ENERGY CO OF MINAS GERAIS
Form 20-F
November 14, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report: N/A

Commission file number 1-15224

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

(Exact name of Registrant as specified in its charter)

ENERGY CO OF MINAS GERAIS

(Translation of Registrant s name into English)

BRAZIL

(Jurisdiction of incorporation or organization)

Avenida Barbacena, 1200, Belo Horizonte, M.G., 30190-131

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of exchange on which registered:**
Preferred Shares, R$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Preferred Share, without par value	New York Stock Exchange
Common Shares, R$5.00 par value	New York Stock Exchange*
American Depositary Shares, each representing 1 Common Share, without par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

420,764,708 Common Shares

838,076,946 Preferred Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated Filer ¨ Non accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ IFRS x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

* Not for trading but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Table of Contents

Table of Contents

Table of Contents

EXPLANATORY NOTE

The filing of this annual report on Form 20-F for the year 2015 was delayed because we required additional time to complete disclosures related to the ongoing internal investigation of Norte Energia S.A. (NESA), the owner of the concession for the construction and operation of Belo Monte Hydroelectric Plant, on Xingu River, State of Pará, Brazil. Cemig indirectly holds a 12.5% interest in NESA through its ownership of Aliança Norte and Amazonia Energia.

In March 2014, while conducting an investigation involving a local gas station/carwash in the city of Brasília (Federal District, Brazil), the Brazilian Federal Police and Public Prosecutors uncovered evidence of a much larger corruption and bribery scheme involving Brazil s state owned oil company, Petrobras. As a result, a federal investigation, called *Operação Lava Jato* (Operation Carwash), was initiated and is being conducted by Federal Prosecutors and the Federal Police under the supervision of a Federal Judge. Over the course of the investigation into Operation Carwash, a number of companies and individuals have entered into cooperation agreements with the Brazilian Federal Prosecutor s Office (*Ministério Público Federal*, or MPF), whereby suspects choose to collaborate with the authorities in exchange for a lighther sentence. Some of these cooperation agreements contained allegations involving the Belo Monte Hydroelectric Plant, on Xingu River in State of Pará. No criminal charges have been brought against Cemig as part of Operation Carwash.

In response to the allegations, Centrais Elétricas Brasileiras S.A. Eletrobras (Eletrobras), which owns 49.98% of the share capital of NESA, hired an international investigation team to search for irregularities in projects in which it is a shareholder, including NESA (the Independent Investigation). The Independent Investigation team has completed the investigation designed to identify misstatements to Eletrobras consolidated financial statements, which included an analysis of NESA. The Independent Investigation team is still in the process of performing some procedures, focusing on internal compliance matters. There are also ongoing investigations and other legal measures being conducted by the MPF involving other shareholders of NESA and some of their executives. Based on our current knowledge, Cemig does not expect these additional procedures provide any additional relevant information that would materially impact its consolidated financial statements in future periods.

The investigation concluded that certain contracts with some contractors and suppliers of the Belo Monte Hydroelectric Plant project included bribes estimated at 1% of the price of the contract plus some other fixed amounts.

Based on the conclusions and results identified by the independent internal investigation, the management of NESA has evaluated the impact on the financial statements according to International Accounting Standard IAS-16 Property, Plant and Equipment, and concluded that the amount of R$ 183 million is attributable to overpricing due to bribes deemed to be of an illicit nature and should not have been capitalized as part of the cost of its property, plant and equipment considering that such amount is not a cost attributable to operating and maintaining the plant.

NESA is not able to identify an accurate manner to estimate the periods of prior Financial Statements in which excessive capitalized costs may have occurred, because of the fact that the information made available by the independent internal investigation does not individually specify the contracts, payments and the periods of disclosure in which such excesses may have occurred. It is also emphasized that the alleged undue payments were not made by NESA, but by contractors and suppliers of Belo Monte Power Plant, and this factor also prevents identification of the exact amounts and periods of the payments.

Hence, NESA has applied the procedure specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, adjusting the estimated amounts of excessive capitalized costs in the amount of R$183 million, related to illegal payments in the Financial Statements as of December 31, 2015, due to the impracticability of identification of

the adjustments for each prior period affected.

As a consequence of the adjustment recorded by NESA, Cemig recorded in the year ended December 31, 2015, as part of its equity method accounting in NESA, the amount of R$23 million on account line Investment in counterpart to the equity in its Statement of Income. Of this total amount, R$21 million was made by Cemig GT and R$2 million was made by Light S.A., according to IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors.

The following sections of this annual report contain disclosures related to the NESA investigation:

Recent Developments Allocation of Net Income for 2015 ;

Item 4. Information on the Company Note 4 Acquisition of a 9.77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant Investigation of Norte Energia S.A. ;

Table of Contents

Item 5. Operating and Financial Review and Prospects Operating Results Year ended December 31, 2015 compared to the year ended December 31, 2014 Equity gain (loss) in subsidiaries ;

Item 18. Financial Statements Note 14 Investments ; and

Item 18. Financial Statements Note 23 Equity and Remuneration to Shareholders (c) Dividends Allocation of Net Income for 2015 Proposal by Management .

Under its code of ethics, the Company does not tolerate corruption or other any illegal business practices of its employees, contractors or suppliers.

The investigations under Operation Carwash are still ongoing and the MPF may take a considerable amount of time to conclude its procedures. Therefore, new relevant information may be disclosed in the future, which could cause NESA and, therefore, Cemig, to recognize additional adjustments in its financial statements. The Company will continue to monitor the results of the investigations and the availability of other information concerning the allegations and will make appropriate disclosures if warranted.

Table of Contents

RECENT DEVELOPMENTS

Payments to debenture holders

On February 15, 2016 Cemig made payments of interest on the first, second and third Series of the 3rd Issue of Debentures by Cemig D and Cemig GT, in the amounts of R$162 million and R$139 million, respectively.

Issue of Bank Credit Note

On March 22, 2016 Cemig D issued a Bank Credit Note in favor of Caixa Econômica Federal, in the amount of R$695 million, to be used for the payment of interest and principal on existing debt, represented by Bank Credit Notes issued in favour of both Banco do Brasil and Caixa Econômica Federal, as well as the 8th issuance of Promissory Notes of the Company due in the first half of 2016. The interest rate is 132.14% of the CDI rate, p.a., with maturity of 48 months, grace period of 18 months for payment of the principal, payment of interest in a quarterly basis during this period, and amortization over 30 months, with monthly payments in installments of principal and interest. Caixa Econômica Federal disbursed the funds over the months of March 2016 through May 2016. Of this total, R$355 million was released in March 2016, R$300 million in April 2016 and R$40 million in May 2016.

Issue of debentures

On March 28, 2016 Cemig D completed its fourth issue of non-convertible debentures, in the amount of R$1,615 million, in a single series, with an issue date of December 15, 2015 and a maturity of 3 years. The interest rate on the debentures is the CDI rate + 4.05% p.a.; withprincipal to be amortized in two equal installments due in December 2017 and December 2018. The proceeds were used for payment of the Company s eighth issue of promissory notes, which matured on March 26, 2016.

Exchange of Shareholders Debentures owned by AGC Energia for shares in Cemig

On March 3, 2016, BNDES Participações (BNDESPar) exchanged 100% of its holding of debentures issued under the Deed of the First Private Issue by AGC Energia of Non-convertible Permanent Asset-guaranteed Exchangeable Shareholders Debentures, in a Single Series, dated February 28, 2011 and amended January 17, 2012, for 54,342,992 common shares and 16,718,797 preferred shares in Cemig, owned by AGC Energia.

After the exchange, the equity interests held by BNDESPar in Cemig which on March 2, 2016 totaled 0% of the common shares ,1.13% of the preferred shares and .75% in the total capital of Cemig, increased to 12.9% ,3.13% and 6.4% respectively. This characterizes a material transaction in the stock of Cemig in the terms of Article 12, §1º, of CVM Instruction 358/02.

Increase in capital of Renova Energia S.A.

Cemig increased its capital in Renova through its wholly-owned subsidiary Cemig GT in the amount of R$240 million. Of this total, R$85 million was subscribed and paid up in February 2016, R$115 million was subscribed and paid up in March 2016 and the remaining amount of R$40 million was subscribed and paid up in May 2016.

Table of Contents

Investment in Renova Loss on impairment of assets available for sale

Put options contract

On September 18, 2015 a contract was signed providing Renova the option to sell to SunEdison, Inc. (SunEdison), on or after March 31, 2016, up to 7,000,000 shares in TerraForm Global.

The exercise price of this option was contractually established at R$50.48 or US$15.00 at the exchange rate of the day, at the election of SunEdison. The contract also gaveSunEdison an option to buy 7 million shares on the same terms.

Renova notified SunEdison and TerraForm Global of its intention to exercise its option to sell 7 million shares in TerraForm Global owned by Renova, on the terms specified by contract and publicly stated in the Material Announcement published by Renova on September 18, 2015.

On April 21, 2016, SunEdison applied for Chapter 11 protection in the United States. On June 1, 2016, the period for payment of the option by SunEdison expired.

Renova priced the option using the Black-Scholes-Merton mathematical model, the future expectation for the exchange rate, and the credit risk.

In the first half of 2016 Renova recognized a loss of R$111 million, resulting in the change in the fair value of the option, considering the credit risk. In addition, it recognized a loss of R$63 million relating to the expiration of the option, and commenced an arbitration proceeding seeking, among other items, indemnity for losses. At the date of issuance of this report, Sun Edison and Renova had not settled this arbitration.

The figures above refer to the impact of the option expiration on Renova s interim financial statements. The effect for Cemig is proportional to its interest of 34.2%, in Renova, valued by the equity method, in the amount of R$60 million.

Investment in TerraForm Global pricing of the shares

Renova also recognized a loss, in the first half of 2016, of R$272 million, reflecting the negative volatility in the share price of TerraForm in the period, in which Renova has an equity interest of 11.65%, valued on the basis of the market price of the shares.

The figures above refer to the impact on Renova s interim financial statements. The effect on Cemig is proportional to its interest of 34.2%, in Renova, valued by the equity method, in the amount of R$93 million.

Rescission of share purchase agreement

On April 1, 2016 Renova announced that the share purchase agreement dated July 15, 2015 for the sale to TerraForm Global of the assets of the Espra Project (the Espra Contract) owned by Renova had been terminated by an agreement between the parties, with payment by TerraForm Global to Renova of a break-up fee of US$10.0 million. As a result of the termination of this agreement, the assets of the Espra project, comprising three small hydroelectric plants (SHPs), with aggregate installed capacity of 41.8 MW, remain in as part of Renova s portfolio of operational assets.

Table of Contents

Issue of Bank Credit Note Banco do Brasil

On April 22, 2016 Cemig D signed amendments to two Bank Credit Notes issued in favor of Banco do Brasil, for a total of R$600 million. The interest rate is 128.00% of the CDI rate, p.a., and the funds will be paid in four six-monthly installments commencing in October 2016 with final repayment and maturity due in April 2018.

Mining and Energy Ministry Ministerial Order 120

On April 22, 2016 the Mining and Energy Ministry published its Ministerial Order 120, setting the deadline and method of payment of the remaining amount of the transmission indemnity related to the acceptance of the terms established by Federal Law No. 12,783/13.

The Ministerial Order determined that the amounts approved by Aneel should become part of the Regulatory Asset Base for Remuneration (*Base de Remuneração Regulatória*, or BRR), that is the basis for the payment of transmission revenue, and that the cost of capital should be added to the related Permitted Annual Revenues (RAP).

The amount will be indexed to the Expanded Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA). The capital cost remuneration and the depreciation of the Regulatory Asset Base not incorporated since 2013, the date of the extensions of the concessions up to the tariff-setting process of 2017, is to be adjusted by the real cost of capital of the transmission segment, as set by Aneel in the methodologies of the Periodic Tariff Review of the Revenues of Existing Concessions currently 10.44% p.a. to be paid over a period of eight years, through the RAP.

The Ministerial Order will be submitted to Public Hearings to be held by Aneel scheduled for the second half of 2016 and the first half of 2017.

The Company made its estimate and recognized, in its June 2016 Statement of Income, the amount of R$548 million, as follows:

R$20 million relating to the difference between the amount of the Preliminary Revision made by Aneel on February 23, 2015 of the Opinion sent by the Company, R$1.157 billion, and the Final Revision;

R$90 million representing the difference between the variations resulting from the IGP-M index and the IPCA index since the Company had updated the balance by the IGP-M index until March 31, 2016; and

R$438 million, representing the remuneration from use of own capital, calculated on the basis of 10.44% p.a.

Aneel decides annual tariff adjustment of Cemig D

On May 24, 2016, Aneel announced the Annual Tariff Adjustment to be applied to the tariffs of Cemig D. The result was an average increase in consumer electricity rates by 3.78%, in effect on May 28, 2016, through May 27, 2017.

For industrial and service sector consumers, served at medium and high voltage, the average increase in their electricity bills will be 2.06%. For those served at low voltage, the average increase will be 4.63%.

5

Table of Contents

Changes in the Stockholders Agreement of Parati

In the second quarter of 2016, certain amendments were signed to the stockholders agreement of Parati. The principal changes arising from these amendments are as follows:

1) The maturity of the Put Option granted in 2011 by Cemig in favor of the unit holders of FIP Redentor, initially specified to be as May 31, 2016, was postponed, to two separate exercise dates:

   a) First option exercise window: up to, and including, September 23, 2016, only with respect to preferred shares, up to a limit of 153,634,195 preferred shares in Parati, representing 14.30% of the total shares in Parati held by the other direct stockholders. With respect to shares put within this exercise window, Cemig must make payment by November 30, 2016.

   b) Second payment window: up to, and including, September 23, 2017, and not restricted to preferred shares, and may include the totality of the shares in Parati, regardless of the exercise of the Put Option in the first payment window. With respect to shares put within this exercise windog, Cemig must make payment by November 30, 2017.

2) The Put Option may be exercised by the direct shareholders of Parati, and not only by FIP Redentor.

3) New provisions were included to provide for the possibility of acceleration of the Put Option exercise window in case Cemig fails to comply with certain clauses of the stockholders agreement, allowing any direct shareholders to present to Cemig a notice of bringing forward the option, at which moment the option shall be considered exercised by all the direct shareholders, over the totality of their shares.

4) To guarantee the full payment of the Put Option, on May 31, 2016 Cemig offered the holders of the Put Option: 55,234,637 common shares and 110,469,274 preferred shares that Cemig directly holds in Transmissora Aliança de Energia S.A. (Taesa), and as further guarantee, 53,152,298 shares that Cemig directly holds in Light.

Miranda Plant: Aneel recommends against acceptance of Cemig GT s application to extend concession

On June 10, 2016, Cemig s wholly-owned subsidiary Cemig GT filed an application with Aneel for a 20 year extension of its concession period for the Miranda hydroelectricPlant (the Miranda Plant), which is scheduled to expire in December 2016. On July 12, 2016, Aneel, accepting the vote of its rapporteur, decided to refer the application to the Mining and Energy Ministry, with the recommendation that the application made by Cemig GT for extension of the period of the concession for the Miranda Hydroelectric Plant should not begranted, due to having been made after the deadline stipulated by Law 12,783/2013 .

The Company is considering any possible administrative or legal measures, and will keep its shareholders and the market updated on any material developments.

Issues of Promissory Notes

On July 1, 2016 Cemig GT concluded its seventh issuance of Commercial Promissory Notes, for a total of R$620 million. The net proceeds will be used to pay the second portion of the concession grant fee for the hydroelectric plants in Lot D of Aneel Auction 12/2015, and to improvethe Company s working capital. The Promissory Notes have a maturity of 360 days, and mature on June 26, 2017, and pay interest equal to 128% of the average one-day DI rate, the daily interbank deposit rate, to be paid on the maturity date. This issuance is guaranteed by Cemig.

Table of Contents

Disposal by Cemig of shares in Taesa

On August 31, 2016, the Board of Directors of Cemig authorized the sale of up to 40,702,230 Units in Transmissora Aliança de Energia Elétrica S.A (Taesa), consisting of 40,702,230 common shares and 81,404,460 preferred shares in Taesa, owned by Cemig.

On September 29, 2016, Taesa publically announced the launch of a restricted offering (Restricted Offering) of its units. In the offering, each unit will be evidenced by *certificados de depósito de ações*, each of which represents one outstanding *ação ordinária* (common share) and two outstanding *ações preferenciais* (preferred shares) of Cemig (the Units). The Units were offered and sold by Fundo de Investimento em Participações Coliseu (FIP Coliseu), the equity investment fund that is part of the controlling block of Taesa, and Cemig.

The Restricted Offering was a secondary offering, with restricted placement efforts of 65,702,230 Units, at a price per Unit of R$19.65. The total amount of the Restricted Offering was R$1,291 million, of which R$800 million was received by Cemig.The settlement of the Restricted Offering occurred on October 24, 2016.

The Restricted Offering of the Units of Taesa has not been registered under the Securities Act, or any other U.S. federal and state securities laws (the Securities Act), and the Units cannot be offered, sold, pledged or otherwise transferred in the United States or to U.S. investors, unless they are registered, or exempt from, or not subject to, registration under the Securities Act.

Because this was a secondary offering with restricted placement efforts Taesa did not receive any proceeds. The Selling Shareholders were the beneficiaries of the net proceeds arising from the sale of Units and are responsible for the payment of all costs and fees of the Restricted Offering.

With the settlement of the Restricted Offering, FIP Coliseu holds 153,775,790 common shares issued by Taesa, representing 26.03% of the voting capital of Taesa and 14.88% of the capital stock of Taesa and CEMIG holds 252,369,999 common shares issued by Taesa, representing 42.72% of the voting capital of Taesa and 73,646,184 preferred shares issued by Taesa, which, together with the common shares represents 31.54% of the capital stock of Taesa. The outstanding Units (other than Units held by FIP Coliseu, CEMIG, Taesa s management and treasury shares) represents 53,58% of Taesa s capital stock and 31.24% of Taesa s voting stock.

Table of Contents

Promissory Notes Payment

On March 28, 2016, Cemig D paid off its 8th issuance of Promissory Notes. The amount of R$1.958 billion was paid to the holders of the notes, R$1.7 billion of principal and R$258 million of interest.

Cemig Telecom signs investment agreement for subscription of capital in Ativas

On August 25, 2016, Cemig Telecom signed an Investment Agreement with Sonda Procwork Outsourcing Informática Ltda., a company of the Chilean group Sonda S.A. (Sonda), for the subscription of capital in Ativas Data Center S.A. (Ativas), in partnership with Ativas Participações S.A. (Ativas Participações), a company controlled by the Asamar Group.

Sonda is a leading company providing IT services in Latin America, with a presence in 10 countries, and 17,000 employees. This strategic alliance strengthens the commitment of Cemig and Ativas to its present and future clients, continuing to ensure high standards of security and availability.

On October 19, 2016 the transaction was completed in compliance with certain conditions precedent.

Sonda, has subscribed capital totaling R$ 114 million, and now holds an equity interest of 60% in Ativas, while Cemig Telecom holds 19.6% and Ativas Participações holds 20.4%.

Table of Contents

Notice of intention to exercise put option

On September 6, 2016 Cemig received from Banco BTG Pactual (BTG Pactual) a Notice of Intention to Exercise a Put Option, giving irrevocable notice of exercise of BTG Pactual s right to sell to Cemig 153,634,195 preferred shares held by Pactual in Parati S.A. Participações em Ativos de Energia Elétrica (Parati), under the First Exercise Window specified in Clauses 6.1 and 6.2 of the Stockholders Agreement of the Parati, signed on April 11, 2011 between Cemig, Banco Santander (Brasil) S.A., BV Financeira S.A. Crédito, Financiamento e Investimento, BB Banco de Investimento S.A., and Banco BTG Pactual S.A., with Parati as consenting party, as amended. Cemig has until November 30 to settle the put option and acquire the shares or indicate a third party which will do so.

Sale of interest in Transchile

On September 12, 2016, Cemig signed a share purchase agreement for sale of the whole of its interest in Transchile Charrúa Transmisión S.A. corresponding to 49% of the company s share capital to Ferrovial Transco Chile SpA, a company controlled by Ferrovial S.A., for US$56.6 million. On October 6, 2016, all of the shares in Transchile Charrúa Transmisión S.A. previously held by Cemig, were transferred to Ferrovial Transco Chile SpA, concluding the sale.

Advances to Renova under Power Purchase Agreement

On September 6, 2016, our Board of Directors approved an advance payment of R$118 million by Cemig to Renova for future contracted electricity supply under the Power Purchase Agreement between Renova Comercializadora de Energia S.A. and Cemig GT, which was signed in 2013.

The agreement provides for the parties to elect to make advance payments for power. The advance payments will be allocated to the Alto Sertão III project, and also to meet other needs of Renova. The amount due will be settled by delivery of power supply, in the amounts specified in such agreement, starting in May 2021.

In June 2016 Cemig GT made an advance payment to Renova Trading of R$94 million under the Agreement, and at that time signed an agreement placing a security interest on 100% of the shares in Enerbrás S.A. and 100% of the shares in the specific-purpose companies of Phase B of the Alto Sertão III Project on behalf of Cemig GT to guarantee the advance payment. An option was also granted to Cemig GT to purchase 100% of the shares of Enerbrás S.A.

A Share Purchase Agreement has been signed which will enable Cemig GT to convert the total amount advanced into a shareholding interest in Alto Sertão Participações S.A. (Alto Sertão), the controlling shareholder of the companies that comprise Phase A of the Alto Sertão III project; up to a limit of 49.9% of the shares in Alto Sertão, and also an agreement placing a security interest upon 100% of the shares in Bahia Holding S.A. and 49% of the shares in Ventos de São Cristóvão Energias Renováveis S.A., which holds certain of Renova s wind power projects. Exercise of the call option is conditional upon prior approval by the BNDES. Settlement of the share option transactions referred to above will require the prior approval of BNDES, Banco do Brasil S.A. where applicable, Aneel, and the Brazilian Monopolies Authority (CADE).

Payment of loans

On October 21, 2016 Cemig Distribuição S.A. repaid to Banco do Brasil S.A. two Commercial Credit Notes (including their amendments) with final maturities in April 2018, paying the principal amount of R$ 600 million, plus interest, calculated up to the date of settlement, of R$ 25 milliom. The payment was made from the Company s own funds.

9

Table of Contents

Statutory Covenants

The Company s by-laws define certain targets related to indebtedness and capital expenditures that shall be attend by the Management. However, in the ordinary Shareholders Meeting held on May 30, 2016, the Management was authorized to exceed such targets for 2016 year, as follows:

	By-laws Targets	Exceeding authorized in the Ordinary Shareholders Meeting
Indebtedness / Ebitda	2.00	4.12
Net debt / Net debt + Shareholders equity	40.00%	52.00%
Capital Expenditures / Ebitda	40.00%	146.00%

Payment of dividends below the mandatory minimum

On April 29, 2016, the Annual and Extraordinary General Meetings of Cemig approved the payment of R$ 634 million as dividends, relating to the net profit for the 2015 business year, an amount below the minimum obligatory dividend.

Refinanciang of Banco do Brasil credits

On October 24, 2016, Cemig GT paid to Banco do Brasil S.A. the installments of two Fixed Credit Contracts, in the amount of R$286 million, and Bank Credit Notes in the amount of R$430 million, totaling R$716 million. The payments were made with funds from a new lending transaction, also with Banco do Brasil S.A., and with the Company s own funds.

On October 24, 2016, Cemig GT issued a Bank Credit Note in favor of Banco do Brasil S.A., in the total amount of R$600 million, in order to refinance certain notes previously extended by Banco do Brasil. This loan has an annual interest rate of 132.90% of the CDI rate, and will be paid in four half-yearly installments, with the last payment to be made in October 2018.

Review of compliance and corporate governance system

Cemig has undertaken a number of initiatives to booster its compliance and corporate governance system, including revising its code of ethics in light of the Brazilian Anticorruption Law (Law no. 12.846/2013), the new Brazilian Public Companies Law (Law no. 13.303/2016), creating a Compliance Superintendence and providing anticorruption and fraud training to all of its employees.

Criminal proceedings involving members of our Board of Directors

On January 5, 2016, Mr. José Afonso Bicalho Beltrão da Silva, the Chair of the Company s Board of Directors, was convicted in the Federal Court (1st Federal Circuit) for reckless management in connection with the granting of irregular loans when he was the CEO of the Banco do Estado de Minas Gerais, between 1995 and 1998. As a result of this conviction, Mr. Da Silva was prohibited from holding executive or management positions at financial institutions in Brazil for a period of eight years. Immediately thereafter, Mr. Da Silva appealed to the Court of Appeals of the 1st Federal Circuit, on the grounds that the ruling judge did not have the necessary authority to hear the case, as Mr. Da Silva is currently a Secretary of State and, therefore, the case should have been heard and trialed by the Minas Gerais State Court of Appeals, and not by a Federal Court. The appeal is currently pending.

On October 1, 2015, Mr. Mauro Borges Lemos, the former Minister of Development and current CEO and vice-chair of the Company s Board of Directors, and on September 23, 2016, Mr. Marco Antônio de Rezende Teixeira, the Secretary of State in Minas Gerais (*Secretário da Casa Civil de Minas* Gerais) and a member of the Company s Board of Directors, were subjected to search and seizure and coercive hearing orders carried out by the Federal Police in connection with *Operação Acrônimo* (Operation Acronym). Operation Acronym began in October 7, 2014 when a private plane landed in Brasília/DF with three passengers (Benedito Rodrigues de Oliveira Neto, Marcier Trombiere Moreira and Pedro Medeiros) and the authorities found an undeclared amount of R$116,000 in cash belonging to the owner of the aircraft, Benedito Rodrigues de Oliveira Neto. The companies owned by Benedito Rodrigues de Oliveira Neto had provided services to certain Brazilian political parties during the 2014 Presidential Elections, therefore, the Federal Police started to investigate a money laundering scheme involving the funding of political campaigns by Brazilian companies, including those who have received loans from the Brazilian National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or BNDES). The reasons for the search and seizure orders are still unclear, as the investigation records are sealed by the Superior Court of Justice (*Superior Tribunal de Justiça*, or STJ). Operation Acronym still ongoing and as of the date of this annual report no arrest warrants have been issued against Mr. Lemos or Mr. Teixeira.

Table of Contents

PRESENTATION OF FINANCIAL INFORMATION

Companhia Energética de Minas Gerais CEMIG is *a sociedade por ações, de economia mista* (a state-controlled mixed capital company) organized under the laws of the Federative Republic of Brazil, or Brazil. References in this annual report to CEMIG, we, us, our , ourselves and the Company are to Companhia Energética de Minas Gerais CE its consolidated subsidiaries, except when the reference is specifically to Companhia Energética de Minas Gerais CEMIG (parent company only) or the context otherwise requires. References to the real, reais or R$ are to Brazilian reais (plural) and the Brazilian real (singular), the official currency of Brazil, and references to U.S. dollars, dollars or US$ are to United States dollars.

We maintain our books and records in reais. We prepare our financial statements in accordance with generally accepted accounting practices adopted in Brazil, and with International Financial Reporting Standards (or IFRS), as issued by the International Accounting Standards Board (IASB). For purposes of this annual report, we prepared the consolidated statements of financial position as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, cash flows and changes in shareholders equity for the years ended December 31, 2015, 2014 and 2013, in reais in accordance with IFRS, as issued by the IASB.

Deloitte Touche Tohmatsu Auditores Independentes audited our consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013; Deloitte Touche Tohmatsu Auditores Independentes did not audit the financial statements of Madeira Energia S.A (a 18.05% percent owned direct and indirect equity method investee company) and Norte Energia S.A (a 12.50% percent owned indirect equity method investee company). The financial statements of Madeira Energia S.A. and Norte Energia S.A. were audited by PricewaterhouseCoopers Auditores Independentes, whose reports related to financial statements as of and for the years ended December 31, 2015 and 2014 and December 31, 2015, respectively have been furnished to Deloitte Touche Tohmatsu Auditores Independentes, and Deloitte Touche Tohmatsu Auditores Independentes opinion, insofar as it relates to the amounts included for Madeira Energia S.A. and Norte Energia S.A., is based solely on the reports of PricewaterhouseCoopers Auditores Independentes. The above mentioned auditors reports appear elsewhere in this annual report on Form 20-F.

This annual report contains translations of certain *real* amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such U.S. dollar amounts have been translated from *reais* at an exchange rate of R$3,1811 to US$1.00, as certified for customs purposes by the U.S. Federal Reserve Board as of October 31, 2016. See Item 3. Key Information Exchange Rates for additional information regarding exchange rates. We cannot guarantee that U.S. dollars can be converted into reais, or that reais can be converted into U.S. dollars, at the above rate or at any other rate.

Table of Contents

MARKET POSITION AND OTHER INFORMATION

The information contained in this annual report regarding our market position is, unless otherwise indicated, presented for the year ended December 31, 2015 and is based on, or derived from, reports issued by the *Agência Nacional de Energia Elétrica* (the Brazilian National Electric Energy Agency), or ANEEL, and by the *Câmara de Comercialização de Energia Elétrica* (the Brazilian Electric Power Trading Chamber), or CCEE.

Certain terms are defined the first time they are used in this annual report. As used herein, all references to GW and GWh are to gigawatts and gigawatt hours, respectively, references to MW and MWh are to megawatts and megawatt-hours, respectively, and references to kW and kWh are to kilowatts and kilowatt-hours, respectively.

References in this annual report to the common shares and preferred shares are to our common shares and preferred shares, respectively. References to Preferred American Depositary Shares or Preferred ADSs are to American Depositary Shares, each representing one preferred share. References to Common American Depositary Shares or Common ADSs are to American Depositary Shares, each representing one common share. Our Preferred ADSs and Common ADSs are referred to collectively as ADSs, and Preferred American Depositary Receipts, or Preferred ADRs and Common American Depositary Receipts, or Common ADRs, are referred to collectively as ADRs.

On April 30, 2012, a 25.00% stock dividend was paid on the preferred shares and common shares. On May 11, 2012, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On April 30 2013, a 12.85% stock dividend was paid on the preferred and common shares. On May 14, 2013, a corresponding adjustment was made to the ADSs through the issuance of additional ADSs. On January 3, 2014, a 30.76% stock dividend was paid on the preferred and common shares (in each case paid in preferred shares). On January 10, 2014, a corresponding adjustment was made to the ADSs through the issuance of additional Preferred ADSs to holders of Preferred ADSs and Common ADSs.

The Preferred ADSs are evidenced by Preferred ADRs, issued pursuant to a Second Amended and Restated Deposit Agreement, dated as of August 10, 2001, as amended on June 11, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Preferred ADSs evidenced by Preferred ADRs issued thereunder (the Second Amended and Restated Deposit Agreement). The Common ADSs are evidenced by Common ADRs, issued pursuant to a Deposit Agreement, dated as of June 12, 2007, by and among us, Citibank, N.A., as depositary, and the holders and beneficial owners of Common ADSs evidenced by Common ADRs issued thereunder (the Common ADS Deposit Agreement and, together with the Second Amended and Restated Deposit Agreement, the Deposit Agreements).

Table of Contents

FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements, principally in Item 3. Key Information, Item 5, Operating and Financial Review and Prospects and Item 11. Quantitative and Qualitative Disclosures about Market Risk. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions relating to, among other things:

- general economic, political and business conditions, principally Brazil, the State of Minas Gerais, (or Minas Gerais), the State of Rio de Janeiro, (or Rio de Janeiro), as well as other states in Brazil;
- inflation and fluctuations in exchange rates;
- existing and future governmental regulation as to electricity rates, electricity usage, competition in our concession area and other matters;
- existing and future policies of the Federal Government of Brazil, which we refer to as the Federal Government;
- on-going high profile anti-corruption investigations in Brazil;
- our expectations and estimates concerning future financial performance and financing plans;
- our level, or maturity profile, of indebtedness;
- the likelihood that we will receive payment in connection with accounts receivable;
- our capital expenditure plans;
- our ability to satisfactorily serve our consumers;
- failure or hacking of our security and operational infrastructure or systems;
- our ability to renew our concessions, approvals and licenses on terms as favorable as those currently in effect or at all;

our ability to integrate the operations of companies we have acquired and that we may acquire;

changes in volumes and patterns of consumer electricity usage;

competitive conditions in Brazil s electricity generation, transmission and distribution markets;

trends in the electricity generation, transmission and distribution industry in Brazil, particularly in Minas Gerais and Rio de Janeiro;

changes in rainfall and the water levels in the reservoirs used to run our hydroelectric power generation facilities;

existing and future policies of the government of Minas Gerais, (the State Government), including policies affecting its investment in us and State Government s plans for future expansion of electricity generation, transmission and distribution in Minas Gerais; and

other risk factors identified in Item 3. Key Information Risk Factors.

The forward-looking statements referred to above also include information with respect to our capacity expansion projects that are under way and those that we are currently evaluating. In addition to the above risks and uncertainties, our potential expansion projects involve engineering, construction, regulatory and other significant risks, which may:

delay or prevent successful completion of one or more projects;

increase the costs of projects; and

result in the failure of facilities to operate or generate income in accordance with our expectations.

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intend forward-looking statements. We do not undertake to publicly update or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not materialize as described. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

Table of Contents

PART I

Item 1. Identity of Directors, Senior Management and Advisers
Not applicable.

Item 2. Offer Statistics and Expected Timetable
Not applicable.

Item 3. Key Information
Selected Consolidated Financial Data

The following tables present our selected consolidated financial and operating information prepared in accordance with IFRS as of the dates and for each of the periods indicated. You should read the following information together with our consolidated financial statements, including the notes thereto, included in this annual report and the information set forth in Item 5. Operating and Financial Review and Prospects and Presentation of Financial Information.

The selected consolidated financial data as of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013, in IFRS, has been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this annual report. U.S. dollar amounts in the table below are presented for your convenience. Unless indicated otherwise, these U.S. dollar amounts have been translated from reais at R$3.1811 per US$1.00, the exchange rate as of October 31, 2016. The real has historically experienced high volatility. We cannot guarantee that U.S. dollars can be converted into reais, or that reais can be converted into U.S. dollars, at the above rate or at any other rate. The selected consolidated financial data as of December 31, 2013, 2012 and 2011 and for each of the years ended December 31, 2012 and 2011 has been derived from our audited consolidated financial statements not included in this annual report on Form 20-F.

We restated our consolidated financial statements as of and for the year ended December 31, 2012 and 2011 as a result of the adoption, on January 1, 2013, of IFRS 11 (Joint Arrangements). We retroactively applied IFRS 11 to 2012 and 2011 for comparison purposes. The adoption of these new accounting standards impacted several line items of our consolidated financial statements.

