalities that subscribed to the plan created by the State of Minas Gerais, called 'Plano Minas Consciente', and which are in the 'Green Wave' phase of the program. The decision to serve the public in person by appointment obeys the rules of the plan, and is in accordance with responsible resumption of the economy in Minas Gerais state, following the Covid-19 pandemic.

The Company maintain the communication with its customers on virtual channels and essential assistance in customers' facilities, ensuring the appropriate energy.

The Company also adopted the follow measures in order to contribute with society:

- Providing payment flexibility to low-income residential subclass customers, registered as social tariff, who will be able to pay their debts in up to six installments, without interests or penalties, applied until July 1, 2020;

- Providing payment flexibility to public and philanthropic hospitals as well as to emergency rooms units, without interests or penalties, conditions applied until July 1, 2020;

- Offering the entities regarded as small business by Brazilian law the option for payment in up to six installments, without interests or penalties, conditions applied until July 1, 2020;
- A negotiation campaign was launched, in effect until October, 31, 2020, enabling customers to pay debt by installments in up to 12 months without interest.

In addition, the Company Executive Board approved the following measures, in order to support the fight against the Covid-19 during the critical period named “purple wave” (‘onda rocha’) instituted by the Extraordinary Covid-19 Committee of the State of Minas Gerais, through the Deliberation n. 138, of March 16, 2021 of, in the State of Minas Gerais:

- Suspending the energy supply suspension to customers classified as low income residential subclass;
- Providing payment in installments to customers classified as low income residential subclass, under the specific conditions of the program, available in the Company website.

- Providing payment in installments to customers from other classes, including commercial customers classified as small business by Brazilian law, operating in the sectors affected by the crises, under the specific conditions of the program, available in the Company website;
- prioritizing emergency assistance and energy supply to health care units and hospital services and others activities regarded as essential;
- communication initiatives aimed at raising awareness of the population about the importance of staying at home, rational use of energy, and electronic equipment use, preventing overload, short-circuit and fires.

The measures above result in a postpone of cash of until R$151.4 million to the next year, considering the installments due in 2021.

The Company is working diligently to mitigate the crisis impacts on its liquidity, implementing the following measures, among others:

- restraint of the capital expenditure planned for 2020, in the approximate amount of R$169 million and a budget review, which reduced the expenses related to labor, material, outsourced services and others, in the approximate amount of R$134 million.
- negotiating with its customers on the free market their contracts;
- deferral payment of taxes and social charges, as authorized by legislation.

Impact of Covid-19 on Financial Statements

Since March, 2020, the Company has been monitoring the Covid-19 pandemic impact on its business and the market in which it operates. The Company has implemented a series of precautionary measures to protect the health of its employees and to prevent the spread of the novel coronavirus in its operational and administrative facilities. The measures are in accordance with the recommendations of World Health Organization (WHO) and Brazilian Ministry of Health and aim to contribute with the populations and Brazilian authorities efforts, in order to prevent the virus dissemination.

The Coronavirus crises made an impact on the Company operations, especially related to energy distribution market, due to the contraction of the economic activities and the social distancing measures, affecting entities production process, interrupting their supply chains, causing workforce shortages and closing of stores and facilities. This effects might result in lower energy consumption and an increase in delinquency.

As of December 31, 2020, from the observation of the pandemic's economic effects, the Company assessed the assumptions used for calculating fair value and recoverable amount of certain financial and non-financial assets, as follows:

- The Company assessed the circumstances arising from Covid-19 pandemic and associated measures aimed at reducing the impact of the economic contraction on customer delinquency to measure expected credit losses. The Company has intensified measures to mitigate the risks of delinquency, such as a campaign of negotiation with clients in arrears whose energy supply the Company was temporarily prohibited from suspending as well as intensifying the usual collection measures. The return of economic activities after the peak of the coronavirus outbreak, as well as the authorization of the energy supply suspension, as of August, 2020, provided by Normative Resolution n. 891/2020, have contributed to the reestablishment of the collection behavior. In addition, the negotiations to enable the recovery of past due receivables and the regulator's measures to reestablish economic balance mitigated the negative effects of the economic crisis on collection;

- Despite the uncertainties related to the crisis unfolding and its potential long-term effects, the Company does not expect that the negative impact on its projections of likely future taxable profits might compromise the recoverability of its deferred tax assets;

- The Company also reviewed the financial assets and liabilities measured at fair value to reflect the conditions and current rates projected, which impacts are presented in Note 27;

- The total load on the Brazilian national grid fell in 2020, especially from March to May, and has been recovering gradually since. Year to date, the energy transported and sold to Cemig D customers increased 4.42% and reduced 5.31%, respectively. In the second semester of 2020, the energy transported increased 10.29% and the energy sold expanded 94.66%, compared with the same period of the last year, reflecting the easing of social distancing rules;

- The accumulated variation of the Cemig D's captive customers market, measured from the pandemic outbreak until December, 2020, reduced 8%. It is important to mention that the effects of the financing expenses arising from energy purchase were minimized by the 'Covid-Account' creation.

The impacts of the Covid-19 pandemic disclosed in this financial statements were based on the Company's best estimates. Despite the impact of the pandemic on the Company's financial position in 2020, significant long-term effects are not expected.

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 26, 2021, the Company's Executive Board authorized the issuance of these financial statements for the year ended December 31, 2020.

2.2. Basis of measurement

The consolidated financial statements were prepared on a historical cost basis, except in the case of certain financial instruments and assets as held for sale which are measured at fair value and fair value less costs to sell, in accordance with the standards applicable, as detailed in Note 27, respectively.

2.3. Functional currency and presentation currency

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

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

2.4. 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.

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 9;
- Financial assets and liabilities of the concession - Note 12;
- Concession contract assets - Note 13;
- Intangible assets and useful life of assets - Note 14;
- Leasing transaction - Note 15;
- Amounts to be refunded to customers - Note 17.
- Employee post-employment obligations -Note 20;
- Provisions - Note 21;
- Unbilled revenue - Note 23; and
- Financial instruments measurement and fair value measurement - Note 27.

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 amendments of accounting standards, applied for the first time in 2020

The Company and its subsidiaries have applied, for the first time, new accounting standards that became effective for annual periods beginning January 1, 2020 or later, as described below:

CPC 15 (R1)/IFRS 03 - Business Combinations: The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments must be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.

CPC 26 (R1)/IAS 1 and IAS 8 - Provide a new definition of “material” and clarifies some aspects of this definition.

CPC 38/IAS 39, CPC 40 (R1)/IFRS 7 e CPC 48/IFRS 09 - “Interest rate benchmark reform“: provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

CPC 06(R2)/IFRS 16 : provide relief to lessees from applying IFRS 16/CPC 06 guidance on lease modification accounting for rent concession arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any chance in lease payment resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16/CPC 06, if the change were not a lease modification.

Conceptual Framework for Financial Reporting: The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

These amendments had no impact on the individual and consolidated financial statements of the Company.

2.7. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, are disclosed below:

IFRS 17 - Insurance Contracts, issued by IASB in May, 2017: The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. This standard is not applicable to the Company.

IAS 1 - Classification of Liabilities as Current or Non-current: In January 2020, the IASB issued amendments the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: (I) what is meant by a right to defer settlement,; (ii) that a right to defer must exist at the end of the reporting period (iii) that classification is unaffected by the likelihood that an entity will exercise its deferral right (iv) that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

The Accounting Announcements Committee (CPC) also issued Revision No. 17/2020, on February 11, 2021, creating alterations in the pronouncements CPC 06 (R2), CPC 11, CPC 38, CPC 40 (R1) and CPC 48, arising from the definition of the term “Review of the Reference Interest Rate”, applicable to annual periods beginning on or after January 1, 2021.

The company and its subsidiaries do not expect any material impacts arising from this revision.

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

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

Fair value through profit or loss: this includes the concession financial assets related to 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.

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

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

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

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. More details, see Note 27.

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

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

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

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

Expected losses for invoices unbilled, not yet due or less than 12 months past due are measured according to the potential default events, or losses of credit expected for the whole life of a financial instrument, if the credit risk has significantly increased since its initial recognition.

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

c) Concession assets

Assets linked to concession infrastructure still under construction are initially recorded as contract 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. In accordance with CPC 47 / IFRS 15, the counterpart amounts of construction revenues equivalent to the new assets are initially recorded as contract assets, measured at acquisition cost in including capitalized borrowing costs. After the assets start operation, the conclusion of the performance obligation linked to construction is recorded, and the assets are split between financial assets and intangible assets.

The portion of the infrastructure to be amortized during the concession period is recorded as an intangible asset, as provided for in ICPC 01 (R1) / IFRIC 12 - Concession contracts, and subsequently measured at cost less amortization. The amortization rates reflect the expected pattern of their consumption and are measured based on the asset carrying amount using the straight-line method, using the rates based on the expected useful life of the energy distribution assets, that are used by the Regulator during the tariff process.

The portion of the value of the assets which will not be fully amortized by the end of the concession is reported as a financial asset because it is an unconditional right to receive cash or other financial asset directly from the grantor. This portion is subsequently measured at the estimated fair value, which represents the New Replacement Value (*Valor Nove de reposição*, or VNR), based on the Regulatory Remuneration Base of Assets ratified by the regulator (Aneel) in the tariff processes.

d) 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. Amortization rates are shown in Note 14.

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

e) Impairment

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

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

f) Employee benefits

The liability recorded in the statements of financial position related to retirement benefit pension plan obligations is the greater of: (a) the amount to be paid in accordance with the terms of the pension plan for amortization of the actuarial obligations, and (b) the present value of the actuarial obligation, as calculated by a qualified actuary, less the fair value of the plan's assets, and adjusted for unrecognized actuarial gains and losses. Expenses related to the debt agreed upon with the pension trust fund were recorded in finance income (expenses), because they represent financial interest and inflation adjustment. Other expenses related to the pension fund were recorded as operating expenses.

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

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

g) <u>Income tax and social contribution tax</u>

The income tax and social contribution tax expenses represents the total amount of current and deferred taxes, which are presented separately in the financial statements. The Company is subject to the regular tax regime '*Lucro Real*'. However, its subsidiaries that can benefit from the favorable tax regime, according to tax law, analyze the payable tax projection for the next year, in order to determine the tax regime that reduces its taxes payment.

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

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

Current

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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 is recognized for temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base at the reporting date.

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.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

h) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with.

The Company has ventures in an area incentivated by SUDENE, 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 as income on a systematic basis over the periods that the related income tax expense for which it is intended to compensate, is recorded.

Given the legal restriction on the distribution of net income corresponding to the tax 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 statement in a monthly basis as those subsidiaries acquire the right of receive them.

i) Current versus non-current classifications

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. Assets and liabilities are current when they are:

- Expected to be realized, intended to be sold, consume or settled in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized or settled within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

j) 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.

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.

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.

Construction revenue corresponds to the performance obligation to build distribution infrastructure, and corresponds to the investments in concession assets made by the Company in the reporting period. Recognition of this revenue is directly related to the expenditure incurred on construction of the infrastructure assets of Concession assets.

k) 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.

l) 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 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.

m) Profit distribution

The obligation to pay dividends is recognized when the distribution is authorized, or at the point in time specified by law or the by-laws. The legislation and the Company's by-laws provide for payment of minimum dividends of 50% of the net profit for the year, but this payment of dividends (including Interest on Equity) may be limited in exceptional cases, if the regulator (Aneel), by regulations or by contract, requires mitigation of a situation of financial imbalance caused by an outside party, an overriding act by authority, or expressly recognized force majeure, subject to the legal minimum. The mandatory dividends are considered to be a present obligation on the reporting date, at the end of the business year, and are recognized as a liability at that date.

n) Leases

As from the IFRS 16/CPC 06 first adoption, on January 01, 2019, the Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The contracts that contain a lease component are described in Note 15.

At the date of start of the leasing operation, the lessee recognizes a liability to make the payments (a leasing liability) and an asset, representing the right to use the subject asset during the period of the leasing (an asset of right to use).

Right-of-use assets

Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as described in Note 15.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, amortization is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company recognize separately the expenses of interest on the leasing liability and the expense of depreciation of the asset of the right to use.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

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 used in 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.

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;
- 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, being assured the right to a full defense and the right to appeal, 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, 2020 and 2019.

Notwithstanding Cemig D's compliance with the Customer Unit Average Outage Duration indicator - DEC for 2020, it was non-complaint for three times in the past five years, and, in such circumstances, Cemig D must limit the amount of dividend and interest on equity, to 25% of net income, less the amounts allocated to the legal reserve.

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

	2020	2019
Bank accounts	77,758	192,772
Cash investments		
Bank certificates of deposit (1)	474,003	36,198
Overnight (2)	107,284	5,376
	581,287	**41,574**
	659,045	**234,346**

(1) *Bank Certificates of Deposit* (*Certificados de Depósito Bancário*, or CBDs), accrued interest at 65% to 108%, 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 2020 (70% to 104% in 2019). For these CDBs, the Company and its subsidiaries have repo transactions which state, on their trading notes, the bank's commitment to repurchase the security, on demand, on the maturity date of the transaction, or earlier.

(2) *Overnight* transactions are repos available for redemption on the following day. They are usually backed by Treasury Bills, Notes or Bonds and referenced to a pre-fixed rate of 1.89% in 2020 (4.39%, in 2019). Their purpose is to settle the short-term obligations of the Company and its subsidiaries, or to be used in the acquisition of other assets with better return to replenish the portfolio.

Note 27 provides information in relation to the exposure of the Company and its subsidiaries to interest rate risks, and a sensitivity analysis of their effects on financial assets and liabilities.