Table of Contents

Selected Consolidated Financial Data in IFRS

	Year ended December 31,					
	2015 (in millions of US$)(1)	2015	2014	2013	2012(4)	2011(4)
		(in millions of R$ except per share/ADS data or otherwise indicated)				
Income Statement Data:						
Net operating revenues:						
Electricity sales to final consumers	6,387	20,319	14,922	12,597	13,691	12,522
Revenue from wholesale supply to other concession holders	694	2,208	2,310	2,144	1,689	1,504
Revenue from use of the electricity distribution systems (TUSD)	461	1,465	855	1,008	1,809	1,771
CVA (compensation for changes in Portion A items) account and Other financial components of tariffs	536	1,704	1,107			
Revenue from use of the concession transmission system	82	261	557	404	662	612
Transmission indemnity revenue	32	101	420	21	192	
Construction revenues	394	1,252	941	975	1,336	1,232
Transactions in electricity on the CCEE	762	2,425	2,348	1,193	387	175
Other operating revenues	976	3,106	1,706	1,047	506	362
Taxes on revenue and regulatory charges	(3,631)	(11,549)	(5,626)	(4,762)	(6,135)	(5,785)
Total net operating revenues	6,693	21,292	19,540	14,627	14,137	12,393
Operating costs and expenses:						
Electricity purchased for resale	(3,000)	(9,542)	(7,428)	(5,207)	(4,683)	(3,330)
Charges for the use of the national grid	(314)	(999)	(744)	(575)	(883)	(748)
Depreciation and amortization	(262)	(835)	(801)	(824)	(763)	(786)
Personnel	(451)	(1,435)	(1,252)	(1,284)	(1,173)	(1,104)
Gas purchased for resale	(330)	(1,051)	(254)			
Royalties for usage of water resources			(127)	(131)	(185)	(153)
Outsourced services	(283)	(899)	(953)	(917)	(906)	(858)
Post-retirement obligations	(49)	(156)	(212)	(176)	(134)	(124)
Materials	(48)	(154)	(381)	(123)	(73)	(81)
Provisions for operating losses	(441)	(1,402)	(581)	(305)	(671)	(166)
Employee and managers profit shares	(43)	(137)	(249)	(221)	(239)	(219)
Construction costs	(394)	(1,252)	(942)	(975)	(1,336)	(1,232)
Other operating expenses, net	(143)	(455)	(527)	(493)	(481)	(327)
Total operating costs and expenses	(5,758)	(18,317)	(14,451)	(11,231)	(11,527)	(9,128)
Equity in Subsidiaries	124	393	210	764	865	539
Gain on disposal of investment				284		
Unrealized gain on disposal of investment				(81)		
Gain on acquisition of control of investee			281			
Fair value in corporate operation	229	729				

Operational profit before Financial revenue (expenses) and Taxes	1,288	4,097	5,580	4,363	3,475	3,804
Financial revenues (expenses), net	(231)	(735)	(1,101)	(309)	1,629	(640)
Pretax profit	1,057	3,362	4,479	4,054	5,104	3,164
Income taxes expense	(280)	(892)	(1,342)	(950)	(832)	(749)
Net profit for the year	777	2,469	3,137	3,104	4,272	2,415
Other comprehensive income (loss)				213	(412)	(74)
Comprehensive income	777	2,469	3,137	3,317	3,860	2,41
Basic earnings (loss): (2)						
Per common share	0.50	1.96	2.49	2.47	3.40	1.92
Per preferred share	0.50	1.96	2.49	2.47	3.40	1.92
Per ADS	0.50	1.96	2.49	2.47	3.40	1.92
Diluted earnings (loss): (2)						
Per common share	0.50	1.96	2.49	2.47	3.40	1.92
Per preferred share	0.50	1.96	2.49	2.47	3.40	1.92
Per ADS	0.50	1.96	2.49	2.47	3.40	1.92

Table of Contents

	Year ended December 31,					
	2015 (in millions of US$)(1)	2015	2014	2013	2012(4)	2011(4)
		(in millions of R$ except per share/ADS data or otherwise indicated)				
Balance sheet data:						
Assets:						
Current assets	2,948	9,377	6,554	6,669	8,804	5,768
Property, plant and equipment, net	1,239	3,940	5,544	5,817	6,109	6,392
Intangible assets	3,230	10,275	3,379	2,004	1,874	2,779
Financial assets of concessions	836	2,660	7,475	5,841	5,475	3,834
Account receivable from the Minas Gerais State Government						1,830
Other assets	4,591	14,605	12,048	9,483	10,308	9,018
Total assets	12,844	40,857	35,000	29,814	32,570	29,621
Liabilities:						
Current portion of long-term financing	1,980	6,300	5,291	2,238	6,466	4,504
Other current liabilities	1,935	6,152	4,832	3,684	6,332	3,595
Total current liabilities	3,915	12,452	10,123	5,922	12,798	8,099
Non-current financing	2,787	8,866	8,218	7,219	3,950	6,000
Post-retirement liabilities non-current	970	3,086	2,478	2,311	2,575	1,956
Other non-current liabilities	894	2,843	2,896	1,724	1,697	1,900
Total non-current liabilities	4,651	14,795	13,592	11,254	8,222	9,856
Share capital	1,979	6,294	6,294	6,294	4,265	3,412
Capital reserves	605	1,925	1,925	1,925	3,954	3,954
Profit reserves	1,661	5,285	2,594	3,840	2,856	3,293
Accumulated other comprehensive income	32	102	468	579	475	1,007
Equity attributable to non-controlling shareholder	1	4	4			
Total equity	4,278	13,610	11,285	12,638	11,550	11,666
Total liabilities and equity	12,844	40,857	35,000	29,814	32,570	29,621
Other data						

	2015	2014	2013	2012	2011
Outstanding shares basic: (2)					
Common	420,764,639	420,764,639	420,764,639	420,764,639	420,764,639
Preferred	837,516,297	837,516,297	837,516,297	837,516,297	837,516,297
Dividends per share (2)					
Common	R$0,50	R$0.63	R$1.28	R$2.20	R$1.03
Preferred	R$0,50	R$0.63	R$1.28	R$2.20	R$1.03
Dividends per ADS (2)	R$0,50	R$0.63	R$1.28	R$2.20	R$1.03
Dividends per share (3)(2)					
Common	US$0.13	US$0.24	US$0.48	US$0.83	US$0.39
Preferred	US$0.13	US$0.24	US$0.48	US$0.83	US$0.39
Dividends per ADS (3)(2)	US$0.13	US$0.24	US$0.48	US$0.83	US$0.39
Outstanding shares diluted: (2)					
Common	420,764,639	420,764,639	420,764,639	420,764,639	420,764,639
Preferred	837,516,297	837,516,297	837,516,297	837,516,297	837,516,297

Dividends per share diluted (2)					
Common	R$0.50	R$0.63	R$1.28	R$2.20	R$1.03
Preferred	R$0.50	R$0.63	R$1.28	R$2.20	R$1.03
Dividends per ADS diluted (2)	R$0.50	R$0.63	R$1.28	R$2.20	R$1.03
Dividends per share diluted (3)(2)					
Common	US$0.13	US$0.24	US$0.48	US$0.83	US$0.39
Preferred	US$0.13	US$0.24	US$0.48	US$0.83	US$0.39
Dividends per ADS diluted (3)(2)	US$0.13	US$0.24	US$0.48	US$0.83	US$0.39

(1) Converted at R$3.1811/US$, the exchange rate on October 31, 2016. See Exchange rates .
(2) Per share numbers have been adjusted to reflect the stock dividends on our shares in April 2015, and per ADS numbers have been adjusted to reflect the corresponding adjustments to our ADS.
(3) This information is presented in U.S. dollars at the exchange rate in effect as of the end of each year.
(4) Data as of and for the year ended December 31, 2012 and 2011, has been restated to reflect the application of IFRS 11, adopted from January 1, 2013.

Table of Contents

Exchange Rates

On March 4, 2005, the National Monetary Council (*Conselho Monetário Nacional*), or CMN, consolidated the commercial rate exchange market and the floating rate market into a single exchange market. Such regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of reais by a foreign person or company, without restriction as to the amount. Additionally, all foreign exchange transactions must be carried out by financial institutions authorized by the Brazilian Central Bank (*Banco Central do Brasil*), or the Central Bank, to operate in this market.

Brazilian law provides that whenever there (i) is a significant deficit in Brazil s balance of payments or (ii) are major reasons to foresee a significant deficit in Brazil s balance of payments, temporary restrictions may be imposed on remittances of foreign capital abroad. In the past, the Central Bank has occasionally intervened to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Federal Government will continue to let the real float freely or will intervene in the exchange rate market. The real may depreciate or appreciate against the U.S. dollar and other currencies substantially in the future, Exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of Preferred ADSs or Common ADSs. We will make any distributions with respect to our preferred shares or common shares in reals and the depositary will convert these distributions into U.S. dollars for payment to the holders of Preferred ADSs and Common ADSs. We cannot make assurances that such measures will not be undertaken by the Brazilian Government in the future, which could prevent us from making payments to the holders of our ADSs. Exchange rate fluctuations may also affect the U.S. dollar equivalent of the real price of the preferred shares or common shares on the Brazilian stock exchange on which they are traded. Exchange rate fluctuations may also affect our results of operations. For more information see Risk Factors Risks Relating to Brazil Exchange rate instability may adversely affect our business, results of operations and financial condition and the market price of our shares, the Preferred ADSs and the Common ADSs .

The table below sets forth, for the periods indicated the low, high, average and period-end exchange rates for reais, expressed in reais per US$1.00

	Reais per US$1.00			
Month	**Low**	**High**	**Average**	**Period-end**
October 2015	3.7339	4.0003	3.8752	3.8439
November 2015	3.7048	3.8982	3.7858	3.8982
December 2015	3.7264	4.0231	3.8808	3.9593
January 2016	3.9893	4.1299	4.0556	4.0364
February 2016	3.8785	4.0564	3.9644	3.9793
March 2016	3.5500	3.9475	3.6980	3.5500
April 2016	3.4547	3.7106	3.5634	3.4547
May 2016	3.4594	3.6122	3.5403	3.6074
June 2016	3.2003	3.6030	3.4234	3.2003
July 2016	3.2350	3.3436	3.2781	3.2380
August 2016	3.1292	3.2650	3.2086	3.2470
September 2016	3.1962	3.3274	3.2532	3.2434
October (1)	3.1193	3.2359	3.1858	3.1811

(1) As of October 31, 2016.

	Reais per US$1.00			
Year Ended December 31,	**Low**	**High**	**Average**	**Period-end**
2011	1.5375	1.8865	1.6723	1.8627
2012	1.6997	2.1141	1.9535	2.0476
2013	1.9480	2.4464	2.1570	2.3608
2014	2.1940	2.7306	2.3498	2.6563
2015	2,5644	4.1638	3.3360	3,9593

Source: U.S. Federal Reserve Board.

Table of Contents

Risk factors

The investor should take into account the risks described below, and the other information contained in this Annual Report, when evaluating an investment in our Company.

Risks relating to CEMIG

We cannot be certain that new generation concessions will be granted, nor that our present concessions will be extended on terms similar to those currently in effect, nor that the indemnities received in the event of non-extension will correspond to the expected value.

We operate most of our power generation, transmission and distribution activities under concession contracts entered into with the Brazilian federal government. The Brazilian Constitution requires that all concessions relating to public services be awarded through a bidding process. In 1995, in an effort to implement these constitutional provisions, the Brazilian federal government adopted certain laws and regulations, which are collectively known as the Concessions Law , which govern the bidding procedures in the power industry.

On September 11, 2012 the Brazilian federal government issued Provisional Measure 579 (PM 579), later converted into Law No. 12,783 of January 11, 2013 (Law No. 12,783/2013), which governs extension of the concessions granted prior to Law No. 9,074 of July 7, 1995. Under that law, as from September 12, 2012 these concessions can be extended only once, for up to 30 years, at the option of the concession authority.

On December 4, 2012, the Company signed the second amendment to Transmission Concession Contract 006/1997, extending this concession contract for 30 years under the terms of Law No. 12,783/2013, to be calculated from January 1, 2013. The concession extension resulted in a reduction of the Permitted Annual Revenue (Receita Anual Permitida, or RAP), which decreased our anticipated revenue with respect to those concessions. The Brazilian federal government has indemnified the Company for the RAP reduction in connection with part of the extended concessions. However, the Company has not been indemnified for the RAP reduction in connection with assets the operation of which began before the year 2000. According to Law No. 12,783/2013, the indemnification that is pending will be paid by the concession authority within 30 years and will be, adjusted for the Amplified National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*, or IPCA) until it is fully paid.

The Company opted not to request the extension of the generation concessions that would expire within the period from 2013 to 2017. For the plants that have yet to undergo their first extension, including the Jaguara, São Simão and Miranda plants, Concession Contract 007/1997 guarantees the extension of these concessions for a further 20 years, under their existing terms and conditions.

Based on this understanding, Cemig Generation and Transmission (Cemig GT) applied for a judicial order of mandamus (Application for Mandamus No. 20,432/DF) against the actions of the Mining and Energy Ministry with the objective of safeguarding its rights to an extension of the concession period of the Jaguara Hydroelectric Plant , under the terms of Clause 4 of Concession Contract 007/1997, and in accordance with the original terms and conditions of that Contract, which was signed prior to Law No. 12,783/ 2013.

The Superior Court of Justice (STJ) affirmed the Mining and Energy Ministry s denial of the merits of Cemig GT s application for an extension of the Jaguara Hydroelectric Plant concession and rejected Cemig GT s application by a majority of 6 votes to 2.

On December 21, 2015, Brazil s Federal Supreme Court (STF) granted an interim judgment in the Application for Provisional Remedy No. 3980/DF brought against the Brazilian federal government by Cemig GT, which granted Cemig GT the right to retain the control of the Jaguara Hydroelectric Plant commercial operation until a final decision is made by the STF. Application for Provisional Remedy No. 3,980/DF seeks on the merits the suspension of the effects of STJ s decision on the Application for Mandamus No. 20,432/DF described above.

Table of Contents

On the same basis, due to the imminent expiry of the period originally specified in the São Simão Hydroelectric Plant concession, Cemig GT filed for an injunction against the actions of the Mining and Energy Minister, with the objective of ensuring its right to extend the period of that concession, under Clause 4 of Concession Contract 007/1997, in accordance with the original terms of this contract, which was signed prior to Law No. 12,783/2013 Cemig GT obtained an initial interim relief from the court, in which recognized Cemig GT s right to retain control of the São Simão Hydroelectric Plant s commercial operations until a final decision was made by the court. However On June 30, 2015, Minister Mauro Campbell of the STJ revoked that injunction. The São Simão Hydroelectric Plant is provisionally under the responsibility of Cemig GT until a public tender is held for its concession.

Based on the classification adopted by the Company of the risk of loss involved in legal actions (where the chances of loss for the Company are assessed as probable , possible , or remote) the Company has classified the chance of loss in the actions mentioned above as possible , due to the nature and complexity of those specific cases. The cases have several particular elements characterizing the contingency, such as: (i) the singular nature of Concession Contract 007/1997; (ii) the unprecedented nature of the subject matter; and (iii) the fact that the actions will regarded as leading cases when extension of concessions is considered by the Brazilian Courts.

On June 10, 2016, Cemig s wholly-owned subsidiary Cemig GT filed an application with Aneel for a 20 year extension of the concession period for the Miranda hydroelectricPlant (the Miranda Plant), which is scheduled to expire in December 2016. On July 12, 2016, Aneel decided to refer the application to the Mining and Energy Ministry, with the recommendation that the application made by Cemig GT for extension of the period of the concession for the Miranda Hydroelectric Plant should not be granted, due to its application having been made after the deadline stipulated by Law 12,783/2013 . The Company is considering any possible administrative or legal measures, and will keep its shareholders and the market informed of any material developments.

For the other generation plants that have concessions that expire during the period from 2013 to 2017, which have already undergone an extension according to the conditions established in Concession Contract 007/1997related to Três Marias, Salto Grande, Itutinga, Camargos, Piau, Gafanhoto, Peti, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Sumidouro, Anil, Poquim, Dona Rita and Volta Grande generation plants, we have opted to return them to the concession authority (i.e. not to request extension, under the terms of PM 579).

In relation to Sumidouro, Anil, Poquim, ANEEL decided to extinguish the concession and, considering the capacity of such plants (less than 3 MW), they qualified for a registration regime and the assets were not returned to the federal government.

Further, CEMIG GT took part in the Hydroelectric Plant Concessions Auction under the Regime of Quotas, held on November 25, 2015 and won generation concessions for 18 hydroelectric power plants. CEMIG GT already operated 14 of those 18 hydroelectric power plants (Três Marias, Salto Grande, Itutinga, Camargos, Piau, Gafanhoto, Peti, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos and Dona Rita). The remaining four concessions are new and include the following hydroelectric power plants: Ervália, Coronel Domiciano, Sinceridade and Neblina. These new assets added almost 50 MW to the Cemig s power generation facilities. The total capacity of the 18 hydroelectric power plants is approximately 700 MW.

The percentage of the physical guarantee allocated to the Regulated Market (*Ambiente de Contratação Regulado*, or ACR) was 100% from January 1, 2016 to December 31, 2016 and will be 70% as of January 1, 2017. Contracts were executed after the payment of a concession grant fee of R$2,216 million, as follows: the first installment on December 31, 2015 and the second installment within 180 calendar days of the execution of the contracts. The amount is updated by the Selic rate from the date of payment of the first installment until the second installment payment date.

Cemig GT will receive in total R$498.7 million per year for generation services related to the plants, which is comprised of two components: (i) Fee for Management of Generation Assets (*Custo de Gestão dos Ativos de Geração* or GAG), and (ii) Yield on the Concession Grant Fee (*Retorno da Bonificação pela Outorga,* or RBO).

Regarding distribution concessions, the new concession agreement, with a 30-year term, imposes efficiency conditions on distribution companies under two categories: (i) service quality, and (ii) economic-financial sustainability. Non-compliance with the conditions for two consecutive years or any of the limits at the end of the first five years will result in the termination of the concession. Additionally, non-compliance with the global collective continuity indicator targets (global annual limits of collective continuity indicators) may lead to restrictions in the payment of dividends and/or interest on equity, while non- compliance with the economic-financial sustainability indicators may require capital contributions from the controlling shareholders.

Table of Contents

In 2014, after a decision by ANEEL to amend the concession and permission contracts of Brazilian electricity distributors, we signed a Fourth Amendment to each of our distribution concession contracts, which established a guarantee that amounts recorded in the Offsetting Account for Variation in Parcel A Items (*Conta de Compensação de Variação de Valores de Itens da Parcela A*, or CVA Account), and other financial components, would be incorporated into the basis of the indemnity we would be entitled to receive if a distribution concession were to be terminated for any reason.

On December 21, 2015, Cemig Distribuição S.A. (Cemig D) executed the fifth amendment to each of the distribution concession contracts it is a party to. Under the fifth amendment, the concessions granted under the Concession Contract 002/1997, Concession Contract 003/1997, Concession Contract 004/1997, and Concession Contract 005/1997, were consolidated and granted an extension from January 1, 2016 to December 31, 2045.

In light of the degree of discretion granted to the Brazilian federal government in relation to new concession contracts and renewal of existing concessions, and due to the new provisions established by PM 579 (and subsequent Law No. 12,783/2013) for renewals of distribution, generation and transmission concession contracts, we cannot guarantee: (i) that new concessions will be obtained; nor (ii) that our existing concessions will be extended on the same terms as those in effect; nor (iii) that the indemnities received in the event of non-extension of a concession will be in the amount expected. In this context, unfavorable events in relation to the concessions could adversely affect our business, results of operations and financial condition.

We are subject to extensive and uncertain governmental legislation and regulation and any changes to such legislation and regulation could have a materially adverse effect on our business, results of operations and financial condition.

The Brazilian federal government has been implementing policies that have a far-reaching impact on the Brazilian energy sector and, in particular, the electricity industry. As part of the restructuring of the industry, the New Industry Model Law introduced a new regulatory regime for the Brazilian electricity industry.

This regulatory structure has undergone several changes over recent years, the most recent being the changes added by PM 579 (which was converted into Law No. 12,783/2013), which governs the extension of some concessions governed by Law No. 9,074 of July 7, 1995. Under this law, such concessions can, as from September 12, 2012, be extended only once, for up to 30 years, at the option of the concession authority.

Amendments in the legislation and/or the regulations relating to the Brazilian electricity industry could adversely affect our business strategy and the conduct of our activities if we are not able to anticipate the new conditions or if we are unable to absorb the new costs or pass them on to customers.

Our subsidiaries may suffer intervention by public authorities to ensure appropriate provision of services, or imposition of fines by ANEEL, for failing to comply with their concession agreements and/or authorizations, which could result in penalties or, depending on the severity of the non-compliance, expiration of the concession agreements or revocation of the authorizations.

We conduct our generation, transmission and distribution activities pursuant to concession agreements entered into with the Brazilian federal government, through ANEEL, and/or pursuant to authorizations granted our portfolio companies, as the case may be. ANEEL may impose penalties if we fail to comply with any provision of the concession agreements, including those relating to compliance with the established standards of quality. Depending on the severity of the non-compliance, these penalties could include:

fines for breach of contract of up to 2.0% of the concession holder s revenues in the financial year immediately prior to the date of the breach;

injunctions related to the construction of new facilities and equipment;

restrictions on the operation of existing facilities and equipment;

temporary suspension from participating in bidding processes for new concessions for a period of up to two years;

intervention by ANEEL in the management of the concession holder that is in breach; and

repeal of the concession.

Table of Contents

In addition, the Brazilian federal government has the power to revoke any one of our concessions or authorizations, prior to the end of their term, in the event of bankruptcy or dissolution, or by a procedure of bringing forward expiration, for reasons related to the public interest. It can also intervene in concessions for the purpose of ensuring adequacy in provision of services, and faithful compliance with relevant provisions of contracts, regulations or law, and may also interfere in the operations of, and revenues arising from, the operations of the facilities of the Company and its subsidiaries.

Delays in the implementation and construction of new electricity undertakings can trigger the imposition of regulatory penalties by ANEEL, which, under ANEEL s Resolution No. 63 of May 12, 2004, can vary from warnings to the termination of concessions or withdrawal of authorizations.

ANEEL may impose penalties or even repeal our concessions or authorizations in the event of a breach of a concession contract or authorization conditions. Any compensation we may receive upon rescission of the concession contract and/or withdrawal of an authorization may not be sufficient to compensate us for the full value of certain investments. If any concession contract is rescinded due to a fault of ours, the effective amount of compensation could be smaller, due to fines or other penalties. Rescission of our concession contracts, or imposition of penalties, could adversely affect the Company s business, results of operations and financial condition.

Further, rules of the new distribution contract come into effect in 2016. These rules contain new standards for service quality and economic-financial sustainability of distribution companies, which must be complied with during the 30 years of the concessions. The evaluation of the standards will happen annually and, in the event of non-compliance, it may become obligatory for the controlling stockholders of the distribution company to contribute additional capital; or this might result in limitation on dividends payment, or payment of interest on equity.

It is possible that we may not succeed in implementing, in a timely fashion, or without incurring unforeseen costs, the strategies contained in our Long-term Strategic Plan[(1)], and this could have adverse consequences for our businesses, results of operations and financial condition.

Our ability to achieve strategic objectives depends, largely, on successful, timely implementation with positive cost-benefit ratio, of our Long-term Strategic Plan. The following are some of the factors that could affect this implementation:

- Ability to generate cash flow or obtain future financings necessary for implementation of the projects;
- Delays in the delivery of equipment by suppliers;
- Delays resulting from failures of suppliers or third parties in compliance with their contractual obligations; and
- Significant alterations in the economic, regulatory, hydrological or other scenarios.

(1) This contains the long-term strategic planning and the fundamentals, targets, objectives and results to be pursued and achieved by the Company. It is reviewed annually by the Executive Board and approved by the Board of

Directors.

Table of Contents

Any delays, such as those described above, or significant increases in our costs for another reason, could delay or prevent the successful implementation of our long-term strategic plan, which could cause an adverse effect on our businesses, results of operations and financial condition.

It is possible that the Company might face difficulties to deliver the results expected in the business plan, at the time of acquisition of companies or those recently acquired, which might be adverse for its business, results of operations and financial condition.

The Company and its subsidiaries have been acquiring interests in other companies, and they intend to maintain this profile of their business expansion in the future. However, there is a possibility that the benefits expected from these acquisitions may not be achieved. The process of integrating an acquired business might subject the Company to certain risks, such as: unexpected expenses, not being able to integrate the activities of the acquired company, not realizing the economies of scale and the expected efficiency gains, potential delays related to the integration of the operations of the acquisitions, exposure to unexpected contingencies, and prior legal claims made against an acquired business. The Company and/or its subsidiaries might not be successful in dealing with these and other risks or problems related to the most recent acquisitions or any future acquisition transaction. The Company s and/or its subsidiaries inability to integrate its operations successfully, or any significant delay in achieving such integration, could adversely affect our business, financial condition or operational results.

There are restrictions on our capacity for re-investment and indebtedness, which could adversely affect our business, results of operations and financial condition.

We are subject to certain restrictions on our ability to re-invest and raise funds from third parties, which might prevent us from entering into new contracts for financing of our operations, or for the re-financing of our existing obligations, and which may adversely affect our business, results of operations and financial condition.

In relation to reinvestment, our by-laws state that we may use up to 40.0% of our annual EBITDA (earnings before interest, income taxes, depreciation and amortization), each fiscal year, on capital investments and acquisitions. Our ability to carry out our capital expenditure program is dependent upon a number of factors, including our ability to charge adequate rates for our services, access to the domestic and international capital markets, and a variety of operational and other factors. Further, our plans to expand our generation and transmission capacity are subject to the competitive bidding process governed by Law No. 8,666/1993 (the Tenders Law).

Regarding loans from unrelated parties. we note that as a state-controlled company, we are subject to rules and limits on the level of credit that may be contracted by the public sector, set by the National Monetary Council (*Conselho Monetário Nacional*, or *CMN*) and by the Brazilian Central Bank BACEN (the Central Bank), and also for operating in the electricity sector which are also subject to rules and limits established by ANEEL, which govern the indebtedness of electricity sector companies. Those bodies set certain parameters and indicators for financial institutions to be able to offer credit to companies in the public sector or the electricity industry. State-controlled companies, for example, may use the proceeds of external transactions with commercial banks (debt, including bonds) only for the purpose of refinancing financial obligations. When it comes to local banks, state-controlled companies can enter into transactions guaranteed by duplicates of trade bills or for the purpose of refinancing financial obligations (federal banks only).

In addition, prior approval by the Finance Ministry the Central Bank is required before carrying out certain international financial transactions. Such approval is usually being given only if the purpose of the transaction is to finance importation of goods or refinance our external debt. As a result of these rules, our ability to incur debt is limited.

Table of Contents

Further, we may enter into financial agreements that contain covenants, which could restrain our operational flexibility. As of this date, we have entered into financial agreements with this profile with the Brazilian Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or *BNDES*). In the event of non-compliance by ourselves with an obligation contained in any of these financing agreements, we are required to strengthen the guarantees of the financing, on penalty of early maturity of the contract. In the past, there have been occasions when we have been non-compliant with financial covenants, which had conditions that were more restrictive than the present ones. Although we have been able to obtain waivers from our creditors in relation to such non-compliances, no guarantee can be given that we will be successful in obtaining any particular waiver in the future.

Our by-laws require us to keep certain financial indicators, including ratios related to debt and reinvestment, within certain limits. In 2014 and 2015, certain financial limits and indicators required by our by-laws were exceeded pursuant to the relevant approvals given by our stockholders at the general stockholders meetings for those years. Such limits could affect our operational flexibility.

Programs of investment and acquisitions will require additional capital, which might not be available on acceptable terms.

We will need funds to finance acquisitions and investments. However, we cannot guarantee that we will have our own funds or that we will be able to raise such funds in a timely manner and in the necessary amounts, or at competitive rates (by issuance of debt securities, or incurrence of loans) to finance investments and acquisitions. If we are unable to obtain funds as planned, we may be unable to meet our acquisition commitments, and our investment program could suffer delays or significant changes, which could adversely affect our business, financial situation or future prospects.

A reduction in our credit risk rating could adversely affect the availability of new financings and increase our cost of capital.

The credit risk rating agencies Fitch Ratings, Moody s, and Standard and Poor s attribute a rating to the Company and its debt securities on a Brazilian basis, and also a rating for the Company on the global basis.

Ratings reflect, among other factors, the outlook for the Brazilian electricity sector, the hydrological conditions of the country, the political and economic conditions, country risk, and the rating and outlook for the Company s controlling stockholder, the State of Minas Gerais. If our ratings are downgraded due to any external factor, operational performance or high levels of debt, it may increase the cost of capital and/or result in the inclusion of or breach of existing financial covenants in the instruments that regulate our debt. Further, our operational or financial results and/or the availability of future financings could be adversely affected.

Disruptions in the operation of, or deterioration of the quality of, our services, or those of our subsidiaries, could have an adverse effect on our business, financial situation and results of operations.

The operation of complex electricity generation, transmission and distribution systems and networks involves various risks, such as operational difficulties and unexpected interruptions, caused by accidents, breakage or failure of equipment or processes, performance below expected levels of availability and efficiency of assets, or disasters (such as explosions, fires, natural phenomena, landslides, sabotage, vandalism, or other similar events). Furthermore, operational decisions by the authorities responsible for the electricity network, environment matters, operations and other issues that affect electricity generation, transmission or distribution could adversely affect the functioning and profitability of the operations of our generation, transmission and distribution systems. If such factors occur, our insurance could be insufficient to cover in full the costs and losses that we might incur due to damage caused to our

assets, or due to outages.

Table of Contents

Further, the revenues that the Company s subsidiaries generate from establishing, operating and maintaining its facilities are related to the availability of the equipment and assets, and to the quality of the services (continuity and service in accordance with levels demanded by the regulations). Under the related concession contracts, the Company and its subsidiaries are subject to: (i) a reduction of their Portion B allocation (due to increase of the component Q in the formula for the X Factor at the time of the tariff review for the distributors; (ii) a reduction of the Permitted Annual Revenue (*Receita Anual Permitida*, or *RAP*), for the transmission companies; (iii) effects on the Availability Factor (*Fator de Disponibilidade*, or *FID*) and the offtake guarantee levels for the generation facilities; and (iv) application of penalties and payment of compensation amounts, depending on the scope, severity and duration of non-availability of the services and equipment. Therefore, outages or stoppages in our generation, transmission and distribution facilities, or in substations or networks, may cause a material adverse effect on our business, financial situation and results of operations.

The operational and financial results of the affiliated companies in which we invested may adversely affect our strategies, results of operations and financial condition.

We hold equity interests in, and conduct business through, a number of affiliated companies, including the acquisition of significant power generation and transmission assets (for further information, please refer to Item 4. Information on the Company Organization and Historical Background). The performance of our affiliated companies, such as Taesa, Light, Renova and Aliança Geração, can have a significant impact in our business and results of operations, as our ability to meet financial obligations is related in part to the cash flow and earnings of our subsidiaries and the distribution or other transfer of those earnings to us in the form of dividends or other advances and payment.

In addition, some of our subsidiaries may in the future be subject to loan agreements that require that any indebtedness of these subsidiaries to us be subordinate to the indebtedness under those loan agreements. Our subsidiaries are separate legal entities. Any right we may have to receive assets of any subsidiary or other payments upon their liquidation or reorganization will be effectively subordinated to the claims of that subsidiary s creditors (including tax authorities, trade creditors and lenders to such subsidiaries), except to the extent that we are a creditor of that subsidiary, in which case our claims would still be subordinated to any security interest in the assets of that subsidiary and indebtedness of that subsidiary senior to that held by us.

Further, as we do not control the management of several of these subsidiaries, their management practices may not be aligned with ours. Any deterioration in the results of operations or financial condition of any subsidiary or any sanctions or penalties imposed on them may have a negative effect on our results of operations or financial condition.

Delays in the process of construction of projects, or in the expansion of facilities, in new investments and in capitalizations in our generation, transmission and distribution companies could adversely affect our business results of operations and financial condition.

We are currently engaged in the construction and expansion of plants, transmission lines, distribution lines, distribution networks and substations, and also studying other potential expansion projects. Conclusion of the projects, within deadlines and budget, within the assumptions established in our Business Plan, and without adverse economic effects, and also of the projects of expansion, new investments, and the required capitalizations, is subject to various risks. For instance, we may encounter the following:

Various problems in the phase of planning and construction of expansion projects or new investments (examples might be work stoppages, delays by suppliers in materials and services, delays in tender processes, embargos on

work, unexpected geological and meteorological conditions, political and environmental uncertainties, the liquidity of our partners, contractors and subcontractors);

Regulatory or legal challenges that delay the start date of operations of expansion projects;

New assets might operate below the planned capacity, or the costs of their operation/installation might be greater than planned;

Difficulty of obtaining adequate working capital to finance the expansion projects;

Environmental demands and claims by the population during construction of generation plants, transmission lines, distribution lines, distribution networks and substations. and

Table of Contents

possibility of failure to comply with the SAIDI (outages duration) target, resulting in risk of loss of the concession, since the contract provides that non-compliance with the targets for quality indicators for 2 consecutive years, or in the fifth year, will result in opening of a process of expiration of the concession.

If we face any of these problems or other problems related to the new investments or to the expansion of our generation, transmission or distribution capacity, there is the possibility that we might suffer increases of costs, or, perhaps, lower profitability than originally projected for the projects.

We have substantial liabilities and are exposed to short-term liquidity constraints, which could make it difficult for us to obtain financing for our planned investments and adversely affect our financial condition and results of operations.

In order to finance the capital expenditures needed to meet our long-term growth objectives, we have incurred a substantial amount of debt. As our cash flow from operations in recent years has not been sufficient to fund our capital expenditures, debt service and payment of dividends, our debt has significantly increased since 2012. Our total debt (including accrued interest) increased by 12.2 % to R$15,167 million as of December 31, 2015, compared to R$13,509 million as of December 31, 2014 and to R$9,457 million as of December 31, 2013. Our debt, net of cash, cash equivalents and marketable securities, increased by 1.6% to R$11,815 million as of December 31, 2015 compared to R$11,628 million as of December 31, 2014 and to R$6,322 million as of December 31, 2013. 87.0% of our existing debt (principal), or R$13,190 million, will mature in the next five years. In order to meet our growth objectives, maintain our ability to fund our operations and amortize scheduled debt maturities, we will need to raise significant amounts of debt capital from a broad range of funding sources.

To service our debt after meeting our capital expenditure targets, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our available credit facilities, our cash and short-term financial investments balance and the incurrence of additional indebtedness. Any further lowering of our credit ratings may have adverse consequences on our ability to obtain financing or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. If, for any reason, we are faced with continued difficulties in accessing debt financing, this could hamper our ability to make capital expenditures in the amounts needed to maintain our current level of investments or our long-term targets and could impair our ability to timely meet our principal and interest payment obligations with our creditors, as our cash flow from operations is currently insufficient to fund such both planned capital expenditures and all of our debt service obligations. A reduction in our capital expenditure program or the sale of assets could significantly affect our results of operations.

We are controlled by the Government of the Brazilian State of Minas Gerais, which may have interests that are different from those of the other investors or of the Company.

As our controlling shareholder, the government of the Brazilian State of Minas Gerais exercises substantial influence on the strategic orientation of our business. Currently it holds 51% of our common shares and, consequently, has the majority of votes in decisions of the General Meetings of Shareholders, and can: (i) elect the majority of the members of the Board of Directors; and (ii) approve matters that require a specific quorum of our shareholders. The latter include transactions with related parties, shareholding reorganizations and the date and payment of any dividends.

Table of Contents

The state government, as our controlling shareholder, has the capacity to cause the Company to concentrate on activities and make investments that are intended to promote its own economic or social objectives, which may not be aligned with the strategy of the Company or the interests of our other shareholders.

Brazil s supply of electricity is heavily dependent on hydroelectric plants, which in turn depend on climatic conditions to produce electricity.

As is widely known, hydroelectric generation is predominant in Brazil constituting approximately 65% of total installed capacity. The advantages of hydroelectric power have also been widely publicized: it is a renewable resource, and enables substantial expenditures on fuels in thermal generation plants to be avoided. At the same time the main difficulty in the use of this resource arises from the variability of the flows to the plants. There are substantial seasonal variations in monthly flows and in the total of flows over the year, which depend fundamentally on the volume of rain that falls in each rainy season. Adverse hydrological conditions in the Brazilian Southeast resulted in scarcity of water in the states of São Paulo, Minas Gerais and Rio de Janeiro. These conditions may get even worse during the dry period April to September. This could also lead to rationing of water consumption and, consequently, of electricity.

To deal with this problem, the Brazilian system has a complementary thermal generation system with about 28% of the total power generation capacity (and has increased the use of wind power). It also has accumulated water reserves, for the purposes of maintaining the necessary water supply from the rainy season to the dry season and from one year to the next. However, these measures are, to date, not able to handle prolonged water shortages, such as that which occurred in 2014.

The operation of the whole system is coordinated by the National System Operator (*Operador Nacional do Sistema,* or ONS). Its primary function is to achieve optimal operation of the resources available and minimize operational costs and risks of electricity shortages. In periods when the hydrological situation is unfavorable, the ONS can (as it did in 2014) reduces generation by hydroelectric plants and increase thermal generation, which results in higher costs for the hydroelectric generators. For the distribution companies, this increase in costs increases the price of their electricity purchases which is not always passed through immediately to the consumer, causing mismatches in cash flows which has an adverse effect on business, and financial conditions. Further, in the event of extreme shortages of electricity due to unfavorable hydrological conditions, the system experiences rationing, which could result in a reduction of cash flow.

To mitigate the effect of the seasonality of generation of the hydroelectric plants, the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia,* or MRE) was created. This mechanism shares the generation of all the hydroelectric plants in the system in such a way as to supplement the shortage of generation of one plant with excess generation by another. However, this mechanism is not able to eliminate the risk of the generation players, because when there is an extremely unfavorable hydrological situation, to the extent that that all the plants in aggregate are unable to reach the sum of their Physical Guarantee levels of power output, this mechanism makes an adjustment to the Physical Guarantee of each plant through the Physical Guarantee Adjustment Factor (*Fator de Ajuste da Garantia Física,* or GSF), resulting in the generating companies being exposed to the short-term (spot) market.

In 2014, factors such as a reduction in consumption, low storage levels in the reservoirs, low hydrology (rainfall levels and other sources of water) and increased capacity and use of thermoelectric plants have led to a reduction in hydroelectric generation which, in turn, led to a lower GSF. Hydroelectric Generation Companies are aware of this risk and, as such, they typically separate approximately 5% of their physical guarantee levels to mitigate the levels of the GSF. However, extraordinary conditions with respect to a lack of rainfall led to a GSF below the values expected by Hydroelectric Generation Companies, closing the year 2014 at a GSF of 0.91. In 2015, in spite of the small improvement in hydrological conditions, continuous dispatching of the thermal plants, and the lower load, resulted in

a GSF of 0.84 at the close of the year. This means that there has been a reduction of more than 15% in the output of the Hydroelectric Generation Companies and when there is no excess to compensate this reduction it results in increased exposure to the spot market. The exposures to the spot market, and the balance between requirements and resources, are measured monthly by the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or *CCEE*). These exposures, negative or positive, are valued by the spot price (*Preço de Liquidação de Diferenças* PLD). If the exposures are negative the generator will have a debit in the CCEE, thus affecting its cash flow.

Table of Contents

This unexpected exposure of hydroelectric generation companies to spot prices, resulting from low GSF values, caused these companies to seek legal injunctions to avoid exposure to the spot prices, which led to a large number of injunctions which had the effect of paralyzing the CCEE market.

In 2015, to correct this situation, the federal government published Provisional Measure 688, enacted as Law No. 13,203, of December 8, 2015, which created the mechanism of voluntary re-negotiation of hydrological risks as they affect the hydroelectric generation companies. In this process, the generator was allowed to transfer their costs and revenues related to hydrological risk to consumers in exchange for the payment of a risk premium to be deposited in the so-called tariff band deposit account (the tariff band surcharges are deposited in such account and transfers to the distribution concessionaires are made from this account as well) and would be indemnified for the losses suffered in 2015 by means of, among other measures, an extension of their power generation grants (concessions or authorizations, as the case may be) for up to 15 years. In other words, hydroelectric power plants would recover the costs incurred with GSF deficits retroactively to January 2015, and such recovery would form a regulatory asset which would be amortized over the term of the concession with a postponement of the risk premium. If the remaining concession/authorization period is insufficient (i.e. not long enough to amortize the regulatory asset), then generators would have a concession/authorization extension (limited to 15 years). To be able to use the mechanism the companies have to waive all claims filed and all injunctions obtained, as well as waive any further rights they would have in connection such lawsuits. This mechanism enables plants with contracts signed in the regulated market and the free market to renegotiate them. However, the system and mechanism for renegotiating are different in the two markets. In both, this mechanism functions as a hedge in which the generators bear the high cost of reserve of energy, and for their generation they receive the amount stipulated by the spot market price.

In the free market, the system did not receive the same acceptance, since even with the payment of the premium, generation companies would have had to continue assuming the hydrological risk at moments of critical hydrology. In this environment, the system required contracting of reserve energy, which has very high prices, for mitigation of the hydrological risk. For this reason this mechanism became inefficient for the generation companies. Acceptance of the mechanism by the regulated market was, approximately, 90%. However, it was not accepted by the free market.

The rules for electricity trading and market conditions may affect the sale prices of electricity.

Under the applicable law, our generation companies are not allowed to sell electricity directly to our distribution companies: the power produced by our generation companies is sold in the ACR through public auctions conducted by ANEEL, or in the Free Market (*Ambiente de Contratação Livre*, or ACL). The applicable legislation allows the distributors that enter into contracts with the generation companies in the (ACR) to reduce the quantity of energy contracted by up to 4% per year (calculated on the value of the original contract) for the entire period of the contract. This exposes Brazilian generation companies to the risk of not being able to sell the power that has been de-contracted at adequate prices.

We conduct trading activities through power purchase and sale agreements, mainly in the ACL, through our generation and trading companies. Contracts in the ACL may be entered into with other generating entities, energy traders, or mainly, with Free Consumers . Free Consumers are consumers with a demand of 3MW or more: they are allowed to choose their electricity supplier. Some contracts allow this type of consumer to buy a higher or lower volume of electricity from our generation companies than originally contracted for (by 5% on average), and this could adversely affect our business, results of operations and financial situation. Other contracts do not allow for this kind of flexibility in the purchase of electricity, but increased competition in the Free Market could influence the occurrence of this type of arrangement in purchase contracts in the ACL.

27

Table of Contents

In addition to the Free Consumers referred to above, there is a category of clients referred to as Special Consumers , which are those with contracted demand between 500kW and 3MW. Special Consumers are eligible to participate in the Free Market provided they buy electricity from incentive-bearing alternative sources, such as Small Hydroelectric Plants, biomass plants or wind farms. The company has conducted sales transactions for this category of electricity from specific electricity resources in particular companies of the group and, since 2009, the volume of these sales has gradually increased. The Company has formed a portfolio of purchase contracts which now occupies an important space in the Brazilian electricity market for incentive-bearing alternative power sources. Contracts for the sale of electricity to these clients have specific flexibilities to serve their needs, and these flexibilities of greater or lesser consumption are linked to the historic behavior of these loads. Higher or lower levels of consumption by these clients may cause purchase or sale exposures to spot prices, which can have an adverse impact on our business, operational results and/or financial situation. Market variations, such as variations of prices for signature of new contracts, and of volumes consumed by our clients in accordance with flexibilities previously contracted, can lead to spot market positions, which can potentially have a negative financial impact on our results.

The Energy Reallocation Mechanism (MRE) was created to reduce the exposure of generators of hydroelectric power, such as our generation companies, to the uncertainties of hydrology. It functions as a pool of hydroelectric Generation Companies, in which the generation of all the plants participating in the MRE is shared in such a way as to meet the demand of the pool. When the totality of the plants generates less than the amount demanded, the mechanism reduces the assured offtake levels of the plants, causing a negative exposure to the short-term (spot) market and, as a consequence, the need to purchase power supply at the spot price (the *Preço de Liquidação de Diferenças,* or *PLD*). Correspondingly, when the total generation of the plants is more than the volume demanded, the mechanism increases the guaranteed offtake level of the plants, leading to a positive exposure, permitting the sale of power at the spot rate (PLD). In years of poor rainfall the reduction factor which applies to the assured energy levels can reduce the levels of the hydroelectric plants by up to 20% or more.

In 2015 the Brazilian federal government proposed a system of voluntary renegotiation relating to hydrological risk. This process enabled the generating companies to transfer their costs and revenues related to hydrological risk to consumers in exchange for the payment of a risk premium to be deposited in the so-called tariff band deposit account (the tariff band surcharges are deposited in such account and transfers to the distribution concessionaires are made from this account as well) and would be indemnified for the losses suffered in 2015 by means of, among other measures, an extension of their power generation grants (concessions or authorizations, as the case may be) for up to 15 years. In other words, hydroelectric power plants would recover the costs incurred with GSF deficits retroactively to January 2015, and such recovery would form a regulatory asset which would be amortized over the term of the concession with a postponement of the risk premium. If the remaining concession/authorization period is insufficient (i.e. not long enough to amortize the regulatory asset), then generators would have a concession/authorization extension (limited to 15 years).

In the free market, the system was not favorable enough to gain acceptance: even with the payment of the risk premium, generation companies would have been required to continue assuming the hydrological risk at moments of critical hydrology. In this environment, the system required contracting of reserve power, which has very high prices, for mitigation of the hydrological risk.

Low liquidity or volatility in future prices, due to market conditions and/or perceptions, could negatively affect our results of operations. Further, if we are unable to sell all the power that we have available (our own generation capacity plus contracts under which we have bought supply of power) in the regulated public auctions or in the Free Market, the unsold capacity will be sold in the CCEE at the spot price (PLD), which tends to be very volatile. If this occurs in periods of low spot prices, our revenues and results of operations could be adversely affected.

Increases in electricity purchase prices could cause imbalance in the Company s cash flows.

The prices of electricity purchase contracts signed by electricity distribution concession holders such as ourselves are linked to certain variables that are not under their control, such as hydrological conditions and dispatching of thermoelectric plants. Although any increases in costs for purchasing of electricity arising from adverse hydrological conditions and from higher than forecast dispatching of the thermal plants are passed through to the electricity distribution concession holders in the form of tariff increases at the time of the distribution concession holders tariff adjustments, this situation could result in mismatches of cash flow, with an adverse impact on the Company s business, results of operations and financial condition.

In recent years, the Brazilian federal government and Aneel have created mechanisms to reduce the mismatch in the distributors cash flow arising from the increase in prices for purchase of electricity.

Table of Contents

In 2013, funds from the Energy Development Account (*Conta de Desenvolvimento Energético*, or CDE) were used; and in 2014 a series of bank loans were made in the name of the CCEE, the funds from which were passed through to the distributors through an account which received the name of the ACR Account (*Conta ACR*). As from 2015, these costs began to be incorporated into the electricity tariffs paid by consumers. In 2015 there was also an Extraordinary Review of tariffs to compensate the increased costs of higher contributions to the CDE, and of electricity purchased from Itaipu, among other factors. Finally, as from January 2015, the tariff flag system was finally put in place on a permanent basis. This system increases the tariff for the final consumer when the generation system is undergoing adverse hydrological conditions, and thus transfers part of the costs to these consumers more rapidly. The Red Flag was in force for the whole of the year 2015 this is the highest rate, indicating higher electricity acquisition costs for the distributors and constantly higher charges for the consumer. Even with this mechanism, there is the risk of increase in electricity purchase prices being on such a scale that the Company s cash is significantly pressured until the next tariff adjustment. Also, the recovery of higher costs for purchase of electricity via pass-through to tariffs takes place gradually over the 12 months between tariff adjustments.

Starting in 2014, the Brazilian federal government undertook another round of funding support transactions, with funds from the CDE. These funds relate to subsidies, including those for low-income consumers, and other components, including access for irrigation, access to water and water services, and rural consumption, which had been withdrawn from the tariff adjustment process at the implementation of Law No. 12,783/2013. These funds were sourced from the Brazilian federal government, among other sources, and paid through Eletrobrás. We note that if there is a delay in these payments it could cause problems of mismatch in the cash flow of our distribution company (Cemig D).

The current economic downturn in Brazil contributed to several factors resulting in the increase in rates charged from captive consumers, and the migration of customers to the free market. This could lead to a revenue decrease during 2016 and possible financial exposure due to an electricity inventory greater than 5% of demand. In order to mitigate these effects, distributors can assign contracts for the purchase of electricity provided by existing generation facilities through the Surpluses and Deficits Compensation Mechanism (*Mecanismo de Compensação de Sobras e Déficits*, or MCSD), which is available to distributors who have deficits. If, after using this mechanism, distributors still have an excessive inventory of more than 5% of current consumption, such excess can be sold in the spot market, which can result in a loss for the distributor if the PLD is lower than the costs of the purchase contracts. This loss cannot be passed on to the consumer and is bared by the concessionaire. Such losses could have an effect on our business and results from operations.

Requirements of, and restrictions by, the environmental agencies could result in our Company having additional costs.

Our operations relating to generation, distribution and transmission of electricity, and distribution of natural gas, are subject to various federal, state and municipal laws and regulations, and also to numerous requirements relating to the protection of health and the environment. Delays by the environmental authorities, or the refusal of license requests by them, and/or any inability on our part to meet the requirements set by these bodies during the environmental licensing process, may result in additional costs, or even, depending on the circumstances, prohibit or restrict the construction or maintenance of these projects.

Non-compliance with environmental laws and regulations, such as building and operation of a potentially polluting facility without a valid environmental license or authorization, can as a consequence, in addition to the obligation to redress any damages that may be caused, result in criminal, civil and/or administrative sanctions being applied. Under Brazilian legislation, criminal penalties, such as imprisonment and restriction of rights, may be applied to individuals (including managers of legal entities), and penalties such as fines, restriction of rights or community service may be

applied to legal entities. With respect to administrative sanctions, depending on the circumstances, the environmental authorities may: (i) impose warnings, or fines, ranging from R$50,000 to R$50 million; (ii) require partial or total suspension of activities; (iii) suspend or restrict tax benefits; (iv) cancel or suspend lines of credit from governmental financial institutions; or (v) prohibit us from contracting with governmental agencies, companies or authorities. Any of these actions could adversely affect our business, results of operations and financial condition.

Table of Contents

We are also subject to Brazilian legislation that requires payment of compensation in the event that our activities have polluting effects. Under Federal Law No. 6,848/2009 and Minas Gerais State Decree No. 45,175/2009 (Decree No. 45,175/2009), up to 0.5% of the total amount invested in implementation of a project that causes significant environmental impact must be applied in mitigating measures, in an amount to be determined on a case-by-case basis by environmental authorities according to the specific level of pollution and the environmental impact of the project. Decree No. 45,175/2009 also indicated that the compensation rate will be applied retrospectively to projects implemented prior to promulgation of the present legislation. That State Decree was altered by Decree No. 45,629/2011, which established that, for the reference value of the projects that cause significant environmental impact:

(i) for projects executed before the publication of Federal Law No. 9,985 of July 18, 2000 (Federal Law No. 9,985), the net book value will be used, excluding revaluations or, in its absence, the value of the investment presented by the representative of the project; and

(ii) compensation for environmental projects executed after the publication of Federal Law No. 9,985 will use the reference established in Item IV of Article 1 of Decree No. 45,175/2009, calculated at the time of execution of the project and updated based on an inflation-linked adjustment index.

Among the provisions of law that can lead to operational investments and expenses, one is compliance with the Stockholm Convention on Persistent Organic Pollutants (the Convention), to which Brazil is a signatory, assuming the international commitment to withdraw the use of PCB by 2025, and its complete prohibition by 2028, through Decree No. 5,472, of June 20, 2005. The legislation to be passed for this purpose could have a major effect on the electricity industry and on Cemig, due to the possibility of obligations to list, replace and dispose of equipment and materials containing substances included in the Convention such as Polychlorinated Biphenyls (PCBs).

Finally, the adoption or implementation of new safety, health and environmental laws, new interpretations of existing laws, increased rigidity in the application of the environmental laws, or other developments in the future might require us to make additional capital expenditure or incur additional operational expenses in order to maintain our current operations; or to curtail our production activities or take other actions that could have an adverse effect on our business, results of operations and financial condition.

Dams are critical and essential elements in the electricity sector. Dam failures can cause serious impacts on society as a whole and on the Company.

In all dams there is an intrinsic risk of dam failure, due to internal and external factors related to the structures. The measure and nature of the risk are not always foreseeable. Absolute security, as an absolute value, is unattainable. Thus, although Cemig complies with the legislation relating to dam safety, and applies best national and international engineering practices in management of its portfolio of dams, we are subject to the risk of a dam failure. The failure of a dam could result in unavailability of hydroelectric generation, causing economic, social, regulatory, and environmental damage and potential loss of human lives in the communities downstream from dams, which could have a material adverse effect on the Company s image, business and results from operations.

The multiple uses of water and the various interests related to this natural resource might give rise to conflicts of interest between the Company and Society as a whole, which might cause losses to our business, operational results or financial situation.

Cemig s generation facilities are predominantly hydroelectric plants. In the last 15 years, 44 projects have been added, comprising approximately 1,831 MW. At present, taking into account also the projects undertaken jointly, a total of 80 plants with 7,330 MW correspond to 95.53% of the Company s installed capacity, and more than 3,500 km^2 of reservoirs administrated. Because water is the principal raw material for Cemig s production of electricity, and a resource that is sensitive to climate change, and vulnerable to the consequences of exploration of other natural resources, significantly impacted by anthropic actions and subject to a regulatory environment, management and conservation of water are subjects of great importance to Cemig.

Decisions on dispatching of the thermal generation plants in Brazil s national grid system (*Sistema Interligado Nacional*, or SIN) are made by the National Electricity System Operator (*Operador Nacional do Sistema Elétrico*, or ONS). The ONS is a non-profit legal entity under private law, in the form of a civil association, created on August 26, 1998, by Law No. 9,648/98, with amendments by the New Industry Model Law and regulation by Decree No. 5.081/04. It is responsible for coordination and control of the operation of generation and transmission facilities in the national grid, under inspection and regulation by the National Electricity Agency (*Agência Nacional de Energia Elétrica*, or ANEEL).

Table of Contents

The operation of reservoirs for generation of electricity by Cemig results, essentially, in consideration of the multiple uses of water by other users of the river basin, and this in turn leads to the need to consider a series of restrictions in terms of the environment, security, irrigation systems, human supply, waterways, bridges, and others all of which are rigidly respected and complied with by Cemig. In periods of severe drought, like those of 2013 until 2015, monitoring and forecasting the levels of reservoirs and the constant dialogue with the public authorities, civil society and users were essential for ensuring the generation of electricity, and also the other uses of this resource. While the Company engages other essential users, takes steps to analyze community input and studies regarding issues relating to the impact of water use in order to address concerns regarding the use of water, competing interests with respect to the use of water could, subject to certain minimum limits previously established by law, affect its availability to us for use in the operations of certain of our projects, which could affect our operational results and financial condition.

Our processes of governance, risk management and compliance could fail to avoid regulatory penalties, damages to our reputation, or adverse effects on our businesses, results of operations and financial condition.

Our Company is subject to various regulatory schemes, such as: (i) the laws and regulations of the Brazilian electricity industry, including the New Industry Model Law, regulations of the Brazilian regulator (ANEEL), among others; (ii) the laws and regulations that apply to listed companies with securities traded on the Brazilian capital markets, such as Law Nº 6,404/1976, regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or *CVM*), among others; (iii) the laws and regulations that apply to Brazilian companies which have majority public-sector ownership, such as the Tenders Law, among others; and (iv) the laws and regulations that apply to companies that have securities traded in the US capital markets, such as the Sarbanes-Oxley Act of 2002, the Foreign Corrupt Practices Act of 1977 (FCPA), and regulations of the United States Securities and Exchange Commission (SEC), among others.

Due to the majority interest held by the State Government in our stockholding structure, we are required to contract the greater part of our works, services, advertising, purchases, disposals and rentals, through competitive tenders and administrative contracts which are ruled by the Tenders Law and other complementary legislation. Also, we operate in a sector in which there is frequent use of competitive tenders and high value administrative contracts with a large number of suppliers and clients. This exposes us to the risks of fraud and administrative impropriety that are inherent in these forms of contracting.

In recent years Brazil has intensified and improved its legislation and structures relating to maintaining competition, combat of improbity and prevention of corrupt practices. Law No. 12,846/2013 holds Brazilian companies strictly liable if they commit acts against Brazilian or foreign governmental entities, including acts relating to processes of competitive tenders and administrative contracts, and has laid down heavy penalties for companies that contravene this law.

Our Company has structures and policies for the prevention and combat of fraud and corruption, audit and internal controls, and has adopted the recommendations for Best Corporate Governance Practices recommended by the Brazilian Corporate Governance Institute (*Instituto Brasileiro de Governança Coorporativa*, or *IBGC*) and the framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission). However, our processes of governance, risk management and compliance might be unable to avoid future violations of the laws and regulations to which we are subject, or violations of our internal control mechanisms, our Declaration of Ethical Principles and Code of Professional Conduct, or the occurrence of fraudulent or dishonest behavior by employees, or individuals or legal entities that are contracted, or other agents that may represent the company in dealings with third parties, especially with the Public Authorities. Non-compliance with laws and regulations, among other rules, might result in fines, loss of licenses, damage to our reputation or significant financial losses.

Ongoing high profile anti-corruption investigations in Brazil may affect us, the perception of Brazil and domestic growth prospects.

Political events in Brazil have affected the development of the Brazilian economy and investors perceptions about Brazil. For example, mass street protests, which started in mid-2013, and have continued in 2014 and 2015 (albeit to a lesser degree than in 2013) and demonstrated the public s dissatisfaction with corruption and certain political measures, and represent a potential risk to the Brazilian social and economic outlook.

Additionally, certain Brazilian companies in the oil & gas, energy and infrastructure sectors are facing corruption probes by the CVM, the Brazilian Federal Police, the Brazilian Judiciary, the SEC and the U.S. Department of Justice (DOJ). Some issues are including Norte Energia S.A., the owner of the concession for the construction and operation of Belo Monte Hydroelectric Plant, on Xingu River, State of Pará, Brazil, in which Cemig is a minority shareholder through Aliança Norte and Amazônia Energia with an interest of 12.5%. For further information, please refer to Explanatory Note and Item 4. Information on the Company Note 4 Acquisition of a 9.77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant Investigation of Norte Energia S.A.

Table of Contents

Depending on the developments and outcome of such investigations, as well as the time it takes to conclude them, Cemig may be required to further adjust its financial statements, as well as face downgrades from rating agencies, civil and criminal penalties, funding restrictions, reduction in revenues, liquidity issues, reputational issues and other unforeseen material adverse effects. In addition, we cannot assure you that Cemig will not become the subject of any criminal or civil anti-corruption action brought under U.S. or Brazilian law if any illegal acts or regulatory failures come to light. Any potential future anti-corruption-related action brought against us could result in charges against us, members of our management, significant fines and penalties, reputational harm, distraction from our ongoing business and other unforeseen material adverse effects.

Our ability to distribute dividends is subject to limitations.

Whether or not the investor receives dividends depends on whether our financial situation permits us to distribute dividends under Brazilian law, and whether our shareholders, on the recommendation of our Board of Directors, acting in their discretion, determine suspension, due to our financial circumstances, of the distribution of dividends in excess of the amount of mandatory distribution required under our by-laws in the case of the preferred shares.

Because we are a holding company with no revenue-producing operations other than those of our operating subsidiaries, we can only distribute dividends to shareholders if the Company receives dividends or other cash distributions from its operating subsidiaries. The dividends that our subsidiaries can distribute depend on our subsidiaries generating sufficient profit in any given fiscal year. Dividends can be paid out from the profit accrued in each fiscal year or from the accumulated profits of previous years, or from accumulated profit reserves. Dividends are calculated and paid in accordance with applicable Brazilian corporate law (Brazilian Corporate Law) and the provisions of the by-laws of each of our regulated subsidiaries.

Table of Contents

Under our by-laws, we must pay our shareholders a mandatory annual dividend equal to at least 50% of our net profit for the preceding fiscal year, based on our financial statements (which are prepared in accordance with IFRS and the accounting practices adopted in Brazil), and holders of preferred shares have priority of payment. Our by-laws also require that the mandatory annual dividend we pay to holders of our preferred shares must be equal to at least the greater of (a) 10% of the par value of our shares, or (b) 3% of the value of the portion of stockholders equity represented by our shares, in the event that such amount is greater than 50% of our net profit. If in a given fiscal year we do not have net profit, or our net profit is insufficient, our management may recommend at the Annual Shareholders Meeting that the payment of the mandatory dividend should not be made in respect of that year. However, there is also a guarantee given by the government of the State of Minas Gerais, our controlling shareholder, that a minimum annual dividend of 6% will in any event be payable to all holders of common shares and preferred shares issued up to August 5, 2004 (other than public and governmental holders) in the event that mandatory distributions have not been made in a given fiscal year.

The level of default by our consumers could adversely affect our business, operational results and/or financial situation as well as those of our subsidiaries.

On December 31, 2015, the total of our past-due receivables owed by final consumers, excluding the allowance for doubtful receivables, was approximately R$919 million, corresponding to 4.31% of our consolidated net revenue in 2015, and our provision for doubtful receivables was R$625 million. The possibility exists that we might be unable to collect amounts payable by various consumers which are in arrears. If such debts are not totally or partially settled, we will suffer an adverse impact on our business, operation results and/or financial situation. Additionally, the amount of debts in arrears from our consumers that exceeds the provision that we have made could cause an adverse effect on our business, operational results and/or financial condition.

Instability of inflation rates and interest rates could adversely affect our economic results and financial situation.

The Company and its subsidiaries are exposed to losses linked to fluctuations in domestic interest rates and inflation rates, due to the existence of assets and liabilities indexed to the variations in the Selic and CDI rates, and the IPCA and IGP-M inflation indices.

A significant increase in interest rates or inflation would have an adverse effect on our financial expenses and financial results as a whole. At the same time, a significant reduction in the CDI rate, or in inflation, could negatively affect the revenue generated by our financial investments, but also have the positive effect of revaluing adjustments to the balances of Financial Assets of our Concessions(2).

ANEEL has discretion to establish the rates that distribution companies charge their consumers. These rates are determined by ANEEL in such a way as to preserve the economic and financial balance of concession contracts entered into with ANEEL.

Concession agreements and Brazilian law have established a mechanism that permits three types of rate adjustment: (i) the Annual Adjustment; (ii) the Periodic Review; and (iii) the Extraordinary Review. The purpose of the Annual Adjustment (*Reajuste Anual*) is to compensate for changes in costs that are beyond the Company s control, such as the cost of electricity for supply to consumers, the sector charges that are set by the federal government, and charges for use of the transmission and distribution facilities of other companies. Manageable costs, on the other hand, are adjusted by the IGP M inflation index, less an efficiency factor, known as the X Factor. Every five years, there is a Periodic Tariff Review (*Revisão Periódica Tarifária*, or RTP), the purpose of which is to: identify the variations in costs referred to above; provide an adequate return on the assets that the company has constructed during the period; and establish a factor based on economies of scale, which will be taken into account in the subsequent annual tariff

adjustments. An Extraordinary Tariff Review takes place whenever there is any unforeseen development that significantly alters the economic/financial equilibrium of the concession. Thus, although our concession contracts specify that the economic and financial balance of the contract shall be preserved, we cannot guarantee that ANEEL will set tariffs that adequately remunerate us in relation to the investments made or in relation to the operational costs incurred by reason of the concession.

(2) These refer to infrastructure in which investment has been made that will be the subject of indemnity by the Concession-granting power, during the period of the concessions and at their termination, as set out in the regulatory framework of the electricity sector, and in the transmission and distribution concession contract signed with ANEEL by Cemig and its subsidiaries.

Table of Contents

ANEEL has discretion in setting the Permitted Annual Revenue (Receita Annual Permitida or RAP) of our transmission companies; if any adjustments result in a reduction of the RAP, this could have a material adverse effect on our results of operations and financial condition.

The RAP that we receive through our transmission companies is determined by ANEEL, on behalf of the federal government. The concession contracts provide for two mechanisms for the adjustment of revenues: (i) the annual tariff adjustments; and (ii) the Periodic Tariff Review (*Revisão Tarifária Periódica*). The annual tariff adjustment of our transmission revenues takes place annually in June and is effective in July of the same year. The annual tariff adjustments take into account the permitted revenues of the projects that have come into operation, and the revenue from the previous period is adjusted by the IPCA index. The periodic tariff review previously took place every four years, but Law No. 12,783/2013 changed the tariff review period to five years. Our last tariff review was in July, 2009, and the next is estimated for 2018 due to the fact that an Extraordinary Review occurred in 2013 as a result of Law No. 12,783/2013. During the periodic tariff review, the investments made by a concession holder in the period and the operational costs of the concession are analyzed by ANEEL, taking into account only investments that it deems to be prudent, and operational costs that it assesses as having been efficient, using a benchmarking methodology developed by employing an efficiency model which compares the data the various transmission companies in Brazil. Therefore, the tariff review mechanism is subject to some extent to the discretionary power of ANEEL, since it may omit to include investments that have been made, and could recognize operational costs as being lower than those actually incurred. This could result in a material adverse effect on our business, results of operations and financial condition.

As previously mentioned, the renewal of concessions of the transmission assets of Cemig GT, under Law No. 12,783/2013, resulted in a reduction of the Permitted Annual Revenue (RAP) of this concession, and gives rise to payment of indemnity for the assets of that concession that had not be amortized. The federal government has already paid indemnity for part of the assets, but the assets in operation prior to the year 2000 have not yet been indemnified. According to Law No. 12,783/2013, full indemnity will be made for the assets based on a calculation of the assets not yet amortized, using the methodology of New Replacement Value (*Valor Novo de Reposição*, or VNR). Normative Resolution 589/2013 set the criteria for calculation, by concession holders, of the amount to be indemnified for these assets. The companies have calculated the value of the indemnities, but there is still no decision or statement by the concession authority of how this indemnity will be put into effect.

We are strictly liable for any damages resulting from inadequate rendering of electricity services

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inefficient rendering of electricity transmission and distribution services. In addition, when damages are caused to final consumers as a result of outages or disturbances in the generation, transmission and distribution system, whenever these outages or disturbances are not attributed to an identifiable member of the National System Operator (*Operador Nacional do Sistema*, or *ONS*) or to the ONS itself, the liability for such damages is shared among generation, distribution and transmission companies. Until a party with final responsibility has been identified, the liability for such damages will be shared in the proportion of 35.7% to the distribution agents, 28.6% to the transmission agents and 35.7% to the generation agents. These proportions are established by the number of votes that each of these types of electricity concession holders receives in the general meetings of the ONS, and as such, are subject to change in the future. Consequently, our business, operational results and/or financial situation might be adversely affected as a result of any such damages.

Table of Contents

We may incur losses in connection with pending litigation

We are currently defending several legal and administrative proceedings relating to civil, administrative, environmental, tax, labor and other claims. These claims involve a wide range of issues and seek indemnities and restitution in money and by specific performance. Several individual disputes account for a significant part of the total amount of claims against the Company. The consolidated financial statements include provision for risks in a total amount of R$755 million, as of December 31, 2015, for actions in which the chances of loss have been assessed as probable (i.e., more likely than not). In the event that our provisions for legal actions are insufficient, payments for actions in excess of the amounts provisioned could adversely affect our operational results and financial situation.

We operate without insurance policies against natural disasters and third party liability.

Other than in connection with flying, we do not have third party liability insurance covering accidents, and we have not sought proposals for this type of insurance. We have not sought a proposal for, and do not maintain, insurance coverage against natural disasters such as earthquakes or floods, that might affect our facilities. Occurrence of events of this nature could cause us additional unexpected costs, resulting in an adverse effect on our business, operational results and financial condition.

The insurance coverage held by the Company may be insufficient to pay compensation for possible damages.

Cemig only maintains insurance for fire, risks involving our aircraft, and operational risks, , as well as those types of insurance cover that are required by law, such as transport insurance of goods belonging to legal entities.

We cannot guarantee that insurances contracted are sufficient to cover in full any liabilities that may arise in the course of our business nor that these insurance policies will continue to be available in the future. The occurrence of claims in excess of the amount insured, or which are not covered by our insurance policies, might generate significant and unexpected additional costs, which could have an adverse effect on our business, operational results and/or financial situation.

We could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm and other serious negative consequences if we sustain cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our clients or other third parties.

We manage and store various proprietary information and sensitive or confidential data relating to our operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products.

In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly interfere with the operation of the system.

The costs to us to eliminate or address the foregoing security problems and security vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service, and loss of existing or potential clients that may impede our critical functions.

35

Table of Contents

In addition, breaches of our security measures and the dissemination of proprietary information or sensitive or confidential data about us or our customers or other third parties could expose us, our clients or other third parties affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business. In addition, we rely in certain limited capacities on third-party data management providers whose possible security problems and security vulnerabilities may have similar effects on us.

The volumes of natural gas supplied by Gasmig are concentrated in few sectors and few clients

The volumes of sales to the non-thermoelectric generation sector are based on the large-volume industrial market, which represents 94.41% of the volume of gas sold to this sector in 2015. While we serve clients in the steel, metallurgical and mining industries, our 20 largest clients, responsible for 82.41% of the volume of gas sold in 2015, are in the industrial sector.

The Brazilian manufacturing sector is undergoing a severe crisis, with strong reductions since 2014 (down 3.1% from 2014 to 2013), intensifying in 2015 with a reduction of 8.3% from 2014 according to data on industrial production volumes from the IBGE (Monthly Industrial Production Physical Production (Pesquisa Industrial Mensal / Produção Física or PIM PF).

In 2015, sales to the industrial sector, which comprises steel, metallurgical and mining companies, were down 14.97% from the previous year, due to the economic recession, exacerbated in the middle of the year by the policy of increasing gas prices adopted by Petrobras.

Perpetuation of this adverse economic scenario could negatively affect the business, operational results and the financial condition of Gasmig.

The existence in Brazil of a sole supplier of natural gas affects competitiveness

In 1994, Petrobras and Gasmig entered into a gas supply contract, which was supplemented in 2004 by an Additional Supply Contract (*Contrato de Suprimento Adicional*, or CSA) under which Gasmig would increase the volume of gas it purchased from Petrobras as of 2010. Since 2011, Petrobras had been providing discounts on the price of gas specified in the CSA. Beginning in June 2015, Petrobras published a gradual reduction of these discounts. Accordingly, from November 2015, the price in effect is the pice set forth in the CSA (without discount). As a result, throughout 2015, the average acquisition price for the non-thermal market increased by approximately 25.7%.

This policy of Petrobras to increase gas prices in 2015, combined with the discounts offered by Petrobras in earlier years, has led to the loss of competitiveness of natural gas vis-à-vis other forms of energy such as LPG (liquid petroleum gas) and fuel oil. If this trend continues, it could negatively affect the demand for natural gas, as it creates incentives to use other sources of energy, which would have a negative impact on the business, operational results and financial condition of Gasmig.

There are uncertainties about the methodology and parameters to be adopted by the regulatory authorities in the first Tariff Review cycle to be applied to Gasmig

Gasmig obtained the concession for distribution of piped gas in the state of Minas Gerais for 30 years from the date of publication of State Law 11.021, of January 11, 1993, with the possibility of extension provided certain requirements are met. On December 26, 2014 the Second Amendment to the respective Concession Contract was signed and the period of the concession was extended until January 10, 2053.

Under the Concession Contract, the Company will continue its natural gas distribution activities until the end of the concession, being compensated through tariffs paid by the users of distribution services.

Table of Contents

The Minas Gerais State Economic Development Department (*Secretaria de Estado de Desenvolvimento Econômico*, or SEDE), the body of the Minas Gerais State Government responsible for regulating piped gas distribution, will be undertaking the first tariff review of Gasmig. The process of tariff review is still being structured and at the moment there is no decision as to how long the review will take or to what methodology will be adopted. At some point during this process there will be a decision on the regulatory compensation rate, which might cause a change in the profit margin for gas distribution and affect our expected results.

In addition, given that this is Gasmig s first tariff review, there can be no assurances as to the methodology for the valuation of Cemig s assets, which could negatively impact the expected return for the business.

The regulatory agency responsible for piped gas distribution is controlled by the Minas Gerais State Government, the interests of which might conflict with those of economic equilibrium of the concession

The Brazilian Federal Constitution establishes that it is the function of the States to exploit local piped gas services, directly or through concession.

Gasmig is under the indirect control of the State of Minas Gerais, through the majority shareholding position held by Cemig in Gasmig. The Minas Gerais State Economic Development Secretariat (SEDE) is an instrumentality of the State and in Minas Gerais exercises the role of regulator of the services of piped gas distribution. SEDE is also responsible for promoting investments in the State of Minas Gerais.

The Government of the State of Minas Gerais, as indirect controlling stockholder of Gasmig and, at the same time, regulator of the public service, through SEDE, has the authority to direct efforts and investments of the Company in accordance with its own political, economic or social interests and these could have a negative impact on the economic equilibrium of the concession.

Risks Relating to Brazil

Political and economic instability in Brazil could have effects on the economy and affect us.

Brazil has experienced low economic growth and increasing tension in the political environment, due to the impeachment of former president of the Brazil, Dilma Rouseff, and the related events and repercussions.

The current government of President Michel Temer is experiencing low levels of popularity. The government s low level of popularity could result in political instability in Brazil, which could in turn result in a reduction of the credibility of public institutions.

Further, the country is suffering the effects on public opinion related to the irregularities that are being investigated in important Brazilian companies, which could result in a significant deterioration in the markets.

If such events result in a negative image being caused for investors, the trading value of our shares, preferred and common, and of our preferred and common ADSs might be reduced, and this could negatively affect our access to the international financial markets. Furthermore, any political instability resulting from such events, if it affects the Brazilian economy, could cause us to re-evaluate our strategy.

Table of Contents

The Brazilian federal government has exercised, and continues to exercise, significant influence on the Brazilian economy. Political and economic conditions can have a direct impact on our business, financial condition, results of operations and prospects.

The Brazilian federal government frequently intervenes in the country s economy and occasionally makes significant changes in monetary, fiscal and regulatory policy. Our business, results of operations and financial condition may be adversely affected by changes in government policies, as well as other factors including, without limitation:

- fluctuations in the exchange rate;
- inflation;
- changes in interest rates;
- fiscal policy;
- other political, diplomatic, social and economic developments which may affect Brazil or the international markets;
- controls on capital flows; and/or
- limits on foreign trade.

Measures by the Brazilian federal government to maintain economic stability, and also speculation on any future acts of the Brazilian federal government, might generate uncertainties in the Brazilian economy, and increase the volatility of the domestic capital market, adversely affecting our business, results of operations and financial condition. If the political and economic situations deteriorate, we may face increased costs.