6. MARKETABLE SECURITIES

	2020	2019
Bank certificates of deposit (1)	341,413	221
Financial Notes (LFs) - banks (2)	1,754,948	95,204
Treasury Financial Notes (LFTs) (3)	457,503	13,900
Debentures (4)	19,252	732
Others	3,374	208
	2,576,490	**110,265**
Ativo circulante	**2,104,119**	**109,960**
Ativo não circulante	**472,371**	**305**

(1) Bank Certificates of Deposit (Certificados de Depósito Bancário, or CDBs), accrued interest at 106% a 110% of the Interbank Rate for Interbank Certificates of Deposit (Certificados de Depósito Inter-bancário - CDIs) published by Cetip. (80% to 103.5% on December 31, 2019).

(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 99.5% and 130% of the CDI rate on September 30, 2020 (101.95% and 113% on December 31, 2019).

(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 TR + 1% and 109% of the CDI Rate on September 30, 2020 (108.25% to 113% of CDI on December 31, 2019).

Note 27 provides a classification of these marketable securities. Investments in marketable securities of related parties are shown in Note 26.

7. CUSTOMERS, TRADERS AND POWER 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	2020	2019
Residential	717,471	327,456	409,898	154,437	56,946	1,666,208	1,628,954
Industrial	30,490	73,502	16,076	23,961	136,976	281,005	307,379
Commercial, services and others	296,207	167,173	92,796	61,563	128,025	745,764	816,583
Rural	153,992	86,881	78,912	54,846	20,276	394,907	356,303
Public authorities	156,751	29,466	10,609	34,483	158,201	389,510	422,034
Public lighting	7,467	48,657	1,662	970	497	59,253	34,662
Public services	47,538	41,561	6,060	5,023	25,379	125,561	133,077
Subtotal - customers	**1,409,916**	**774,696**	**616,013**	**335,283**	**526,300**	**3,662,208**	**3,698,992**
Concession holders - Transport of energy	41,718	216,495	11,936	15,655	80,038	365,842	367,429
Energy in spot market - supply	20,653	-	-	-	-	20,653	-
Provision for doubtful receivables	(262,099)	(12,291)	(11,557)	(6,667)	(354,815)	(647,429)	(731,518)
	1,210,188	**978,900**	**616,392**	**344,271**	**251,523**	**3,401,274**	**3,334,903**
Current							
Customers and traders						**2,989,608**	**3,021,551**
Concession holders - Transport of energy						**257,540**	**242,229**
Non-current asset							
Customers and traders						**120,041**	**711**
Concession holders - Transport of energy						**34,085**	**70,412**

The Company’s exposure to credit risk related to customers and traders is given in Note 27. The transactions involving related parties is provided in Note 26.

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

	2020	2019
Residential	106,870	127,747
Industrial	136,934	132,663
Commercial, services and others	182,155	153,819
Rural	28,684	30,248
Public authorities	82,487	200,302
Public lighting	1,513	1,123
Public services	34,569	30,829
Concession holders - Transport of energy	74,217	54,787
	647,429	**731,518**

On July 31, 2020 Cemig D filed an application to the tax authority of State of Minas Gerais to offset debts for energy consumption and service owed by the direct and indirect administrations of Minas Gerais State, using amounts of ICMS tax payable, under Article 3 of Minas Gerais State Decree n. 47,908/2020, which regulated State Law n. 47,891/2020. The debts from the State of Minas Gerais that qualify for offset are those past due at June 30, 2019, estimated at R$240 million, which are still being analized by the tax authority of State of Minas Gerais. The offset will initiate after the tax authority ratification and conclusion of the debt recognition agreement, expect to occur on the 1st quarter of 2021. Due to this offsetting, Cemig D reversed the impairment previously recognized for the debts owed by Minas Gerais State, in the amount of R$210 million.

The changes in the provision for doubtful receivables in the period is as follows:

Balance at December 31, 2018	**697,089**
Additions, net	199,142
Disposals	(164,713)
Balance at December 31, 2019	**731,518**
Additions, net	135,265
Disposals	(219,354)
Balance at December 31, 2020	**647,429**

8. RECOVERABLE TAXES

	2020	2019
Current		
ICMS tax recoverable	62,221	25,743
COFINS tax (a) (b)	1,165,559	1,713
PIS-PASEP taxes (a) (b)	254,001	1,301
Others	1,896	344
	1,483,677	**29,101**
Non-current		
ICMS tax recoverable (b)	232,011	215,189
COFINS tax (a)	2,182,732	4,047,607
PIS-PASP taxes (a)	473,883	878,757
	2,888,626	**5,141,553**
	4,372,303	**5,170,654**

a) Pis/Pasep and Cofins taxes credits over ICMS

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 the Company 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.

Thus, the PIS/Pasep and Cofins credit recorded corresponds the amount of these taxes over ICMS paid in the period of July 2003 to May 2019.

On May 12, 2020, the Brazilian tax authority (Receita Federal) granted the Company's request for ratification of the credits of PIS/Pasep and Cofins taxes arising from the legal action on which final judgment, subject to no further appeal, was given in favor of the Company in 2019.

The Company is recovering tax credits by offsetting the amount receivable against amounts federal taxes payable on a monthly basis, starting on May, 2020, within the five-year period specified by the relevant law of limitation.

The Company recorded in current asset and non-current asset the amounts of R$1,416,477 and R$2,656,615, respectively, corresponding to the tax credits of PIS/Pasep and Cofins over ICMS.

Based on the opinion of its legal advisers, the management 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 have constituted a liability corresponding to the total amount of the tax credits comprising the period of the last

10 years, from June 2009 to May 2019, net of PIS/Pasep and Cofins taxes over monetary updating, presented in Note 17. The Company awaits the regulator'a conclusion about the mechanisms and criteria for the reimbursement to its customers.

The accounting effects relating to the recognition of the PIS/Pasep and Cofins taxes credits, including their monetary updating by the Selic rate, were recognized in the income statement in 2019, at net amount, updated to December 31, 2019, of R$1,216,915. Of this amount, R$830,343 and R$1,013,468 were recognized as operational revenue and financial revenue (net of PIS/Pasep and Cofins taxes), respectively. In addition, the amount of R$626,896 was recorded as IRPJ and CSLL.

These credits and the reimbursement to customers are updated by the Selic rate until offsetting of the amount receivable against amounts payable or until reimbursement to customers. On December 31, 2020, the net effect in the finance income is R$24,811, more details see Note 25.

Until December 31, 2020, credits of PIS/Pasep and Cofins taxes were offset against payable federal taxes in the amount of R$945,886.

b) Other recoverable taxes

The ICMS (VAT) credits that are reported in non-current assets arise mainly from acquisitions of property, plant and equipment, and intangible assets, and can be offset against taxes payable in the next 48 months. The transfer to non-current is made in accordance with management's best estimate of the amounts which will likely be realized in 12 months after these financial statements reporting date.

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

9. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Income tax and social contribution tax recoverable

The balances of income tax and social contribution tax refer to tax credits in the corporate income tax returns of previous years and to advance payments which will be offset against federal taxes eventually payable. Current tax assets and current tax liabilities related to income tax and social contribution tax are offset in the statement of financial position subject to criteria established in CPC 32/IAS 12.

	2020	2019
Income tax	108,732	163,015
Social contribution tax	86,474	72,730
	195,206	**235,745**
Current	**128,539**	**235,745**
Non-current	**66,667**	**-**

b) Deferred income and social contribution taxes

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	2020	2019
Deferred tax assets		
Post-employment obligations	1,463,842	1,411,395
Doubtful receivables	241,419	270,605
Impairment	18,834	18,299
Provisions for contingencies	356,956	351,827
Administrative tax	5,250	5,625
Provision for profit shares	25,055	51,330
Others	6,083	5,003
	2,117,439	**2,114,084**
Deferred tax liabilities		
Adjustment to expectation of cash flow - Concession assets	(198,689)	(202,548)
Borrowing costs capitalized	(168,909)	(166,478)
Funding cost	(2,821)	(3,514)
	(370,419)	**(372,540)**
Total deferred tax, net	**1,747,020**	**1,741,544**

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

Balances at December 31, 2018	**1,334,421**
Effects allocated to income statements	37,201
Effects allocated to other comprehensive income statements	369,922
Balances at December 31, 2019	**1,741,544**
Effects allocated to income statements	88
Effects allocated to other comprehensive income statements	5,388
Balances at December 31, 2020	**1,747,020**

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

Estimates of future taxable income, the basis for the analysis of the realization of net deferred tax assets, are based on annual and long-term budgets, both periodically reviewed and on the profitability history. However, future taxable income may be greater or less than the estimates considered by Management when defining the need to record or not the amount of the deferred tax asset.

The Company estimated that the balance of deferred tax asset as of December 31, 2020 will be recovered, as follows:

	2020
2021	296,234
2022	271,179
2023	271,179
2024	271,179
2025	271,179
2026 a 2028	441,894
2029 a 2030	294,595
	2,117,439

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:

	2020	2019
Profit before income tax and social contribution tax	1,631,867	2,450,173
Nominal rate	**34%**	**34%**
Income tax and social contribution tax - nominal expense	(554,835)	(833,059)
Tax effects applicable to:		
Interest on equity and dividends payable	118,173	86,700
Tax incentives	31,491	50,380
Non-deductible contributions and donations	(5,814)	(8,911)
Non-deductible penalties	(21,857)	(100,647)
Others	2,529	(270)
Income tax and Social Contribution - effective gain (expense)	**(430,313)**	**(805,807)**
Effective rate	**26.37%**	**32.89%**
Current tax	**(430,401)**	**(843,008)**
Deferred tax	**88**	**37,201**

10. ESCROW DEPOSITS

	2020	2019
Labor Claims	222,090	280,542
Tax contingencies		
Income tax on Interest on Equity	11,281	11,105
PIS/Pasep and Cofins taxes (1)	-	1,181,808
Income tax and Social Security contribution on ‘Anuênio’ employee indemnity (2)	204,739	202,042
Others	37,660	34,113
	253,680	**1,429,068**
Others		
Regulatory	28,984	20,326
Third party	5,537	6,725
Customer relations	5,629	4,412
Court embargo	7,105	6,502
Others	4,603	18,467
	51,858	**56,432**
	527,628	**1,766,042**

(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. More details below.

(2) More details in Note 21 - Provisions under the section relating to the ‘Anuênio indemnity’.

Release of escrow deposits

On February 13, 2020, the escrow deposits in the action challenging the constitutionality of inclusion of ICMS value added tax within the taxable amount for calculation of PIS/Pasep and Cofins taxes were released for an amount of R$1,186,402. These amounts are related to the escrow deposits made from August 2008 to August 2011, and were updated by the Selic rate until the release date.

11. REIMBURSEMENT OF TARIFF SUBSIDIES

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

In 2020, the amount recognized as subsidies revenues was R$1,035,617 (R$1,079,262 in 2019). Of such amounts, the Companhy has a receivable of R$82,616, as of December 31, 2020 (R$93,673 in 2019) in current assets.

12. CONCESSION FINANCIAL AND SECTOR ASSETS AND LIABILITIES

Concession financial assets	2020	2019
Financial assets related to infrastructure (a)	530,058	459,711
CVA (Parcel A Compensation) Account and Other Financial Components in tariff-setting (b)	132,681	881,614
	662,739	**1,341,325**
Current asset	-	**640,161**
Non-current asset	**662,739**	**701,164**

SECTOR FINANCIAL LIABILITIES	2020	2019
Amounts receivable from Parcel A (CVA) and Other Financial Components (b)	231,322	-
Current liabilities	**231,322**	-
Non-current liabilities	-	-

a) 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 the Company and the granting authorities.

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

Balances at December 31, 2018	**395,743**
Transfers of contract assets (Note 13)	48,168
Transfers of intangible assets (Note 14)	(1,142)
Disposals	(897)
Adjustment of expectation of cash flow from the Concession financial assets	17,839
Balances at December 31, 2019	**459,711**
Transfers of contract assets (Note 13)	60,333
Transfers of intangible assets (Note 14)	(5,325)
Disposals	(126)
Adjustment of expectation of cash flow from the Concession financial assets	15,465
Balances at December 31, 2020	**530,058**

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

The Amendment that extended concession period of Cemig D guarantees that,in the event of termination of the concession contract, for any reason, the remaining balances (assets and liabilities) of any shortfall in payment or reimbursement through the tariff must also be paid by the grantor. The balances on (i) the CVA (Compensation for Variation of Parcel A items) Account, (ii) the account for Neutrality of Sector Charges, and (iii) Other financial components in the tariff calculation, refer to the positive and negative differences between the estimate of the Company's non-manageable costs and the payments actually made. The variations are updated using the Selic rate and considered in the subsequent tariff adjustments.