Taking into account the Brazilian presidential system of government, and the considerable influence of the executive power, it is not possible to predict whether the present government or any successive governments will have an adverse effect on the Brazilian economy, and consequently on our business.

The stability of the Brazilian real is affected by its relationship with the U.S. dollar, inflation and Brazilian federal government policy regarding exchange rates. Our business could be adversely affected by any recurrence of volatility affecting our foreign currency-linked receivables and obligations.

The Brazilian currency has experienced high degrees of volatility in the past. The Brazilian federal government has implemented several economic plans, and has used a wide range of foreign currency control mechanisms, including sudden devaluation, small periodic devaluation during which the occurrence of the changes varied from daily to monthly, floating exchange market systems, exchange controls and parallel exchange market. From time to time, there was a significant degree of fluctuation between the U.S. dollar and the Brazilian real and other currencies. On

December 31, 2015, the exchange rate between the real and the U.S. dollar was R$3.9593 to U.S.$1.00.

The real may not maintain its current value or the Brazilian federal government may implement foreign currency control mechanisms. Any governmental interference with the exchange rate, or the implementation of exchange control mechanisms, could lead to a depreciation of the real, which could reduce the value of our receivables and make our foreign currency-linked obligations more expensive. Other than in respect of our revenues and receivables denominated in U.S. dollars, such devaluation could materially adversely affect our business, operations or prospects.

On December 31, 2015, approximately 0.31% of our consolidated indebtedness (which equaled approximately R$15,167 million) was denominated in foreign currencies, of which approximately R$33 million (or approximately 0.22% of our consolidated indebtedness) was denominated in U.S. dollars.

Table of Contents

Risks relating to the preferred and common shares, and the preferred and common ADSs

Inflation and certain governmental measures to curb inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of our shares, the preferred ADSs and the common ADSs.

Brazil has historically experienced extremely high rates of inflation. Inflation, and some of the federal government s measures taken in an attempt to curb inflation, have had significant negative effects on the Brazilian economy. Since the introduction of the real in 1994, Brazil s inflation rate has been substantially lower than in previous periods. As measured by the IPCA index, Brazilian annual inflation rates in 2013, 2014 and 2015 were 5.91%, 6.41% and 10.67%, respectively. No assurance can be given that inflation will remain at these levels.

Future measures taken by the federal government, including increases in interest rates, intervention in the foreign exchange market or actions intended to adjust the value of the real, might cause an increase in the rate of inflation, and consequently, have an adverse economic impact on our business, results of operations and financial condition. If Brazil experiences high inflation rates in the future, we might be unable to adjust the rates we charge our consumers to offset the effects of inflation on our cost structure.

Substantially all of our cash operating expenses are denominated in reais and tend to increase with Brazilian inflation. Inflationary pressures might also hinder our ability to access foreign financial markets or might lead to further government intervention in the economy, including the introduction of government policies that could harm our business, results of operations and financial condition or adversely affect the market value of our shares and as a result, of our preferred ADSs and common ADSs.

Instability of the exchange rate could adversely affect the value of remittances of dividends outside Brazil, and also the market price of the ADSs.

Many Brazilian and global macroeconomic factors have an influence on the exchange rate. In this context, the Brazilian federal government, through the Central Bank, has in the past occasionally intervened for the purpose of controlling unstable variations in exchange rates. We cannot predict whether the Central Bank or the federal government will continue to allow the real to float freely or whether it will intervene through a system involving an exchange rate band, or the use of other measures.

This being so, the real might fluctuate substantially in relation to the United States dollar, and other currencies, in the future. That instability could adversely affect the equivalent in US dollars of the market price of our shares, and as a result the prices of our ADSs, common and preferred, and also outward dividends remittances from Brazil.

For more information see the section Exchange rates in Part I, Item 3 Selected Consolidated Financial Information.

Changes in economic and market conditions in other countries, especially Latin American and emerging market countries, may adversely affect our business, results of operations and financial condition, as well as the market price of our shares, preferred ADS and common ADSs.

The market value of the securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American countries and emerging market countries. Although the economic conditions of such countries may differ significantly from the economic conditions of Brazil, the reactions of investors to events in those countries may have an adverse effect on the market value of the securities of Brazilian issuers. Crises in other emerging market countries might reduce investors interest in the securities of Brazilian issuers, including our Company. In the future, this could make it more difficult for us to access the capital markets and finance

our operations on acceptable terms or at all. Due to the characteristics of the Brazilian power industry (which requires significant investments in operating assets) and due to our financing needs, if access to the capital and credit markets is limited, we could face difficulties in completing our investment plans and the refinancing our obligations, and this could adversely affect our business, results of operations and financial condition.

Table of Contents

The relative volatility and illiquidity of the Brazilian securities market may adversely affect our shareholders.

Investing in Latin American securities, such as the preferred shares, common shares, preferred ADSs or common ADSs, involves a higher degree of risk than investing in securities of issuers from countries with more stable political and economic environments and such investments are generally considered speculative in nature. These investments are subject to certain economic and political risks, including, as examples, the following:

- changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, related to their investments; and

- restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than the major securities markets in the United States. This might substantially limit an investor s ability to sell the shares underlying his preferred or common ADSs for the desired price and within the desired period. In 2015 the São Paulo Stock Exchange (*BM&FBovespa S.A. Bolsa de Valores, Mercadorias e Futuros,* or BM&FBovespa), the only stock exchange in Brazil on which our shares are traded, had an annual market capitalization of approximately R$1.67 trillion, and average daily trading volume of approximately R$6.79 billion.

Holders of the preferred and common ADSs, and holders of our shares, may have different shareholders rights than holders of shares in U.S. companies.

Our corporate governance, disclosure requirements and accounting practices are governed by our by-laws, by the Level 1 Differentiated Corporate Governance Practices Regulations (*Regulamento de Práticas Diferenciadas de Governança Corporativa Nível 1*) of the BM&FBovespa, by the Brazilian Corporate Law and by the rules issued by the CVM. These regulations may differ from the legal principles that would apply if our Company were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. In addition, the rights of an ADS holder, which are derived from the rights of holders of our common or preferred shares, as the case may be, to have his interests protected in relation to decisions by our board of directors or our controlling shareholder, may be different under the Brazilian Corporate Law than under the rules of other jurisdictions. Rules against insider trading and self-dealing and other rules for the preservation of shareholder interests may also be different in Brazil than in the United States, potentially establishing a disadvantage for holders of the preferred shares, common shares, or preferred or common ADSs.

Exchange controls and restrictions on remittances from Brazil might adversely affect holders of preferred and common ADSs

The investor may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion from reais (R$) into foreign currencies. Restrictions of this type would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares or common shares from reais (R$) into U.S. dollars (US$). We cannot guarantee that the federal government will not take restrictive measures in the future.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to the sale of our shares, preferred ADSs or common ADSs.

Law No. 10,833 of December 29, 2003 (Law No. 10,833/2003) provides that the sale of assets located in Brazil is subject to taxation in Brazil, regardless of whether the sale occurs inside or outside Brazil. This rule applies whether the vendor is a Brazilian resident or a person not resident in Brazil, and also when both are resident outside Brazil.

There is no clear instruction as to the application of Law No. 10,833/2003. Accordingly, we are unable to predict whether Brazilian courts will decide whether it applies to sales of our preferred ADSs and common ADSs between non-residents of Brazil. However, in the event that the concept of the sale of assets is interpreted to include a sale of our preferred ADSs and common ADSs, application of this tax law would result in the imposition of withholding taxes on sales of our preferred ADSs and common ADSs by a non-resident to either a resident or a non-resident of Brazil.

Table of Contents

Foreign shareholders may be unable to enforce judgments given in non-Brazilian courts against the Company, or against members of its Board of Directors or Executive Board.

All of our directors and officers reside in Brazil. our assets, as well as the assets of these individuals, are located mostly in Brazil. As a result, it may not be possible for foreign shareholders to effect service of process on them within the United States or other jurisdictions outside Brazil, or to attach their assets, or to enforce against them, or against the Company in United States courts, or in the courts of other jurisdictions outside Brazil, judgments that are predicated upon the civil liability provisions of the securities laws of the United States or the respective laws of such other jurisdictions.

In order to have a judgment rendered outside of Brazil enforced in Brazil, the party seeking enforcement would need to obtain the confirmation of such judgment by the Brazilian Superior Court of Justice (*Tribunal Superior de Justiça*, or STJ), in compliance with the Constitution of Brazil, the requirements of Articles 15 and 17 of the Law of Introduction to the Rules of Brazilian Law, Law No. 9,307/1996 (the Arbitration Law) and the internal regulations of the STJ.

Exchange of preferred ADSs or common ADSs for underlying shares may have adverse consequences.

The Brazilian custodian for the preferred shares and common shares must obtain an electronic certificate of foreign capital registration from the Central Bank to remit U.S. dollars from Brazil to other countries for payments of dividends, or any other cash distributions, or to remit the proceeds of a sale of shares.

If the investor decides to exchange his preferred ADSs or common ADSs for the underlying shares, the investor will be able to continue to rely, for five business days from the date of the exchange, on the depositary bank s electronic certificate of registration in order to receive any proceeds distributed in connection with the shares. Thereafter, the investor may perhaps not be able to obtain and remit U.S. dollars abroad upon a sale of the shares, or distributions of proceeds relating to the shares, unless the investor obtains his own certificate of registration under CMN Resolution No. 2,689 of January 26, 2000, which entitles foreign investors to buy and sell on the Brazilian stock exchanges. If the investor does not obtain this certificate, he will be subject to less favorable tax treatment on gains with respect to the preferred or common shares. If the investor attempts to obtain his own registration certificate he may incur expenses or suffer significant delays in the application process.

Obtaining a registration certificate involves generating significant documentation, including completing and filing various electronic forms with the Central Bank and the CVM. In order to complete this process, the investor will usually need to engage a consultant or attorney who has expertise in Central Bank and CVM regulations. Any delay in obtaining this certificate could adversely impact the investor s ability to receive dividends or distributions paid by the preferred shares or common shares outside Brazil, or to receive timely repatriation of the investor s capital.

If the investor decides to exchange his preferred or common shares back into preferred ADSs or common ADSs, respectively, once he has registered his investment in preferred shares or common shares, he may deposit his preferred or common shares with the custodian and rely on the depositary bank s registration certificate, subject to certain conditions. We cannot guarantee that the depositary bank s certificate of registry or any certificate of foreign capital registration obtained by an investor may not be affected by future legislative or other regulatory changes, nor that additional Brazilian restrictions applicable to the investor, or to the sale of the underlying preferred shares, or to repatriation of the proceeds from the sale, will not be imposed in the future.

Sales of a substantial number of shares, or the perception that such sales might take place, could adversely affect the prevailing market price of our shares, or of the preferred or common ADSs.

As a consequence of the issuance of new shares, sales of shares by existing shareholders, or the perception that such a sale might occur, the market price of our shares and, by extension, of the preferred and/or common ADSs, may decrease significantly.

The preferred shares and preferred ADSs generally do not have voting rights, and the common ADSs can only be voted by proxy by providing voting instructions to the depositary.

Under the Brazilian Corporate Law and our by-laws, holders of our preferred shares, and, consequently, holders of our ADSs representing preferred shares, are not entitled to vote at our shareholders meetings, except in very specific circumstances.

Holders of our preferred ADSs may also encounter difficulties in the exercise of certain rights, including the limited voting rights. Holders of the ADSs for our common shares do not have automatic entitlement to vote in our General Meetings of Stockholders, other than by power of attorney, by sending a voting instruction to the depositary. Where there is not enough time to send the form with voting instructions to the depository, or in the event of omission to send the voting instruction, the holders of ADSs for Cemig s preferred and common shares may be unable to vote by means of instructions to the depository.

Table of Contents

Item 4. Information on the Company

Organization and Historical Background

The Company was established on May 22, 1952 in Minas Gerais, Brazil as a *sociedade por ações de economia mista* (a state-controlled mixed capital company) with indefinite duration, pursuant to Minas Gerais State Law No. 828 of December 14, 1951 and its implementing regulation, Minas Gerais State Decree 3,710 of February 20, 1952. The Company s full legal name is Companhia Energética de Minas Gerais CEMIG, but is also known as CEMIG. Our headquarters are located at Avenida Barbacena, 1200, Belo Horizonte, Minas Gerais, Brazil. The Company s main telephone number is (55-31) 3506-3711.

In order to comply with legal and regulatory provisions pursuant to which we were required to unbundle our vertically integrated businesses, in 2004, we incorporated two wholly-owned subsidiaries of CEMIG: Cemig Geração e Transmissão S.A., referred to as Cemig Generation and Transmission, and Cemig Distribuição S.A., referred to as Cemig Distribution which were established to carry on the business of electricity generation and transmission, and distribution, respectively.

Cemig s location was a factor in the decisions by several major companies to be headquartered in Minas Gerais such as Mannesmann, a steel company producing seamless tubes, due to the guarantee given by the state government that Cemig would be able to supply Mannesmann s electricity requirements (at that time, equal to half of the entire consumption of the state of Minas Gerais).

The first three hydroelectric plants built by Cemig were commissioned in the 1950s- Tronqueiras, Itutinga and Salto Grande.

In 1960, Cemig commenced its electricity transmission and distribution operations. During the same period the Canambra consortium was formed, by a group of Canadian, American and Brazilian technical experts, who between 1963 and 1966 identified and evaluated the hydroelectric potential of the State of Minas Gerais. This study at that time was already aligned with the concept of sustainable development it revolutionized the focus of construction of power plants in Brazil, as well as defined which projects could be developed to supply future electric power needs.

In the 1970s, Cemig took over responsibility for the distribution of electricity in the region of the city of Belo Horizonte, and incorporated Companhia Força e Luz de Minas Gerais, and embarked on the construction of more major power plants. In 1978 Cemig commissioned the São Simão hydroelectric plant, at that time its largest plant. This decade saw major progress in transmission with 6,000 km of distribution lines being laid in the state of Minas Gerais.

The Minas-Luz Program, a partnership between Cemig, Eletrobrás (*Centrais Elétricas Brasileiras S.A.*) and the Brazilian federal government, was created in the 1980s to expand service to low-income populations in rural areas and outer urban suburbs, including the shantytowns. The Emborcação hydroelectric plant, on the Paranaíba River, started operation in 1982 at the time it was the Company s second largest power plant, and together with the São Simão plant it tripled the Company s generation capacity. In 1983, Cemig established its Ecological Program Coordination Management Unit responsible for the planning and development of a specific policy for environmental protection enabling research of alternative energy sources, such as wind power and solar generation, biomass and natural gas, to become a focus of the Company s research projects.

The subsidiary Gasmig (*Companhia de Gás de Minas Gerais*), was established in 1986, for purposes of distributing natural gas. On September 18, 1986 the Company changed its name from Cemig Centrais Elétricas de Minas Gerais to Companhia Energética de Minas Gerais Cemig to reflect the expansion of its area of operation to include multiple

sources of electricity. By the end of the 1980s, Cemig was distributing electricity to 96% of the State of Minas Gerais according to ANEEL (*Agência Nacional de Energia Elétrica*), the Brazilian electricity regulator.

In the 1990s, despite the economic crisis, Cemig, according to its records, served approximately 5 million consumers. At that time Cemig added 237,000 new connections to the electricity supply in a single year a record in its history. Also in the 1990s, Cemig began to build hydroelectric plants in partnership with the private sector. It was through this structure, for example, that the Igarapava hydroelectric plant, in the Minas Triangle region, was built. It was commissioned in 1998.

In 2000, Cemig was included in the Dow Jones Sustainability Index for the first time- a recognition which it has received repeatedly in recent years. Cemig sees this as confirmation of its dedication to the balance between the three pillars of corporate sustainability: economic, social and financial. The year 2000 was also marked by (i) the parallel construction of three hydroelectric plants Porto Estrela, Queimado and Funil and (ii) the number of Cemig s consumers growing to more than 5 million for the first time in its history.

Table of Contents

In 2001, Cemig began construction on 12 hydroelectric plants and intensified its investments in its distribution and transmission systems. In the same year, Cemig s shares were listed on the New York Stock Exchange.

In 2002, according to its records, the number of Cemig s consumers exceeded 6 million for the first time and it began construction on the Irapé hydroelectric plant, in the Valley of the Jequitinhonha River. In that year, trading began in Cemig s shares on the Latibex segment of the stock exchange of Madrid.

In 2003, Cemig began simultaneous construction of several hydroelectric plants, as part of an effort to avoid the rationing of electricity, and established several centers of excellence and research focusing on climatology, thermoelectric generation, electricity efficiency and renewable electricity sources.

The year 2004 presented the Company with some major challenges: that year the structure of the new Brazilian regulatory framework came into force its main requirement being the unbundling of Cemig s distribution, generation and transmission activities. In 2005, as a consequence of this unbundling , Cemig operated as a holding company, with two wholly-owned subsidiaries: Cemig Distribuição S.A. and Cemig Geração e Transmissão S.A.

In 2006, Cemig connected a further 230,000 new consumers in the State of Minas Gerais, and its investment in protecting the environment totaled R$60 million. The Irapé hydroelectric plant was inaugurated in July of 2006, and in that year the Company began to operate in other states, with the acquisition of a significant interest in Light S.A. (Light), which operated in the state of Rio de Janeiro, and Transmissoras Brasileiras de Energia TBE, which operated transmission lines in Northern, Midwest and Southern Brazil. Also, a consortium in which Cemig is a leading member began construction of a transmission line in Chile.

In 2008, the Company acquired a stockholding in wind farms in the northern Brazilian state of Ceará, with total potential generating capacity of approximately 100MW. In addition, the Company initiated its participation in the generation project at UHE Santo Antônio, on the Madeira River.

In April 2009, Cemig acquired Terna Participações S.A., now called Transmissora Aliança de Energia Elétrica S.A. Taesa. In May 2013, it increased its holdings in the electricity transmission sector with the acquisition of equity interests in the following companies:

Empresa Amazonense de Transmissão de Energia S.A. EATE;

Empresa Paraense de Transmissão de Energia S.A. ETEP;

Empresa Norte de Transmissão de Energia S.A. ENTE;

Empresa Regional de Transmissão de Energia S.A. ERTE; and

Empresa Catarinense de Transmissão de Energia S.A. ECTE.

This increased Cemig s market share in Brazilian electricity transmission from 5.4% to 12.6%, making it the third largest transmission company in Brazil by Permitted Annual Revenue (RAP), according to ANEEL figures.

In December 2009 the Company signed a share purchase agreement with Andrade Gutierrez Concessões S.A., to acquire up to 13.03% of that company s holding in Light. This acquisition was completed in 2010, starting the process of building its position within the controlling stockholding group of Light.

The year of 2009 was the tenth year in which Cemig was included in the worldwide Dow Jones Sustainability Index and in that year it was elected as the world leader in sustainability among utilities. It continues to be the only company in the electricity sector of Latin America that has been included in the DJSI World since the inception of that index.

In 2010, Cemig formed a partnership with Light for the development of smart grid technology with a view to increasing operational efficiency, and reducing commercial losses. Also in 2010 for the second year running Cemig was rated Prime (B) by Oekom Research, a German agency that issues sustainability ratings. In the same year Cemig GT (generation and transmission) signed a contract with Light for the acquisition of 49% of the share capital of Lightger S.A., a special-purpose company (SPC) holding the authorization for the commercial operation of the Paracambi Small Hydroelectric Plant.

Table of Contents

In 2011, Cemig expanded its participation in relevant generation and transmission assets, including by means of:

(i) the acquisition of 50% of the capital stock of União de Transmissora de Energia Elétrica S.A. UNISA, which holds four transmission assets, from Abengoa Concessões Brasil Holding S.A.;

(ii) the acquisition, by Amazônia Energia S.A. (which is controlled by Cemig with a 74,5% stake and Light with a 25,5% stake) of a 9.77% stake on Norte Energia S.A., the owner of the concession for the construction and operation of Belo Monte Hydroelectric Plant, on Xingu River, State of Pará. The transaction added 818 MW of generation capacity to our total activities, increasing our Market share in the Brazilian generation Market from 7% to 8%, and increasing Light s total generation capacity by 280 MW;

(iii) the acquisition of a controlling stake in Renova Energia S.A., which has been working with small hydroelectric plants and wind farms for 11 years; and

(iv) the acquisition of a stake in four small hydroelectric plants located in the State of Minas Gerais.

In 2012, Taesa completed an agreement with Abengoa for the acquisition of the remaining 50% of the share capital of Unisa. In the same year Cemig concluded the consolidation of its investments in the transmission sector, by transfer of assets of this sector to Taesa. In 2012 Cemig was selected for the eighth consecutive year to be included in the ISE Corporate Sustainability Index (Índice de Sustentabilidade Empresarial) of the São Paulo Stock Exchange (BM&FBovespa).

In 2012, Cemig also started the following activities:

the implementation of the Integrated Mediation Center, in order to improve processes related to billing and energy losses, and to contribute to the operation and planning of its electric grid. Based on its high technology equipment, the center is considered as a first step for the development of smart grids.

together with Empresa de Informática e Informação do Município de Belo Horizonte S/A Prodabel, the promotion of digital inclusion in poor communities of the city of Belo Horizonte.

The following describes some activities of Cemig subsidiaries and jointly-controlled subsidiaries during 2013, which includes the acquisition of significant power generation and transmission assets:

Parati made a public offering to acquire shares for cancellation of the listed company registration of Redentor Energia S.A. and for its withdrawal from its *Novo Mercado* listing of BM&FBovespa. Redentor Energia left the *Novo Mercado* listing segment, but continues to be traded in the standard listing of BM&FBovespa;

Cemig GT signed a share purchase agreement with Petrobras (*Petróleo Brasileiro S.A.*) and Joelpa (tag along) for the acquisition of 49% and 2%, respectively, of the common stock of Brasil PCH; and an investment agreement with Renova Energia S.A, RR Participações S.A., Light Energia S.A. and a new company Chipley (jointly owned by Cemig GT and Renova), governing the admission of Cemig GT into the controlling stockholding block of Renova, and the assignment of the Brasil PCH share purchase agreement to Chipley;

Creation of 3 wind generation SPC held by Renova Energia S.A., with a 99.99% interest in each company: (i) Centrais Eólicas Itapuã VIII Ltda., (ii) Centrais Eólicas Itapuã XIII Ltda. and (iii) Centrais Eólicas Itapuã XIX Ltda.;

Cemig Capim Branco Energia S.A. completed the acquisition from Suzano Group of a 30.3030% holding in the SPC Epícares Empreendimentos e Participações Ltda., corresponding to an additional equity interest of 5.42% in the Capim Branco Energia Consortium;

Madeira Energia S.A. (Mesa) received cash injections from its stockholders, and credit lines, loans and financings with a long-term profile;

Gasmig invested to expand its distribution network, and increased its presence in the compressed natural gas (GNC) and in the residential distribution market segments;

The Board of Directors of Cemig authorized the dissolution of Cemig Serviços S.A. Termination of the company was registered at the Minas Gerais Commercial Board (Jucemg) in August 2013, and its corporate tax number (CNPJ) was canceled in November 2013;

Dissolution of the agreement that created the POT-T-603 Exploration Consortium;

Table of Contents

Acquisition by EATE of the interest belonging to Orteng in Transmineiras (a group of three concessionaires made up of Companhia Transleste de Transmissão, Companhia Transirapé de Transmissão and Companhia Transudeste de Transmissão);

Transfer of control of Taesa from Cemig GT to Cemig (the holding company). The holders of the debentures of the second and third issues of Cemig GT agreed with the reduction of the share capital of Cemig GT as a result of the transfer of shares in Taesa to Cemig (the holding company), in accordance with the consent given by ANEEL;

Taesa won Lot A (a 500kV electricity line) in ANEEL Auction 013/2013, and subsequently created Mariana Transmissora de Energia Elétrica S.A.;

Negotiation to create the company Aliança Geração de Energia S.A., to be the platform for consolidation of generation assets held by Cemig GT and Vale S.A. (Vale) in a generation consortium, and investments in future electricity generation projects.

Negotiation for the acquisition by Cemig GT of 49% of Aliança Norte Energia Participações S.A. (formed in 2015), which owns a 9% interest in Norte Energia S.A. belonging to Vale

The following describes certain activities relating to subsidiaries and jointly-controlled subsidiaries during 2014:

Inclusion of 9 special-purpose companies operating in wind generation, with 99% equity ownership, in Renova Energia S.A.;

Inclusion of 4 special-purpose companies operating in hydroelectric generation, created for the purpose, in Guanhães Energia S.A., with 100% equity interest;

Formation of Cemig Overseas S.L, with head office in Spain, a wholly-owned subsidiary of Cemig (the holding company);

Inclusion in Light Energia S.A. of the wholly-owned subsidiary Lajes Energia S.A.;

Acquisition of the equity interest in Madeira Energia S.A. which was held by Andrade Gutierrez Participações S.A. and, subsequently, by SAAG Investimentos S.A. In the second half of 2014, Cemig GT acquired an indirect interest in Madeira Energia through the vehicles Fundo de Investimentos em Participações Malbec, Parma Participações S.A., and Fundo de Investimentos em Participações Melbourne (FIP Melbourne). FIP Melbourne acquired an 83% interest in SAAG Investimentos S.A., which owns a 12.4% interest in Madeira Energia S.A., which owns 100% of Santo Antônio Energia S.A. Cemig s indirect interest in Santo Antônio Energia S.A. is 8.05%.

Creation by Renova Energia S.A. of 17 special-purpose companies operating in wind generation to participate in auctions of wind power generation and the commercialization of electricity on the free market.

Inclusion in Light S.A. of its 50.10% stockholding interest in the SPE Energia Olímpica, the objects of which are building and implementation of the Vila Olímpica substation and two 138-kV underground lines;

Association with Gás Natural Fenosa for the creation of the company Gás Natural do Brasil S.A., which will be a platform for consolidation of assets, and investment, in natural gas projects;

Disposal of the whole of Light s equity interest in CR Zongshen E-Power Fabricadora de Veículos S.A.

Acquisition of the 40% equity interest in Companhia de Gás de Minas Gerais, belonging to Gaspetro, increasing Cemig s interest to 99.57% of the total of Gasmig;

Inclusion of the Renova Moinhos de Vento Consortium in Renova Energia, with 99.99% interest;

Change in the stockholding structure of the companies STC and ERTE (Taesa);

Formation of the wholly-owned subsidiary Cemig Participações Minoritárias S.A.;

Acquisition by Cemig GT of a 49.9% interest in Retiro Baixo Energética S.A. from Orteng (24.4%) and Arcadis (25.5%). Retiro Baixo Energética S.A. holds the concession to operate the Retiro Baixo Hydroelectric Plant, with installed generation capacity of 83.7 MW, until August 2041.

Addition of the SLT Project Consortium in Cemig GT, with a 33.33% interest. Its objects are to manage and negotiate the contracting of legal, environmental, technical and any other external consultants necessary for the preparation of studies to ascertain the attractiveness of the São Luiz do Tapajós hydroelectric plant, in the State of Pará;

Addition of Cemig GT in the controlling block of Renova Energia S.A., with 27.37% of the total share capital and 36.8% of the voting shares, through a capital increase of 87,186,035 nominal common shares without par value;

Change in the equity interest in ERTE (Taesa);

Establishment of two sub-holding companies by Renova Energia S.A., named Diamantina Eólica Participações S.A. and Alto Sertão Participações S.A., with a 99.99% equity interest in each company. The purpose of such

companies is to hold equity interests in other companies in the area of electricity generation and trading, and sales of electricity;

Table of Contents

Cemig GT exited the Cosama Consortium;

Divestment by Cemig Geração e Transmissão of its 40.00% interest in Chipley SP Participações and increase in the percentage equity interest held by Renova Energia in Chipley to 99.99%; and

Formation of the company Aliança Geração de Energia S.A., to be a platform for consolidation of generation assets held by Cemig GT and Vale in generation consortia and investments in future electricity generation projects.

The following describe certain activities relating to subsidiaries and jointly-controlled subsidiaries during 2015:

Renova Group:

Participation by Renova Energia S.A. (i) in the Renova Moinho dos Ventos 2 Consortium, with a 99.99% equity interest, with the sole purpose of participating in bids; (ii) in Ventos de São Cristóvão Energias Renováveis S.A., with a 99.99% equity interest; (iii) in the holding company CMNPAR Fifty-Four Participações S.A., with an interest of 99,.99%; and (iv) in following four newly incorporated sub-holding companies: Bahia Holding S.A., Salvador Holding S.A., Nova Energia Holding S.A. and ESPRA Holding S.A.;

Transfer of the SPE Ventos de São Cristóvão Energias Renováveis S.A. from Renova Energia S.A. to Centrais Eólicas Bela Vista XIV S.A.;

Restructuring of Renova Energia S.A., which included: (i) acquisition of a 11.36% equity interest in TerraForm Global Inc., with the corporate purpose of joining other corporations; (ii) creation of three subholdings of TerraForm Global Inc.: (1) TerraForm Global BV, (2) Other Holdings and (3) TERP GLB Brasil; (iii) transfer of Nova Renova Energia, alongside Bahia Eólica Participações S.A. and the 5 wind generating SPEs, in which Renova Energia S.A. had an ownership interest to TERP GLB Brasil; (iv) transfer of Salvador Holding S.A., in which Renova Energia S.A. had an ownership interest in to TERP GLB Brasil; (v) transfer of Salvador Eólica Participações S.A., alongside the other 9 wind generating SPEs, in which Nova Renova Energia had an ownership interest to Salvador Holding S.A.; (vi) transfer of Renova Eólica Participações S.A., alongside 15 wind generating SPEs in which Nova Renova Energia had an ownership interest to Nova energia Holding S.A.; (vii) transfer of Diamantina Eólica Participações S.A., in which Renova Energia had an ownership interest to Alto Sertão Participações S.A.; (viii) transfer of the 24 wind generating SPEs in which Renova Energia S.A. had an interest to Diamantina Eólica Participações S.A.

Aliança Geração de Energia S.A.:

Conclusion of the transaction of association between Vale and Cemig GT to form Aliança Geração de Energia S.A. (Aliança). The two companies subscribed shares issued by Aliança which were paid in by

means of the equity interests they held in the following electricity generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés and Candonga; plus a 100% interest in the following wind generation SPCs: Central Eólica Garrote Ltda., Central Eólica Santo Inácio III Ltda., Central Eólica Santo Inácio IV Ltda. and Central Eólica São Raimundo Ltda.

Cemig Geração e Transmissão S.A.:

Merge of Cemig Capim Branco Energia S.A. into Cemig GT, and consequently the cancellation of its registration with the Brazilian Federal Revenue Service.

Acquisition by Cemig GT, from Vale, of Vale s 49% stake in Aliança Norte Energia Participações S.A., which holds a 9.00% interest in Norte Energia S.A. (Nesa) (which owns the concessions of Belo Monte) corresponding to an indirect holding of 4.41% in Nesa.

Winding up of the Aimorés and Funil consortia and the consequent cancellation of their registration with the National Registry of Legal Entities (CNPJ) of the Federal Revenue Service.

EBL Companhia de Eficiência Energética S.A., that has a 33% equity interest in Light Esco Prestação de Serviço S.A was excluded.

Parati made a public tender offer seeking to acquire all of the outstanding shares of Redentor Energia S.A. (Redentor) and delist Redentor s shares from BM&FBOVESPA. As a result, Parati became the owner of 99.79% of Redentor s equity interest;

Cemig GT won the concession for Lot D in ANEEL s Auction 012/2015, for placement of concessions for hydroelectric plants under a regime of allocation of generating capacity and physical offtake guarantees. Lot D is comprised of 13 plants that previously owned by Cemig, and additional five plants which were owned by Furnas Centrais Elétricas S.A. The hydroelectric plants Cemig previously owned are: Três Marias, Salto Grande, Itutinga, Camargos, Marmelos, Joasal, Paciência, Piau, Tronqueiras, Peti, Cajuru, Gafanhoto and Martins. The plants Furnas previously owned are: Coronel Domiciano, Dona Rita, Sinceridade, Neblina and Ervália. The aggregate installed generation capacity of these 18 plants is 699.57 MW.

Table of Contents

Companies incorporated in Brazil described below are our major subsidiaries and affiliates. The jointly controlled companies were recorded by the equity method:

Table of Contents

Cemig s principal subsidiaries and jointly-controlled subsidiaries include the following:

Cemig Geração e Transmissão S.A. (Cemig GT) 100% owned: operates in electricity generation and transmission.

Cemig Distribuição S.A. (Cemig D) 100% owned: operates in electricity distribution;

Companhia de Gás de Minas Gerais (Gasmig) 99.57% owned: acquires, transports, distributes and sells natural gas;

Transmissora Aliança de Energia Elétrica S.A. (Taesa) jointly-controlled subsidiary, with ownership of 42.72% of the voting stock and 31.54% of the total stock: construction, operation and maintenance of electricity transmission facilities in 18 states of Brazil;

Light S.A. Jointly-controlled subsidiary, with a direct holding of 26.06% and an indirect holding of 6.42% of total stock: electricity generation, transmission, trading and distribution, and other related services; direct or indirect holding of interests in companies operating in these areas; and

Renova Energia S.A. jointly-controlled subsidiary, with direct ownership of 27.37% of the total capital and 36.8% of the voting stock. Listed company operating in development, construction and operation of plants generating power from renewable sources wind power, small hydroelectric plants (SHPs), and solar energy; sales and trading of electricity, and related activities. Renova owns Latin America s largest wind complex, in the central region of the state of Bahia;

Aliança Geração de Energia S.A. jointly-controlled subsidiary, with direct ownership of 45% of the voting and total stock. Aliança is privately owned and operates as a platform for consolidation of generation assets and investments in future generation projects.

Strategy

Our vision and goal is to consolidate our position as the largest group in the Brazilian electricity sector in this decade, with a presence in the natural gas industry, and becoming a world leader in sustainability, admired by clients and recognized for our strength and performance.

In order to achieve our vision of the future and to follow our Long Term Strategic Plan, we have the following goals:

Strive to be a national leader in the markets we operate, with a focus on market share;

Strive for operational efficiency in asset management;

Be one of the most attractive companies for investors;

Be a benchmark in corporate management and governance;

Be innovative in the search for technological solutions for our business;

Be a benchmark in social, economic and environmental sustainability.

In 2015 and in the last 5 years, the Company s installed capacity experienced constant growth. Cemig s actions on climate change are in line with its business strategy through a commitment entitled 10 initiatives for the climate. Published the Inventory of Greenhouse Gas Emissions Greenhouse verified by independent audit. Growing involvement all its stakeholders is the social responsibility strategy of Cemig which is present in more than 774 cities and 23 states of Brazil, generating, transmitting and distributing electricity, with quality services, for millions of Brazilians.

Table of Contents

We have taken part in several transactions in recent years, which includes among others, the following:

Acquisitions involving Light and Parati

On March 14, 2013, Parati S.A. Participações em Ativos de Energia Elétrica (Parati) made a public tender offer in order to the cancel Redentor Energia S.A. s Listing Registration allow it to exit the Novo Mercado segment. As a result of this public offer, Redentor Energia exits form the Novo Mercado segment, but it had to remain listed in BM&FBovespa.

Acquisition of interest in Guanhães Energia

In February 2014, inclusion in Guanhães Energia S.A. by the creation of four special purpose companies for hydroelectric power generation, with 100% equity interest: PCH Fortuna II S.A., PCH Jacaré S.A, PCH Dores de Guanhães S.A. and PCH Senhora do Porto S.A.

In August 2015, the four wholly-owned subsidiaries of Guanhães Energia, all of which hold authorizations to build and operate small hydroelectric plants (SHPs), won the A-3 New-build auction No. 04 of 2015, carried out by ANEEL. This gives them the right to sign contracts for electricity supply at prices higher than those currently in effect and also guarantees predictable revenues during the period of the concessions for all of the SHPs. Construction of these projects are 97% completed, and the start of commercial operations is scheduled for the end of 2016.

Table of Contents

For more information about Guanhães Energia, see the section Expansion of Generation Capacity.

Acquisition of equity interest in Brasil PCH and Investment Agreement with Renova Energia SA

On June 14, 2013 Cemig GT signed a share purchase agreement with Petróleo Brasileiro S.A. (Petrobras) in connection with the purchase of 49% of the common shares of Brasil PCH (the Brasil PCH Share Purchase Agreement).

On August 8, 2013 Cemig GT approved the signing of an Investment Agreement with Renova, RR Participações S.A. (RR), Light Energia S.A. (Light Energia), and Chipley, governing the admission of Cemig GT into the controlling stockholding block of Renova, through a subscription by Cemig GT of new shares to be issued by Renova, the structuring of Chipley as a growth vehicle, owned by Cemig GT and by Renova, and the assignment to Chipley of the Agreement for Purchase of Shares in Brasil PCH S.A.