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

Balance sheet	2020			2019		
	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	**83,984**	**1,561,906**	**1,645,890**	**1,286,413**	**2,144,280**	**3,430,693**
Current assets	83,984	834,093	918,077	1,286,413	1,269,049	2,555,462
Non-current assets	-	727,813	727,813	-	875,231	875,231
Liabilities	**(246,242)**	**(1,498,289)**	**(1,744,531)**	**(882,425)**	**(1,666,654)**	**(2,549,079)**
Current liabilities	(246,242)	(903,157)	(1,149,399)	(882,425)	(1,032,876)	(1,915,301)
Non-current liabilities	-	(595,132)	(595,132)	-	(633,778)	(633,778)
Total current, net	**(162,258)**	**(69,064)**	**(231,322)**	**403,988**	**236,173**	**640,161**
Total non-current, net	**-**	**132,681**	**132,681**	**-**	**241,453**	**241,453**
Total, net	**(162,258)**	**63,617**	**(98,641)**	**403,988**	**477,626**	**881,614**

Financial components	2020			2019		
	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	879	-	879	118,775	29,398	148,173
Tariff for use of transmission facilities of grid participants	847	217,778	218,625	(18,157)	113,801	95,644
Tariff for transport of Itaipu supply	103	17,618	17,721	8,691	16,069	24,760
Alternative power source program (Proinfa)	(138)	5,857	5,719	10,542	(5,859)	4,683
ESS/EER System Service/Energy Charges	(1,465)	38,549	37,084	(161,253)	(135,703)	(296,956)
Energy bought for resale	4,078	448,720	452,798	661,108	631,920	1,293,028
Other financial components						
Over contracting of supply (1)	(55,828)	165,793	109,965	(83,718)	215,508	131,790
Neutrality of Parcel A	(2,706)	109,965	107,259	(29,697)	(11,915)	(41,612)
Other financial items	(86,248)	(898,843)	(985,091)	(70,219)	(206,481)	(276,700)
Tariff Flag balances	-	-	-	-	(102,976)	(102,976)
Excess demand and reactive power	(21,780)	(41,820)	(63,600)	(32,084)	(66,136)	(98,220)
TOTAL	**(162,258)**	**63,617**	**(98,641)**	**403,988**	**477,626**	**881,614**

(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. On August 27, 2020, Aneel published the Dispatch n. 2,508/2020-SRM-SGT, which set new amounts for distributors' overcontracting for the years 2016 and 2017, based on a new valuation criterion established by Aneel Technical Note 97/2020-SRM-SGT - not contained in the regulatory rules which were currently in force. As a result, Cemig D filed an appeal with the Council of Aneel, for the amounts of distribution agents' overcontracting to be reset in accordance with the calculation criteria based on maximum effort contained in Aneel Normative Resolution 453/2011. The Company's position on this case is reinforced by the fact that the Brazilian Energy Distributors' Association (Abradee) filed a similar appeal, supported by the opinion of contracted legal advisers. 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$221,786 on September 30, 2020, as 'Other financial components', to be ratified. At the reporting date for this interim financial information, this matter was pending analysis by Aneel.

Changes in balances of sector financial assets and liabilities:

Balance at December 31, 2018	**1,080,693**
Net constitution of financial assets	723,680
Assets realized	(665,692)
Payments from the Flag Tariff Centralizing Account	(362,469)
Updating - Selic rate	105,402
Balance at December 31, 2019	**881,614**
Net constitution of financial assets	611,212
Assets realized	(156,471)
Payments from the Flag Tariff Centralizing Account	(62,771)
Receipt funds of 'Covid-account' (1)	(1,404,174)
Updating - Selic rate	31,949
Balance at December 31, 2020	**(98,641)**

(1) The amount received via 'Covid-account' will be reversed in a negative financial component in the 2021 or 2022 tariff processes, as detailed in Note 1.1.

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 Power 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.

In 2020, funds passed through by the Flag Account totaled R$62,771 (R$362,469 in 2019), and were recognized as a partial realization of CVA receivables constituted.

Cemig D tariff adjustment

On June 25, 2020, the regulator (Aneel) approved the Annual Adjustment for the Company, which would be in effect from May 28, 2020 to May 27, 2020, with an average increase for customers of 4.27%. This result reflected the Company's manageable costs (Portion B), of 0.84% and the direct pass-through, within the tariff, of 3.43%, the latter having zero economic effect, not affecting profitability, relating to the following itens: (i) increase of 5.30% in non-manageable ('Parcel A') costs - mainly purchase of energy supply, regulatory charges and transmission charges; (ii)) increase of 6.71% in the financial components of the current process, led by the CVA currently being processed, which had an effect of 5.47%; and (iii) 8.58% was withdrawn from the financial components of the prior process.

Although the adjustment is effective from May 28, 2020 to May 27, 2021, its application was suspended until June 30, 2020, maintaining the previous tariffs during the suspension period. Cemig D also recognized the right to receive a total of R$51,201, based on the energy market, for non-receipt of the additional tariff component in the period. Considering that the amount of R$63,147 was received from Covid Account funds on July 31, 2020, completing the total amount established for Cemig D to receive in Covid Account funds, under Normative Resolution 885/2020, the Company recognized a net obligation of R$11,924, updated by the Selic rate until September 30, 2020. For more information on the Covid-account, see Note 1.1 to this financial statements.

Administrative appeals were filed with Aneel, contesting the ratification of the annual tariff increase of 4.27% to Cemig D, and requesting its annulment, with the restitution to Cemig D's customers of the amounts of the escrow deposits released as a result of the Supreme Court judgment, in the form that creates overall precedent, which determined the exclusion of ICMS tax amounts from the basis for calculation of PIS/ Pasep and Cofins taxes payable.. The current administrative appeals request a creation of a negative financial component in the calculation of Cemig D's annual tariff adjustment.

Aneel has given Cemig D the right of reply, and, based on internal assessments and those of its legal advisers, as well as the exceptional economic scenario caused by the Covid-19 pandemic, Cemig D, on August 5, 2020, has submitted to Aneel a proposal for a the restitution to its customers of a total amount of R$714,339 - corresponding to part of the escrow deposits released by the court due to Cemig's success in the Claim.

On August 18, 2020, Aneel decided to grant the appeal, in part, and through its Ratifying Resolution 2,757/2020 reduced the average effect of Cemig D's 2020 tariff adjustment to zero, due to the inclusion of the negative financial component of R$714,339.

Cemig's decision represents an anticipation of the effects, and treatment in terms of regulations of the Supreme Court's decision that determined the exclusion of ICMS tax amounts from the basis for calculation of PIS/ Pasep and Cofins taxes. These regulations will be applied equally to all energy distribution concessions through an Aneel normative ruling, which will be issued after conclusion of Public Consultation 005/2020 - during which there will be discussion on the merits, and in which Cemig will be able to take part in a wide-ranging discussion on the subject. The portion of the credits that Cemig D proposes to reimburse to its customers is recognized as a liability, as explained in Note 21. Of this amount, R$266,320, had been passed through to customers tariff by December 31, 2020.

13. 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 contract assets, measured at acquisition cost, including borrowing costs. After the assets start operation, the performance obligation related 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, 2018	**518,162**
Additions	902,421
Transfers to financial assets (Note 12)	(48,168)
Transfers to intangible assets (Note 14)	(629,706)
Provision made for impairment	(2,665)
Balances at December 31, 2019	**740,044**
Additions	1,346,410
Transfers to financial assets (Note 12)	(60,333)
Transfers to intangible assets (Note 14)	(882,951)
Provision made for impairment (1)	(1,571)
Balances at December 31, 2020	**1,141,599**

(1) Refers to the impairment loss recognized for assets in progress (canceled works) in the amount of R$10,623, net of the reversal of impairment losses recognized in prior years, in the amount of R$9,052.

The amount of additions in the period ended December 31, 2020 were R$1,346,410 and includes R$32,666 under the heading capitalized borrowing costs (R$18,659), as presented in Note 28.

The Company does not have any contract asset with indefinite useful life.

14. INTANGIBLE ASSETS

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

a) Balance composition

	2020			2019		
	Historic cost	Accumulated amortization	Amount, net	Historic cost	Accumulated amortization	Amount, net
Assets of concession	**21,815,858**	**(9,759,741)**	**12,056,117**	**20,901,165**	**(9,128,241)**	**11,772,924**
(-) 'Special obligations'	(4,391,518)	1,438,572	(2,952,946)	(4,184,097)	1,275,409	(2,908,688)
Net concession assets	**17,424,340**	**(8,321,169)**	**9,103,171**	**16,717,068**	**(7,852,832)**	**8,864,236**
Intangible assets in progress	104,098	-	104,098	74,384	-	74,384
Total intangible assets	**17,528,438**	**(8,321,169)**	**9,207,269**	**16,791,452**	**(7,852,832)**	**8,938,620**

b) Changes in intangible assets

Balances at December 31, 2018	**8,890,070**
Additions	33,911
Transfers to financial assets (Note 12)	1,142
Settled	(15,094)
Transfers of contract assets (Note 13)	629,706
Amortization	(601,115)
Balances at December 31, 2019	**8,938,620**
Additions	37,924
Settled	(36,237)
Transfers of contract assets (Note 13)	882,951
Transfers to financial assets (Note 12)	5,325
Amortization	(621,314)
Balances at December 31, 20120	**9,207,269**

The amount of additions in 2020 were R$37,924 and includes an reversal of R$1,107 (constitution of R$1,815 in 2019) of borrowing costs, as presented in Note 18.

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

Energy	(%)	Administration	(%)
System cable - below 69 KV	6.67	Software	20.00
System cable - below 69 KV	3.57	Vehicles	14.29
Structure - Posts	3.57	General equipment	6.25
Overhead distribution transformer	4.00	Buildings	3.33
Circuit breaker - up to 69 kV	3.03		
Capacitor bank - up to 69 kV	6.67		
Voltage regulator - up to 69 kV	4.35		
Eletronic meder	7.69		

The annual average amortization rate is 4.12%:

Distribution	Administration
3.90%	15.58%

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.

15. LEASING TRANSACTIONS

The Company recognized a right to use and a lease liability for the following contracts which contain a lease in accordance with CPC 06 (R2) / IFRS 16:

- 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 elected 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 in 2020 were immaterial.

The discount rates were obtained by reference to the Company's incremental borrowing rate, based on the debts contracted by the Company and through quotations with potential financial institutions and reflect the Company's credit risk and the market conditions at the lease agreement date, as follows:

Taxa incremental aplicada	Annual rate (%)	Monthly rate (%)
Initial application		
Up to two years	7.96	0.64
Three to five years	10.64	0.85
Six to twenty years	13.17	1.04
Contracts entered - 2019 and 2020		
Up to three years	6.87	0.56
Three to four years	7.33	0.59
Four to twenty years	8.08	0.65

a) Right-of-use assets

The right-of-use assets were valued at cost, corresponding to the amount of the initial measurement of the lease liabilities, and amortized on the straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Changes in the Right-of-use assets are as follows:

	Real estate property	Vehicles	Other	Total
Balances on December 31, 2018	-	-	-	-
Initial adoption on January 1, 2019	173,828	87,093	411	261,332
Addition	9,270	285	-	9,555
Amortization	(21,916)	(31,952)	(308)	(54,176)
Remeasurement (2)	(5,964)	2,201	-	(3,763)
Balances on December 31, 2019	**155,218**	**57,627**	**103**	**212,948**
Settled	(3,898)	-	-	(3,898)
Addition	4,594	-	-	4,594
Amortization (1)	(15,491)	(32,741)	(103)	(48,335)
Remeasurement (2)	5,033	(3,998)	-	1,035
Balances on December 31, 2020	**145,456**	**20,888**	-	**166,344**

(1) Amortization of the Right of Use recognized in the Income Statement is net of use of the credits of PIS/Pasep and Cofins taxes on payments of rentals, a total R$1,235 in 2020 (R$3,083 in 2019).

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

b) Leasing liabilities

The liability for lease agreements is measured at the present value of the lease payments required to be made over the lease term, discounted at the Company's marginal borrowing interest rate. The carrying amount of lease liabilities is remeasured if there are modifications that shall be accounted for as a remeasurement of the lease liability in accordance with CPC 06 (R2)/IFRS 16.

Changes in the lease liabilities are as follows:

Balances at December 31, 2018	-
First adoption on January 1, 2019 (1)	261,332
Addition	9,555
Interest incurred	27,589
Leasing paid	(69,585)
Interest in leasing contracts	(3,934)
Remeasurement (2)	(3,763)
Balances on December 31, 2019	**221,194**
Addition	4,594
Settled	(5,126)
Interest incurred (1)	22,313
Leasing paid	(63,346)
Interest in leasing contracts	(2,902)
Remeasurement (2)	1,035
Balances on December 31, 2020	**177,762**
Current liabilities	**38,521**
Non-current liabilities	**139,241**

(1) Financial revenues recognized in the Income Statement are net of incorporation of the credits for PIS/Pasep and Cofins taxes on payments of rentals, in the amounts of R$1,420 in 2020 (R$1,571 and R$44 in 2019).

(2) 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 present value
Consideration for the leasing	499,433	177,762
Potential PIS/Pasep and Cofins	45,592	13,652

The Company, in full compliance with CPC 06 (R2) in statement and restatement of its liability for leasing and for Right of Use, used the technique of discounted cash flow, without considering projected future inflation in the flows to be discounted, as per the prohibition imposed by CPC 06 (R2). This prohibition could generate material distortions in the information to be provided, given the present reality of long term interest rates in the Brazilian economic environment. The Company has evaluated these effects, and concluded that they are immaterial for its financial statements.

The cash flows of the leasing contracts are, in their majority, updated by the IPCA inflation index, annually. Below is an analysis of maturity of lease contracts:

2021	44,688
2022	20,718
2023	20,680
2024	20,644
2025	20,589
2026 a 2046	372,114
Undiscounted values	**499,433**
Embedded interest	(321,671)
Leasing liabilities	**177,762**

16. SUPPLIERS

	2020	2019
Energy on spot market - CCEE	408,932	389,220
Charges for use of energy network (1)	198,108	149,887
Energy purchased for resale	518,990	447,313
Itaipu Binacional	325,277	242,766
Materials and services	332,300	305,503
	1,783,607	**1,534,689**

(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.

17. TAXES PAYABLE AND AMOUNTS TO BE REIMBURSED TO CUSTOMERS

	2020	2019
Taxes and contributions		
Current		
ICMS	79,595	77,390
Cofins	63,682	68,171
PIS/Pasep	13,719	14,647
INSS	19,660	17,426
ISSQN	10,150	6,078
Income tax on Interest on Equity	37,960	-
Others	9,724	9,019
	234,490	**192,731**
Non Current (1)		
Cofins	-	375
PIS/Pasep	-	61
	-	**436**
	234,490	**193,167**
Amounts to be restituted to customers		
Current		
PIS/Pasep anf Cofins (2)	448,019	-
Non Current		
PIS/Pasep anf Cofins (2)	3,569,837	4,193,329
	4,017,856	**4,193,329**

(1) Amounts presented in the Statements of Financial Position under Other liabilities.
(2) The amounts of PIS/Pasep and Cofins taxes to be reimbursed to customers refer to the credits to be received by the Company. For further information see Note 8.

The amounts of PIS/Pasep and Cofins taxes to be reimbursed to customers refer to the credits to be received by the Company following the inclusion of the ICMS value added tax within the taxable amount for calculation of those taxes. According Note8(a), the Company recognized, in 2019, its right to offsetting of amounts unduly paid for the 10 years prior to the action being filed, with monetary updating by the Selic rate, due to the final judgment - against which there is no appeal - on the Ordinary Action, in favor of the Company.

The definitive criteria for reimbursement to customers of PIS/Pasep and Cofins taxes are pending, awaiting conclusion of discussions with Aneel and the mechanisms and criteria for reimbursement, when actual offsetting of the tax credits takes place.

18. LOANS, FINANCING AND DEBENTURES

Financing source	Principal maturity	Annual Financial cost (%)	Currency	2020 Current	2020 Non-current	2020 Total	2019 Total
Foreign currency							
Banco do Brasil S.A. - Various bonds (1)	2024	Several	US$	2,023	9,702	11,725	18,051
Debt in foreign currency				**2,023**	**9,702**	**11,725**	**18,051**
Brazilian currency							
Eletrobrás	2023	UFIR + 6.00% to 8.00%	R$	3,414	5,644	9,058	20,268
Large customers (2)	2024	IGP-DI + 6.00%	R$	-	-	-	5,582
Debt in Brazilian currency				3,414	5,644	9,058	25,850
Total of loans and financings				5,437	15,346	20,783	43,901
Debentures - 3rd Issue, 2nd Series (3)	2021	IPCA + 4.70%	R$	587,956	-	587,956	1,108,945
Debentures - 3rd Issue, 3nd Series (3)	2025	IPCA + 5.10%	R$	43,603	991,644	1,035,247	990,893
Debentures - 7th Issue, 1th Series (3)	2024	CDI + 0.454%	R$	541,927	1,350,000	1,891,927	2,164,083
Debentures - 7th Issue, 2th Series (3)	2026	IPCA + 4.10%	R$	2,783	1,585,141	1,587,924	1,519,042
(-) Discount on the issuance of debentures (4)				-	(18,300)	(18,300)	(21,606)
(-) Transaction costs				(692)	(7,605)	(8,297)	(10,336)
Total, debentures				**1,175,577**	**3,900,880**	**5,076,457**	**5,751,021**
Overall total				**1,181,014**	**3,916,226**	**5,097,240**	**5,794,922**

(1) Net balance of the Restructured Debt comprising bonds at par and discounted, with balance of R$233,931, less the amounts given as Deposits in guarantee, with balance of R$222,206. 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%); On March 31, 2020, these balances was reclassified to "Other credits".
(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.

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, financing and debentures, by currency and index, with the respective amortization, is as follows:

	2021	2022	2023	2024	2025	2026	Total
Currency							
US dollar	2,023	-	-	9,702	-	-	11,725
Total, currency-denominated	**2,023**	**-**	**-**	**9,702**	**-**	**-**	**11,725**
Indexers							
IPCA (1)	634,342	247,911	247,911	247,911	1,040,480	792,572	3,211,127
UFIR/RGR (2)	3,414	3,265	2,379	-	-	-	9,058
CDI (3)	541,927	540,000	540,000	270,000	-	-	1,891,927
Total, governed by indexers	**1,179,683**	**791,176**	**790,290**	**517,911**	**1,040,480**	**792,572**	**5,112,112**
(-) Transaction costs	(692)	(772)	(772)	(444)	(2,867)	(2,750)	(8,297)
(-) Discount	-	-	-	-	(9,150)	(9,150)	(18,300)
Overall total	**1,181,014**	**790,404**	**789,518**	**527,169**	**1,028,463**	**780,672**	**5,097,240**

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

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

Currency	Accumulated change in 2020, %	Accumulated change in 2019, %	Indexer	Accumulated change in 2020, %	Accumulated change in 2019, %
US dollar	28.93	4.02	IPCA	4.52	4.31
			CDI	2.77	5.97

Changes in loans, financing and debentures are as follows:

Balances at December 31, 2018	**6,263,408**
Loans and financings obtained	3,660,000
Transaction Cost	(10,183)
Discount in the issues of securities	(23,095)
Loans and financings 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**
Monetary variation	142,354
Exchange rate variation	(6,506)
Financial charges provisioned	227,192
Amortization of transaction cost	2,039
Financial charges paid	(244,027)
Amortization of financing	(811,705)
Reclassification to "Other obligations" (1)	(7,029)
Balances at December 31, 2020	**5,097,240**

(1) Financings under the heading of reimbursable injections of funds for execution of works at two companies: CMM (IGP-DI Index + 6%); and Mineradora Serra da Fortaleza (IGP-DI + 6%). In 2020, this amounts were Reclassificated to the Company's customers (CMM and Serra da Fortaleza).

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.

The Company transferred to intangible assets and to concession contract assets the costs of loans and financing linked to construction in progress, as follows:

	2020	2019
Costs of loans, financings and debentures	227,192	397,362
Financing costs on intangible assets and contract assets (1) (Notes 13 and 14)	(31,559)	(20,661)
Net effect in Profit or loss	**195,633**	**376,701**

(1) The average capitalization rate p.a. in 2020 was 5.602% (7.31% in 2019).

The amounts of the capitalized borrowing costs have been excluded from the statement of cash flows, in the additions to cash flow of investment activities, as they do not represent an outflow of cash for acquisition of the related asset.

Guarantees

The guarantees of the debt balance on loans and financing, on December 31, 2020, were as follows:

Promissory notes and Sureties	3,453,754
Receivables	1,622,703
Shares	20,138
Unsecured	645
TOTAL	**5,097,240**

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) (2)	The following or less: 3.5	Ratio to be the following, or less: 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.

(2) Ebitda is defined as: (i) Profit before interest, income tax and Social Contribution tax on profit; depreciation; and amortization, calculated in accordance with CVM Instruction 527, of October 4, 2012; - less: (ii) non-operational profit; any non-recurring non-monetary credits or gains that increase net profit; any payments in cash made on consolidated basis during the period relating to non-monetary charges that were newly added in the calculation of Ebitda in any prior period; and any non-recurring non-monetary expenses or charges.

The covenants remain in compliance on December 31, 2020.

19. REGULATORY CHARGES

	2020	2019
Liabilities		
Energy Efficiency	264,952	254,595
Research and development	86,402	71,137
Energy System Expansion Research	2,639	2,269
National Scientific and Technological Development Fund	5,562	4,821
Global Reversion Reserve (RGR)	24,545	24,545
Emergency capacity charge	26,325	26,325
Aneel inspection charge	1,683	1,621
Customers charges - ‘Flag Tariff’ system	89,825	16
	501,933	**385,329**
Current liabilities	**267,696**	**283,361**
Non-current liabilities	**234,237**	**101,968**

20. POST-EMPLOYMENT OBLIGATIONS

Fundo de pensão Forluz (plano de pensão e suplementação de aposentados)

Forluz Pension plan (a Supplementary retirement pension plan)

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

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

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 sponsors and participants.

Funded Benefit Plan (‘Plan A’): This plan includes all currently employed and assisted participants who opted to migrate from the Company’s previously sponsored defined benefit plan, and are entitled to a benefit proportional to those balances. For participants who are still working, this benefit has been deferred to the retirement date The benefit balances of Plan A have the characteristic of lifetime payment, and the responsibility for the risk of insufficiency of reserves to cover the benefits (deficits) is exclusively that of the sponsors.

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

Actuarial obligations and recognition in the financial statements

On this Note the Company discloses its obligations and expenses incurred for purposes of the Retirement Plan, Health Plan, Dental Plan and the Life Insurance Plan in accordance with the terms of CPC 33 (R1) /IAS 19 - *Employee Benefits*, and the independent actuarial opinion issued as of December 31, 2020.

Debt with the pension fund (Forluz)

On December 31, 2020, the Company has recognized an obligation for past actuarial deficits relating to the pension fund in the amount of R$342,369 on December 31, 2020 (R$410,343 on December 31, 2019). This amount has been recognized as an obligation payable by Cemig and its subsidiaries, and will be amortized until June of 2024, through monthly installments calculated by the system of constant installments (known as the ‘Price’ table), and adjusted by the IPCA (Expanded National Customer Price) inflation index (published by the Brazilian Geography and Statistics Institute - IBGE) plus 6% per year. The Company is required to pay this debt even if Forluz has a surplus, thus, the Company maintain recorded the debt in full, and record the effects of monetary updating and interest in finance income (expenses) in the statement of income.

Agreement to cover the deficit on Forluz Pension Plan ‘A’

Forluz and the sponsors Cemig, Cemig GT and Cemig D have signed a Debt Assumption Instrument to cover the deficit of Plan A for the years of 2015, 2016 e 2017. On December 31, 2020 the total amount payable by Cemig D as a result of the Plan A deficit is R$391,333 (R$398,584 on December, 31, 2019, referring to the Plan A deficits of 2015, 2016 and 2017). The monthly amortizations, calculated by the constant installments system (Price Table), will be paid until 2031 for the 2015 and 2016 deficits, in the amount of R$262,889, and up to 2033 for the 2017 deficit, in the amount of R$128,444. 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.

In December, 2020, in accordance with the applicable legislation, Forluz proposed to Cemig a new Debt Assumption Instrument to be signed, if approved, by Forluz, Cemig, Cemig GT and Cemig D, in accordance with the plan to cover the deficit of Plan A, that occurred in 2019. The total amount to be paid by the Company to cover the deficit is R$116,228, through 166 monthly installments. The remuneration interest rate over the outstanding balance is 6% per year, plus the effect of the IPCA. If the plan reaches actuarial balance before the full period of amortization of the debt, the Company will not be required to pay the remaining installments and the contract will be extinguished.

Actuarial information

2020	Pension plans and retirement supplement plans	Health plan	Dental plan	Life insurance	Total
Present value of obligations	8,088,978	2,400,299	45,751	410,232	10,945,260
Fair value of plan assets	(6,310,293)	-	-	-	(6,310,293)
Initial net liabilities	**1,778,685**	**2,400,299**	**45,751**	**410,232**	**4,634,967**
Adjustment to asset ceiling	11,614	-	-	-	11,614
Net liabilities in the statement of financial position	**1,790,299**	**2,400,299**	**45,751**	**410,232**	**4,646,581**

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**

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, 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**
Cost of current service	848	15,299	360	2,705	19,212
Interest on actuarial obligation	542,546	155,733	2,985	30,288	731,552
Actuarial losses (gains):					
Due to changes in demographic assumptions	81,870	288,703	2,949	-	373,522
Due to changes in financial assumptions	(227,578)	(111,289)	(2,778)	(25,902)	(367,547)
Due to adjustments based on experience	116,314	(91,000)	1,427	(16,739)	10,002
	(29,394)	86,414	1,598	(42,641)	15,977
Benefits paid	(553,691)	(102,547)	(2,009)	(7,097)	(665,344)
Defined-benefit obligation at December 31, 2020	**8,088,978**	**2,400,299**	**45,751**	**410,232**	**10,945,260**

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, 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**
Return on investments	396,858
Contributions from employer	152,951
Benefits paid	(553,691)
Fair value of plan assets at December 31, 2020	**6,310,292**

The amounts recognized in 2020 and 2019 statement of income are as follows:

2020	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)
Expense (recovery of expense) in 2020 according to actuarial calculation	**127,670**	**171,032**	**3,345**	**32,993**	**335,040**

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**

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, 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**
Net liabilities at December 31, 2019	-	-	-	-	-
Expense recognized in statement of income	127,670	171,032	3,345	32,994	335,041
Contributions paid	(152,951)	(102,547)	(2,009)	(7,098)	(264,605)
Actuarial losses	(29,524)	86,414	1,598	(42,642)	15,846
Net liabilities at December 31, 2020	**1,790,300**	**2,400,299**	**45,751**	**410,231**	**4,646,581**
				12/31/2020	**12/31/2019**
Current liabilities				**213,283**	**201,241**
Non-current liabilities				**4,433,298**	**4,359,058**

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$296,844 (R$276,663 in 2019), plus the finance expenses and monetary updating on the debt with Forluz, in the amounts of R$38,197 in 2019 (R$40,637 in 2019).