The issue price for the shares in Renova was set at R$16.2266 per common share, resulting in a value of R$1.41 billion for the portion of the increase in the share capital of Renova to be subscribed by Cemig GT. These amounts are to be updated by the CDI Rate from December 31, 2012 until the date of the capital increase.

The transaction to acquire an interest in Brasil PCH was subject to rights of first refusal and/or joint sale by the other stockholders of Brasil PCH. At the expiration of the period for that exercise of the right of first refusal, none of the stockholders holding that right had decided to do so; and only one stockholder, Jobelpa S.A. (Jobelpa), holder of 2% of the equity of Brasil PCH, decided to exercise its (tag-along) right of joint sale.

The transaction was completed on February 14, 2014, with payment by Chipley of R$739.94 million, funded by an Advance Against Future Capital Increase in Chipley made by Cemig GT.

On March 31, 2014, Cemig GT made the Advance Against Future Capital Increase in Renova, in the amount of R$810.12 million.

In October 2014, Cemig GT entered the controlling stockholding block of Renova Energia S.A. Renova, acquiring 36.62% of Renova s voting stock and 27.37% of its total capital, by subscription of 87,186,035 common shares. For the capital increase to take place, RR and Light Energia assigned their rights of preference to Cemig GT. The issue price of the shares in Renova was R$17.7789 per common share. The transaction was realized by use of two Advances against Future Capital Increase (*Adiantamentos para Futuro Aumento de Capital,* referred to as AFACs), with a total value of R$1.55 billion: the first, of R$739.94 million, was made on February 14, 2014, in Chipley; and the second, of R$810.12 million, on March 31, 2014.

Other corporate events relating to Renova Energia S.A. in 2014 and 2015:

In January 2014, the addition by Renova Energia S.A. of 9 special-purpose companies operating in wind generation, holding 99% equity interest: Centrais Eólicas Bela Vista II Ltda.; Centrais Eólicas Bela Vista III Ltda.; Centrais Eólicas Bela Vista IV Ltda., Centrais Eólicas Bela Vista V Ltda.; Centrais Eólicas Bela Vista VI Ltda.; Centrais Eólicas Bela Vista VII Ltda.; Centrais Eólicas Bela Vista IX Ltda.; Centrais Eólicas Bela Vista X Ltda. and Centrais Eólicas Bela Vista XI Ltda.;

In April 2014, the formation by Renova Energia, of 17 special-purpose companies operating in wind generation, with its head office in Guanambi, Bahia state: Centrais Eólicas Umburanas 1 Ltda., Centrais Eólicas Umburanas 2 Ltda; Centrais Eólicas Umburanas 3 Ltda; Centrais Eólicas Umburanas 4 Ltda; Centrais Eólicas Umburanas 5 Ltda;

Centrais Eólicas Umburanas 6 Ltda; Centrais Eólicas Umburanas 7 Ltda; Centrais Eólicas Umburanas 8 Ltda; Centrais Eólicas Umburanas 9 Ltda; Centrais Eólicas Umburanas 10 Ltda; Centrais Eólicas Umburanas 11 Ltda; Centrais Eólicas Umburanas 12 Ltda; Centrais Eólicas Umburanas 13 Ltda; Centrais Eólicas Umburanas 14 Ltda; Centrais Eólicas Umburanas 15 Ltda; Centrais Eólicas Umburanas 16 Ltda; and Centrais Eólicas Umburanas 18 Ltda.

Table of Contents

In August 2014, creation of the Renova Moinhos de Vento Consortium, in which Renova Energia has a 99.99% interest. The purpose of this consortium is to participate in public auctions for renewable energy projects and develop the projects it wins.

In November 2014, the formation of 2 sub-holding companies, called Diamantina Eólica Participações S.A. and Alto Sertão Participações S.A., each in which Renova Energia S.A. holds a 99.99% equity interest. The sub-holding companies purposes are to hold interests in other companies in the areas of electrical power generation and trading electricity.

Securities Contribution Agreement between Renova, TerraForm Global and SunEdison Inc.

In May 2015, a securities contribution agreement (the Securities Contribution Agreement) between Renova, TerraForm Global and SunEdison Inc. was entered into pursuant to which each party thereto agreed to contribute certain specific operational assets to TerraForm Global.

The first phase of the operation included the execution of the following agreements:

(i) Purchase and sales agreement with respect to shares for the sale of assets of the ESPRA project for cash, representing three small hydroelectric power plants that sell energy under the Proinfa, with 41.8 MW of installed capacity for the equity value of R$136 million;

(ii) Purchase and sales agreement of shares for the sale of assets of the Bahia project for cash, corresponding to five wind farms that sell energy in the LER 2009, with 99.2 MW of installed capacity for the equity value of R$451 million; and

(iii) Agreement for the exchange of shares of the Company s subsidiaries who hold the assets of the Salvador project, representing nine wind farms that sell energy in the LER 2009, with 195.2 MW of installed capacity for the equity value of R$1.026 billion, for shares of TerraForm Global based on the price per share to be paid in the public offering (IPO) of TerraForm Global which is in progress.

The second phase of the Securities Contribution Agreement consisted of an exchange agreement with respect to shares of Renova s subsidiaries that holds assets with 2,204.2 MW of installed capacity for shares of TerraForm Global at a R$13.4 billion enterprise value. One of the conditions to the completion of the second phase of the Securities Contribution Agreement was the conclusion of the sale of Light s equity interest in the control group from Renova to SunEdison. Such sale did not occur and consequently the second phase of the Securities Contribution Agreement was terminated.

Acquisition of a 9.77% interest in Norte Energia S.A.: the Belo Monte Hydroelectric Plant

The Belo Monte Hydroelectric Plant (Belo Monte) is the largest power plant currently under construction in the world, and when completed it will have installed capacity of 11,233 MW and takeoff guarantee level of 4,571 MW average. The start of the commercial operation is scheduled for April 2016, and the concession period is 35 years. Commercial operations of a number of generators commenced during the first quarter of 2016, representing an aggregate capacity of 593 MW for distribution through the National Interconnect System. The concession for construction and operation of the Belo Monte Hydroelectric Plant, on the Xingu River, in the Brazilian state of Pará, is held by Norte Energia

S.A. (Norte Energia), which won the auction held in April 2010.

The Northern Region of Brazil is the principal frontier for expansion of Brazil s hydroelectric power generation, and more than 60% of the hydroelectric potential for expansion is still available. Thus, we believe that participation in the project has a strategic value. The Belo Monte Hydroelectric Plant is the second project in the region in which Cemig GT is participating, the first being its 10% interest in the consortium for the construction of the Santo Antônio Hydroelectric Plan in the Brazilian state of Rondônia.

Amazônia Energia Participações S.A. Amazônia Energia is a SPC in which the stockholders are: Light S.A., with 51% of the voting stock and 25.5% of the total capital; and Cemig Generation and Transmission (Cemig GT), with 49% of the voting stock and 74.5% of the total capital.

Table of Contents

Investigation of Norte Energia S.A.

In March 2014, while conducting an investigation involving a local gas station/carwash in the city of Brasília (Federal District, Brazil), the Brazilian Federal Police and Public Prosecutors uncovered evidence of a much larger corruption and bribery scheme involving Brazil s state owned oil company, Petrobras. As a result, a federal investigation, called *Operação Lava Jato* (Operation Carwash), was initiated and is being conducted by Federal Prosecutors and the Federal Police under the supervision of a Federal Judge. Over the course of the investigation into Operation Carwash, a number of companies and individuals have entered into cooperation agreements with the Brazilian Federal Prosecutor s Office (*Ministério Público Federal*, or MPF), whereby suspects choose to collaborate with the authorities in exchange for a lighther sentence. Some of these cooperation agreements contained allegations involving the Belo Monte Hydroelectric Plant, on Xingu River in State of Pará. No criminal charges have been brought against Cemig as part of Operation Carwash.

In response to the allegations, Centrais Elétricas Brasileiras S.A. Eletrobras (Eletrobras), which owns 49.98% of the share capital of NESA, hired an international investigation team to search for irregularities in projects in which it is a shareholder, including NESA (the Independent Investigation). The Independent Investigation team has completed the investigation designed to identify misstatements to Eletrobras consolidated financial statements, which included an analysis of NESA. The Independent Investigation team is still in the process of performing some procedures, focusing on internal compliance matters. There are also ongoing investigations and other legal measures conducted by MPF involving other shareholders of NESA and some of their executives. Based on our current knowledge, Cemig does not expect these additional procedures provide any additional relevant information that would materially impact its consolidated financial statements in future periods.

The investigation concluded that certain contracts with some contractors and suppliers of the Belo Monte Hydroelectric Plant project included bribes estimated at 1% of the price of the contract plus some other fixed amounts.

Based on the conclusions and results identified by the independent internal investigation, the management of NESA has evaluated the impact on the financial statements according to International Accounting Standard IAS-16 Property, Plant and Equipment, and concluded that the amount of R$ 183 million is attributable to overpricing due to bribes deemed to be of an illicit nature and should not have been capitalized as part of the cost of its property, plant and equipment considering that such amount is not a cost attributable to operating and maintaining the plant.

NESA is not able to identify an accurate manner to estimate the periods of prior Financial Statements in which excessive capitalized costs may have occurred, because of the fact that the information made available by the independent internal investigation does not individually specify the contracts, payments and the periods of disclosure in which such excesses may have occurred. It is also emphasized that the alleged undue payments were not made by NESA, but by contractors and suppliers of Belo Monte Power Plant, and this factor also prevents identification of the exact amounts and periods of the payments.

Hence, NESA has applied the procedure specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, adjusting the estimated amounts of excessive capitalized costs in the amount of R$183 million, related to illegal payments in the Financial Statements as of December 31, 2015, due to the impracticability of identification of the adjustments for each prior period affected.

As a consequence of the adjustment recorded by NESA, Cemig recorded in the year ended December 31, 2015, as part of its equity method accounting in NESA, the amount of R$23 million on account line Investment in counterpart to the equity in its Statement of Income. Of this total amount, R$21 million was made by Cemig GT and R$2 million was made by Light S.A., according to IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors.

For additional information, please refer to Explanatory Note, Recent Developments Allocation of Net Income for 2015, Item 18. Financial Statements Note 14 Investments and Item 18. Financial Statements Note 23 Equity and Remuneration to Shareholders (c) Dividends Allocation of Net Income for 2015 Proposal by Management.

Acquisition by Taesa of equity interests in the Abengoa Transmission Companies

Transfer of equity interests of the TBE transmission assets, held by Cemig and Cemig Generation and Transmission, to TAESA and Transfer of TAESA S Control.

In August 2014, the following changes in the stockholding structure of the companies of the TBE group took place:

STC a change in the equity interest of EATE from 80% to 61.55%, and inclusion of ENTE, with interest of 18.45%.

Table of Contents

ERTE a change in the percentage interest of Taesa in the total share capital, from 49.99% to 35.41%, and the inclusion of EATE, with interest of 29.16% in the total share capital.

At a meeting held on October 30, 2014, the Board of Directors approved an injection of capital by ENTE into ERTE, of R$37,557, represented by 21,732,203 preferred shares (29.41% interest in the total capital), in such a way as to give ERTE the funds necessary for payment of dividends that had been retained in corporate reserves. This meeting also authorized signature by the company, and Alupa, EATE and ENTE, of the Term of Assignment of First Refusal Right in the subscription of new shares and other securities in ERTE, under which transfer was made, free of financial consideration, in proportion to their respective shares in the total capital of ERTE. After this injection the totally paid-up share capital of ERTE was R$109,471, represented by 36,940,800 common shares and 36,940,800 preferred shares, without par value. Thus, Taesa then held a direct interest in ERTE of 24.99% and an indirect interest of 25.00% (taking into account that Taesa holds an interest of 49.98% in EATE and 49.99% in ENTE), continuing a direct and indirect holding in ERTE of 49.99%. This change in equity interest did not result in any goodwill premium nor discount or any impact on the Company s profit.

Transfer of control of Taesa from Cemig GT to Cemig

On October 24, 2013 the General Meetings of Debenture Holders of Cemig GT consented, in the terms of Article 174, §3º of the Brazilian Corporate Law, to a reduction of the Share Capital of Cemig GT from R$3,296,785 to R$893,192 as a result of the transfer of the shares in Taesa (Transmissora Aliança de Energia Elétrica S.A.) to Cemig (Companhia Energética de Minas Gerais Cemig), the latter being the guarantor of the debenture issues of Cemig GT, in accordance with the consent given by the electricity regulator, ANEEL, in ANEEL Authorizing Resolution No. 4108/2013, of May 14, 2013, and as decided by the Extraordinary General Meeting of Stockholders of Cemig GT on September 26, 2013.

Because this was a transaction between entities under common control, the transfer was carried out at historic cost of the investments on that date, without any effect on the results of Cemig or of its subsidiary Cemig GT.

Acquisition of the São Gotardo substation by TAESA

On June 6, 2012, TAESA won Lot E of ANEEL Auction 005/2012, TAESA formed a SPC named São Gotardo Transmissora de Energia S.A. to which ANEEL granted the right to commercial operation of the concession comprising two transmission functions within the São Gotardo 2 substation in the state of Minas Gerais. TAESA did not offer a discount in relation to the initial base RAP of R$3.74 million. The company commenced its operations in February, 2014.

TAESA follow-on equity offering

The holders of units in Fundo de Investimento em Participações Coliseu (FIP Coliseu), the equity investment fund that is part of the controlling stockholding block of Taesa, approved, at its nineteenth General Meeting of Unit Holders, held on October 21, 2014, an extension of the period of duration of FIP Coliseu, which would otherwise have been terminated on October 26, 2014, for up to 720 calendar days from October 21, 2014.

Table of Contents

Clause 16.1.1 of the First Amendment to the Stockholders Agreement of Taesa (the Stockholders Agreement) provides that Santander Participações S.A. (Santander), a unit holder of FIP Coliseu and, therefore, an indirect stockholder of Taesa, will cease to be part of the Stockholders Agreement on October 30, 2014. To effect this separation from the Stockholders Agreement, and also because of the extension of the period of duration of FIP Coliseu referred to above, the twentieth General Meeting of Unit Holders of FIP Coliseu was held, and approved the partial split of FIP Coliseu, with reversion of the common shares of Taesa indirectly owned by Santander, then held by FIP Coliseu, to Fundo de Investimento em Participações Resling (the sole unit holder of which is Santander itself, hereinafter referred to as FIP Resling).

As a result of this, FIP Resling held 76,258,597 common shares of Taesa. At the request of Santander, the Board of Directors of Taesa, on October 30, 2014, approved the conversion of 50,839,064 common shares held by FIP Resling into preferred shares.

Immediately following this, the Board of Directors of the Company, at the request of Santander, approved the issuance of 25,419,532 Units in Taesa in favor of FIP Resling, through the conversion of 50,839,064 preferred shares into 25,419,532 common shares held by FIP Resling on October 30, 2014.

After the split of the shares held by Santander and the issuance of the Units in its possession, the composition of the total capital of the Company was as follows:

	ON shares	%	PN shares	%	Total capital	%
FIP Coliseu	228,775,790	35.7%		0.0%	228,775,490	22.1%
Cemig	293,072,229	45.7%	155,050,644	39.5%	448,122,873	43.4%
Market	93,446,517	14.6%	186,892,944	47.6%	280,339,461	27.1%
FIP Resling	25,419,533	4.0%	50,839,064	12.9%	76,258,597	7.4%
Total	640,714,069	100.0%	392,782,652	100.0%	1,033,496,721	100.0%

The other clauses of the Stockholders Agreement of the Company remain valid up to the end of the concessions, and thus the shared management of the Company by Cemig and FIP Coliseu, or its successors, is continued.

Increase of stockholding in Gasmig

On July 29, 2014, acquisition of the 40% interest held by the subsidiary Gaspetro in Companhia de Gás de Minas Gerais (Gasmig) was agreed. This transaction was approved by the Boards of Directors of both Cemig and Petrobrás, at a purchase price of R$600 million, subject to certain usual conditions precedent, including the approval by the Brazilian monopolies authority (Conselho Administrativo de Defesa Econômica CADE), and consent from the State of Minas Gerais, the grantor of Gasmig s gas distribution concession. This acquisition is part of the Cemig s strategy for the establishment, in partnership with Gás Natural Fenosa (GNF), of Gas Natural do Brasil S.A. (GNB), the platform for consolidating investments in natural gas projects.

In October 2014, a change in the equity interest of Companhia Energética de Minas Gerais in Gasmig s voting capital, from 58.71% to 98.71%; and in the total capital, from 59.57% to 99.57%.

Association with Gás Natural Fenosa (GNF)

On June 13, 2014, Cemig signed agreements with Gas Natural Fenosa (GNF) formalizing an association for the creation of the company Gás Natural do Brasil S.A. (GNB), the platform for consolidating assets and investment in natural gas projects.

Table of Contents

Acquisition of interest in the Capim Branco Plant Consortium

On May 28, 2013, Cemig Capim Branco Energia S.A., a wholly-owned subsidiary of Cemig, completed the acquisition of an equity interest of 30.3030% in the SPC Epícares Empreendimentos e Participações Ltda., a company in the Suzano Group, which holds an interest of 17.89% in the Capim Branco Energia Consortium (the Consortium). This acquisition represents an additional interest of 5.42% in the Consortium.

The interest acquired has been valued at R$94 million. The value of this acquisition was calculated by the discounted cash flow method. The difference between the consideration transferred and the fair value of the assets was allocated to the concession for the project, based on the cash expected to be generated during the concession period. This intangible asset will be amortized on a straight-line basis from June 2013 until August 2036, the date of termination of the concession.

On February 27, 2015 an Extraordinary General Meeting of the Stockholders of Cemig decided to authorize the incorporation by Cemig GT of Cemig Capim Branco Energia S.A., and the subsequent dissolution of the latter company. The incorporation consists of the transfer from Cemig to Cemig GT of the direct and indirect equity interests held by Cemig Capim Branco Energia S.A., equivalent to 26.4752% of the Amador Aguiar I and II Hydroelectric Plants. Of this total, Capim Branco directly holds 21.0526% of the Amador Aguiar I and II Plants and Capim Branco hold 30.3030% of the share capital of Epícares Empreendimentos e Participações Ltda., which, in turn, holds 17.8947% of the Amador Aguiar I and II Plants. The Brazilian regulator, ANEEL, approved the transfer.

This incorporation was one of the conditions precedent for subscription of shares in Aliança Geração de Energia S.A., by transfer of the interests held by Vale and Cemig GT in the following generation assets: Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés and Candonga (the Association).

As a result of the incorporation, there was an increase of R$1.7 billion in the share capital of Cemig GT, and an amendment of the head paragraph of Clause 5 of the by-laws of Cemig GT.

Partnership for consolidation of interests in generation holdings and creation of Aliança Geração de Energia S.A.

On December 19, 2013, Cemig GT signed commercial and stockholding documents with Vale, formalizing an association for creation of the company Aliança Geração de Energia S.A., intended to be a platform for consolidation of assets in generation consortia held by the parties, and investments in future electricity generation projects.

Table of Contents

On August 5, 2014 Cemig GT and Vale signed the Definitive Association Agreement, regulating among other matters acquisition by Cemig GT of share capital in Aliança Geração de Energia S.A. by the subscription of 98,029 (ninety eight thousand twenty nine) nominal common shares without par value, such that following this Cemig GT will own a 45% interest in the total and voting stock of Aliança Geração, and Vale will own 55% of the total and voting stock. The Definitive Agreement provides that after fulfillment of certain conditions precedent, the second increase in the capital of Aliança will take place on the Closing Date of the transaction: the shares to be issued will be subscribed by Cemig GT and by Vale, preserving the proportion of a 55% holding by Vale and a 45% holding by Cemig GT.

On February 27, 2015, after approval by the Extraordinary General Meeting of Stockholders of Cemig, Vale and Cemig GT completed the transaction for the subscription of shares in Aliança Geração de Energia S.A. (Aliança). The two companies subscribed the shares in Aliança by transfer to it of the equity interests they held in the assets of the Association.

Aliança now has hydroelectric installed capacity in operation of 1,158 MW (assured offtake level 652 MW), as well as other generation projects, which, at the time of the transaction approval, were valued at R$4.5 billion. Vale owns 55% and Cemig GT 45% of Aliança s the equity capital.

The Consortia for the Aimorés and Funil plants and Cemig Capim Branco Energia S.A. with the Brazilian Federal Revenue Service have now been canceled.

Cemig GT undertook to also acquire for approximately R$310 million, 49% of Aliança Norte Energia Participações S.A., which holds the 9% interest owned by Vale in Norte Energia S.A. The acquisition price, corresponding to the capital injections made by Vale up to December 27, 2015, will be paid on the closing date, adjusted by the IPCA inflation index. With the acquisition Cemig GT becomes the indirect holder of a further 4.41% of Norte Energia, representing an installed generation capacity of 495.39 MW (201 average MW).

Under the existing contracts of the Association and of the Acquisition the Parties established that control will be shared between them and that there will be full alignment in the taking of all decisions in connection with the operation of the companies.

On March 31, 2015 the acquisition (the Aliança Norte Acquisition) involving the transfer of Vale s 49% stockholding interest in Aliança Norte Energia Participações S.A., was completed. Aliança Norte Energia Participações S.A. owns 9% of Nesa this corresponds to an indirect holding in NESA of 4.41%. The condition precedent referred to in the Material Announcement of February 27, 2015 was thus fulfilled.

The acquisition price was R$310 million, referring to the amount of funds placed by Vale into the share capital of Nesa up to the closing date, after monetary updating by the IPCA index from the date of each injection of funding up to February 28, 2015, in proportion to the indirect stockholding in Nesa of 4.41%.

Investment in the Santo Antônio plant through Madeira Energia S.A. (MESA) and FIP Melbourne

Madeira Energia S.A. (MESA) and its subsidiary Santo Antônio Energia S.A. (SAESA) are incurring establishment costs related to the construction of the Santo Antônio Hydroelectric Plant. The property, plant and equipment assets constituted by these expenditures totaled R$22.18 billion on December 31, 2015, and this amount, in accordance with financial projections prepared by its management, is to be incorporated by future revenues generated as from the start of operations of all the generator rotors of that entity. On December 31, 2015, the amount of PP&E proportional to the Company s interest in this jointly-controlled subsidiary was R$4 billion.

The physical average offtake guarantee level for the Santo Antônio Hydroeletric Plant is 2,218 MW. This was reached in September 2014 with the start of commercial operation of the 32nd generating rotor. The Plant had 35 rotors in operation at the end of 2015. In November 2016, when completed and operating at full capacity, it is expected to have 50 rotors operating and generation capacity of 3,568 MW.

On November 19, 2014 SAAG Investimentos S.A. (SAAG) and Cemig GT filed an action for provisional remedy against Mesa, requesting an interim order to suspend, until consideration of the merits by the Arbitration Tribunal, the period for exercise, by SAAG and by Cemig GT, of the right of first refusal to subscribe the additional portion of the capital of Mesa, in the amount of R$174.72 million, approved in the Extraordinary General Meeting of Stockholders of Mesa held on October 21, 2014.

Table of Contents

The action also requested suspension of all the effects of the decisions as they relate to SAAG and Cemig GT and to their interests in Mesa, including in relation to the dilution and the penalties specified in the Stockholders Agreement of Mesa.

The application for provisional remedy was granted on November 21, 2014, by the 39th Civil Court of the Central Jurisdiction of São Paulo. Arbitration proceedings were filed against Mesa in the Market Arbitration Chamber (*Câmara de Arbitragem do Mercado*, or CAM) in accordance with the regulations of the CAM. On December 31, 2015, these arbitration proceedings were waiting for a ruling.

There are ongoing investigations and other legal measures conducted by the MPF involving other indirect shareholders of Madeira Energia S.A. and some executives of these other indirect shareholders.

An Increase in equity stake through acquisition of an indirect position via Fundo de Investimento em Participações Melbourne (the Melbourne Equity Fund or FIP Melbourne)

On June 6, 2014 Andrade Gutierrez Participações S.A. (AGP) transferred nominal preferred shares and nominal common shares corresponding to 83% of the total stock and 49% of the voting stock in SAAG Investimentos S.A. (SAAG) to the Melbourne equity investment fund (FIP Melbourne), an investment fund administered by Banco Modal, in which Cemig GT and private pension plan entities are investors through an equity investment fund structure (the Funds) and as SPC when referred to jointly with the Funds, the Investment Structure).

Cemig GT holds less than 50% of the NAV of the Funds and less than 50% of the voting shares in the SPC, preserving the private-sector nature of the Investment Structure. SAAG owns 12.4% of the total share capital of Madeira Energia S.A. (Mesa).

With the conclusion of the transaction on August 25, 2014, and certain stockholding changes made on March 31, 2016, Cemig GT now has a direct equity interest of 8.13% in Mesa, over and above its indirect interest of 10%.

The valuation for the acquisition was determined by the discounted cash flow method, and the difference between the book value and fair value of the assets was allocated to the concession of the project, having as its basis the cash generation expected during the period of the concession. This intangible asset will be amortized on the straight-line basis from the acquisition date until June 2043, the date of termination of the concession.

Other corporate events in 2014 and 2015

In March 2014, Cemig Overseas S.L, a wholly-owned subsidiary with its head office in Spain, was included in the Company s organizational chart and Lajes Energia S.A was included in Light Energia S.A. as a wholly-owned subsidiary.

In May 2014, SPC Energia Olímpica was included in Light S.A. s organizational chart. Light S.A. owns 50.10% of SPC Energia Olímpica total capital, whose corporate purposes are to build, operate and maintain the Vila Olímpica substation and two underground lines of 138kV, which will connect to the Vila Olímpica substation.

On August 4, 2014, at a meeting of the Board of Directors of the Company, authorization was given to constitute the wholly-owned subsidiary Cemig Participações Minoritárias S.A. CemigPar, the objects of which are exclusively the holding of minority interests in the share capital of other companies, whose activities are related to services in energy, oil and gas, in their various fields, and developments and exploration of telecommunication and information systems, with initial capital of R$1,000 represented by one thousand nominal common shares without par value.

In October 2014, the Company incorporated Cemig Participações Minoritárias S.A.

In October 2014, inclusion in Cemig GT, of 33.33% equity interest in the SLT Project Consortium, the object of which is to manage and account for the contracting of legal, environmental, technical, and any other external consultants necessary for preparation of studies to ascertain the attractiveness of the São Luiz do Tapajós Hydroelectric Plant, located in the State of Pará.

In December 2014, Cemig Geração e Transmissão was removed from the Consortium Cosama, where it had a 49.00% stake.

Table of Contents

In February 2015: elimination of Light Esco Prestação de Serviço S.A. s 33.00% participation in EBL Companhia de Eficiência Energética S.A.

In April 2015, the Itaocara Hydroelectric Plant Consortium, the capital of which is owned by Cemig GT (49%) and Itaocara Energia Ltda. (a wholly-owned subsidiary of Light S.A.) (51%), won the concession for the Itaocara I hydroelectric plant, which has an installed capacity of 150 MW. This project is expected to be built on the Paraíba do Sul River and will cover areas in the counties of Aperibé, Cantagalo, Itaocara and Santo Antônio de Pádua, in the state of Rio de Janeiro, and Pirapetinga, in the state of Minas Gerais. Construction is planned to start in 2016 and is expected to create 1,200 direct jobs and 2,200 indirect jobs, at the peak of construction. The consortium has already obtained an environmental Installation License (*Licença de Instalação*, or LI), issued by the Brazilian environmental authority Ibama, and a Public Utility Declaration (*Declaração de Utilidade Pública*, or DUP), issued by ANEEL.

December 2015 auction by Aneel bid with respect to operating power plants

On November 25, 2015, Cemig GT won the auction for Batch D of the Aneel Bid 12/2015, consisting of 18 hydroelectric plants. The auction was for hydroelectric concessions in a quota allocation system to the concessionaires and licensees for distribution of electric energy of the National Interconnected System.

Among the hydroelectric plants to which Cemig obtained the relevant concessions are Três Marias, Itutinga and Salto Grande. Três Marias was a landmark in Brazilian engineering because its construction in the 1960s, allowed the country to gain knowledge for the construction of large dams of electricity generation. Salto Grande has generated the energy that allowed the installation of large steel complexes of the Steel Valley.

Of the 18 hydroelectric plants included in the concessions obtained by Cemig, 14 are already operated by Cemig, but their concession by the Brazilian federal government had been terminated. Apart from those, Cemig won concessions with respect to four new hydroelectric plants: Ervália, Coronel Domiciano, Sinceridade and Neblina. The new assets added almost 50 MW of capacity to Cemig Generation and Transmission s generating units. Overall, the 18 power plants generate approximately 700 MW. Cemig will invest R$2.26 billion over the next 6 months, for the payment of the Bonus for Grant necessary for the execution of the Concession Agreement (established by paragraph 7 of Art. 8 of Law No. 12,783/2013 and increased by MP No. 688/2015). This will guarantee an income of R$500 million per year for Cemig for the next 30 years.

The Company s board believes victory in the auction enables the Company to safely plan for its future, both to consolidate itself as the largest integrated group of electric energy in the country and to move towards new technological frontiers of the power sector, both within and outside Brazil.

The list of the 18 power plants of Batch D is as follows:

Power Plant	Installed power (MW)	Power Plant	Installed power (MW)	Power Plant	Installed power (MW)
Três Marias	396	Sinceridade	1.42	Paciência	4.08
Itutinga	52	Neblina	6.47	Piau	18.012
Salto Grande	102	Cajuru	7.2	Peti	9.40
Camargos	46	Gafanhoto	14	Dona Rita	2.41
Ervália	6.97	Marmelos	4	Tronqueiras	8.5

Coronel Domiciano	5.04	Joasal	8.4	Martins	7.7

Increase in Renova s capital

On February 2, 2016, Renova s Board of Directors voted to increase Renova s capital up to R$731 million by the issuance of 81,587,997 new common shares and up to 28,208,946 new preferred shares, being all nominal book-entry shares without a par value, for the issue price of R$6.66 per common share, R$6.66 per preferred share, and R$19.98 per unit. Each common or preferred share, and each unit, will carry the preemptive right to subscribe to 0.344436239 of a new share or unit. Cemig participated in this capital increase through its wholly-owned subsidiary Cemig GT, which has approved a capital contribution of up to R$240 million in Renova. Of this total amount, R$85 million was subscribed and paid in on February 3, 2016, R$115 million was subscribed and paid in in March 2016, and up to R$40 million may be subscribed and paid in during a round of subscription of leftover shares if there is one.

Table of Contents

Exchange of Debentures owned by AGC Energia for shares Issued by Cemig

On March 3, 2016, BNDES Participações (BNDESPar) exchanged the totality of its debentures in the Non-convertible Permanent Asset-guaranteed Exchangeable Shareholders Debentures of the First Series issued by AGC Energia, for 54,342,992 common shares and 16,718,797 preferred shares issued by Cemig and previously owned by AGC Energia. After the exchange, the equity interest held by BNDESPAR in Cemig which on March 2, 2016 comprised no common shares and 1.13% of the preferred shares increased to 12.9% of Cemig s common shares and 3.13% of Cemig s preferred shares. This increased the interest of BNDESPAR in the total equity of Cemig from 0.75%, before the exchange, to 6.4% immediately thereafter.

Rescission of the contract between Renova and TerraForm for the sale of Espra

On April 2, 2016, the share purchase agreement for sale of the assets owned by Renova in the Espra project to TerraForm Global, Inc. was rescinded by an agreement between the Renova and TerraForm Global. TerraForm Global paid a breakup fee of US$ 10 million to Renova. As a result, Renova s interests in the Espra project, which is comprised of three small hydroelectric plants (SHPs) with aggregate installed capacity of 41MW, are part of Renova s operational assets portfolio.

Capital expenditures

Capital expenditures for the years ended December 31, 2015, 2014 and 2013 in millions of *reais*, were as follows:

	Year ended December 31,		
	2015	**2014**	**2013**
Distribution network	894	792	884
Power Generation	567	2,990	358
Transmission network	146	80	91
Others	111	553	184
Total capital expenditures (1)	1,718	4,415	1,517

(1) The capital expenditures are presented in our Consolidated Statement of Cash Flow on account lines related to Financial Assets, Acquisition of equity investees, capital increase on investees, PP&E, acquisition of subsidiaries Gasmig and intangible assets.

At present we plan to make capital investments in relation to our fixed assets in the amount of approximately R$1,225 million in 2016 corresponding to our capital investment program funded through our cash flows. We expect to allocate these expenditures primarily to expand our distribution system. We will also allocate R$3,438 million for injection of capital into subsidiaries in 2016, to meet specific capital needs.

The amounts planned for 2016 do not include investments in acquisitions, and other projects, that are not remunerated by the concession authority which are not recognized in the calculations of tariffs made by Aneel (the regulator).

We expect to fund our capital expenditures in 2016 mainly from our cash flow from operations and, to a lesser extent, through financing. We expect to finance our expansion and projects by commercial bank loans through debt rollover

and by issuing promissory notes and debentures in the local market.

Table of Contents

Business Overview

General

We run a business related to generation, transmission, distribution and sale of electricity, gas distribution, telecommunications and the provision of energy solutions.

Cemig

Cemig engages in transactions to buy and sell of electricity through its subsidiaries. The total volume of electricity resourced in 2015 was 83,750 GWh or 6.8% less than the volume sourced in 2014. The amount of energy produced by the Group in2015 was 14,665 GWh, 41% less than in 2014; and the amount of energy purchased by the Group totaled 69,085 GWh, 6% more than in 2014. These figures include electricity purchased from Itaipu (6,190 GWh), and through the Electricity Trading Chamber (Câmara de Comercialização de Energia Elétrica, or CCEE) and from other companies (62,896 GWh).

The energy traded in 2015 totaled 83,750 GWh, an amount 6.8% lower than traded in 2014, and 58% of that volume (48,710 GWh) was traded to final consumers, both captive and free.

Total losses of energy in the core network and distribution networks in 2015 totaled 6,461 GWh, which corresponds to 78% of total resources, and 3% more than the losses in 2014 (6,282 GWh).

The table below shows the breakdown of resources and power requirements by Cemig traded in the last three years:

CEMIG S ELECTRIC ENERGY BALANCE

(GWh)	2015	2014	2013
RESOURCES	83,750	89,856	85,884
Electricity generated by CEMIG (1)	14,068	22,983	24,525
Electricity generated by auto-producers	0	632	841
Electricity generated by Ipatinga	0	247	243
Electricity generated by Barreiro	54	80	69
Electricity generated by Cachoeirão	51		
Electricity generated by Sá Carvalho	207	252	338
Electricity generated by Horizontes	62	63	76
Electricity generated by Cemig PCH	63.2	49.3	87
Electricity generated by Rosal Energia	97	190	261
Electricity generated by Amador Aguiar	62	401	406
Electricity bought from Itaipu	6,190	6,255	8,374
Electricity bought from CCEE and other companies	62,896	58,704	50,664
REQUIREMENTS	83,750	89,856	85,884
Electricity delivered to final consumers	48,710	52,505	45,883

Electricity delivered to auto-producers	10	967	969
Electricity delivered by Ipatinga	0	247	243
Electricity delivered by Barreiro	63	93	81
Electricity delivered by Cachoeirao	131		
Electricity delivered by Sá Carvalho	472	472	472
Electricity delivered by Horizontes	76	80	85
Electricity delivered by Cemig PCH	82	99	94
Electricity delivered by Rosal Energia	201	263	263
Electricity delivered to the CCEE and other companies	27,543	28,848	31,504
Losses	6,461	6,282	6,290

(1) Discounting the losses attributed to generation (528 GWh in 2015) and the internal consumption of the generating plants.

Table of Contents

Generation

According to ANEEL, at December 31, 2015 we were the fourth largest electric power generation group in Brazil, by total installed capacity. On that date we were generating electricity at 79 hydroelectric plants, two thermoelectric plants and 27 wind farms, with total installed capacity of 8,112MW. Of this capacity, the hydroelectric plants had a total of 7,716 MW, the thermal plants 144 MW, and the wind farms 252 MW. Nine of our hydroelectric plants had 72% of our installed electricity generation capacity in 2015.

Transmission

The electric power transmission business consists of transporting power from the facilities where it is generated to points of consumption, distribution networks and Free Consumers. Its revenue depends directly on the availability of its assets. Transmission network comprises power transmission lines and substations with voltage of 230kV or more, and is part of the Brazilian Grid regulated by ANEEL and operated by the ONS. See the section *The Brazilian Power Industry* . On December 31, 2015 the Cemig Generation and Transmission network consisted of approximately 1,355 miles of 500 kV lines, 1,228 miles of 345 kV lines, and 478 miles of 230 kV lines, located in Minas Gerais.