The independent actuary's estimation for the expense to be recognized for 2021 is as follows:

2021	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Current service cost	922	15,187	356	2,381	18,846
Interest on the actuarial obligation	537,238	167,161	3,240	29,265	736,904
Expected return on the assets of the Plan	(414,911)	-	-	-	(414,911)
Estimated total expense in 2021 as per actuarial report	**123,249**	**182,348**	**3,596**	**31,646**	**340,839**

The expectation for payment of benefits for 2021 is as follows:

	Pension plans and retirement supplement plans	Health Plan	Dental Plan	Life insurance	Total
Estimated payment of benefits	557,717	122,194	2,094	12,933	694,938

The Company has expectation of making contributions to the pension plan in 2021 of R$160,172 for amortization of the deficit of Plan A, and R$55,829 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			
11.58	12.81	12.81	13.80	15.01

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

	2020	2019
Shares	9.25%	9.51%
Fixed income securities	72.17%	72.28%
Real estate property	3.71%	3.79%
Others	14.87%	14.42%
Total	**100.00%**	**100.00%**

The following assets of the pension plan, measured at fair value, are related to the Company:

	2020	2019
Non-convertible debentures issued by the Company	203,110	195,339
Real estate properties of the Foundation, occupied by the Company	220,522	343,408
	423,632	**538,747**

This table provides the main actuarial assumptions:

	2020		
	Pension plans and retirement supplement plans	Health plan and Dental plan	Life insurance
Annual discount rate for present value of the actuarial obligation	6.83%	7.14%	7.25%
Annual expected return on plan assets	6.83%	Not applicable	Not applicable
Long-term annual inflation rate	3.32%	3.32%	3.32%
Estimated future annual salary increases	3.32%	Not applicable	4.56%
General mortality table	AT-2000 M S10% D10%	AT-2000 M S10% D20%	AT-2000 M S10% D20%
Disability table	Not applicable	Álvaro Vindas D30%	Álvaro Vindas D30%
Disabled mortality table	AT-49 M	MI-85 F	MI-85 F
Real growth of contributions above inflation (1)	-	1%	-

(1) Starting in 2018, Company adopted the assumption of real growth of the contributions above inflation at the rate of 1% p.a.

	2019		
	Pension plans and retirement supplement plans	Health plan and Dental plan	Life insurance
Annual discount rate for present value of the actuarial obligation	6.87%	7.09%	7.19%
Annual expected return on plan assets	6.87%	Not applicable	Not applicable
Long-term annual inflation rate	3.61%	3.61%	3.61%
Estimated future annual salary increases	3.61%	Not applicable	4.85%
General mortality table	AT-2000 M S10% D10%	AT-2000 M S10% D20%	AT-2000 M S10% D20%
Disability table	Not applicable	Álvaro Vindas D30%	Álvaro Vindas D30%
Disabled mortality table	AT-49 M	MI-85 F	MI-85 F
Real growth of contributions above inflation	-	1%	-

(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, 2020:

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	203,908	57,006	939	(11,248)	250,605
Increase of one year in the mortality table	(204,807)	(57,361)	(948)	11,956	(251,160)
Reduction of 1% in the discount rate	919,580	354,162	7,299	83,595	1,364,636

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 years ended December 31, 2020 and 2019.

21. PROVISIONS

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:

	Dec. 31, 2019	Additions	Reversals	Settled	Dec. 31, 2020
Labor	382,915	76,496	(36,903)	(85,444)	337,064
Civil					
Customer relations	17,767	21,408	(44)	(17,591)	21,540
Other civil actions	16,329	19,144	-	(6,356)	29,117
	34,096	40,552	(44)	(23,947)	50,657
Tax	774,348	79,071	(37,797)	(168)	815,454
Environmental	2	3	-	-	5
Regulatory	16,575	13,820	(759)	(9)	29,627
Others	13,215	5,603	(3,031)	(1,832)	13,955
Total	**1,221,151**	**215,545**	**(78,534)**	**(111,400)**	**1,246,762**

	Dec. 31, 2018	Additions	Reversals	Settled	Dec. 31, 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**

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 interim financial information 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'.

Labor claims

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$1,163,625 (R$1,434,014 on December 31, 2019), of which R$337,064 (R$382,915 on December 31, 2019) has been recorded - the amount estimated as probably necessary for settlement of these disputes.

Alteration of the monetary updating index of employment-law cases

In December 2020 the Federal Supreme Court gave partial judgment in favor of two actions for declaration of constitutionality, and ruled that monetary adjustment applied to employment-law liabilities should be by the IPCA-E index until the stage of service of notice in a legal action, and thereafter by application of the Selic rate, and the Reference Rate (TR) is not applicable to any employment-law obligations as well. The effects of this decision were modulated as follows:

- ✓ payments already made in due time and in the appropriate manner, using application of the TR, the IPCA-E or any other indexer, will remain valid and may not be the subject of any further contestation;
- ✓ actions in progress that are at the discovery phase, should be subject to backdated application of the Selic rate, on penalty of future allegation of non-demandability of judicial title based on an interpretation contrary to the position of the Supreme Court; and;
- ✓ the judgment is automatically applicable to actions in which final judgment has been given against which there is no appeal, provided that there is no express submission in relation to the monetary adjustment indices and interest rates; and this also applies to cases of express omission, or simple consideration of following the legal criteria.

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$117,229 (R$56,211 on December 31, 2019), of which R$21,540 (R$17,767 on December 31, 2019) 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$277,595 (R$228,500 on December 31, 2019), of which R$29,117 (R$16,329 on December 31, 2019) has been recorded - the amount estimated as probably necessary for settlement of these disputes.

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$990,654 (R$950,209 on December 31, 2019), of which R$808,447 (R$772,684 on December 31, 2019) has been provisioned, 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$109,540 (R$54,579 on December 31, 2019), of which R$7,007 (R$1,218 on December 31, 2019) 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$256,803 (R$208,537 on December 31, 2019), of which R$29,627 (R$16,575 on December

31, 2019) has been recorded as provision - the amount estimated as probably necessary for settlement of these disputes.

‘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$356,236 (R$321,567 on December 31, 2019). Of this total, R$687 (R$4,002 on December 31, 2019) 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$428,111 (R$381,826 on December, 31, 2019), of which R$13,272 (R$9,215 on December, 31, 2019), the amount estimated as probably necessary for settlement of these disputes.

Contingent liabilities - loss assessed as ‘possible’

Taxes and contributions

The Company and its subsidiaries are involved in numerous administrative and judicial proceedings in relation to taxes. Below are details of the main claims:

Indemnity of employees’ future benefit (the ‘Anuênio’)

In 2006 the Company 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$204,739 (R$202,042 on December 31, 2019). The updated amount of the contingency is R$211,026 (R$207,067 on December 31, 2019) and, based on the arguments above, management has classified the chance of loss as ‘possible’.

Social Security contributions

The Brazilian federal tax authority (Secretaria da Receita Federal) has filed administrative proceedings related to various matters: employee profit sharing; the Workers’ Food Program (Programa de Alimentação do Trabalhador, or PAT); education benefit; food benefit; Special Additional Retirement payment; overtime payments; hazardous occupation payments; matters related to Sest/Senat (transport workers’ support programs); and fines for non-compliance with accessory obligations. The Company has presented defenses and await judgment. The amount of the contingency is approximately R$91,233 (R$93,571 on December 31, 2019). 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$85,944 (R$41,944 on December 31, 2019), 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$284,856 (R$305,571 on December 31, 2019). 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).

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$35,973 (R$30,015 on December 31, 2019).

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$356,907 (R$326,719 on December 31, 2019). 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$167,168 (R$148,904 on December 31, 2019). The Company has classified the chance of loss as 'possible', after analysis of the case law on this subject.

22. EQUITY AND REMUNERATION TO SHAREHOLDERS

a) Share capital

On September 30, 2020 the Company's issued and outstanding share capital is R$5,371,998 (R$5,371,998 on December 31, 2019), 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.

b) Earnings per share

Earnings 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:

	2020	2019
Total number of shares	2,359,113,452	2,359,113,452
Net income for the period	1,201,554	1,644,366
Basic and diluted earnings per common share (R$)	**0.51**	**0.70**

The Company does not have any dilutive instruments. Hence its diluted earnings per share is the same as its basic earnings 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, 2020 was R$2,004,037 (R$1,993,579 on December 31, 2019).

e) Profit reserves

The composition of the profit reserves:

	2020	2019
Profit reserves		
Legal reserve	393,178	333,948
Reserve for tax incentives - SUDENE	54,260	37,308
Retained profit reserve	2,206,232	958,533
-	**2,653,670**	**1,329,789**

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. As from 2020 the Legal reserve began to be calculated based on Net profit adjusted for the Tax incentive reserve, totaling R$ 59,230 in 2020 (R$ 82,218 in 2019).

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 has a right to 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, 2020 was R$54,260 (R$37,308 on December 31, 2019). This reserve cannot be used for payment of dividends.

f) Dividends

As specified in the by-laws, the Board of Directors may, at the discretion of management, declare interim dividends, in the form of Interest on Equity, to be paid from Retained earnings, profit reserves or profits ascertained in six-monthly or interim financial statements. The amounts paid or credited as Interest on Equity, under the applicable legislation, are imputed as on account of the amounts of the mandatory dividend or of the dividend payable under the by-laws to the preferred shares, being for legal purposes a part of the amount of the dividends distributed by the Company.

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

However, Sub-item 2 of Clause 33 of the by-laws states that non-compliance with the annual global limits for collective service continuity indicators for two consecutive years or for three years in any five years may, under regulations by Aneel, limit distribution of dividends or of Interest on Equity to a maximum, in isolation or jointly, of twenty five percent of the net profit, less, or augmented by, amounts allocated to the Legal Reserve and to the Reserve for Contingencies, or reversal of that reserve, formed in prior business years, until the regulatory parameters have been restored, subject to Sub-item I of Paragraph 1 of Clause 7 of the Fifth Amendment to the Distribution Concession Contracts signed between Cemig D and the Nation.

Since the global limits for Average Consumer Outage Duration (DEC) in 2016, 2017 and 2019 were not met, the limitation on Cemig D distributing dividends and Interest on Equity applies to Cemig D in 2021: it can distribute only 25% of net profit, plus or minus amounts allocated to the Legal reserve and the Reserve for contingencies, under Article 2 of Aneel Normative Resolution 747/2016.

The global limit for DEC was met in 2020, and if it is met again in 2021 the company will be exempt from the above-mentioned obligation as from 2022.

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 September 22 and 23, 2020 the Executive Board decided to pay Interest on Equity in the amount of R$94,500 and R$253,069 respectively, to be off set with the mandatory dividend and with 15% of income tax as the legislation. The tax benefit arising from the payments was R$118,173, recognized in the Statements of income for 2020.

	2020
Net income for the year	**1,201,554**
Legal reserve - 5%	(59,230)
Adjusted Net income for the year	**1,142,324**
Mandatory dividend - 25% of Net Income (considering regulatory restriction)	285,581
Dividend to be paid - proposal	
Interest on capital	347,569
Dividends per share	**0.1473**

<u>Allocation of net income for 2020 - Management's proposal</u>

The Board of Directors decided to propose to the Annual General Meeting to be held in April, 2021 that the profit for 2020, in the amount of R$1,201,554:

- R$59,230 related to 5% of adjusted net income to be allocated to the Legal Reserve;

- R$347,569 for payment of the mandatory minimum dividends as of Interest on Equity, declared on September 22 and December 23, 2020, to be paid in two instalments, as R$285,581 until December 30, 2021 and R$61,988 in 2022;

- R$16,952 to be recorded as Incentives Tax reserve, in reference to the tax incentive amounts obtained in 2020 in relation to the investments made in the region of Sudene;
- R$777,803 to be held in Shareholders' Equity in the Retained earnings reserve, to guarantee execution of the Company's Investment Program for 2021.

Since the Interest on Equity was higher than the limit of dividends specified by Aneel, management will propose that of the R$ 347,569, only R$ 285,581 will be paid by December, 30, 2021, and the remaining R$ 61,988 will be paid in 2022 - on the assumption that the Company will meet the limit for the global DEC indicator in 2021, which will extinguish the limitation on payment of dividends specified in the concession contract.

23. REVENUE

The revenue of the Company is as follows:

	2020	2019
Revenue from supply of energy - captive customers, in Cemig's concession area (a)	19,173,606	19,966,951
Reimbursement of PIS/Pasep and Cofins over ICMS credits to customers- realization (*)	266,320	-
Revenue from use of the energy distribution systems (TUSD) - free customers (b)	3,045,719	2,746,532
CVA, and Other financial components in tariff increases (c)	454,741	57,988
Distribution construction revenue (d)	1,384,334	936,332
Mechanism for the sale of surplus (e)	234,347	-
Adjustment to expectation from reimbursement of distribution concession financial assets (f)	15,465	17,839
Fine for violation of continuity indicator	(50,532)	(57,897)
Recovery of PIS/Pasep and Cofins (Note 8)	-	830,343
Other operating revenues (g)	1,561,643	1,461,663
Taxes and charges reported as deductions from revenue (h)	(9,573,981)	(10,041,010)
	16,511,662	**15,918,741**

(*)For more information, see Note 8a from this financial statements.

a) Revenue from supply of energy

This table shows supply of energy by type of customer:

	MWh (*)		R$	
	2020	2019	2020	2019
Residential	10,980,626	10,538,342	9,875,244	9,668,234
Industrial	1,772,812	2,383,097	1,229,394	1,581,092
Commercial, services and others	4,383,757	5,214,433	4,074,898	4,549,469
Rural	3,749,372	3,792,159	2,185,209	2,057,510
Public authorities	713,984	904,879	522,319	653,551
Public lighting	1,242,760	1,357,293	550,376	614,319
Public services	1,362,402	1,371,992	721,488	724,904
Subtotal	**24,205,713**	**25,562,195**	**19,158,928**	**19,849,079**
Own consumption	34,089	37,827	-	-
Wholesale supply to other concession holders	-	-	1,558	-
Unbilled revenue	-	-	13,120	117,872
Total	**24,239,802**	**25,600,022**	**19,173,606**	**19,966,951**

(*)Data not audited 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'.

The total amount of energy transported, in MWh, is as follows:

	MWh (*)	
	2020	2019
Industrial	18,612,418	17,723,153
Commercial	1,299,871	1,319,934
Rural	31,835	17,226
Concessionaires	315,142	341,427
Total	**20,259,266**	**19,401,740**

(*)Data not reviewed by external auditors.

c)The CVA account, and Other financial components

The results from variations in the CVA account (*Parcel A Costs Variation Compensation Account*), and in *Other financial components* in calculation of tariffs, refer to the positive and negative differences between the estimated non-manageable costs of the subsidiary Cemig D and the cost actually incurred. The amounts recognized arise from balances recorded in the current year, homologated or to be homologated in tariff adjustment processes. For more information please see Note 12b.

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.

e) Mechanism for the sale of energy surplus

The revenue from the surplus sale mechanism ('*Mecanismo de Venda de Excedentes* - MVE') refers to the sale of power surpluses by distributor agents. This mechanism is an instrument regulated by Aneel enabling distributors to sell over contracted supply - the energy amount that exceeds the quantity required to supply captive customers.

f) 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.

g) Other operating revenues

	2020	2019
Charged service	10,821	17,351
Other services	14,520	10,582
Low income Subsidies	291,674	169,196
Other Subsidies (1)	1,082,381	1,079,262
Rental and leasing	162,236	190,833
Transactions in energy on the CCEE (reversal)	-	(6,561)
Others	11	1,000
	1,561,643	**1,461,663**

(1) Includes the revenue recognized for the tariff subsidies applied to users of the distribution system, in accordance with the Decree n.7,891/2013, in the amount of R$1,035,617 in 2020 (R$1,079,262 in 2019). Includes the subsidies for sources that are subject to incentive, rural, irrigators, public services and the generation sources that are subject to the incentive; and also includes the tariff flag revenue in the amount of R$46,764 in 2020, recognized because of the creditor position assumed by the Company in CCRBT.

h) Deductions on revenue

	2020	2019
Taxes on revenue		
ICMS	5,273,070	5,418,597
PIS/Pasep	317,008	349,309
Cofins	1,460,161	1,608,939
ISSQN	726	756
	7,050,965	**7,377,601**
Charges to the customer		
Engergy Efficiency Program (PEE)	72,631	68,584
Energy Development Account (CDE)	2,208,555	2,213,435
Research and Development (R&D)	29,053	27,434
National Scientific and Technological Development Fund (FNDCT)	29,053	27,434
Energy System Expansion Research (EPE of MME)	14,526	13,717
Customer charges - the 'Flag Tariff' system	149,419	294,004
Energy Services Inspection Charge	19,779	18,801
	2,523,016	**2,663,409**
	9,573,981	**10,041,010**

24. OPERATING COSTS AND EXPENSES

	2020	2019
Personnel (a)	885,930	869,289
Employees' and managers' profit shares	92,295	182,856
Post-employment obligations	296,844	276,663
Materials	60,841	62,632
Outsourced services (b)	1,055,390	1,015,880
Energy purchased for resale (c)	8,160,921	7,516,878
Amortization (Note 14b)	621,314	601,115
Amortization of Right of Use - Leasing	47,100	51,093
Operating provisions (d)	272,276	1,100,647
Charges for use of the national grid	1,799,091	1,458,939
Infrastructure construction cost (e)	1,384,334	936,332
Other operating expenses, net (f)	212,427	298,633
	14,888,763	**14,370,957**

a) Personnel

2020 Programmed Voluntary Retirement Plan ('PDVP')

On April 2020, the Company approved the Programmed Voluntary Retirement Plan for 2020 ('the 2020 PDVP'). Those eligible - any employees who had worked with the Company for 25 years or more by December 31, 2020 - are able to join from May 4 to 22, 2020. The program provided the standard legal payments for severance, 50% of the period of notice, an amount equal to 20% of the Base Value of the employee's FGTS fund, an additional premium equal to 50% of the period of notice plus 20% of the Base Value of the employee's FGTS fund, as well as the other payments under the legislation. The total amount of R$45,584 has been recorded as expense related to this program, corresponding to acceptance by 329 employees.

2019 Programmed Voluntary Retirement Plan ('PDVP')

On December 31, 2019, has been appropriated as expense in the first quarter of 2019, including severance payments, a total of R$14,728 (108 employees).

b) Outsourced services

	2020	2019
Meter reading and bill delivery	126,970	127,948
Maintenance and conservation of electrical facilities and equipment	403,628	361,850
Communication	67,438	64,623
Building conservation and cleaning	82,651	81,246
Cleaning of power line pathways	69,748	57,484
Disconnection and reconnection	39,107	70,366
Tree pruning	47,600	45,991
Costs of proceedings	18,521	17,997
Maintenance and conservation of furniture and utensils	4,732	4,194
Information technology	58,499	47,413
Contracted labor	5,162	9,964
Accommodation and meals	6,462	9,844
Security services	10,312	9,396
Maintenance and conservation of vehicles	1,898	2,481
Costs of printing and legal publications	14,438	18,484
Consultancy	13,759	6,605
Transport expenses - legal entities	5,147	5,685
Inspection of customer units	35,162	14,124
Freight and airfares	731	3,168
Other expenses	43,425	57,017
	1,055,390	**1,015,880**

c) Energy purchased for resale

	2020	2019
Supply from Itaipu Binacional	1,990,221	1,429,355
Physical guarantee quota contracts	821,491	754,595
Quotas for Angra I and II nuclear plants	302,969	269,172
Spot market	1,056,266	1,773,539
'Bilateral' contracts	333,676	310,979
Energy acquired in Regulated Market auctions	3,368,565	3,053,341
Proinfa Program	317,587	375,442
Distributed generation ('Geração distribuída')	678,113	206,862
PIS/Pasep and Cofins credits	(707,967)	(656,407)
	8,160,921	**7,516,878**

d) Operating provision (reversals)

	2020	2019
Estimated losses on doubtful accounts receivables (Note 7) (1)	135,265	199,142
Estimated losses on other accounts receivable (reversals) (2)	-	6,769
Contingency provisions (reversals) **(Note 21)**		
Employment-law cases	39,593	92,367
Civil cases	40,508	23,149
Tax (3)	41,274	772,457
Environmental	3	(1,207)
Regulatory	13,061	(304)
Others	2,572	8,274
	137,011	**894,736**
	272,276	**1,100,647**

(1) The estimated losses on other accounts receivable are presented in the Statements of income as operating expenses.
(2) The estimated losses on other accounts receivable are presented in the statements of income as operating expenses.
(3) The provision recognized in 2019 is due to the Company's reassessment, based on the opinion of its legal advisers, of the chances of loss in legal actions disputing social security contributions on the payments of profit-sharing to its employees from 1999 to 2016. For more information, see Note 21.

e) Construction costs

	2020	2019
Personnel	74,249	76,240
Materials	684,648	464,875
Outsourced services	549,970	341,127
Financial charges	31,559	20,661
Acquisition of buildings	117	2,870
Renting	2,139	-
Taxes and charges	1,243	1,641
Other	40,409	28,918
	1,384,334	**936,332**

f) Other operating expenses (revenues), net

	2020	2019
Leasing and rentals (1)	6,012	14,887
Advertising	4,359	4,616
Own consumption of energy	24,399	21,992
Subsidies and donations	17,491	29,032
CCEE annual charge	3,144	3,128
Insurance	9,491	4,136
Forluz - Administrative running cost	21,863	21,782
Collection agents	85,712	87,792
Taxes and charges	4,523	6,753
Provision (reversal) for recoverable amount (2)	1,571	2,665
Aneel penalty (3)	-	29,296
Recalculation of quality indicators as determined by Aneel (4)	-	19,653
Outras despesas	33,862	52,901
	212,427	**298,633**

(1) Company has 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.

25. FINANCE INCOME AND EXPENSES

	2020	2019
FINANCE INCOME		
Income from cash investments	50,222	36,058
Arrears fees on sale of energy	390,012	341,840
Foreign exchange variations - loans and financings (Note 18)	6,506	7,854
Monetary variation	4,690	11,210
Monetary updating on escrow deposits	10,538	19,916
Monetary variation - CVA (Note 12)	31,949	105,402
PIS/Pasep and Cofins taxes charged on financial revenues	(28,216)	(51,221)
Monetary updating on PIS/Pasep and Cofins taxes credits over ICMS	24,811	1,034,352
Others	29,679	29,384
	520,191	**1,534,795**
FINANCE EXPENSES		
Costs of loans and financings (Note 18)	(195,633)	(376,701)
Amortization of transaction cost (Note 18)	(2,039)	(25,737)
Forluz - Monetary variation charges	(38,197)	(40,637)
Foreign exchange variations - Itaipu	(46,777)	(13,054)
Foreign exchange variations - loans and financings (Note 18)	(142,354)	(90,814)
R&D and PEE - Monetary variation	(14,521)	(17,021)
Leasing - Monetary variation (Note 15)	(20,893)	(26,018)
Monetary variation - Others	(30,675)	(7,545)
Others	(20,134)	(34,879)
	(511,223)	**(632,406)**
NET FINANCE INCOME (EXPENSES)	**8,968**	**902,389**

26. RELATED PARTY TRANSACTIONS

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

COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2020	2019	2020	2019	2020	2019	2020	2019
Controlling shareholder								
Minas Gerais State Government								
CURRENT								
Customers and Traders (1)	334,824	345,929	-	-	127,385	166,263	-	-
CEMIG								
CURRENT								
Cooperation Working Agreement (2)	-	-	10,072	7,234	-	-	(33,305)	(32,444)
Provision of services	-	-	-	-	-	4,082	-	(1,693)
Transactions in energy (3)	73	-	-	-	-	1,011	-	-
Interest on Equity and dividends	-	-	309,434	822,183	-	-	-	-
Other related parties								
Cemig Geração e Transmissão								
CURRENT								
Cooperation Working Agreement (2)	-	-	1,707	1,669	-	-	(5,700)	(7,479)
Transactions in energy (3)	1,245	972	29,421	30,618	27,194	27,538	(300,410)	(270,418)
Aliança Geração								
CURRENT								
Transactions in energy (3)	-	-	8,037	7,620	41,592	39,102	(87,473)	(82,449)
Madeira Energia								
CURRENT								
Transactions in energy (3)	-	-	22,668	-	-	-	(203,200)	-
Reimbursement for decontracted supply (4)	-	3,504	-	-	-	4,246	-	-
Norte Energia								
CURRENT								
Transactions in energy (3)	-	-	25,154	24,459	-	-	(225,249)	(217,358)
Baguari Energia								
CURRENT								
Transactions in energy (3)	-	-	922	924	-	-	(8,410)	(7,958)
TAESA								
CURRENT								
Transactions in energy (3)	-	-	7,188	7,268	-	-	(88,345)	(83,595)
Axxiom								
CURRENT								
Provision of services (5)	-	-	3,497	3,177	-	-	-	-
Retiro Baixo								
CURRENT								
Transactions in energy (3)	-	-	144	567	5,348	4,916	(4,785)	(5,042)
Hidrelétrica Cachoeirão								
CURRENT								
Transactions in energy (3)	-	-	-	-	1,767	-	-	-

COMPANY	ASSETS		LIABILITIES		REVENUE		EXPENSES	
	2020	2019	2020	2019	2020	2019	2020	2019
FIC Pampulha								
CURRENT								
Cash and cash equivalents	107,284	5,376	-	-	-	-	-	-
Marketable securities	2,100,746	109,567	-	-	20,097	689	-	-
NON-CURRENT								
Marketable securities	472,371	269	-	-	-	-	-	-
Forluz								
CURRENT								
Post-employment obligations (6)	-	-	114,957	104,928	-	-	(127,670)	(122,713)
Supplementary pension contributions - Defined contribution plan (7)	-	-	-	-	-	-	(53,287)	(52,794)
Administrative running costs (8)	-	-	-	-	-	-	(21,863)	(21,782)
Operational leasing (9)	127,659	135,147	16,644	24,396	-	-	(1,843)	(37,060)
NON-CURRENT								
Post-employment obligations (6)	-	-	1,675,343	1,740,177	-	-	-	-
Operational leasing (9)	-	-	119,512	115,498	-	-	-	-
Cemig Saúde								
CURRENT								
Health Plan and Dental Plan (10)	-	-	104,556	95,231	-	-	(174,377)	(164,333)
NON-CURRENT								
Health Plan and Dental Plan (10)	-	-	2,341,494	2,192,986	-	-	-	-

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$113,032, up to November 2019. Twenty installments were unpaid at September 30, 2020. 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. Cemig Distribuição filed an application with the tax authority of Minas Gerais state to accept the terms of State Law n. 23,510/2020, to enable part of the ICMS tax payable to be offset against the debt owed by the government of Minas Gerais state to the Company. At present, the state tax authority is validating the invoices presented, to authorize the compensation of credits. As a result, the Company has reversed the amount of R$209,935 previously recognized as expected losses for doubtful receivables.

(2) 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;

(3) 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).;

(4) 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 ended in January 2020.

(5) This refers to a contract for development of management software between the Company and Axxiom Soluções Tecnológicas S.A., instituted in Aneel Dispatch 2,657/2017.

(6) 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 20);

(7) 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.

(8) 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.

(9) 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. Cemig is still negotiating with Forluz the returning of the remaining leased floors of Aureliano Chaves building, aiming at balancing the headquarters leasing costs to Cemig's budgeting.

(10) Post-employment obligations relating to the employees' health and dental plan (more details in Note 20).

Cash investments in FIC Pampulha

The Company 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, 2020 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	2020	2019
				Cemig D -	Cemig D 4.42% (1)
GASMIG	Promissory note	107.00% of CDI	Sep. 25, 2020		447
				-	**447**

(1) Participation percentage of Cemig D in FIC Pampulha.