On December 31, 2015, Cemig s Group transmission network, considering its proportional interest in each concession, corresponded to approximately 117 miles of lines >525 kV, 1,290 miles of 500 kV lines, 136 miles of 440 kV lines, 67 miles of 345 kV lines, 513 miles of 230 kV lines and 62 miles of 220 kV lines.

Distribution

Cemig Distribution has four public service electricity distribution concession contracts in the State of Minas Gerais, granting rights to commercial operation of services related to the supply of electricity to captive consumers in municipalities in its concession area, including consumers that may be eligible, under the legislation, to become Free Consumers (consumers with demand equal to or greater than 3 MW, or consumers with demand equal to or greater than 500 kW from alternative energy sources, such as wind, biomass or small hydroelectric plants).

The concession area of Cemig Distribution covers approximately 219,103 square miles, or 96.7% of the territory of the State of Minas Gerais. On December 31, 2015 Cemig Distribution s electricity system comprised 419,432 miles of distribution lines, through which it supplied 26,453 GWh to 8.079 million captive consumers and transported15,671GWh to 422 Free Consumers that use the Company s distribution networks. The total volume of electricity distributed was 42,124 GWh, of which 44.3% was distributed to captive and free industrial consumers,15.4% to captive and free commercial consumers 23.3% to captive residential consumers, and 16.2% to other captive consumers and 0.8% to be used by distributors.

Cemig owns a directly held equity interest of 26.06% and an indirectly held equity interest of 6.41% in Light, which owns 100% of Light Serviços de Eletricidade S.A. (Light Sesa). In 2015 Light Sesa handled a total of 6,694 GWh in the concession area (captive clients + transport of electricity for Free Consumers). This figure was 2.5% higher than in 2014. There was growth in each of the consumption categories from 2013 to 2014, led by the commercial user category, whose consumption was 32% of the total, and 6% higher than in 2014.

Table of Contents

Other businesses

While our main business consists of the generation, transmission and distribution of electricity, we also engage in the following businesses: (i) telecommunications, through our consolidated subsidiary Cemig Telecomunicações S.A.; (ii) energy solutions consulting business for both Brazilian and international clients, through our subsidiary Efficientia S.A. (iii) exploitation of natural gas, through five consortia: (a) Exploration Consortium SF-T-104, (b) Exploration Consortium SF-T-114, (c) Exploration Consortium SF-T-120, (d) Exploration Consortium SF-T-127, and (e) Exploration Consortium REC-T-163; (iv) sale and trading of electricity, through structuring and intermediation of purchase and sale transactions, trading electricity in the Free Market, through our wholly-owned subsidiaries Cemig Trading S.A. and Empresa de Serviços de Comercialização de Energia Elétrica S.A. and Cemig Comercializadora de Energia Incentivada S.A.; (v) acquisition, transport and distribution of gas and its subproducts and derivatives through Companhia de Gás de Minas Gerais (Gasmig); and (vi) technology systems and systems for operational management of public service concessions, including companies operating in electricity, gas, water and sewerage and other utility companies, through Axxiom Soluções Tecnológicas S.A.

Revenue sources

The following table illustrates the revenues attributable to each of our principal revenue sources, in millions of *reais*, for the periods indicated:

	Year ended December 31,		
	2015	**2014**	**2013**
Electricity sales to final consumers	20,319	14,922	12,597
Revenue from wholesale supply to other concession holders and PROINFA	2,207	2,310	2,144
Revenue from use of the basic electricity distribution system (TUSD)	1,465	855	1,008
CVA (compensation for changes in Portion A items) account and Other financial components of tariffs	1,704	1,107	
Revenue from use of the transmission system	261	557	404
Indemnity transmission revenues	101	420	21
Construction revenues	1,252	941	975
Revenue from sale on the spot market	2,425	2,348	1,193
Supply of gas	1,667	422	
Other operating revenues	1,440	1,284	1,047
Tax on revenues	(11,549)	(5,626)	(4,762)
Total	21,292	19,540	14,627

Table of Contents

Power generation and trading

Overview

The table below gives operational information on our generation plants at December 31, 2015:

neration Power Plant	Cemig Group Company	Installed Capacity (MW)	Assured power level (avg. MW)	Start of Commercial Operations	% of the Total Installed Capacity	Expiration of Concession or Authorization	Type of Power Plant	CEMI stak
ador Aguiar I (Capim nco I)	ALIANÇA	94.36	60.94	2006	1.16%	August 29, 2036	UHE	39
ador Aguiar II (Capim nco II)	ALIANÇA	82.56	51.50	2007	1.02%	August 29, 2036	UHE	39
norés	ALIANÇA	148.50	77.40	2005	1.83%	December 20, 2035	UHE	45
guari	BAGUARI ENERGIA	47.60	27.27	2009	0.59%	August 15, 2041	UHE	34
nargos	CEMIG GT	46.00	21.00	1960	0.57%	July 8, 2045	UHE	100
borcação	CEMIG GT	1192.00	497.00	1982	14.69%	July 23, 2025	UHE	100
il	ALIANÇA	81.00	40.05	2002	1.00%	December 20, 2035	UHE	45
rapava	ALIANÇA	49.75	32.22	1999	0.61%	December 30, 2028	UHE	24
inga	CEMIG GT	52.00	28.00	1955	0.64%	July 8, 2045	UHE	100
é	CEMIG GT	399.00	210.70	2006	4.92%	February 28, 2035	UHE	100
uara	CEMIG GT	424.00	336.00	1971	5.23%	August 28, 2013	UHE	100
anda	CEMIG GT	408.00	202.00	1998	5.03%	December 23, 2016	UHE	100
va Ponte	CEMIG GT	510.00	276.00	1994	6.29%	July 23, 2025	UHE	100
to Estrela	ALIANÇA	33.60	16.74	2001	0.41%	July 10, 2032	UHE	30
eimado	CEMIG GT	86.63	47.85	2004	1.07%	January 2, 2033	UHE	83
al	Rosal Energia S.A	55.00	30.00	1999	0.68%	May 8, 2032	UHE	100
Carvalho	Sá Carvalho S.A	78.00	58.00	1951	0.96%	December 1, 2024	UHE	100
o Grande	CEMIG GT	102.00	75.00	1956	1.26%	July 8, 2045	UHE	100
Simão	CEMIG GT	1710.00	1281.00	1978	21.08%	January 11, 2015	UHE	100
s Marias	CEMIG GT	396.00	239.00	1962	4.88%	July 8, 2045	UHE	100
ta Grande	CEMIG GT	380.00	229.00	1974	4.68%	February 23, 2017	UHE	100
to Antônio	CEMIG GT	449.74	392.22	2012	5.54%	June 12, 2046	UHE	18
iro Baixo	Retiro Baixo Energética S.A.	20.46	9.61	2010	0.25%	August 25, 2041	UHE	25
l	CEMIG GT	2.08	1.16	1964	0.03%	Indefinite	PCH	100
m Jesus do Galho	CEMIG GT	0.36	0.13	1931	0.00%	N.A	PCH	100
hoeirão	Hidrelétrica Cachoeirão	13.23	8.02	2008	0.16%	July 25, 2030	PCH	49
uru	CEMIG GT	7.20	3.48	1959	0.09%	January 4, 2046	PCH	100
anhoto	CEMIG GT	14.00	6.68	1946	0.17%	January 4, 2046	PCH	100
utinga	CEMIG GT	0.72	0.47	1948	0.01%	Indefinite	PCH	100
sal	CEMIG GT	8.40	5.20	1950	0.10%	January 4, 2046	PCH	100
es	CEMIG GT	0.68	0.54	2005	0.01%	Indefinite	PCH	100
z Dias	CEMIG GT	1.62	0.61	1914	0.02%	August 19, 2025	PCH	100
chado Mineiro	Horizontes Energia S.A	1.72	1.14	1992	0.02%	July 8, 2025	PCH	100

rmelos	CEMIG GT	4.00	2.88	1915	0.05%	January 4, 2046	PCH	100
rtins	CEMIG GT	7.70	2.52	1947	0.09%	January 4, 2046	PCH	100
iência	CEMIG GT	4.08	2.36	1930	0.05%	January 4, 2046	PCH	100
Joaquim	CEMIG PCH S.A	23.00	2.41	2004	0.28%	April 1, 2032	PCH	100
deiros	CEMIG GT	4.20	0.47	1957	0.05%	September 22, 2021	PCH	100
aúna	CEMIG GT	4.28	1.90	1927	0.05%	N.A	PCH	100
	CEMIG GT	9.40	6.18	1946	0.12%	January 4, 2046	PCH	100
sarrão	CEMIG GT	0.80	0.55	2001	0.01%	Indefinite	PCH	100
u	CEMIG GT	18.01	13.53	1955	0.22%	January 4, 2046	PCH	100
oca	Hidrelétrica Pipoca	9.80	5.83	2010	0.12%	September 10, 2031	PCH	49
o Fundo	CEMIG GT	9.16	5.79	1949	0.11%	August 19, 2025	PCH	100
quim	CEMIG GT	1.41	0.58	2002	0.02%	Indefinite	PCH	100
de Pedras	CEMIG GT	9.28	2.15	1928	0.11%	September 19, 2024	PCH	100
o Morais	CEMIG GT	2.39	0.74	1957	0.03%	July 1, 2020	PCH	100
o do Paraopeba	Horizontes Energia S.A	2.46	0.00	2001	0.03%	October 4, 2030	PCH	100
o do Passo Velho	Horizontes Energia S.A	1.80	1.48	2001	0.02%	October 4, 2030	PCH	100
o Voltão	Horizontes Energia S.A	8.20	6.63	2001	0.10%	October 4, 2030	PCH	100
ta Luzia	CEMIG GT	0.70	0.23	2001	0.01%	February 25, 2026	PCH	100
ta Marta	CEMIG GT	1.00	0.58	1944	0.01%	Indefinite	PCH	100
Bernardo	CEMIG GT	6.82	3.42	1948	0.08%	August 19, 2025	PCH	100
nidouro	CEMIG GT	2.12	0.34	1956	0.03%	Indefinite	PCH	100
nqueiras	CEMIG GT	8.50	4.14	1955	0.10%	January 4, 2046	PCH	100
ão	CEMIG GT	1.81	0.61	1941	0.02%	August 19, 2025	PCH	100
acambi	Lightger	16.40	12.81	N.A	0.20%	N.A	PCH	66

Table of Contents

neration Power Plant	Cemig Group Company	Installed Capacity (MW)	Assured power level (avg. MW)	Start of Commercial Operation	% of the Total Installed Capacity	Expiration of Concession or Authorization	Type of Power Plant	CEMI stak
tes Nova	Lightger	86.60	68.23	N.A	1.07%	N.A	UHE	66
dos Pombos	Lightger	122.80	75.45	N.A	1.51%	N.A	UHE	66
Peçanha	Lightger	249.34	219.79	N.A	3.07%	N.A	UHE	66
eira Passos	Lightger	65.54	33.46	N.A	0.81%	N.A	UHE	66
ta Branca	Lightger	36.77	21.00	N.A	0.45%	N.A	UHE	66
nfante	Brasil PCH	3.63	2.58	2008	0.04%	N.A	PCH	19
heiros	Brasil PCH	3.63	2.09	N.A	0.04%	N.A	PCH	19
il	Brasil PCH	4.30	2.51	N.A	0.05%	N.A	PCH	19
í	Brasil PCH	5.74	3.89	N.A	0.07%	N.A	PCH	19
iro Velho	Brasil PCH	3.44	2.51	N.A	0.04%	N.A	PCH	19
Joaquim	Brasil PCH	4.01	2.54	N.A	0.05%	N.A	PCH	19
Simão	Brasil PCH	5.16	2.91	N.A	0.06%	N.A	PCH	19
maça IV	Brasil PCH	0.86	0.50	N.A	0.01%	N.A	PCH	19
angola	Brasil PCH	2.87	1.83	N.A	0.04%	N.A	PCH	19
a	Brasil PCH	5.74	3.48	N.A	0.07%	N.A	PCH	19
nte Serrat	Brasil PCH	4.78	3.49	N.A	0.06%	N.A	PCH	19
ta Fé I	Brasil PCH	5.74	4.99	N.A	0.07%	N.A	PCH	19
Pedro	Brasil PCH	5.74	3.52	N.A	0.07%	N.A	PCH	19
hoeira da Lixa	Renova Energia	5.20	2.62	2008	0.06%	N.A	PCH	35
ino 1	Renova Energia	3.86	2.45	2008	0.05%	N.A	PCH	35
ino 2	Renova Energia	5.62	3.50	2008	0.07%	N.A	PCH	35
ias de Parajuru	CEMIG GT	14.11	4.11	2009	0.17%	September 24, 2032	EOL	49
ia do Morgado	CEMIG GT	14.11	6.47	2010	0.17%	December 26, 2031	EOL	49
ta do Rio	CEMIG GT	20.58	9.02	2010	0.25%	December 26, 2031	EOL	49
diba	Renova Energia	3.37	1.50	2014	0.04%	August 5, 2045	EOL	35
porã	Renova Energia	10.68	4.90	2014	0.13%	August 5, 2045	EOL	35
us	Renova Energia	3.93	1.77	2014	0.05%	August 5, 2045	EOL	35
nio de Almeida	Renova Energia	8.43	3.84	2014	0.10%	August 5, 2045	EOL	35
daí	Renova Energia	8.43	3.88	2014	0.10%	August 5, 2045	EOL	35
naltina	Renova Energia	9.55	4.31	2014	0.12%	August 5, 2045	EOL	35
to Seguro	Renova Energia	2.25	0.96	2014	0.03%	August 5, 2045	EOL	35
Verde	Renova Energia	10.68	5.83	2014	0.13%	August 19, 2045	EOL	35
ra do Salto	Renova Energia	6.74	2.62	2014	0.08%	August 5, 2045	EOL	35
eú do Vento	Renova Energia	8.99	4.15	2014	0.11%	August 5, 2045	EOL	35
ssa Senhora da nceição	Renova Energia	10.12	4.37	2014	0.12%	August 5, 2045	EOL	35
anambi	Renova Energia	7.31	2.98	2014	0.09%	August 6, 2045	EOL	35
rapá	Renova Energia	10.12	4.78	2014	0.12%	August 19, 2045	EOL	35
orada	Renova Energia	2.81	1.39	2014	0.03%	August 5, 2045	EOL	35
rrão	Renova Energia	10.62	5.66	2014	0.13%	April 20, 2046	EOL	35
Prata	Renova Energia	7.67	3.55	2014	0.09%	March 25, 2046	EOL	35
s Araçás	Renova Energia	11.19	5.44	2014	0.14%	April 7, 2046	EOL	35
aíma	Renova Energia	10.62	6.15	2014	0.13%	March 25, 2046	EOL	35

aque	Renova Energia	10.54	4.88	2014	0.13%	May 26, 2046	EOL	35
ntos do Nordeste	Renova Energia	8.26	3.55	2014	0.10%	March 18, 2046	EOL	35
etista	Renova Energia	10.03	0.00	2015	0.12%	March 14, 2047	EOL	35
urados	Renova Energia	10.03	0.00	2015	0.12%	March 13, 2047	EOL	35
ron	Renova Energia	10.62	0.00	2015	0.13%	March 8, 2047	EOL	35
ões	Renova Energia	10.62	0.00	2015	0.13%	March 13, 2047	EOL	35
rapé	CEMIG GT	131.00	71.30	1978	1.7%	August 13, 2024	UTE	100
ndonga	ALIANÇA	31.50	14.51	2004	N.A	N.A	UHE	23
reiro	Usina Termelétrica Barreiro S.A	12.90	11.37	2004	0.17%	April 30, 2023	UTE	100
. Domiciano	CEMIG GT	2.40	0.00	NA	0.03%	January 4, 2046	PCH	100
ceridade	CEMIG GT	5.04	0.00	NA	0.06%	January 4, 2046	PCH	100
olina	CEMIG GT	1.42	0.00	NA	0.02%	January 4, 2046	PCH	100
ália	CEMIG GT	6.47	0.00	NA	0.08%	January 4, 2046	PCH	100

(1) Assured power level is a quantity calculated by the Mining and Energy Ministry to represent the long-term average output of a plant in practice, in accordance with studies by the Energy Research Company (*Empresa de Pesquisa Elétrica*, or *EPE*). Assured power level calculation takes into consideration factors such as reservoir capacity and connection to other power plants. Contracts with final consumers and other concession holders do not provide for levels of production higher than the Assured Power level. Mining and Energy Ministry Resolution 303/2004 defined as general criteria guaranteeing the supply, the amount of physical guarantee of developments of electric power generation.

(2) Indicates date of start of commercial operation, or of our acquisition.

Table of Contents

Cemig s market consists of sales of electricity to:

(i) Captive consumers in Cemig s concession area in the State of Minas Gerais;

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

(iii) Other agents of the electricity sector traders, generators and independent power producers, also in the ACL;

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

(v) The wholesale trading chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE) (eliminating transactions between companies of the Cemig Group).

The total volume of transactions in electricity in 2015 was 83,750 MWh, an decrease of 6,7 % from the total of 89,856 MWh in 2014.

Generation Assets

On February 27, 2015, the transaction of association between Vale S.A. and Cemig GT by subscription of shares in Aliança Geração de Energia S.A. was completed. As for consideration for their subscription of shares in Aliança, the two companies transferred to Aliança the following equity interests they held in the following electricity generation assets: *Porto Estrela, Igarapava, Funil, Capim Branco I, Capim Branco II, Aimorés* and *Candonga.* As a result of the Association Aliança now has installed hydroelectric generation capacity of 1,158 MW in operation (assured offtake level 652 MW), as well as other generation projects. Vale owns 55% of the equity in Aliança, and Cemig GT owns 45%. Aliança is valued at R$4.5 billion. For Cemig GT the association increases its potential to generate new business and maximize results, due to the combination of the two companies experiences in operational, financial and project management.

On March 31, 2015 the acquisition by Cemig GT of Vale s 49% stockholding interest in Aliança Norte Energia Participações S.A., was concluded. Aliança Norte Energia Participações S.A. owns 9% of Norte Energia S.A. (Nesa) the acquisition thus corresponded to an indirect holding in Nesa of 4.41%, representing installed capacity of 495.39MW (201 MW average).

On December 31, 2015 the subsidiaries and jointly-controlled subsidiaries of the Cemig Group holding company (Companhia Energética de Minas Gerais Cemig) operated 79 hydroelectric plants, 2 thermal plants and 27 wind farms, totalizing 8,112 MW, corresponding respectively to 7,716 MW, 144 MW and 252 MW respectively. These figures make the Cemig Group the third largest generating group in Brazil by generating capacity.

In line with Cemig s growth strategy, the group s total installed generation capacity has grown constantly over the last five years.

Light has a total installed generation capacity of 282 MW, and an effective average output of 210 MW.

We have incorporated subsidiaries in the State of Minas Gerais and other states in Brazil to operate certain of our generation facilities and to hold the related concessions.

In addition to our own plants, Cemig Generation and Transmission has the following interests in consortia, as of December 31, 2015:

Baguari Hydroelectric Power Plant Participation of 49% of Baguari Energia S.A. and 51% of Baguari I Electric Power Generation (Neoenergia). In Baguari Energia SA, we hold 69.39% stake as partner, with Furnas Central Electric S.A. holding 30.61%.

Aimorés Hydroelectric Power Plant We have an indirect interest of 45% through Aliança Geração de Energia S.A. (which has a 100% interest in the plant).

Funil Hydroelectric Power Plant We have an indirect interest of 45% through Aliança Geração de Energia S.A. (which has a 100% interest in the plant).

Igarapava Hydroelectric Plant We have an indirect interest of 23.69% through Aliança Geração de Energia S.A. (which has a 52.7% interest in the plant). Votorantim Metais Zinco S.A. owns an equity interest of 23.9%, Companhia Siderúrgica Nacional S.A. owns 17.9%, and Anglogold Ashanti Córrego do Sítio Mineração S.A. owns 5.5%.

Queimado Hydroelectric Power Plant We hold an 82.5% interest in this enterprise and our partner in this project is CEB Participações S.A. (CEBPar), a subsidiary of Companhia Energética de Brasília, or CEB, a state-controlled electricity company. As per the second Amendment to Concession Contract 006/1997, executed on July 17, 2009, CEB has a 17.5% interest in the plant.

Table of Contents

Porto Estrela Hydroelectric Plant We have an indirect equity interest of 30%, through Aliança Geração de Energia S.A. (which has a holding of 66.7% in the plant). Companhia de Tecidos Norte de Minas Coteminas owns 33.3% of the plant.

Candonga Hydroelectric Plant We have an indirect equity interest of 22.5% through Aliança Geração de Energia S.A. (which owns 50% of the plant). Vale S.A. owns the remaining 50%.

Amador Aguiar I and Amador Aguiar II Hydroelectric Plants We have an indirect equity interest of 39.3% through Aliança Geração de Energia S.A. CBE Consortium (87.37% of the plant).

Água Limpa Hydroelectric Plant We have a 49% interest in this enterprise and our partner, Light Energy, has the remaining 51%.

São Luiz do Tapajós Hydroelectric Plant All have 11.11% interests in the Tapajós Consortium, established to conduct a feasibility study of the project. We have as partners: Eletrobrás, Eletronorte, CCCC S.A., EDF, Copel GeT, Endesa, GDF Suez and Neoenergia. The SLT Project Consortium (holding: 33.33%) was also created, to take part in the ANEEL auction for construction and operation of the plant, expected to be held at the end of 2015.

UHE Itaocara We have a 49% interest in the Consortium Itaocara and our partner, Itaocara Energy Ltd. (100% owned by Light) owns the remaining 51%. The consortium was the winner of the ANEEL bid held on April 30, 2015, which made it responsible for the construction and operation of the power plant.

Moinhos de Vento Wind Farm We hold an indirect interest of 27.4% through Renova Energia SA (99.99% ownership of the plant).

Moinhos de Vento2 Wind Farm We hold an indirect interest of 27.4% through Renova Energia SA (99.99% ownership of the plant).

The generation companies in which Cemig GT has joint participation are:

Baguari Energia S.A. (69.39%) We operate the Baguari Hydroelectric Plant, through the Baguari Hydro Plant Consortium, together with Furnas Centrais Elétricas S.A. (30.61%). Baguari Energia S.A. owns 49% of the plant, in partnership with Neoenergia, which owns the remaining 51%, through Baguari I Geração de Energia Elétrica.

Cachoeirão S.A Hydroelectric Plant (49%) An independent power producer, operating the Cachoeirão small hydroelectric power plant, located at Pocrane, in the state of Minas Gerais. The other 51% is held by Santa Maria Energética.

Pipoca S.A Hydroelectric Plant (49%) An independent power producer which built and operates the Pipoca Small Hydro Plant, on the Manhuaçu River, in the municipalities of Caratinga and Ipanema, in the state of Minas Gerais. On July 8, 2013, ANEEL agreed to the transfer of stockholding control from Omega Energia Renovável S.A. to a holding company, Asteri Energia S.A.

Guanhães Energia S.A. (49%) This company owns 100% of PCH Dores de Guanhães S.A., PCH Senhora do Porto S.A., PCH Jacaré S.A. and PCH Fortuna II S.A. companies responsible for construction and commercial operation of four Small Hydroelectric Power Plants. Light owns the remaining 51% equity interest in Guanhães Energia.

Madeira Energia S.A (10%) This Company (Mesa) owns 100% of Santo Antônio Energia S.A., generating electricity in the basin of the Madeira River in the state of Rondônia.

FIP Malbec (49.92%): Holding of 43.25% in Parma.

Parma (54.15%): Holding of 58.83% in FIP Melbourne.

FIP Melbourne (32.92%): Holding of 83% in SAAG, which owns 12.4% of Madeira

Praias de Parajuru Wind Farm (49%) A beach-located wind farm at Beberibe, in the state of Ceará, in Northern Brazil.

Praias do Morgado Wind Farm (49%) Also located on a Northern Brazilian beach, this wind farm is at Acaraú, in Ceará state.

Volta do Rio Wind Farm (49%) This is the third of a group of three beach-located wind farms in Ceará, and is also in the municipality of Acaraú.

Amazônia Energia Participações S.A. (49% of voting stock, 74.5% of total capital) Owned jointly with Light S.A (25.5%), holds 9.77% of Norte Energia S.A. (NESA), holder of the concession to operate the Belo Monte Hydroelectric Plant, on the Xingu river, in the state of Pará. The first turbine is planned to commence operations in April 2016.

Lightger S.A. (49%) Independent power producer, formed to build and operate the Paracambi Small Hydro Plant (or PCH), on the Ribeirão das Lages river in the county of Paracambi, in the state of Rio de Janeiro. The remaining 51% stockholding is owned by Light.

Table of Contents

Renova Energia S.A. (36.8% of voting stock, 27.4% of total capital) is the group s vehicle for growth in generation from alternative generation and the group s Small Hydro Plants. At the end of 2014 Renova had generation supply contracts totaling more than 2.5 GW of generation capacity, of which 652.3 MW were already in commercial operation. Cemig also has an indirect interest in Renova through Light Energy (21.4% of voting stock, 15.9% of total capital).

Retiro Baixo Energética S.A. (49.9%) Holds the concession for the operation of the hydroelectric power plant Retiro Baixo, located in the lower course of the Paraopeba River in the State of Minas Gerais, which has installed capacity of 83,7MW and assured energy of 38.5 MW.

Aliança Geração de Energia S.A., (45%) Platform of growth and consolidation of generation assets held by Cemig GT (45%) and Vale (55%). The assets involved in the formation of the Aliança Geração de Energia S.A. include the following generation consortia: Porto Estrela, Igarapava, Funil, Capim Branco I and II, Aimorés and Candonga. The company has installed hydro capacity of 1,158 MW (652 MW) in operation, among other generation projects, and will be responsible for investments in future projects of electricity generation.

Aliança Norte Energia Participações S.A. (49%) Together with Vale S.A. , the company holds participation of 9% of Norte Energia S / A corresponding to an indirect interest in Nesa of 4.41%, representing an installed capacity of 495,39 MW (201 MW)

The following are other companies in which Cemig (at the holding company level, Companhia Energética de Minas Gerais Cemig) owns 100% of the equity:

Cemig PCH S.A. Independent power producer, operating the Pai Joaquim small hydroelectric power plant.

Horizontes Energia S.A. An independent power producer, operating the Machado Mineiro and Salto do Paraopeba small hydroelectric plants in Minas Gerais; and the Salto do Voltão and Salto do Passo Velho hydroelectric plants, in the state of Santa Catarina.

Ipatinga S.A. Thermal Power Plant (UTE Ipatinga) An independent thermal power producer which utilized blast furnace gas as fuel to produce power at the Ipatinga thermal plant on the premises of Usiminas (Usinas Siderúrgicas de Minas Gerais S.A.) until December 2014, when its contract with Usiminas expired. UTE Ipatinga is currently in the process of being wound up.

Rosal Energia S.A. Concession holder operating the Rosal hydro plant, on the border between the states of Rio de Janeiro and Espírito Santo.

Barreiro S.A. Thermal Power Plant An independent power producer which built and operates the 12.9 MW Barreiro thermoelectric plant, on the premises of the metal products company V&M do Brasil S.A. (Vallourec & Mannesmann), in Belo Horizonte, Minas Gerais.

Sá Carvalho S.A. (subsidiary) Production and sale of electricity, as a public electricity service concession holder, through the Sá Carvalho hydroelectric power plant.

The holding company (Companhia Energética de Minas Gerais Cemig) also has interests in jointly-controlled subsidiaries that operate generation assets. These include:

Light S.A (26.06%) Owns 25.5% of Amazônia Energia Participações S.A, 51% of Lightger S.A., 100% of Itaocara Energia Ltda. Light Energia S.A. has investments in several jointly-controlled subsidiaries for example 51% of Guanhães Energia S.A.; 21.3% of the voting stock and 15.9% of the total stock, of Renova Energia S.A. (see chart in Part 4 for details); and 100% of Lajes Energia S.A., São Judas Tadeu and Fontainha.

Wind Farms

Wind farms have become one of the most promising power generation sources in Brazil. In addition to their low environmental impact, this source of electricity is completely renewable and widely available in Brazil, according to numerous studies of potential wind power. Its rapid technical development over recent decades has successfully reduced costs per MWh when compared to other power generation sources. Cemig has monitored and observed the rapid evolution of wind energy and its inclusion in the range of Brazilian energy supply sources.

Table of Contents

Our first wind farm, Morro do Camelinho, began operating in 1994 in Gouveia, a town in northern Minas Gerais. It was the first wind farm in Brazil to be connected to the national electricity transmission grid. With a total generation capacity of 1 MW, Morro do Camelinho was built through a technical and scientific cooperation agreement with the government of Germany. Taking into account the experimental nature of the facility, and the fact that the equipment used is now obsolete, Cemig applied to ANEEL for permission to de-activate the plant, which was granted on September 2, 2010. On August 15, 2009, Cemig Generation and Transmission purchased from Energimp S.A. a 49% interest in three wind farms located in the State of Ceará, for R$223 million. The three wind farms, named UEE Praia do Morgado, UEE Praias de Parajuru and UEE Volta do Rio, have a total installed capacity of 99.6 MW.

On September 29, 2014 Cemig took its most significant step in making wind power a major component of its generation sources, with the acquisition by its generation company, Cemig Generation (Cemig GT) of a stake in the controlling stockholding group of Renova (Renova Energia S.A.) acquiring 36.6% of Renova s voting stock and 27.4% of its total capital, by subscription of 87,186,035 common shares. At the end of 2015 Renova had more than 2.5 GW of generating capacity placed under contract the great majority being wind power, as follows:

- 20 wind farms, with total generation capacity of 462.1 MW, in commercial operation in the Regulated Market (Ambiente de Contratação Regulado, or ACR);
- 9 wind farms, with 218 MW, completed and ready to come into commercial operation in the Regulated Market, awaiting transmission lines (under construction by other parties);
- 46 wind farms with aggregate generation capacity of 738 MW under construction with completion scheduled for 2015, 2016 and 2017 of which 560.1 MW have been placed under supply contracts in the Free Market (Ambiente de Contratação Livre, or ACL);
- 17 wind farms with aggregate capacity of 355.5 MW at pre-construction design stage, to operate in the Regulated Market, planned for startup of commercial operation in 2018;
- 50% ownership of a group of 25 wind farms, at design stage for construction by Renova, with total capacity of 708 MW with supply fully placed in the Free Market for commercial startup in 2018 (the other 50% interest is owned by Cemig);
- 1 hybrid plant providing both solar (4.8MW) and wind power, under construction, with supply placed in the Free Market, to start operation in 2015;
- 4 solar plants, with a total of 114.9MW, in partnership with SunEdson;
- 8 wind farms with a total of 151.1 MW, placed in the Regulated Market in 2014 of which 3 startup in 2017 and 5 in 2019;

- 3 Small Hydro Plants with aggregate capacity of 41.8 MW, with supply placed under the Proinfa Alternative Energy program, in the Regulated Market; and

- 13 Small Hydro Plants in commercial operation in the company Brasil PCH, 51% owned by Renova with 148.41 MW of installed capacity contracted in the Regulated market under the Proinfa program.

Table of Contents

This chart shows the majority of our electricity generation companies, including their subsidiaries and affiliated companies:

Expansion of Generation Capacity

We currently are involved in the construction of seven hydroelectric plants Dores de Guanhães, Senhora do Porto, Fortuna II, Jacaré, Itaocara, Santo Antônio and Belo Monte. These plants will increase our total installed hydroelectric generation capacity by 1,353 MW over the coming six years. The completion of a number of these plants is currently subject to a variety of contingencies, some of which are outside of our control. Below is a brief description of these projects:

Guanhães Energia S.A.: Has four wholly-owned subsidiaries PCH Dores de Guanhães S.A., PCH Senhora do Porto S.A., PCH Jacaré S.A. and PCH Fortuna II S.A., engaged in construction and commercial operation of 4 small hydroelectric plants (referred to as PCHs, for *Pequenas Centrais Hidrelétricas*, or SHPs). Three of them Dores de Guanhães, Senhora do Porto and Jacaré are in the municipality of Dores de Guanhães; and one, Fortuna II, is in the municipalities of Virginópolis and Guanhães, all in the State of Minas Gerais. They will have an aggregate installed capacity of 44 MW. Construction schedules have been delayed by unforeseeable government environmental requirements, as well as delays in obtaining certain mechanical components. The delays by the construction consortium led to a recision in the construction contract and a restructuring of the implementation of the project, which is currently in progress. Senhora do Porto and Dores de Guanhães are now scheduled to produce their first power in the second half of 2016, and Jacaré and Fortuna II are expected to start generation in the first half of 2017. As of December 31, 2015 Cemig GT had subscribed capital totaling R$67.43 million in the project, in proportion to its 49% interest in this enterprise. The company is jointly-controlled, with Light Energia owning the remaining 51%.

Table of Contents

On March 31, 2014 ANEEL transferred ownership of the rights to operate the small hydro plants of Guanhães Energia to the wholly-owned subsidiaries referred to above, in the terms of ANEEL Authorizing Resolutions Nºs 4,583, 4,584, 4,585 and 4,586, of March 18, 2014. In August 2015, the four wholly-owned subsidiaries of Guanhães Energia S.A. were the winning bidders in Auction A-3 of New Energy of Aneel No. 04/15. The successful bids guarantee the execution of contracts for the purchase and sale of energy at higher prices than current prices, during 30 years beginning on January 1, 2018.

Madeira Energia S.A. MESA: Mesa is a special-purpose company, created to construct and operate the Santo Antônio Hydroelectric Plant on the Madeira River in the municipality of Porto Velho, Rondônia, which will have generating capacity of 3,568 MW. The plant began operating in March 2012. Cemig GT owns 10% of Mesa, and has an indirect ownership of 8.13%. On December 31, 2015 the total value of the fixed assets representing the proportion of Cemig GT s holdings in this indirectly-held subsidiary was R$4,003,560. At the end of 2015 the Santo Antônio Plant had 35 rotors in operation, representing capacity to generate approximately 2,495 MW. During 2015, the plant brought three more generating units into operation. The plant is expected to be completed in November 2016, and, when operating at full capacity, it will have 50 rotors in operation. The total investment in the plant will amount to more than R$20 billion. The operation currently employs 457 people. The International Hydropower Association (IHA), a nonprofit founded nearly 20 years ago which measures the sustainability of hydroelectric plants undertakings and is supported by Unesco, awarded the Santo Antônio Plant the largest number of maximum scores in the Implementation category of all the projects it has analyzed over its 20-year history. The IHA s assessment is based on four protocols: Early stage; Preparation; Implementation; and Operation. The assessment awarded to the Santo Antônio Plant in the Construction category was given after analysis of twenty topics in various areas: Assessment, Management, Stakeholder engagement, Stakeholder support, Conformance / compliance, and Outcomes. All these topics required technical documentation, internal/external interviews, and proof of the evidence for sustainability. The assessment underlines and confirms the commitment of the Santo Antônio Hydroelectric Plant to best global practices in sustainability.

Norte Energia S.A. Nesa: Since October 2011 Cemig GT has owned 74.5% of the special-purpose company Amazônia Energia Participações S.A., in partnership with Light Energia, which owns the remaining 25.5%. Amazônia Energia in turn holds 9.77% of Norte Energia S.A., another special-purpose company, which holds the concession to build, operate and maintain the Belo Monte Hydroelectric Plant. At the end of December 2015 the plant was approximately 82% complete. It is located on the Xingu River, in the Amazon Region, in the North of Brazil. When it is completed scheduled for In 2019, it will have a full capacity of 11,233 MW, and will be one of the largest hydroelectric plants in the world. By the end of 2015 the Brazilian Development Bank (BNDES), together with the Federal Savings Bank (*Caixa Econômica Federal*, CEF , or Caixa) and the investment bank BTG Pactual, the financiers of the enterprise through a loan planned to total R$22.5 billion, had released a total of R$20.5 billion for its construction. Also by the end of 2015, Cemig had injected approximately R$590 million in this enterprise. Belo Monte started operating on April 20, 2016. The Belo Monte Power Plant, currently under construction, finished the year of 2015 with around 82% of its construction project completed. At the end of 2015, two of its power stations, Belo Monte e Pimental had been completed: (i) the first one is the plant principal power station, with eighteen turbines and a generation capacity of approximately 11,000 MW and (iii) the second, an auxiliary power station having a generation capacity of approximately 233 MW. Considering the completed parts of the Belo Monte Power Plant, 8.7% of the installed potential in Brazil is attributable to the plant, being the largest entirely Brazilian hydroelectric power plant and the fourth largest hydroelectric plant in the world, behind of the Chinese Three Gorges Plant (22,000 MW) and Xiluodu Plant (13,860 MW), and the Brazilian and Paraguayan Itaipu Plant (14,000 MW). The project requires a total investment of R$25.8 billion. (April 2010 currency)Considering the various environmental programs and projects that make up the Basic Environmental conditions of the Belo Monte Power Plant project, it was possible in 2015 to consolidate the compliance with the general and specific conditions of the Installation License of the enterprise. At the end of 2015, Ibama officially informed Norte Energia of the decision of the Federal Environmental Clearing Office

regarding resources to be attributed in accordance with current legislation for the creation and deployment of conservation units. According to the determination, about 90% of the amount was distributed among the implementation of four existing protected areas under federal administration (ICMBio), and about 10% for the establishment or implementation of seven state conservation units (SEMA- PA). Two contemplated units, that are located in the plant s area, are noteworthy- one of them is a wildlife refuge located in the Tabuleiro do Embaubal and the other unit will be created in Volta Grande do Xingu, one of the areas that Norte Energia proposed for environmental protection.

Table of Contents

The UHE Itaocara Consortium: Since 2008, Cemig GT has held a 49% interest, with Itaocara Energia Ltda., a special-purpose company owned by Light S.A. (holder of 51%), the purpose of which is to build and operate the Itaocara power plant, a 151-MW small hydroelectric plant, to be constructed on the Paraíba do Sul river, between the municipalities of Itaocara and Aperibé, in the State of Rio De Janeiro. However, the reduction in the effective period regarding the original concession, and the impossibility of taking part in auctions in the regulated market, led the consortium to apply for rescission of the concession contract (Concession Contract Nº 012/2001) a procedure that was made permissible by Law No. 12,893/2013 of July 9, 2013. On April 30, 2015 the Itaocara Power Plant Consortium, consisting of Cemig GT (49%) and Itaocara Energia Ltda. (51%), a consolidated subsidiary of Light S.A., took part in the 21st Bid of Energy From New Generation Projects (Bid A-5) for concessions regarding new projects of hydraulic and thermal power generation sources, with supply beginning on January 1, 2020 and a concession period of 30 years. The winning bidder was the Itaocara I Power Plant, with an installed power capacity of 150 MW. Through the success of the Bid A-5, the Itaocara Power Plant Consortium recovered the concession that had been previously rescinded in November 2013. The construction is planned to start in 2016 and it is expected to generate over 1,200 direct jobs and 2,200 indirect jobs in its peak working period. The Consortium UHE Itaocara already has an Installation License (LI), issued by the Brazilian Authority (IBAMA) and it has also the Declaration of Public Utility (DUP), issued by the Aneel.

Transmission

Overview

The transmission business consists of the transfer of electricity from generation power plants to consumers directly connected to the basic transmission grid, free consumers and distribution companies. The transmission system comprises transmission lines and step-down substations with voltages ranging from 230 kV to 500 kV.

All the basic transmission grid users, including generators, distributors, free consumers, and others, execute contracts for the use of the transmission system CUST with the National System Operator (*Operador Nacional do Sistema ONS*), and make payments to the transmission companies for making available the use of their basic transmission grid equipment. See -The Brazilian Power Industry and Item 5. Operating and Financial Review and Prospects.

The following tables give operating information on our transmission capacity for the dates indicated:

	Circuit length of transmission lines in miles As of December 31,		
Voltage of Transmission Lines	**2015**	**2014**	**2013**
>525 kV			
500 kV	1,355	1,355	1,355
345 kV	1,228	1,228	1,217
230 kV	478	478	475
Total	**3,061**	**3,061**	**3,047**

Transformation capacity (2) of Transmission substations

Substations	As of December 31, 2015	2014	2013
Number of transmission substations (3)	37	36	36
MVA	17178	16718	16285

(1) Transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.
(2) Shared substations are not included.

Table of Contents

The tables below show operational information on the transmission capacity of the joint venture (subsidiaries and affiliates transmission Cemig), proportional to the equity interest held by the Cemig Group in each case, on the dates indicated:

	Transmission Network Extension in miles As of December 31		
Voltage of Transmission Lines	**2015**	**2014**	**2013**
>525 kV	117	117	117
500 kV	1.289	1.290	1.290
440 kV	136	136	136
345 kV	67	67	67
230 kV	518	514	513
220 kV	62	62	62
Total	**2.189**	**2.210**	**2.208**

Subsidiaries and affiliates transmission Cemig

Company	**Number of transmission substations (2015)**
TAESA	7 (6 private and shared 1)
ATE III	1 shared
EATE	5 (1 private and shared 4)
Lumitrans	2 shared
EBTE	7 (2 private and shared 5)
ERTE	3 (1 private and shared 2)
STC	4 (2 private and shared2)
ENTE	3 shared
ECTE	2 shared
ETSE	2 own pre-operational
ETEP	2 shared
ESDE	1 own
São Gotardo	1 shared
Brasnorte	4 (2 private and shared 2)
ETAU	4 (2 private and shared 2)
Mariana	2 pre-operational shared
Transleste	2 (1 private and shared 1)
Transirapé	2 (1 private and shared 1)
Transudeste	2 shared
Centroeste	2 shared
Transchile (*)	

(*) The two existing substations are not the property of Transchile.

Transmission assets

LT 345 kV The Montes Claros Irapé line (Companhia Transleste de Transmissão) In September 2003, a consortium comprising Alusa (*Companhia Técnica de Engenharia Elétrica Alusa*), with a 41% interest, Furnas (with a 24% interest), Orteng (*Orteng Equipamentos e Sistemas S.A.*)(with a 10% interest) and Cemig (with a 25% interest), won the bid for the concession from ANEEL for the Montes Claros Irapé Transmission Line. As required by the tender rules, the partners formed a company, *Companhia Transleste de Transmissão S.A.*, responsible for the construction and operation of the line. This 345-kV transmission line, of about 87 miles, connects the substation at Montes Claros, a city in the North of Minas Gerais, with the substation of the *Irapé* hydroelectric plant. The line began operating in December 2005. The concession expires in February 2034. On October 9, 2013, ANEEL consented to the transfer of the 10% interest held by Orteng Equipamentos e Sistemas S.A. to *Amazonense de Transmissão de Energia S.A EATE*.

Table of Contents

LT 345 kV The Itutinga Juiz de Fora Transmission Line (*Companhia Transudeste de Transmissão*) In September 2004 a consortium formed by Alusa, Furnas, Orteng and Cemig respectively owning 41%, 25%, 10% and 24% won the bid for the concession from ANEEL for the *Itutinga Juiz de Fora* transmission line. As required by the tender rules, the partners formed a company, *Companhia Transudeste de Transmissão S.A.*, which is responsible for construction and operation of the line. This 345-kV transmission line, of approximately 90 miles, links the substation of the *Itutinga* hydroelectric plant to a substation at Juiz de Fora, a city in the Southwest of Minas Gerais. Commercial operation started in February 2007. The concession expires in March 2035. On October 9, 2013 ANEEL consented to the transfer of the 10% interest owned by Orteng to *EATE*.

LT 230 kV The Irapé Araçuaí Transmission Line (Companhia Transirapé de Transmissão) In November 2004 ,a consortium comprising of Alusa, Furnas, Orteng and Cemig, holding respectively 41%, 24,5%, 10% and 24.5%, won the bid for the concession from ANEEL for the Irapé Araçuaí transmission line. As required by the tender rules, the partners constituted a company, *Companhia Transirapé de Transmissão S.A.*, which has the responsibility for building and operating the line. This 230-kV line, of approximately 39 miles, connects the substation of the Irapé Hydroelectric Plant to a substation in Araçuaí, a city in the Northwest of Minas Gerais. Commercial operation began in May 2007 and the concession expires in 2035. On February 19, 2013, ANEEL Resolution of Authorization 3094/2013 authorized Transirapé to bolster the system with the installation of autotransformers with a power of 3 X 75MVA on the Irapé electrical substation, and another, with the same characteristics, on the Araçuaí 2 electrical substation. On October 9, 2013 ANEEL consented to the transfer of the 10% interest owned by Orteng to Empresa Amazonense de Transmissão de Energia S.A EATE.

LT2 345 kV The Furnas Pimenta Transmission Line (Companhia de Transmissão Centroeste de Minas) In September 2004 a consortium formed by Furnas and Cemig, holding 49% and 51%, respectively, won the bid for the concession of the *Furnas Pimenta* transmission line. As required by the tender rules, the partners formed a company, *Companhia de Transmissão Centroeste de Minas S.A.*, which is responsible for the construction and operation of the transmission line. This 345-kV transmission line, of approximately 39 miles, connects the substation of the Furnas hydroelectric plant to a substation at Pimenta, a city in the Center-West region of Minas Gerais. It began commercial operation in March 2010. The concession expires in March 2035.

LT 220 kV The Charrúa Nueva Temuco Transmission Line in Chile (Transchile) In April 2005 a consortium of Alusa and Cemig (51% and 49% respectively) won the tender held by the *Centro de Despacho Económico de Carga del Sistema Interconectado Central*, or CDEC SIC, of Chile, to build, operate and maintain the 220-kV *Charrúa Nueva Temuco* transmission line for a period of 20 years. This was a landmark in Cemig s history, since it was the Company s first asset outside Brazil. With Alusa, we incorporated *Transchile Charrúa Transmisión S.A.*, an SPC created in Chile, which was responsible for the construction and now operates the line. The line is around 127 miles, connecting the substations of *Charrúa* and *Nueva Temuco* in the central region of Chile. We began the project in June 2005; construction started in April 2007. On July 18, 2007 Transchile Charrúa Transmisión S.A. signed a project finance contract for US$51 million with the Inter-American Development Bank (IADB) to construct the line and substations. Commercial operation began in January 2010.

Empresa de Transmissão Serrana S.A. This is a special-purpose company created in January 2012 by ECTE, a jointly-controlled company owned by Taesa (with a 19.09% interest), Alupar Investimento S.A. (with a 42.51% interest), Centrais Elétricas de Santa Catarina S.A. (with a 30.89% interest) and MDU Resources Luxembourg II LLC, S.à.r.l. (with a 7.51% interest). It was formed to build and operate two substations: (i) the 525/230 kV *Abdon Batista* substation, with transformation capacity of 1,568 MVA; and (ii) the 230/138kV *Gaspar 2* substation, with 300 MVA capacity, both in the state of Santa Catarina. ECTE won the concession at ANEEL Auction 006 of 2011. The purpose of the substation is to connect the *Garibaldi* and *São Roque* power plants to the Brazilian National Grid, and expand the supply of electricity in the Itajaí Valley region. In 2015, the project construction was 100% completed.

Empresa Santos Dumont de Energia S.A. (ESDE) This is a special-purpose company created in November 2009 by ETEP, a jointly-controlled company owned by Taesa (with a 49.98% interest) and Alupar Investimento S.A. (with a 50.01% interest), to build and operate two facilities in the state of Minas Gerais: (i) the 345/138 kV *Santos Dumont 2* substation, with transformation capacity of 375 MVA; and (ii) a -88/+100 Mvar Static Var Compensator (SVC). ESDE won the concession at ANEEL Auction 001/2009. The 345 kV and 138 kV components were completed in February 2013; the SVC was completed in January 2014.

Table of Contents

São Gotardo Transmissora de Energia S.A. Taesa was awarded the concession (Lot E) to build, operate and maintain the 345/138 kV *São Gotardo 2* substation (300 MVA), in Minas Gerais, in June 2012, at ANEEL Auction 005/2012, representing an Annual Permitted Revenue (*Receita Anual Permitida*, or RAP) of R$3.8 million. The operations started on March 19, 2014.

Transmissora Aliança de Energia Elétrica S.A. Taesa is a private company controlled by Cemig, which holds 45.74% of the voting capital and 43.36% of the total capital of Taesa, and by Coliseu, a private investment fund. Taesa has led Cemig s growth vector in the transmission segment, dedicated to the construction, operation and maintenance of transmission lines in all regions of the country. In 2013, Taesa incorporated several companies into the group, in which it had 100% holdings and where the incorporation would provide economic gains and simplify the stockholding structure. This took place in January 2013 for the wholly-owned subsidiaries *Sul Transmissora de Energia S.A.* (STE), *ATE Transmissora de Energia S.A.* (ATE) and *Nordeste Transmissora de Energia S.A.* (NTE); and in June 2013 for *ATE II*. On May 31 the transfer to Taesa of the totality of the stockholding interests held by Cemig in the share capital of the transmission concession holders of the TBE Group was completed. On October 17, 2013 the purchase was completed, by its affiliated company EATE, of the 10% stockholding interests held by Orteng in each of: (i) *Companhia Transleste de Transmissão*, (ii) *Companhia Transirapé de Transmissão;* and (iii) *Companhia Transudeste de Transmissão*. On December 13, 2013, Taesa won the bid for Lot A at ANEEL Auction 013/2013, and as a result constituted *Mariana Transmissora de Energia S.A.* (MTE) to operate a 30-year concession to operate the 85-km, 500-kV transmission line in Minas Gerais, which links the *Itabirito 2* and *Vespasiano 2* substations, which belong to Cemig.

This table shows the percentage holdings in the transmission companies as of the date hereof:

Subsidiary and affiliate transmission companies	**% equity interest (Direct and Indirect)**	
As of December 31, 2015	**Cemig**	**Taesa**
TAESA	43.36	
ATE III	43.36	100.00
EATE	21.67	49.98
Lumitrans	17.34	39.98
EBTE	32.30	74.49
ERTE	21.67	49.99
STC	17.34	39.98
ENTE	21.67	49.99
ECTE	8.28	19.09
ETSE	8.28	19.09
ETEP	21.67	49.98
ESDE	21.67	49.98
São Gotardo	43.36	100.00
Brasnorte	16.77	38.67
ETAU	22.80	52.58
Mariana	43.36	99.99
Transleste	27.17	5.00
Transirapé	26.67	5.00
Transudeste	26.17	5.00
Centroeste	51.00	

Transchile	49.00

Table of Contents

This map illustrates the transmission assets of the Cemig Group:

Expansion of transmission capacity

The Itabirito 2 Vespasiano 2 Transmission Line Taesa was awarded this concession (Lot A) at ANEEL Auction 013/2013 in December 2013 to build, operate and maintain the 52-mile, 500-kV *Itabirito 2 Vespasiano 2* transmission line, in Minas Gerais. Annual Permitted Revenue (RAP) is R$11 million. The project construction is scheduled for completion in 2017.

Table of Contents

Distribution and purchase of electric power

Overview

Our distribution operation consists of transfers of electricity from distribution substations to final consumers. Our distribution network comprises a widespread network of overhead and underground lines and substations with voltages lower than 230 kV. We supply electricity to small industrial consumers, at the higher end of the voltage range, and to residential and commercial consumers at the lower end of the range.

In 2015 we invested approximately R$205 million in the construction and acquisition of the property, plant and equipment needed to expand our distribution system.

The following tables provide certain operating information pertaining to our distribution system, on the dates indicated:

	Circuit length of distribution lines in miles High voltage (from distribution substations to final consumers) As of December 31,		
Voltage of distribution lines	**2015**	**2014**	**2013**
161 kV	33.86	34.20	34.20
138 kV	7,531.71	7,321.72	7,271.70
69 kV	2,605.43	3,088.90	3,088.90
34.5 kV + Others	594.97	609.40	609.40
Total	10,765.97	11,054.22	11,004.20

	Circuit length of distribution lines in miles Medium and low voltage (from distribution substations to final consumers) As of December 31,		
Voltage of distribution network	**2015**	**2014**	**2013**
Overhead urban distribution lines	63,334.64	62,020.26	60,682.25
Underground urban distribution lines	426.90	426.97	426.90
Overhead rural distribution lines	244,904.15	242,998.48	241,122.49
Total	308,665.69	305,445.63	302,231.64

	Step-down transformation capacity (1) of distribution substations As of December 31,		
	2015	2014	2013
Number of substations	388	374	373
MVA	10,099.18	9,585.50	9,365.60

(1) Step-down transformation capacity refers to the ability of a transformer to receive energy at a certain voltage and release it at a reduced voltage for further distribution.

Expansion of Distribution Capacity

Our distribution expansion plan for the next five years is based on projections of market growth. In the next five years, we anticipate an increase of approximately 1.25 million new urban consumers and approximately 59,500 rural consumers. In order to accommodate this growth, we expect that we will need to add 247,160 medium-voltage poles, 578 miles of transmission lines and 15 step-down substations, adding 1,123 MVA to our distribution network.

Table of Contents

Purchase of Electric Power

During the year ended December 31, 2015 we purchased 6,189 GWh of electricity from Itaipu, which represented approximately 23% of the electricity we sold to final users, and 663 GWh (3%) of electricity from Proinfa. We also purchased 1,104 GWh under Nuclear Energy Quota Contracts (*Contratos de Cotas de Energia Nuclear,* or CCENs), 4%) and 7,730 GWh of electricity under Assured Energy Quota Contracts (*Contratos de Cota de Garantia Física,* or CCGFs, 29%). In addition to this compulsory purchase, we have two other types of supply arrangements: (i) purchases through public auctions, which accounted for approximately 63% of the electricity purchased for resale during the year ended December 31, 2015; and (ii) long-term agreements existing prior to the New Industry Model Law, which represented approximately 6% of the electricity purchased in 2015.

Itaipu Itaipu is one of the largest operational hydroelectric plants in the world, with an installed capacity of 14,000 MW. Centrais Elétricas Brasileiras S.A., or Eletrobrás, a holding company controlled by the Federal Government, owns a 50% interest in Itaipu, while the remaining 50% is owned by the government of Paraguay, Brazil, pursuant to its 1973 treaty with Paraguay, has the option to purchase all of the electricity generated by Itaipu that is not consumed by Paraguay, Brazil generally purchases more than 95% of the electricity generated by Itaipu.

We are one of the power distribution companies operating in the south, southeast and west-central regions of Brazil that are jointly required to purchase all of Brazil s portion of the electricity generated by Itaipu, in accordance with the Law 5,899/1973. The Federal Government allocates Brazil s portion of Itaipu s power among these electricity companies in amounts proportionate to their respective historical market share of total electricity sales. ANEEL enacted Resolution 1,386/2012 which set 13.31% as the percentage the total power produced by Itaipu that Cemig Distribution would have to purchase in 2013, at rates that are fixed to defray Itaipu s operating expenses and payments of principal and interest on Itaipu s dollar-denominated borrowings and the cost in *reais* of transmitting such power to the Brazilian grid. These rates are above the national average for bulk supply of power and are calculated in U.S. dollars. Therefore, fluctuations in the U.S. dollar/real exchange rate affect the cost, in real terms, of electricity we are required to purchase from Itaipu. Historically, we have been able to recover the cost of such electricity by charging supply rates to consumers. According to our concession contract, increases in the supply rates may be transferred to the final consumer upon approval by ANEEL.

Since 2007, ANEEL publishes at the end of each year the amount of electricity to be purchased from Itaipu by each of the electric power distribution companies for the following year, as guidance for the five subsequent years. Based on this, the distribution companies can estimate their remaining energy needs in advance of the next public auctions.

Nuclear Energy Quota Contracts (CCENs): These are contracts that formalize the purchase of energy and power as established in Law No. 12,111/2009 and REN N° 530/2012 between distributors and Electronuclear for the energy produced by the Angra I and Angra II plants.

Assured Energy Quota Contracts (CCGFs): Decree No. 7,805/2012 regulated Provisional Measure (PM) 579/2012 and created contractual arrangements governing contracting of energy and power from the plants whose concessions were extended under Law 12,783/2013.

Auction Contracts We have purchased electricity in public auctions on the CCEE. These contracts are formalized between Cemig and the various vendors in accordance with the terms and conditions in the invitation to bid. The following table gives the amounts of electricity contracted, and average original tariff and prices related to the CCEAR contracts for electricity acquired by Cemig. See The Brazilian Power Industry for more information on CCEEs and CCEARs.

77

Table of Contents

Average Tariff (R$/MWh)	Electricity Contracted (MW average per year)	Term of the Contract
83.13	105.47	2005 to 2012
106.95	4.47	2006 to 2013
132.27	35.31	2008 to 2015
114.28	3.16	2012 to 2014
126.77	60.41	2008 to 2037
129.26	40.36	2008 to 2022
132.39	31.02	2009 to 2038
115.05	91.77	2009 to 2038
134.99	20.12	2009 to 2023
121.81	88.98	2009 to 2023
138.85	61.23	2010 to 2039
134.67	431.17	2010 to 2039
120.86	24.71	2010 to 2024
137.44	23.24	2010 to 2024
128.42	63.89	2010 to 2024
129.14	56.57	2011 to 2040
128.37	126.34	2011 to 2025
78.87	122.83	2011 to 2025
77.97	457.75	2012 to 2041
102.00	52.76	2012 to 2026
80.10	336.40	2012 to 2041
262.00	27.00	2015 to 2044
270.81	69.03	2014 to 2044
99.48	46.80	2014 to 2033
67.31	136.73	2015 to 2044
129.70	25.09	2015 to 2044
121	15.68	2016 to 2035
133.29	32.13	2018 to 2047
117.51	16.27	2018 to 2037
135.58	19.30	2018 to 2047
96.28	16.41	2018 to 2037
119.03	2.62	2018 to 2042
121.00	15.68	2017 to 2046
129.96	32.13	2017 to 2036
161.89	3.20	2019 to 2048
205.19	311.11	2019 to 2043
136.00	56.06	2019 to 2038
183.66	4.94	2020 to 2049
278.46	23.21	2020 to 2044
205.01	0.535	2018 to 2047
212.75	0.701	2018 to 2037
181.14	3.843	2018 to 2037

Bilateral Contracts Cemig Distribution entered into bilateral contracts with various suppliers prior to the enactment of the New Industry Model Law in 2004. Such agreements are valid under their original terms but cannot be renewed. During the year ending December 31, 2015 Cemig Distribution purchased 1,644 GWh under these contracts, which represented 6% of the total electricity purchased by Cemig Distribution in 2015.

78

Table of Contents

Other businesses

Natural gas distribution

Gasmig was established in Minas Gerais, Brazil, in 1986 for the purpose of developing and implementing the distribution of natural gas in the State of Minas Gerais. Cemig holds 99.57% of the shares of Gasmig and the remaining shares are owned by the Municipality of Belo Horizonte.

On August 25, 2004 Cemig, Gasmig, Gaspetro and Petrobras signed an Association Agreement, later amended on November 5, 2004, December 14, 2004 and August 15, 2007, for the implementation of a plan to develop the natural gas market in the State of Minas Gerais. The plan provided for (i) the expansion of the existing gas pipeline network, under the responsibility of Petrobras, (ii) the expansion of the natural gas distribution network, under the responsibility of Gasmig, and (iii) the acquisition by Gaspetro of equity in Gasmig.

On October 10, 2014, a share purchase agreement was signed for acquisition by Cemig of Gaspetro s 40% interest in Gasmig (previously approved by the Boards of Directors of Cemig and Petrobras), for R$570.93 million. This amount was the result of monetary update of R$600 million by the IGP M inflation index, after discounting of the dividends paid, over the period from the base-date of the agreement to the closing of the transaction. The acquisition was completed after approval by the Brazilian Monopolies Authority (*Conselho Administrativo de Defesa Econômica*, or *CADE*) and consent from the concession authority, the State of Minas Gerais.

In July 1995, the State Government granted Gasmig an exclusive 30-year concession (from January 1993) for distribution of piped gas covering the entire State of Minas Gerais and consumers located within it. On December 26, 2014 the Second Amendment to the Concession Contract was signed. This document extended Gasmig s concession for commercial operation of piped gas services for industrial, commercial, institutional and residential use in the State of Minas Gerais for 30 years. As a result, the expiration of this concession was extended from January 10, 2023 to January 10, 2053.

Gasmig s marketing efforts focus on its ability to provide a more economically efficient and environmentally friendly alternative to oil products, like diesel and liquefied petroleum gas (LPG), wood, wood products and charcoal. In 2015, Gasmig supplied approximately 3.9 million cubic meters of natural gas per day to 4,215 consumers in thirty five cities: 111 large and medium-sized industrial plants, 218 small industrial plants and commercial consumers, 57 retail distribution stations supplying vehicle natural gas (VNG) to vehicles, two thermoelectric electricity generation plants, three co-generation projects, four distributors of compressed natural gas (CNG), and 3,820 homes. In 2015 Gasmig distributed approximately 4% of all natural gas distributed in Brazil.

Currently, Gasmig serves the following regions of the State of Minas Gerais: (i) Greater Belo Horizonte (the Metropolitan Region), (ii) the Rio Doce region (*Vale do Aço*), (iii) the South of Minas region (the *Sul de Minas* region), (iv) the *Zona da Mata* region (in the southeast of the State), and (v) the Campos das Vertentes region in all of them supplying the industrial, commercial, automotive, residential, co-generation markets, and thermoelectric power plants.

For distribution to the market other than thermoelectric electricity generation, Gasmig has an Additional Supply Contract (*Contrato de Suprimento Adicional*, or *CSA*) with Petrobras, signed on December 15, 2004, in effect until 2030 and with a sliding supply level rising to 5 million m³/day in 2018. In 2015 the Contractual Quantity was 4.02 million m³/day. There was previously another gas supply contract for the non-thermoelectric market, referred to as the *Contrato Convencional* (or Contract Agreement), signed on July 6, 1994, which was dissolved in 2013. The remaining balance of quantity of gas paid for under that contract was recovered during the year 2014.

For supply of gas to the thermoelectric plants, Gasmig has contracts for a total of 1.6 million m³/day, in effect until 2022.

The sales tariffs consist of a full pass-through of the cost of the acquisition of the gas, plus the distribution cost (margin) and taxes.

Capital expenditures in 2013 and 2014, totaling R$117.93 million, was focused on expansion and densification of the existing networks, with a focus on serving the residential market. In 2015, capital expenditures totaled R$62 million and maintained a focus on serving the residential market, and 51.4 kilometers were added to our natural gas network.

Table of Contents

Many energy-intensive industries, such as cement, steel, ferro-alloys and metallurgical plants, operate at significant volume in Minas Gerais. Gasmig s principal strategy is expansion of its distribution network to cover the part of demand that has not yet been met. Gasmig dedicates efforts to development of new projects for expansion of its natural gas distribution system, to supply consumers in other areas of Minas Gerais, especially those that are densely industrialized. The first phase of service to the *Vale do Aço* region was completed in 2006. Also in 2006, Gasmig began to provide service to the *Sul de Minas* region through a local network supplied with liquefied natural gas (LNG). In 2009, after Petrobras completed the gas pipelines that transport gas from Paulínia, State of São Paulo, to Jacutinga, State of Minas Gerais, the local networks were connected to the national gas transport network. In 2010 the second phase of providing service to the *Vale do Aço* region was completed.

In 2013, Gasmig began distributing natural gas to residential and small commercial consumers in the municipalities of Nova Lima, Belo Horizonte and Poços de Caldas.

Through a structuring project in 2013, Gasmig began to serve the municipalities of Governador Valadares and Itabira, from a facility to supply compressed natural gas (CNG) in the municipality of Ipatinga. In 2014 Gasmig began to service the municipality of Pouso Alegre through another structured project supplied with liquefied natural gas (LNG).

Natural gas exploration

Cemig, in partnership with other companies, won in the 10th Brazilian Round, promoted by the National Agency of Oil, Natural Gas and Biofuels (*Agência Nacional do Petróleo, Gás Natural e Biocombustíveis*) ANP, in December 2008, the concession rights for natural gas exploration in four blocks in the São Francisco Basin, one block in the Recôncavo Basin, and one block in the Potiguar Basin, located in the states of Minas Gerais, Bahia and Rio Grande do Norte, respectively.

Block POT-T-603 in the Potiguar Basin was given back to ANP after the conclusion of all planned activities, which demonstrated the absence of hydrocarbon that could be commercially produced.

Cemig has a stake in the following consortia:

- Blocks SF-T-104 and SF-T-114 (São Francisco Basin): Cemig (24.5%), Codemig (24.5%) and Imetame (51%);

- Blocks SF-T-120 and SF-T-127 (São Francisco Basin): Cemig (24.5%), Codemig (24.5%), Cemes (51%), being the last company formed by Imetame, Sipet and Orteng; and

- Block REC-T-163 (Recôncavo Basin): Cemig (24.5%), Codemig (24.5%) and Imetame (51%).

The activities committed to in the concession agreement are in progress, and include geological studies to assess the real potential to produce natural gas in the region. Those studies encompass seismic acquisition, surface geochemical survey, drilling of exploratory wells and rock petrophysical evaluation, among others, CEMIG s projected investment is not expected to exceed R$30 million in the exploratory phase.

At the end of the exploratory phase the consortia will decide to move on to the development and production phase, if previous assessment demonstrates that the resources eventually identified have technical and economic feasibility for

production.

Telecommunications, internet and cable television

Cemig Telecomunicações S.A. CEMIGTelecom (CEMIGTelecom) is a Corporation registered for listing, a wholly owned subsidiary of Companhia Energética de Minas Gerais S.A. CEMIG. It offers an optical network for transport of telecommunications services in the state of Minas Gerais using Cemig s electricity transmission and distribution infrastructure.

It is domiciled in Brazil, with its address at Rua dos Inconfidentes 1051 Térreo, Funcionários, Belo Horizonte, Minas Gerais. It has authorization from the Brazilian telecoms regulator, the National Telecommunications Agency (*Agência Nacional de Telecomunicações*, or *Anatel*), granted by Anatel Act No. 41.002 of December 3, 2003, for commercial operation of multimedia communications services, for an undefined period.

It was constituted on January 13, 1999, in partnership with AES Força Empreendimentos Ltda., a member of the AES Corporation Group, and at that time was given the name Empresa de Infovias S.A. Its purpose is to provide services in the area of telecommunications, through an integrated system comprising fiber optic cables, coaxial cables and electronic and associated equipment, for transmission, broadcasting and reception of symbols, characters, written signals, images, sound and information of any type, and also to provide telecoms services in the wholesale market, creating specialized circuits, in particular to other telecommunications companies such as fixed-line and mobile telephone operators, and providers of services such as cable TV, business carrier signals, data centers, broadband, etc.

Table of Contents

CemigTelecom s core business is provision of telecommunications services in the operator segment, and provision of specialized services to the corporate market, providing network and Internet access connectivity solutions. It provides the largest optical network for telecommunications transport services in Minas Gerais, with a presence in more than 70 cities of the State, which contribute to approximately 90% of the State s GDP. Also, in its expansion project, it makes optical network services available in the metropolitan regions of Salvador, Recife, Goiânia and Fortaleza, and has presence in the cities of São Paulo e Rio de Janeiro.

CemigTelecom has a 19.6% interest in the joint venture Ativas Data Center S.A. (Ativas). Management and principal decisions are shared with an investor partner, governed by a stockholders agreement.

The corporate purpose of Ativas is the provision of ITC Information and Communication Technology infrastructure services. These comprise physical hosting of IT environments, database and site backup, storage, professional information security and availability services, ITC consultancy, connectivity and sale of access and Internet bandwidth. The construction of the data center, classified in category Tier III (by the Uptime Institute), to serve large and medium-sized corporations, was concluded in January 2011.

Consulting, and Other services

Created as a wholly-owned subsidiary of CEMIG in 2002, Efficentia S.A., a Brazilian sociedade por ações, created and implemented its own business model, launching an implementation of projects based on performance contracts, with reflects an innovative approach to the implementation of projects in the Brazilian market. The principal source of revenue for Efficientia has been the implementation of energy efficiency projects through performance contracts. Sixty such projects have already been implemented.

In 2015, Efficientia entered into contracts with customers in the industrial and services sectors for the implementation of projects for the modernization of lighting and photovoltaic power generation systems, as listed below:

- Esdeva Printing Industry: Modernization of an industrial lighting system using LED technology (expected savings of 485 MWh / year); Investment: R$780,000;
- Prosegur Brazil: Modernization of the lighting system of its headquarters using LED technology (expected savings of 275 MWh / year); Investment: R$359,000; and
- Minas Tennis Club: lighting system modernization of its headquarters using LED technology (expected savings of 745 MWh / year); Investment: R$1.9 million.

Energy efficiency projects implemented by the Efficientia, promote effective energy savings, provide for the reduction of power usage during peak hours, as well as providing management of electricity demand.

In addition, the photovoltaic power generation projects developed by Efficientia are configured as investments in distributed energy generation. In 2015, contracts were entered into by Efficientia for the supply of photovoltaic generation systems with respect to the following projects:

Algar Technology and Consulting: Development and implementation of a Solar Photovoltaic Plant (expected generation of 466 MWh / year); Investment: R$ 2.2 million. This project was completed in 2015;

Village Condo Village I and II: Development and implementation of a Solar Photovoltaic Plant (scheduled to generate 1,018 MWh / year); Investment: R$ 6.1 million. Expected completion in 2016 (Village I) and 2017 (Village II); and

Algar Telecom: Development and implementation of a Solar Photovoltaic Plant (expected generation of 734 MWh / year); Investment: R$ 3.9 million. Expected completion in 2016.

Sale and trading of electricity

We provide services related to the sale and trading of electricity in the Brazilian electricity sector, such as evaluation of scenarios, representation of consumers in the CCEE (*Câmara de Comercialização de Energia Elétrica*), structuring and intermediating of electricity purchase and sale transactions, and consultancy and advisory services, besides services related to the purchase and sale of electricity in the Free Market through our wholly-owned subsidiary companies Cemig Trading S.A., ESCEE (Empresa de Serviços de Comercialização de Energia Elétrica S.A.) and CCEI (Cemig Comercialização de Energia Incentivada S.A.).

Table of Contents

Energy losses

The total recorded by Cemig as electricity losses has two components: (i) an allocated portion of the losses arising in the National Grid; and (ii) the total of technical and non-technical losses in the local distribution network of Cemig Distribution (Cemig D).

As shown in the table of Cemig s Electric Energy Balance, the total energy losses recorded by Cemig in the year of 2015 were 6,461 GWh, an increase of 2.9% in comparison to 2014. The Electricity Trading Chamber (CCEE) apportioned losses in the national grid totaling 528 GWh to Cemig Distribution. The other energy losses, totaling 5,933 GWh, include technical and non-technical losses in the local distribution system.

Technical losses were approximately 76.0% of the total losses related to Cemig Distribution for the year ended December 31, 2015. Losses in distribution are inevitable as a result of transport of electricity and its transformation between different levels of voltage. We seek to minimize technical losses by rigorous and regular assessments of the operational conditions of the distribution facilities, and investment to expand distribution capacity, for the purpose of maintaining quality and reliability levels, thus reducing technical losses; we also operate the system in accordance with certain specific voltage levels, to reduce the level of losses. Technical losses are not strictly comparable: longer distribution distances (for example, in country areas), naturally have higher technical loss levels.

Non-technical losses were approximately 24.0% of Cemig D s total electricity losses in 2015. They are caused by consumer fraud, illegal connections to the distribution network, errors in metering, and defects in meters. To minimize non-technical losses, preventive actions are taken regularly: consumers meters and connections are inspected; meter readers are trained; metering systems are modernized; procedures for installation and inspection of meters are standardized; meters with quality control guarantees are installed; and the database of consumers is updated.

The non-technical losses of different distribution companies can be partially comparable, taking into account the social complexities in the concession area and the effectiveness of efforts to combat losses.

At the end of 2015, the indicators that measure the quality of supply by Cemig D (i) SAIDI (System Average Interruption Duration Index), expressed as a figure per consumer, in hours per year; and (ii) SAIFI (System Average Interruption Frequency Index), also expressed as a consumer-experienced average, were 11.54 and 5.88, respectively. In 2014, the figures with respect to Cemig D for SAIDI and SAIFI were 10.77 and 5.58, respectively. At the end of 2015, the SAIDI and SAIFI for Light were 12.25 and 6.56, respectively, compared to 12.35 and 6.60 in 2014.

In the 12 months ending in December 2015, Light s total losses totaled 8,766 GWh, or 23.2% of the total load, a reduction of 0.5 percentage points compared to the December 2014 index.

Consumers and billing

Consumer base

The Cemig Group sells electricity through the companies Cemig Distribuição (Cemig Distribution, referred to as Cemig D), Cemig Geração e Transmissão (Cemig Generation and Transmission, or Cemig GT), and other wholly-owned subsidiaries Horizontes Energia, Termelétrica Ipatinga (until January 2015), Sá Carvalho, Termelétrica de Barreiro, Cemig PCH, Rosal Energia and Cemig Capim Branco Energia (until March 2015).

This market comprises sales of electricity to:

(i) captive consumers in Cemig s concession area in the State of Minas Gerais;

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

Table of Contents

(iii) other participants of the electricity sector traders, generators and independent power producers, also in the ACL; and

(iv) distributors, in the Regulated Market (Ambiente de Contratação Regulada, or ACR).