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 2020 and 2019, are within the limits approved at a General Shareholders' Meeting, and the effects on the income statements of the years ended, are as follows:

	2020	2019
Remuneration	9,857	8,802
Profit sharing	3,278	2,065
Pension plans	724	752
Health and dental plans	94	85
Total	**13,953**	**11,704**

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) 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	2020		2019	
		Balance	Fair value	Balance	Fair value
Financial assets					
Amortized cost (1)					
Marketable securities - Cash investments	2	754,013	754,013	14,147	14,147
Customers and Traders; Concession holders - Transport of energy (Note 7)	2	3,066,450	3,066,450	2,912,869	2,912,869
Customers - Accounts receivable from Minas Gerais State (Note7)	2	334,824	334,824	422,034	422,034
Restricted cash	2	9,808	9,808	1,196	1,196
Concession financial assets - CVA (Parcel 'A' Costs Variation Compensation) Account, and Other financial components	3	132,681	132,681	881,614	881,614
Reimbursement of tariff subsidies	2	82,616	82,616	93,673	93,673
Low-income subsidy	2	43,072	43,072	29,582	29,582
Escrow deposits	2	527,628	527,628	1,766,042	1,766,042
Receivable amount of related party transactions - Reimbursement of decontracting of supply	2	-	-	3,504	3,504
		4,951,092	**4,951,092**	**6,124,661**	**6,124,661**
Fair value through profit or loss					
Cash equivalents - cash investments	2	581,287	581,287	41,574	41,574
Marketable securities					
Bank certificates of deposit	2	341,413	341,413	-	-
Treasury Financial Notes (LFTs)	1	457,503	457,503	13,900	13,900
Financial Notes - Banks	2	1,023,561	1,023,561	82,203	82,203
Debentures	2	-	-	15	15
		1,822,477	1,822,477	96,118	96,118
Concession financial assets - Distribution infrastructure	3	530,058	530,058	459,711	459,711
		2,933,822	**2,933,822**	**597,403**	**597,403**
		7,884,914	**7,884,914**	**6,722,064**	**6,722,064**
Financial liabilities					
Amortized cost (1)					
Loans, financings and debentures	2	(5,097,240)	(5,097,240)	(5,794,922)	(5,794,922)
Debt with pension fund (Forluz)	2	(342,369)	(342,369)	(410,343)	(410,343)
Deficit of pension fund (Forluz)	2	(391,333)	(391,333)	(398,584)	(398,584)
Sector financial liabilities	3	(231,322)	(231,322)	-	-
Suppliers	2	(1,783,607)	(1,783,607)	(1,534,689)	(1,534,689)
Leasing transactions	2	(177,762)	(177,762)	(221,194)	(221,194)
		8,023,633)	**(8,023,633)**	**(8,359,732)**	**(8,359,732)**

On December 31, 2020 and 2019, the book values of financial instruments reflect their fair values.

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

Distribution infrastructure concession financial assets, and transmission concession financial assets - Assets remunerated by tariff: 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 12.

Marketable securities: Fair value of marketable securities is determined taking into consideration the market prices of the investment, or market information that makes such calculation possible, considering future interest rates and exchange of investments to similar securities. The market value of the security is deemed to be its maturity value discounted to present value by the discount rate obtained from the market yield curve.

Other financial liabilities: fair value of its loans, financing and debentures were determined using 131.21% 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 + 0.16% to 0.97%, 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 (energy purchased from Itaipu) and cash flow. The risk exposure of Cemig D is mitigated by the account for compensation of variation of parcel A items (CVA).

The net exposure to exchange rates is as follows:

Exposição às taxas de câmbio	2020		2019	
	Foreign currency	R$	Foreign currency	R$
US dollar				
Loans and financing (Note 18)	(2,256)	(11,725)	(4,478)	(18,051)
Suppliers (Itaipu Binacional) (Note 16)	(62,593)	(325,277)	(60,229)	(242,766)
Net liabilities exposed		**(337,002)**		**(260,817)**

<u>Sensitivity analysis</u>

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 2021 will be an appreciation of the dollar by 0.06%, to R$5.20. The Company has prepared a sensitivity analysis of the effects on the Company's net income arising from depreciation of the Real exchange rate considering the increase of 25%, and 50%, in relation to this 'probable' scenario.

Risk: foreign exchange rate exposure	2020	December 31, 2021		
	Book value	'Probable' scenario US$=R$5.20	'Possible' scenario US$= R$6.50	'Remote' scenario US$=R$7.80
US dollar				
Loans and financing (Note 18)	(11,725)	(11,732)	(14,666)	(17,599)
Suppliers (Itaipu Binacional) (Note 16)	(325,277)	(325,484)	(406,854)	(488,225)
Net liabilities exposed	**(337,002)**	**(337,216)**	**(421,520)**	**(505,824)**
Net effect of exchange rate fluctuation		**(214)**	**(84,518)**	**(168,822)**

Interest rate risk

The Company is exposed to the risk of decrease in Brazilian domestic interest rates on December 31, 2020. This risk arises from the effect of variations in Brazilian interest rates on financial revenues from cash investments made by the Company, and also to the financial assets related to the CVA and other financial components, net of the effects on financial expenses associated to loans, financings and debentures in Brazilian currency, and also sectorial financial liabilities.

Part of the loans and financings in Brazilian currency comprises financings obtained from various financial agents that specify interest rates taking into account basic interest rates, the risk premium compatible with the companies financed, their guarantees, and the sector in which they operate.

This exposure occurs as a result of net assets (liabilities) indexed to variation in interest rates, as follows:

Risk: Exposure to domestic interest rate changes	2020	2019
Assets		
Cash equivalents - cash investments (Note 5)	581,287	41,574
Marketable securities (Note 6)	2,576,490	110,265
CVA and Other financial components in tariffs (Note 12)	132,681	881,614
Receivable amount of related party transactions - Reimbursement of decontracting of supply (Note 26)	-	3,504
	3,290,458	**1,036,957**
Liabilities		
Loans, financings and debentures - CDI rate (Note 18)	(1,891,927)	(2,164,083)
Sector financial liabilities (Note 12)	(231,322)	-
	(2,123,249)	**(2,164,083)**
Net assets (liabilities) exposed	**1,167,209**	**(1,127,126)**

Sensitivity analysis

In relation to the most significant interest rate risk, Company estimates that, in a probable scenario, at December 31, 2021 Selic rates will be 5.50%. 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.

Risco - Redução nas taxas de juros nacionais	2020	December 31, 2021		
	Book value	'Probable' scenario Selic 5.50%	'Possible' scenario Selic 4.13%	'Remote' scenario Selic 2.75%
Assets				
Cash equivalents - cash investments (Note 5)	581,287	613,258	605,294	597,272
Marketable securities (Note 6)	2,576,490	2,718,197	2,682,899	2,647,343
CVA and Other financial components in tariffs - Selic rate (Note 12)	132,681	139,978	138,161	136,330
	3,290,458	**3,471,433**	**3,426,354**	**3,380,945**
Liabilities				
Loans, financings and debentures - CDI rate (Note 18)	(1,891,927)	(1,995,983)	(1,970,064)	(1,943,955)
Sector financial liabilities (Note 12)	(231,322)	(244,045)	(240,876)	(237,683)
	(2,123,249)	**(2,240,028)**	**(2,210,940)**	**(2,181,638)**
Net liabilities exposed	**1,167,209**	**1,231,405**	**1,215,414**	**1,199,307**
Net effect of variation in interest rates		**64,196**	**48,205**	**32,098**

Increase in inflation risk

The Company is exposed to the risk of increase in inflation index on December 31, 2020. A portion of the loans, financings and debentures as well as the pension fund liabilities are adjusted using the IPCA (Expanded National Customer Price). The revenues are also adjusted using the IPCA and IGP-M index, mitigating part of the Company risk exposure. This table presents the Company's net exposure to inflation index:

Exposure to increase in inflation	2020	2019
Assets		
Concession financial assets related to infrastructure - IPCA index (Note12) (*)	530,058	459,711
Receivable from Minas Gerais state government (Debt recognition agreement) - IGPM index (Note26)	334,824	422,034
	864,882	**881,745**
Liabilities		
Loans, financings and debentures - IPCA index (Note 18)	(3,211,127)	(3,618,880)
Debt agreed with pension fund (Forluz) - IPCA index (Note 20)	(342,369)	(410,343)
Forluz deficit solution plan - IPCA index (Note 20)	(391,333)	(398,584)
	(3,944,829)	**(4,427,807)**
Net liabilities exposed	**(3,079,947)**	**(3,546,062)**

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

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, 2021 the IPCA inflation index will be 4.53% and the IGPM inflation index will be 11.65%. The Company has prepared a sensitivity analysis of the effects on its net income arising from a reduction in inflation of 25% and 50% in relation to the 'probable' scenario.

Risk: increase in inflation	2020	December 31, 2021		
	Book value	'Probable' scenario IPCA 4.53% IGPM 11.65%	'Possible' scenario (25%) IPCA 5.66% IGPM 14.56%	'Remote' scenario (50%) IPCA 6.80% IGPM 17.48%
Assets				
Concession financial assets related to infrastructure - IPCA index (Note12) (*)	530,058	554,070	560,059	566,102
Receivable from Minas Gerais state government (Debt recognition agreement) - IGPM index (Note26)	334,824	373,831	383,574	393,351
	864,882	**927,901**	**943,633**	**959,453**
Liabilities				
Loans, financings and debentures - IPCA index (Note 18)	(3,211,127)	(3,356,591)	(3,392,877)	(3,429,484)
Debt agreed with pension fund (Forluz) - IPCA index (Note 20)	(342,369)	(357,878)	(361,747)	(365,650)
Forluz deficit solution plan - IPCA index (Note 20)	(391,333)	(409,060)	(413,482)	(417,944)
	(3,944,829)	**(4,123,529)**	**(4,168,106)**	**(4,213,078)**
Net liabilities exposed	**(3,079,947)**	**(3,195,628)**	**(3,224,473)**	**(3,253,625)**
Net effect of variation in IPCA and IGPM indexes		**(115,681)**	**(144,526)**	**(173,678)**

(*) 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.

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.

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	48,681	749,831	508,607	4,027,351	800,721	6,135,191
Debt with pension plan (Forluz)	9,106	18,347	83,528	293,999	-	404,980
Deficit of the pension plan (Forluz)	4,025	8,117	37,049	213,453	378,148	640,792
	61,812	**776,295**	**629,184**	**4,534,803**	**1,178,869**	**7,180,963**
- Fixed rate						
Suppliers	1,618,085	164,743	779	-	-	1,783,607
	1,679,897	**941,038**	**629,963**	**4,534,803**	**1,178,869**	**8,964,570**

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, 2020, considered to be adequate in relation to the credits in arrears receivable by the Company, was R$647,429.

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 systemic related to macroeconomic and regulatory conditions, the market risk of the investment portfolio and the Treasury operational risk.

All investments are made in financial securities that have fixed-income characteristics, always indexed to the CDI rate. The Company does not carry out any transactions that would bring volatility risk into its financial statements.

As a management instrument, 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, in accordance with their equity value, plus a specific segment comprising those whose credit risk is associated only with federal government, and within this classification, limits of concentration by group and by institution are set:

Group	Equity	Limit per bank (% of equity)*
Federal Risk (FR)	-	10%
A1	Over R$ 3.5 billion	Between 6% and 9%
A2	Between R$ 1.0 billion and R$ 3.5 billion	Between 5% and 8%
A3	Between R$400 million and R$ 1.0 billion	Between 0% and 7%

* The percentage assigned to each bank depends on individual assessment of indicators, e.g. liquidity, and quality of the credit portfolio.

Further to these points, Cemig also sets two concentration limits:

1. No bank may have more than 30% of the Group's portfolio.
2. "Federal Risk" and "A1" banks may have more than 50% of the portfolio of any individual company.

COVID-19 Pandemic - Risks and uncertainties related to Cemig's business

The Company's assessment concerning the risks and potential impacts of Covid-19 are disclosed in Note 1.1.

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 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.

On April 07, 2020, Aneel expanded the limit of total amount of energy that can be declared by energy distributors in the process of the mechanism for the sale of surplus ('Mecanismo de Venda de Excedentes' - MVE), during 2020, from 15% to 30%, for the purpose of facilitating contractual reductions, considering the scenario caused by Covid-19 pandemic.

On May 18, 2020, the Decree 10,350/2020 authorized the creation and management of the *Covid Account* by the CCEE (Power Trading Exchange), whose purposes includes the coverage of the financial effects of over contracting caused by the pandemic. The amount estimated for this coverage was R$212,473. The Decree also added a sub-item to Article 3 of the Decree 5,163/2004, reducing the charge arising from the effects of the Covid-19 pandemic, calculated in accordance with an Aneel regulation, as one of the possible items to be treated as involuntary over contracting, and as a result passed through to customers.

Risk of continuity of the concession

The risk to continuity of the distribution concession arises from the new terms included in the extension of Cemig D's concession for 30 years from January 1, 2016, as specified by Law 12,783/13. The extension introduced changes to the present contract, conditional upon compliance by the distributor with new criteria for quality, and for economic and financial sustainability.

The extension is conditional on compliance with indicators contained in the contract itself, which aim to guarantee quality of the service provided and economic and financial sustainability of the company. These are determinant for actual continuation of the concession in the first five years of the contract, since non-compliance with them in two consecutive years, or in the fifth year, results in cancellation of the concession.

Additionally, as from 2021, non-compliance with the quality criteria for three consecutive years, or the minimum parameters for economic/financial sustainability for two consecutive years, results in opening of proceedings for termination of the concession.

Due to the inspection carried out by Aneel, the indicators of efficiency criteria regarding service continuity were recalculated for the period from January 2016 to May 2019, resulting in a non-compliance of the annual global limit for the indicator DEC (Customer Unit Average Outage Duration) for the periods of 2016 and 2017. Once the DEC calculated for the year of 2019 also exceeded the regulatory global limit, the prohibition on declaration of dividends and interest on equity, provided in Article 2º of Aneel Normative Resolution 747/2016, was applied, limiting the amount of Cemig D dividend and interest on equity, isolated or jointly, to 25% of net income, less the amounts allocated to the legal reserve and the Contingency Reserve. It is important to note that the internal indicators (DECi and FECi) for maintaining the distribution concession were complied with in all periods.

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, 2020.

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, 2020, the Company was compliant with all the covenants for financial index requiring half-yearly and annual compliance. More details in Note 18.

c) Capital management

This table shows comparisons of the Company’s net liabilities and its Equity on December 31, 2020 and 2019:

	2020	2019
Total liabilities	19,119,392	19,649,855
(-) Cash and cash equivalents	(659,045)	(234,346)
(-) Restricted cash	(2,104,119)	(109,960)
Net liabilities	**16,356,228**	**19,305,549**
Total equity	**6,021,631**	**4,708,208**
Net liabilities / equity	2.72	4.12

28. 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, 2020 to Apr. 29, 2021	US$ 3,370 US$ 14,000	US$ 51
Warehouse stores	Fire	Nov. 2, 2020 to Nov. 2, 2021	$74,575	$68
Buildings	Fire	Jan. 8, 2021 to Jan. 8, 2022	$616,157	$179
Telecoms equipment (2)	Fire	Jul. 8, 2020 to Jul. 8, 2021	$31,082	$28
Operational risk - Transformers above 15MVA and other power distribution equipment with value above R$1,000	(2)	Dec. 7, 2020 to Dec. 7, 2021	$545,062	$717

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

(2) 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.

29. COMMITMENTS

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

	2021	2022	2023	2024	2025	2026 em diante	Total
Purchase of energy from Itaipu	1,514,968	1,548,077	1,595,172	1,595,172	1,595,172	33,498,611	41,347,172
Transport of energy from Itaipu	188,834	215,389	218,223	222,040	158,810	521,088	1,524,384
Purchase of energy - auctions	3,416,284	3,387,097	3,378,496	3,536,317	3,327,640	47,855,339	64,901,173
Purchase of energy - ‘bilateral contracts’	332,339	332,339	332,339	222,118	67,357	79,906	1,366,398
Quotas of Angra 1 and Angra 2	288,424	290,699	298,653	301,096	300,273	6,340,033	7,819,178
Physical quota guarantees	811,557	811,557	811,557	811,557	811,557	17,042,697	21,100,482
	6,552,406	**6,585,158**	**6,634,440**	**6,688,300**	**6,260,809**	**105,337,674**	**138,058,787**

30. NON-CASH TRANSACTIONS

On December 31, 2020 and 2019, the Company had the following transactions not involving cash, which are not reflected in the Cash flow statement:

- Capitalized financial costs of R$31,359 on 2020 (R$20,661 on 2019);

31. SUBSEQUENT EVENTS

The ‘Covid Account’

On January 26, 2021, Aneel published its Dispatch 181, setting the periods for payment, and the amounts of the monthly quotas, of the Energy Development Account (Conta de Desenvolvimento Energético - CDE) payable by distribution agents under the ‘Covid Account’, for amortization of the lending transaction contracted by the CCEE to support the cash position of distribution agentes, as specified in Normative Resolution 885 of 2020, and explained in Note 1 to the financial statements.

The monthly charge payable by Cemig D is approximately R$41 million/ per month, to be paid to the CCE as from the ordinary tariff adjustment process of 2021, with payment until the 10th day of the subsequent month. Under Aneel Technical Note 05/2021-SGT, this amount will be included in tariffs for 48 months (2021 to 2025), and Aneel will revisit, annually, the parameters for the definition of the charge; any residual balance will be returned to customers at the end of the period. To guarantee an equilibrium between tariff coverage, payment and collection, the Covid Account CDE Charge will be subject to calculation of CVA and Neutrality.

Interest on Equity

On March 23, 2021 the Board of Directors decided to pay Interest on Equity in the amount of R$ 86,667 as part of the minimum mandatory dividend for 2021, subject to withholding at source (under the current legislation) of income tax at 15%. This will be payable to stockholders whose names are on the Company’s Nominal Share registry on March 23, 2021.

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 in April, 2020, the proposal for the consolidated Capital Budget for the 2021 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$777,803 thousand from the retained earnings for the year of 2020.

Investments planned for 2021	
Electrical sub-transmission system	611.093
Electrical distribution system (médium and low voltage)	1.128.143
Infrastructure and Others	250.431
	1.989.667

****

(Original assinado pelos signatários abaixo)

Reynaldo Passanezi Filho
Diretor Presidente

Dimas Costa
Diretor Cemig Comercialização

Leonardo George de Magalhães
Diretor de Finanças e Relações com Investidores

Marney Tadeu Antunes
Diretor Cemig Distribuição

Maurício Dall'Agnese
Diretor Cemigpar

Paulo Mota Henriques
Diretor sem denominação

Eduardo Soares
Diretor de Regulação e Jurídica

Mário Lúcio Braga
Superintendente de Controladoria
CRC-MG 47.822

Carolina Luiza F. A. C. de Senna
Gerente de Contabilidade Financeira e Participações
Contadora - CRC-MG 77.839

Building a better
working world

Edifício Phelps Offices Towers

Rua Antônio de Albuquerque, 156
11º andar - Savassi
30112-010 - Belo Horizonte - MG - Brasil
Tel: +55 31 3232-2100
Fax: +55 31 3232-2106
ey.com.br

A free translation from Portuguese into English of Independent Auditor's Report on Financial Statements prepared in Brazilian currency in accordance with the 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. (the "Company"), which comprise the statement of financial position as at December 31, 2020 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, 2020, 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 the 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.

Building a better
working world

Edifício Phelps Offices Towers

Rua Antônio de Albuquerque, 156
11º andar - Savassi
30112-010 - Belo Horizonte - MG - Brasil
Tel: +55 31 3232-2100
Fax: +55 31 3232-2106
ey.com.br

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 misstatements of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Concession's infrastructure

As described in Notes 12, 13 and 14 to the financial statements as of December 31, 2020, the Company has recorded concession financial assets, contract assets and intangible assets amounted to R$ 530,058 thousand, R$ 1,141,599 thousand and R$ 9,207,269 thousand, respectively, representing the concession's infrastructure.

The amount of investments applied in the infrastructure for concession services is an essential part of the methodology applied by the grantor to determine the tariff to be charged by the Company to final consumers, under the terms of the Concession Agreement. Definition of which expenditures are eligible and should be capitalized as infrastructure cost is subject to management's judgments. During 2020, the Company recognized in its assets investments in the concession infrastructure amounting to R$ 1,384,334 thousand. Additionally, determination of expenditures that qualify as investment in the concession infrastructure also has direct impact on evaluation of concession financial assets, which represents the amount invested that will not be fully amortized by the end of the concession term, and will be indemnified by the grantor.

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

How our audit addressed this matter

Our audit procedures included, among others, evaluating the design and operating effectiveness of the Company's internal controls over accounting for infrastructure investments, including the allocation of indirect costs, the policies defined by the Company for such accounting and their applicability to accounting standards in force, comparing expenditures against historical data and observable industry trends.

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

Based on the results of the audit procedures performed, which are consistent with management's assessment, we considered the estimates prepared by management to be acceptable, as well as the related disclosures in Notes 12, 13 and 14 in the context of the financial statements taken as a whole.

Rua Antônio de Albuquerque, 156
11º andar - Savassi
30112-010 - Belo Horizonte - MG - Brasil
Tel: +55 31 3232-2100
Fax: +55 31 3232-2106
ey.com.br

Other matters

Statement of value added

The statement of value added (SVA) for the year ended December 31, 2020, prepared under the responsibility of Company management, and presented as supplementary information for IFRS purposes, 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 whether their form and content comply with the criteria defined in accounting pronouncement NBC TG 09 – Statement of Value Added. In our opinion, this statement of value added was fairly prepared, in all material respects, in accordance with the criteria defined in above mentioned accounting pronouncement and is consistent with the overall financial statements.

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

Management is responsible for such other information, which comprises 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.

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.

Rua Antônio de Albuquerque, 156
11º andar - Savassi
30112-010 - Belo Horizonte - MG - Brasil
Tel: +55 31 3232-2100
Fax: +55 31 3232-2106
ey.com.br

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 conducted 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.

- 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 substantial 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.

Edifício Phelps Offices Towers

Rua Antônio de Albuquerque, 156
11º andar - Savassi
30112-010 - Belo Horizonte - MG - Brasil
Tel: +55 31 3232-2100
Fax: +55 31 3232-2106
ey.com.br

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 any significant 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 communicated 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 year 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 26, 2021.

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, 2020 and the related complementary documents, approved by the Company's Board of Directors, on March 26, 2021. 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 2020 financial year, an so based on the unqualified Opinion of Ernst &Young Auditores Independentes (EY issued on March 26, 2021, 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 2021.

Belo Horizonte, March 26, 2021.

(Signed by:)

Gustavo de Oliveira Barbosa

Cláudio Morais Machado

Elizabeth Jucá e Mello Jacometti

Fernando Scharlack Marcato

Michele da Silva Gonsales Torres

DIRECTORS’ STATEMENTS OF REVIEW OF THE FINANCIAL STATEMENTS

DECLARATION

We hereby state, for the due purpose, under responsibility of our positions, that meeting of the Executive Board of Cemig Distribuição S.A. - Cemig D, held on March 23, 2021, we approved the conclusion, on that date, of the Company’s financial statements for the business year 2020; 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 2020 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. 26, 2021.

(Signed by)

Reynaldo Passanezi Filho - Executive Officer
Maurício Dall´Agnese - Chief Officer Cemigpar
Dimas Costa - Chief Trading Officer
Eduardo Soares - Chief Regulation and Legal
Leonardo George de Magalhães - Chief Finance and Investor Relations Officer
Paulo Mota Henriques - Chief without portfolio
Marney Tadeu Antunes - Chief Distribution and Sales Officer

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

STATEMENTS

We hereby state, for the due purpose, under responsibility of our positions, that meeting of the Executive Board of Cemig Distribuição S.A. - Cemig D, held on March 23, 2021, we approved the conclusion, on that date, of the Company's financial statements for the business year 2020; 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 2020 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. 26, 2021.

(Signed by)

Reynaldo Passanezi Filho - Executive Officer
Maurício Dall´Agnese - Chief Officer Cemigpar
Dimas Costa - Chief Trading Officer
Eduardo Soares - Chief Regulation and Legal
Leonardo George de Magalhães - Chief Finance and Investor Relations Officer
Paulo Mota Henriques - Chief without portfolio
Marney Tadeu Antunes - Chief Distribution and Sales Officer

Distribuição S.A.

REPORT OF THE AUDIT COMMITTEE

SUMMARY OF THE REPORT OF THE AUDIT COMMITTEE - March 26, 2021

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 11, 2018; and the committee members Mr. Afonso Henriques Moreira Santos elected on September 14, 2020, Mr. Márcio de Lima Leite elected on May 21, 2020 and Mr. Roberto Tommasetti elected on May 15, 2019.

ACTIVITIES CARRIED OUT IN THE SCOPE OF ITS DUTIES IN YEAR OF 2019

In 2020 the Committee met 42 times, met 11 times at the beginning of the first half of 2021 and met 5 times with the Audit Board. Four meetings were held jointly with the Fiscal Councilt Board in 2020, and one so far in the first half of 2021. 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. Ten 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, 2020. The Committee met with members of the Executive Board of the Company to deal with subjects related to general aspects of the management of the institution, in particular those relating to accounting, internal controls, internal auditing, management of capital, financial management and management of risks. The Committee has presented recommendations for enhancement of processes and accompanied the implementations of improvements that it has recommended, and also recommendations in relation to internal and external audits, indicated in the course of its work. The Committee has maintained regular contacts with the Company’s Board of Directors and has also issued opinions of aspects related to its duties under regulations, and provided information to that Board on its activities.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The work carried out by the Office of the General Manager for Compliance and Corporate Risk Management (GC) and, later, by the Deputy Director of Support in the Management of Compliance, Corporative Risks and Internal Controls, were the subject of accompaniment by the Committee. The Audit Committee considers that the activity of the Company’s management in ensuring the effectiveness of the institution's systems of internal controls and risk management is positive (although in its opinion some points require more attention).

INTERNAL AUDITING

Several meetings have been held with the General Manager and the Managers of Internal Auditing (AI), with a view to accompanying the work carried out by these units. The Committee has made an assessment of the scope and quality of the audits carried out, and the level of independence of the area - assessing it to be positive. In the work carried out by internal auditing, no failures to comply with the legislation in effect and/or the internal rules were found of which the degree of severity could put the solidity and continuity of the Company at risk.

EXTERNAL AUDITING

The Committee met with the external auditors, Ernst and Young Auditores Independentes S.S., to ascertain the principal events in the works carried out in the preparation of the financial statements for 2020, 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 2020, 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 2020 should be approved.

Belo Horizonte, March 26, 2021.

The Audit Committee

PEDRO CARLOS DE MELLO - Coordinator

AFONSO HENRIQUES MOREIRA SANTOS - Member

MÁRCIO DE LIMA LEITE - Member

ROBERTO TOMMASETTI - Member