In 2015, The Cemig Group traded a total of 56,904 GWh, or 10.3% less than in 2014.

The volume of electricity sold to final consumers, in 2015, totaled 46,073 GWh, or 6.6% less than in 2014.

Electricity consumption in general, in 2015, was affected by the adverse Brazilian political and economic scenario and, in the captive market, by the successive increases in electricity tariffs, associated with application of the tariff flag system resulting in a significant increase in most consumers electricity bills.

Sales to distributors, traders, generators and independent power producers totaled 10,831 GWh in 2015 or 23.4% less than 2014 (in volume).

In December 2015 the Cemig Group billed 8,079,771 clients. The figure is 0.9% higher than in December 2014. Of this total, 8,079,719 are final consumers, or represent the Group s own consumption, and 52 are other agents of the Brazilian electricity sector.

Sales to Final Consumers

Residential

Residential consumption, which accounts for 17.3% of the energy sold by Cemig in 2015, totaled 9,830 GWh, or 1.8% less than in 2014.

A lower consumption by households can be attributed to a hike in electricity rates paid by consumers, including application of the tariff flag rates in 2015. Also, there was a decrease in the real earnings of the population over the course of the 2015.

The average monthly consumption per consumer in 2015 was 126.5 kWh/month, or 3.6% less than in 2014 (131.2 kWh/month) this was the first year-to-year reduction in this figure since 2008.

Industrial

Electricity billed to industrial customers with whom we have exclusive supply contracts (captive clients) and industrial customers with whom we do not have exclusive supply contracts (free industrial clients) in the State of Minas Gerais and other States, in 2015, represented 40.4% of the total volume of electricity sold by the Cemig Group during the year, and totaled 22,969 GWh, or 11.7% less than in 2014.

We attribute the reduction in consumption by this client category to the following factors:

a. Termination of clients contracts at the end of 2014, which were not renewed with Cemig GT.

b. Lower consumption by industrial clients due to the continuing contraction of economic activity both in the State of Minas Gerais and throughout Brazil:

Lower physical production, affected by inventory levels and lower demand from markets;

Increasing levels of idle capacity in manufacturing and diminishing use of labor (shorter shifts or working days, several cases of forced vacations, application of the employment protection plan, and dismissals of employees);

Lack of confidence among entrepreneurs, and low levels of private and public investment;

Uncertainties in the political and economic scenarios both in Brazil and internationally;

Higher cost of capital for companies reflecting both high interest rates and more selective lending; and

Lower external demand, with lower Brazilian exports, and loss of a portion of Brazilian export market share to other foreign suppliers.

Table of Contents

Commercial and Services

Electricity sold to captive and free consumers in this category, in Minas Gerais and other States of Brazil, totaled 6,433 GWh., which represented 11.3% of the total volume sold by the Cemig Group in 2015 0.6% higher than in 2014.

The increase with respect to this category is attributed with:

(i) a reduction of 0.1% in the volume of electricity sold to the captive consumers of Cemig D; and

(ii) a year-on-year growth of 11.6% in the volume of electricity billed by Cemig GT and wholly-owned subsidiaries to free clients in Minas Gerais and other Brazilian states.

The lower consumption by captive clients reflects a lower number of consumers invoiced, as some commercial establishments and services ceased to trade, in our view due either to the reduction of economic activity or to consumers taking measures to reduce electricity consumption due to its increased cost during the year.

The increase of consumption by our free consumer clients is associated with 25 contracts for incentive-bearing supply entered into between Cemig and Free Consumers, mainly in States other than Minas Gerais.

Rural consumers

Consumption by Rural Consumers totaled 3,380 GWh, in 2015, which represents 5.9% of the total volume of electricity sold by Cemig in that year, or 0.3% lower in terms of volume than in 2014. Consumption by irrigation users was down 1.9% year to year, and use in agriculture and the raising of livestock was up 0.6%.

The lower consumption was due to a lesser use of irrigation systems and higher prices of electricity in 2015, which affected production costs.

Other consumer categories

The total of electricity sold to the other consumer categories Public Authorities, Public Lighting, Public Services, and the Company s own consumption totaled 3,460 GWh, or 1.1% less than in 2014.

Sales in the Free Market

Total sales by the Cemig Group in the Free Market, in 2015, totaled 6,579 GWh, or 25.2% lower than in 2014 as a result of the termination of some contracts.

Sales in the Regulated Market

Sales in the Regulated Market, during 2015, were 20.5% lower than in 2014 as a result of the termination of contracts related to Regulated Market auctions held by Aneel in 2011, which had been entered into between Cemig GT and distributors for supply of electricity from 2012 to 2014.

In 2015, Cemig GT participated in the 18th Adjustment Auction, with sales of supply for delivery in the first half of 2015, partially offsetting the reduction in other sales to the Regulated Market.

Sales of electricity generated by Cemig GT in 2015 were affected by the termination of generation plant concessions. This supply was redirected to the Physical Guarantee Quota mode and to settlement in the spot market.

Table of Contents

The tables below show the Cemig Group s market in more detail, itemizing transactions in 2015 compared with 2014:

	2015				2014				Variation(%)	
	Clients		Energy		Clients		Energy			
Type of sale	Amount (units)	Participation (%)	Amount (MWh)	Participation (%)	Amount (units)	Participation (%)	Amount (MWh)	Participation (%)	Clients %	Energy %
Traded Energy	**8,079,771**	**100.0**	**56,903,594**	**100.0**	**8,008,205**	**100.0**	**63,470,475**	**100.0**	**0.9**	**(10.3)**
Sales to final consumers	**8,078,963**	**100.0**	**46,034,739**	**8.9**	**8,007,405**	**100.0**	**49,286,776**	**77.7**	**0.9**	**(6.6)**
Residential	6,532,169	80.8	9,829,992	17.3	6,455,960	80.5	10,013,757	15.8	1.3	(1.8)
Industrial	75,475	0.9	22,968,931	40.4	77,132	1.0	26,025,584	41.0	(2.1)	(11.7)
Captive	75,085	0.9	3,757,203	6.6	76,728	1.0	4,076,645	6.4	(2.1)	(7.8)
Free	390	0.0	19,211,728	33.8	404	0.0	21,948,939	34.6	-3,5	(12.5)
Comercial	714,433	8.8	6,433,728	11.3	719,955	9.0	6,395,473	10.1	(0.8)	0.6
Captive	714,433	8.8	6,026,533	10.6	719,874	9.0	6,030,715	9.5	(0.8)	(0.1)
Free	106	0.0	407,194	0.7	81	0.0	364,758	0.6	30.9	11.6
Rural	678,742	8.4	3,379,734	5.9	687,778	8.6	3,390,096	5.3	(1.3)	(0.3)
Others	78,038	1.0	3,422,354	6.0	76,58	1.0	3,461,865	5.5	1.9	(1.1)
Own Consumption	**756**	**0.0**	**37,661**	**0.1**	**748**	**0.0**	**37,59**	**0.1**	**1.1**	**0.2**
Wholesale sales	**52**	**0.0**	**10,831,194**	**19.0**	**52**	**0.0**	**14,146,109**	**22.3**	**0.0**	**(23.4)**
Sales on the CCEE	46	0.0	4,252,099	7.5	35	0.0	5,346,833	8.4	31.4	(20.5)
Free and Bilateral Contracts	6	0.0	6,579,095	11.6	17	0.0	8,799,275	13.9	(64.7)	(25.2)

This table shows the Cemig Group s sales to the Industrial user category as a whole in 2015, by sector of activity:

Sector of activity	Volume invoice, GWh	%
Metallurgy	6,163	26.8
Mining	4,608	20.1
Non metallic minerals	2,502	10.9
Foods	1,869	8.1
Chemicals	1,646	7.2
Automotive	1,228	5.3
Machinery and equipment	1,053	4.6
Plastic Products	767	3.3
Textile	673	2.9
Other sectors	2,461	10.7
Total, industrial consumers	22,969	100

The ten largest industrial clients served by the Cemig Group, located in Minas Gerais and other states of Brazil, in order of revenue, are:

Client	Activity
Samarco	Mining
Usiminas	Metallurgy
ArcellorMittal	Metallurgy
V&M	Metallurgy
Saint Gobain	Chemicals, non metallic mining
FIAT	Automotive
CBCC	Metallurgy
Anglo Ferrous	Mining
Kinross	Mining
International Paper do Brasil LTDA	Cellulose, Paper and Cardboard

Table of Contents

Billing

Our monthly billing and payment procedures for the distribution of electricity vary by voltage of supply. Our large-scale customers, which have direct connections to our transmission network, are generally billed within five days after the reading of their meters and receipt of their invoices by e-mail. Payment is required within five days of delivery of the bill.

Other customers who receive medium voltage electricity (approximately 13,780 consumers receive electricity at 2.3 kV or above) are billed within two business days of the reading of their meters, with payment to be made at least five business days from delivery of the invoice. This group of consumers receive their invoices both printed and by email.

In 2013 we completed the implementation of the meter reading automation for consumers who receive medium voltage electricity.

Our low-voltage customers are billed within five business days of the reading of their meters, with payment to be made at least five business days from the delivery of their invoice, or 10 business days after delivery of their bill in the case of public sector institutions. Bills are prepared from meter readings or based on estimated consumption.

We are in the process of implementing the modality of immediate billing for low voltage consumers, with simultaneous reading and printing of invoices. We utilized this billing system on approximately 5,022,074 customers in 2015 and we expect this number to be increased to 7,000,000 customers by the end of 2016.

In June 2013, we implemented the option for low-voltage residential clients to receive invoices by email. As of December 31, 2015, approximately 65,000 low-voltage residential customers were registered to receive their invoices by e-mail.

Seasonality

Cemig s sales of electricity are affected by seasonality. Historically, consumption by industrial and commercial consumers increases in the fourth quarter due to their increase in activity. The seasonality of rural consumption is usually associated with rainfall periods. During the dry season between the months of May and November more electricity is used to irrigate crops. The table below shows quarterly figures for electricity billed by the Cemig Group to final users, captive consumers and Free Consumers from 2013 to 2015, in MWh:

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2015	11,698	11,343	11,323	11,707
2014	11,963	12,242	12,435	12,683
2013	10,805	11,125	11,545	11,918

Competition

Contracts with Free Consumers

On December 31, 2015 Cemig GT had a portfolio of contracts with 482 industrial and commercial Free Consumers, a decrease of 2.1% from December 2014. Of this total, 225 clients were located outside of the state of Minas Gerais, amounting to 34.5% of the total volume of electricity sold by Cemig in 2015.

The strategy adopted by Cemig in the Free Market is to negotiate and enter into long-duration contracts, thus establishing and maintaining a long-term relationship with clients. We seek to differentiate ourselves in the free market from our market competitors by the type of relationship we have with our customers and the quality of our services, which have added value for Cemig Generation and Transmission. This strategy, together with a sales strategy that seeks to minimize exposure to short-term prices and contracts with a minimum demand on a take-or-pay basis, translates into lower risk and greater predictability of the Company s results.

Table of Contents

Concessions

We conduct the majority of our activities in generation, transmission and distribution of electricity through concession contracts executed with the Brazilian Federal Government. The Brazilian Constitution requires that all concessions for public services must be the subject of competitive tenders. In 1995, in an effort to implement these provisions of the Constitution, the Federal Government instituted certain laws and regulations, referred to collectively as the Concessions Law, which govern the procedures for competitive tenders in the electricity sector.

On September 22, 2004, while the rules established by Law No. 9,074 on July 7, 1995 were still in effect, we requested from Aneel an extension for 20 years of the concessions of the Emborcação and Nova Ponte Hydroelectric Plants. On January 14, 2007, the Federal Government approved the extension of these concessions for a period of 20 years from July 24, 2005 until July 24, 2025. The related concession contract was amended on October 22, 2008, to reflect the extension granted to Cemig GT.

On September 11, 2012, the Federal Government issued Provisional Measure 579 of 2012 (PM 579), which became Law No. 12,783 of January 11, 2013 (Law No. 12,783), governing the extension of concessions granted before Law No. 9,074 of July 7, 1995 (Law No. 9,074/1995). Under PM 579, concessions granted before Law No. 9,074/1995 could be extended for a single time, for a period of up to 30 years.

On December 4, 2012, the Company signed the second amendment to transmission contract 006/1997, which extended the concessions under such contract for 30 years, in accordance with PM 579, beggining in January 1, 2013. This resulted in an adjustment to the Permitted Annual Revenue (RAP) from these concessions, which will reduce the revenue which we will receive arising from those concessions. The Brazilian government has compensated us for the reduction of the RAP in part but the assets in operation before the year of 2000 have not yet been compensated. In accordance with Law No. 12,783, we are required to be compensated for the reduction of the RAP of the assets in operation before 2000, over a period of 30 years, the amounts being adjusted by the IPCA inflation index.

Also on December 4, 2012, the Company elected not to accept the extension of the generation concessions that expired in the years 2013 to 2017, namely Três Marias, Salto Grande, Itutinga, Volta Grande, Camargos, Peti, Piau, Gafanhoto, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Dona Rita, Sumidouro, Poquim and Anil. In relation to the power plants which had their first extension of the related concessions after the issuance of PM 579, namely Jaguara, São Simão and Miranda, the Company believes that Generation Concession Contract 007/1997 enabled the Company to extend these concessions for a further 20 years, until 2033, 2035 and 2036, respectively, without restrictions.

Based on this understanding Cemig GT applied for a writ of mandamus against an act of the Mining and Energy Minister with the objective of ensuring its right to extend the concession of the Jaguara hydroelectric plant, pursuant to the terms of Clause 4 of Concession Contract 007/1997. The Company was granted an interim injunction on September 3, 2013, which is still in effect, to continue commercial operation of the Jaguara plant until a judgment was issued by the courts on the writ of mandamus. Judgment was issued on this action, denying Cemig GT s writ of mandamus application. Before the result of that judgment was published, Cemig GT petitioned to the Federal Supreme Court (*Supremo Tribunal Federal*, or STF) seeking provisional remedy and asking for an interim injunction permitting it to continue operating and managing the plant. The interim injunction was granted on December 21, 2015, but the STF has not issued a final rulling on the provisional remedy yet.

In addition to the litigation relating to the Jaguara plant, Cemig GT has also applied for a writ of mandamus with respect to the São Simão plant against an act of the Mining and Energy Minister, in order to ensure its right to extend the concession of this plant.

The interim injunction originally obtained by the Company on December 19, 2014, to remain in control of commercial operation of the São Simão plant until the judgment on the writ of mandamus, was reviewed, and overturned, by the Reporting Judge on June 30, 2015. While this proceeding is ongoing, Cemig GT is still in control of the plant, and since September 2015 the power generated by the São Simão plant has been allocated to the Regulated Market and has been paid for under the quota regime, whereby Cemig GT is entitled to receive an amount equal to the costs of operating and maintaining the plant and it subject to adjustments related to the performance of the generation of electricity, instead of being able to sell the energy in the Free Market. On September 23, 2016 Cemig GT appealed the reversal of the interim injunction to the Superior Court (*Superior Tribunal de Justiça*, or STJ), but there has been no judgement on the appeal yet, nor on the merits of the writ of mandamus.

Table of Contents

For other hydroelectric plants, the concessions of which would expire for the second time by the year 2017, which include Três Marias, Salto Grande, Itutinga, Camargos, Piau, Gafanhoto, Peti, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Dona Rita and Volta Grande,the company elected, in December 2012, not to accept the extension of their contracts under the terms of PM 579, and to continue to operate these facilities commercially until the termination of their respective concessions. As a result, with respect to the foregoing plants, with the exception of the Volta Grande plant, termination of the applicable concession occurred in July 2015.

During 2013 and 2014 Brazil experienced hydroelecrical shortages. A new regulatory framework was established by Provisional Measure 688/2015 (PM 688), which became Law No. 13,203/2015. Among other matters, PM 688 and Law No. 13,203/2015 significantly altered Law No. 12,783/2013. Following publication of the tender documents for Generation Auction 12/2015 on October 7, 2015, which included the new regulatory provisions for renewal of concessions of existing plants stipulated by Law No. 13,203/2015, Cemig s Board of Directors authorized our participation in Generation Auction 12/2015, and Cemig GT was successful at this auction, held at the BM&F Bovespa on November 25, 2015. Cemig won concessions for Lot D which comprises the concessions for 18 hydroelectric plants: Três Marias, Salto Grande, Itutinga, Camargos, Cajuru, Gafanhoto, Martins, Marmelos, Joasal, Paciência, Piau, Coronel Domiciano, Tronqueiras, Peti, Dona Rita, Sinceridade, Neblina and Ervália. The total installed capacity of these plants is 699.5 MW, and their guaranteed basic offtake is 420.2 MW average.

These concession contracts have a period of 30 years beginning in January 2016 and expiring in January 2046 and, during the first half of 2016, were assigned by Cemig GT to 7 wholly-owned subsidiaries created for commercial operation of these concessions.

Distribution contracts: In relation to the extension of the distribution concession contracts, Cemig D, in accordance with Decree No. 7,805/2012 and Decree No. 8,461/2015, indicated acceptance of the extension of its concession contracts, and signed the Fifth Amendment to its Concession Contract in December 2015. This amendment guarantees extension of the foregoing concessions for a further 30 years from January 1, 2016 until January 2, 2046, but also requires the Company s compliance with more stringent rules regarding service quality and with respect to the Company s economic and financial sustainability, that must be met during the full 30 years of the concession.

Such compliance will be annually assessed by ANEEL, and if there is non-compliance the concession holder may be obliged to arrange for capital contributions by its controlling stockholders. Non-compliance for two consecutive years, or for a total of five non-consecutive years, will result in legal termination (*caducidade*) of the concession.

Raw materials

Fluvial water is the main raw material used by Cemig for hydroelectric generation of electricity. As of December 31, 2015, 79 of the group s 108 plants use this source and provide 96% of our generation.

The cost of the water may be considered as nil, since water is a natural resource that comes from rivers and rain.

In a smaller proportion, the company also produces energy from wind (also with a nil cost) and in thermoelectric plants, burning fuel oil (the cost varies with the price of oil on the international market).

Environmental Matters

Overview

Our generation, transmission and distribution of electricity and our distribution of natural gas are subject to federal and state legislation relating to preservation of the environment. The Brazilian Constitution gives the federal government, states and municipalities powers to enact laws designed to protect the environment and issue enabling regulations under these laws. While the federal government has the power to promulgate general environmental regulations, state governments have the power to enact specific and even more stringent environmental regulation and municipalities also have the power to enact laws in their local interest. A violator of Law No. 9,605/1998 the Law on Environmental Crime (*Lei de Crimes Ambientais*) may be subject to administrative and criminal sanctions, and will have an obligation to repair and/or provide compensation for environmental damages, Federal Decree No. 6,514/2008 specifies the penalties applicable to each type of environmental infraction, setting fines that vary between a minimum of R$50.00 and a maximum of R$50 million, as well as suspension of activities. Criminal sanctions applicable to legal entities may include fines and restriction of rights, whereas, for individuals, they may include imprisonment, which can be imposed against executive officers and employees of companies that commit environmental crimes.

Table of Contents

We believe that we are in compliance with the relevant laws and regulations in all material aspects.

In accordance with our environmental policy, we have established various programs to prevent and minimize damage, aiming to limit our risks related to environmental issues.

Management of vegetation in the electricity system

The Environmental Management unit of Cemig Distribution, among other activities, develops methods and procedures for dealing with urban trees in relation to distribution networks. Vegetation management is necessary due to the obligation to ensure the operational security of the system, and from the high number of interruptions in supply of electricity caused by trees. In 2015, trees were the cause of 39,328 electricity supply outages, in both urban and rural areas, and were the fifth largest cause of unscheduled outages in the Company s distribution system.

Investments have been directed towards technical improvements in tree pruning, so that the process can take place in such a way as to reduce risks to the employee, the system and the population. The interventions are carried out by directional pruning, a technique considered to be more appropriate for coexistence between large trees and electricity distribution networks.

Through working partnerships between its own staff and external agents, Cemig has been developing digital applications to improve management of the process of handling vegetation and to reduce supply outages in urban areas. Cemig also has an initiative to improve the handling of vegetation in power line pathways (its Integrated Vegetation Handling methodology) to reduce costs, improve the performance of the system and help improve environmental quality.

Environmental Licensing

The purpose of environmental licensing is to ensure the quality of life of the population and continuous monitoring of human activities that generate impacts on the environment.

Brazilian law requires that licenses be obtained for construction, installation, expansion and operation of any facility that utilizes environmental resources, causes environmental degradation, or pollutes or has the potential to cause environmental degradation or pollution or to harm archaeological heritage.

Failure to obtain and comply with an environmental license to construct, implement, operate, expand or enlarge an enterprise that causes significant environmental impact, such as the energy plants operated and in implementation by Cemig, is subject to administrative sanctions, such as the suspension of activities and the payment of a fine, varying according to the competent authority, as well as the before mentioned criminal sanctions, which include the payment of a fine, imprisonment for individuals and restriction of rights for legal entities.

The State of Minas Gerais Environmental Policy Council (*Conselho de Política Ambiental*) (Copam) Regulatory Ordinances No. 17, of December 17, 1996, and 23, of October 21, 1997, provide that operation licenses shall be renewed from time to time.

The validity of the operational environmental licenses is controlled by a specific system and is verified annually.

Corrective Environmental Operation Licensing

Resolution No, 1, of January 23, 1986, issued by the National Environmental Council (*Conselho Nacional do Meio Ambiente*, or Conama), requires that environmental impact assessment studies be undertaken, and a corresponding environmental impact assessment report to be prepared, for all major electricity generation facilities built in Brazil after February 17, 1986. Facilities built prior to that year do not require these studies, but must obtain corrective environmental operation licenses, which can be acquired by filing a form containing specific information regarding the facility in question. Obtaining the corrective licenses for the projects which began operations before February 1986, under Resolution No. 6, of September 16, 1987, requires the presentation to the competent environmental body of an environmental report containing the characteristics of the project, the environmental impacts of the construction and operation, and also the mitigating and compensatory measures adopted or that are in the process of being adopted by the organization carrying out the project.

Table of Contents

Federal Law No. 9,605, of February 12, 1998, stipulates penalties for facilities that operate without environmental licenses. In 1998, the federal government issued Provisional Measure 1,710 (currently Provisional Measure 2,163-41/2001), which allows project operators to enter into agreements with the relevant environmental regulators in order to comply with Federal Law No. 9,605/98. Accordingly, we have been negotiating with the Brazilian Environmental and Renewable Natural Resources Institute (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*, or Ibama) and the Regional Environmental Management Units (*Suprams*) of the State of Minas Gerais to obtain the corrective environmental operation licensing for all our plants and transmission lines that began operating prior to February 1986. We have agreed with the *Supram* to bring our generation facilities located in Minas Gerais into compliance on a gradual basis. We do not currently anticipate any costs and commitments in connection with any recommendations that may be made by Ibama and by the *Suprams*.

For those facilities of Cemig Generation and Transmission that started operations before the Brazilian environmental legislation was enacted, although we have not yet obtained corrective licensing, we have prepared the required environmental assessments, filed applications before the appropriate environmental bodies, and submitted them for analysis.

At present there are 22 separate proceedings which have been formalized for obtaining Corrective Operational Licenses. Of these, 21 are with the *Supram* and 1 is with Ibama, All the related studies have been prepared and presented to the relevant regulatory bodies. With the enactment of the new Minas Gerais State Forest Law, consideration of the Corrective Operational Licenses that are under consideration by the *Suprams* will be resumed with a request for preparation of an Environmental Plan for Conservation and Use of the Surroundings of an Artificial Lake (*Plano Ambiental de Conservação e Uso do Entorno do Reservatório Artificial*, or Pacuera) for each reservoir. The *Pacueras* are being prepared, for subsequent formal submission. There are also a total of 10 proceedings to obtain renewal of Operational Licenses that have been formalized with various *Supram*. No demand of this type has been formalized with Ibama.

In 2015, 33 licenses and authorizations for regularization of projects of Cemig Distribution (Cemig D) were obtained, as follows: 07 Environmental Authorizations for Functioning (*Autorizações Ambientais de Funcionamento*, or AAFs); 14 Certificates Not Subject to Licensing (*Certidões Não Passiveis de Licenciamento*); 12 Authorizing Documents for Environmental Interventions (*Documentos Autorizativos para Intervenção Ambiental*, or DAIAs), of which 02 were related to the support parties accessing power facilities. All the above projects have been regularized in the *Suprams* spread out over the state of Minas Gerais.

With respect to the Corrective Operating Licenses (*Licenças de Operações Corretivas*, or LOCs) Cemig Distribution (Cemig D) has reached agreement with *Suprams* for regularization of the transmission lines which had been built before Normative Resolution 74/2004 was enacted, dividing its projects into seven regional grids: North South, Mantiqueira, East, Triângulo, West and Center. Cemig currently has five such licenses of which two are at the renewal phase: those in connection with the Triângulo Regional Grid. (application submitted on January 16, 2015) and the West Network (application submitted on August 12, 2015). A further two applications for regularization have been submitted, for the Center and East Networks, and are currently awaiting a decision with respect thereto.

Distribution of natural gas by Gasmig through pipelines throughout Minas Gerais is also subject to environmental control. All licenses for the regular operation of Gasmig s activities have been obtained.

Environmental licenses and authorizations issued by relevant state and federal bodies usually impose conditions relating to environmental impact inherent to our activities, which can be complied with over the period of validity of the applicable license. Cemig is taking appropriate steps for full compliance, and to provide proof of compliance to the relevant environmental authorities, in each case, to avoid any subsequent administrative or criminal penalties, such

as fines, suspension of activities or revocation of licenses. One highlight in this process has been the signature of a Cooperation Working Agreement between Cemig Distribuição S.A, and the Municipality of Jequitinhonha in the State of Minas Gerais, for compliance with the environmental conditions imposed for the facilities built in the region, which has been awarded the Cultivating Good Water (Cultivando Água Boa) Program by the Government of Minas Gerais.

Table of Contents

We note, finally, that distribution of natural gas by Gasmig, through the gas pipelines in Minas Gerais, is also subject to environmental control, and all licenses necessary for regular operation of its activities have been obtained.

Environmental Legal Reserves

Under Article No. 12 of Federal Law No. 2,651, of May 25, 2013 (the new Brazilian Forest Code), a Legal Reserve (the term in Brazilian legislation is *Reserva Legal*) is an area located inside a rural property or holding that is necessary for the sustainable use of natural resources, conservation or rehabilitation of ecological processes, conservation of biodiversity or for shelter or protection of native fauna and flora. As a general rule, all owners of rural properties have to preserve an area as a Legal Reserve. However, Article 12, §7 of the new Brazilian Forest Code establishes that a Legal Reserve will not be required for areas acquired or expropriated by the holder of a concession, permission or authorization to exploit hydroelectric power potential, in which projects for electric power generation, or electricity substations or transmission or distribution lines are operating.

In Minas Gerais, State Law 20,922, enacted on October 17, 2013, made provisions in the Forest Policy and the Biodiversity Protection Policy in the state, adapting the environmental legislation to the provisions of the Forest Code. This had the effect of revoking the requirement for a Legal Reserve in the case of hydroelectric generation projects, enabling the processes of the Corrective Environmental Licensing that had been held up in the previous year for this reason to be resumed. In the federal sphere, Ibama s technical licensing team, in the corrective licensing of Cemig s plants, expressed an opinion, in correspondence sent to the Company on July 29, 2008, stating that in Cemig s case there was no need for the constitution of Legal Reserves.

The approval of the new Forestry Law and the exclusion of the hydropower projects from the need to register a Legal Reserve settled this issue allowing for the continuation of the process of the environmental licensing of the company, with the acquisition of the pending Operation Licenses and the maintenance of its legal compliance.

Permanent preservation areas

As set forth by the Federal Law No. 12,651, of May 25, 2012, among others cases, there are permanent preservation areas around artificial reservoirs. In order to enable the protection of those preservation areas, preparation of an Environmental Plan for Conservation and Use of the Surroundings of an Artificial Lake (*Plano Ambiental de Conservação e Uso do Entorno de Reservatórios Artificiais*, or Pacuera) is required in order to regulate conservation, restoration, usage and occupation of areas around artificial reservoirs. With the new Forest Policy Law of Minas Gerais State, it was decided that preparation and approval of the *Pacuera* is a condition of the grant of Operational Licenses. Hence this requirement is now incorporated into the proceedings for obtaining Corrective Licenses and renewal of Operational Licenses.

Compensation Measures

According to Federal Law No. 9,985, of July 18, 2000, and to Decree No. 4,340, of September 22, 2002, companies whose activities result in major environmental impacts are required to invest in protected areas in order to mitigate those impacts. The competent environmental body stipulates the environmental compensation for each company depending on the specific degree of pollution or damage to the environment.

Federal Decree No. 6,848/2009, of May 14, 2009, and Minas Gerais State Decree No. 45,175 of September 17, 2009 regulate the methodology for deciding the compensation measures. Up to 0.5% of the total amount invested in the implementation of a project that causes significant environmental impact must be applied in compensation measures.

State Decree No. 45,175/2009 was amended by Decree No. 45,629/2011, which established the reference value of projects that cause significant environmental impact, as follows:

I For projects executed before the publication of Federal Law No. 9,985 of 2000, the net book value will be used, excluding revaluations or, in its absence, the value of the investment presented by the representative of the project; and

II Compensation for environmental projects executed after the publication of Federal Law No. 9,985 of 2000 will use the reference established in Item IV of Article 1 of Decree No. 45,175 of 2009, calculated at the time of execution of the project, and updated based on an inflation-linked adjustment index.

Table of Contents

Due to the impact of the 2013 Electricity Concessions Law (Law Nº 12,783, of January 11, 2013) on the business of Cemig GT, the Company filed a consultation with the Minas Gerais State Forests Institute (*Instituto Estadual de Florestas*, or *IEF*), to be informed about the environmental compensation payable in relation to the Transmission System. The IEF passed the inquiry on to the Federal General Attorneys Office (*Advocacia Geral da União*, or *AGU*). At the time of writing Cemig GT has not received a reply to this consultation.

In addition to the environmental compensation referred to above, forest compensations for cleaning of electricity tower paths and accesses in which vegetation has been suppressed are included as routine.

Other requirements can be applied based on the impacts arising from implementation of projects, such as structuring and operation of programs to monitor fauna and flora of regions surrounding facilities of the electricity system, environmental education programs, and programs for recovery of degraded areas (*Programas de Recuperação de Áreas Degradadas*, or *PRADs*).

Fish Management The Peixe Vivo *Program*

Construction of hydroelectric plants can create a risk for fish that inhabit rivers, due to various changes in the aquatic environment caused by the use of dams. One of our environmental area s principal activities is to ensure that environmental accidents involving the native fish population do not take place at our hydroelectric power plants. Further, to mitigate the impacts caused by the operation of our plants, Cemig has developed a methodology for evaluating the risk of fish mortality at the plants. We also carry out research projects in partnership with universities and research centers to develop scientific knowledge to serve as a basis for more effective fish population conservation programs to be implemented by the Company.

In spite of these efforts, an incident occurred in 2007, at the *Três Marias* Hydroelectric Power Plant, resulting in the death of approximately 17 tons of fish, as estimated by the Environmental Police (8.2 tons, by our estimate). The volume of dead fish was not measured. As a result of the event, the Minas Gerais State Forests Institute imposed two fines, totaling approximately R$5.5 million, and on April 8, 2010 Cemig and the Public Attorneys Office of Minas Gerais State signed a Conduct Adjustment Commitment (*Termo de Ajuste de Conduta*, or TAC), for R$6.8 million in compensatory measures to be used for environmental improvements in the area affected by the Três Marias power plant, in Três Marias, Minas Gerais. Both these financial commitments have now been settled, and the environmental improvements in the affected area, such as automation of the fish protection grids, are being implemented.

In this context, in June 2007 we created the *Peixe Vivo* (*Fish Alive*) Program as a result of members of senior management believing that it was necessary to take more effective measures to preserve fish populations of the rivers where the company has operations. The Program s main activities are summed up in its mission, which is: To minimize the impact on fish species, seeking handling solutions and technologies that will integrate electricity generation by Cemig with conservation of native fish species, promoting involvement of the community . Since its creation, the program has been operating on two fronts one seeking preservation of fish populations in the state of Minas Gerais, and the other focusing on forming protection strategies to avoid and prevent fish deaths at Cemig s hydroelectric plants. The adoption of scientific criteria for decision-making, establishment of partnerships with other institutions and modification of practices adopted as a result of the information generated, are the principles that guide the work of the *Peixe Vivo* team. Also, publication of the resulting information to society is important ensuring transparency of the program, and creating opportunities for the community to express its concerns and suggestions.

On average, over the period 2007 to 2015 Cemig spent R$6.8 million per year in activities and research projects in relation to the *Peixe Vivo* program. It invested a further R$6 million in physical barriers to prevent fish from entering the draft tube, and modernization of the main hatchery station at the *Volta Grande* Environmental Station.

In spite of all the advances in fish management achieved by the *Peixe Vivo* Program, there are still major challenges to be studied and understood. In 2012, an estimated 1.8 tons of fish died in an occurrence at the Três Marias hydroelectric plant. The cause of death is still unknown, and the event was not expected there was no precedent for the particular circumstances of this accident. However, with the adoption of measures to control this environmental incident, and as a result of our prompt reporting to the environmental authorities, the fine that we were charged for the accident, a total of R$50,000, was reduced by 45%, as provided by law due to immediate communication of the damage or danger to the environmental authority, and collaboration with the environmental bodies in solving the problems arising from our conduct. The fine imposed in 2012 (per kilogram of fish killed) was one-fortieth of the fine applied by the Minas Gerais State Forests Institute (*Instituto Estadual de Florestas*, or *IEF*) in the 2007 accident. The *Peixe Vivo* Program studied the circumstances of the accident to decide optimum forms of control to avoid similar occurrences.

Table of Contents

In 2015, there were several fish deaths near the Nova Ponte Hydroelectric Plant, which generated complaints by local citizens. Cemig s Peixe Vivo program was utilized to investigate the cause of the deaths. A total biomass of approximately 650kg was affected. The Peixe Vivo program proposed a generation test to find the cause of the incidents and propose action to avoid recurrence. The cause identified was a decision to run at a low level of generation due to low flow in the basin of the Araguari River at the time. After completion of the tests, safe bands for operation were specified, and a bar placed on certain operational maneuvers (such as reversal of the synchronous generator) at the plant during this period of low flow. There were no further environmental episodes after the recommendations were implemented. The event gave rise to a fine totaling R$7,512.69, which qualified for a discount of 50% for recognition of the attenuating action taken by Cemig, in accordance with Article 68, sub-item I, subclauses A and E of Decree No. 44,844/08. This reduced the final amount of the fine to R$3,756.35.

In 2015, the Peixe Vivo program presented its research at a number of important meetings, including the 21st Brazilian Ichthyology Conference, and the 23rd National Electricity Production and Transmission Seminar (SNPTEE), and also to the Ferreira Gomes Consortium and Aliança Energia. It also held the course Topics in Management and Conservation of Ichthyofauna for the Electricity Sector, with participation by professionals from Cemig, the IEF, the Minas Gerais State Environment and Sustainable Development Departments (DEAMB and SEMAD), the Fish Inspection Directorate, LightGer, Retiro Baixo Energética S.A., the Cemig CEB Consortium and Minas Gerais Federal University (UFMG). Participants were able to learn about the work of the Peixe Vivo program at Cemig s hydroelectric plants, and about fish and their interaction with hydroelectric plants, as well as being given a guided tour of the Três Marias Hydroelectric Plant. Practical and theoretical teaching sessions dealt with subjects such as fish anatomy, physiology, systematics and genetics; limnology; legislation; operational procedures of Cemig plants, and environmental events. The lectures given also showed the importance of conservation of native fish species, and what we can do to minimize environmental impact on the bodies of water. The course also led to closer relationships with the environmental analysts of the State of Minas Gerais environmental oversight body (Sisema), facilitating dialogue regarding Cemig s actions to deal with environmental risks.

The *Peixe Vivo* program runs 10 scientific projects in partnership with research institutions, involving more than 229 students and researchers.

These partnerships have resulted in more than 364 technical publications up to today s date, and have also been referenced nationally and internationally for the practices of fish conservation and dialog with the community, presenting Cemig s work in several countries, and various states of Brazil. These academic results, jointly with the involvement of the community, have been used to create more efficient and practical conservation programs that make it possible for fish to coexist with generation plants in Brazilian rivers.

Since it was created the *Peixe Vivo* Program has also received external recognition in awards. In 2009/2010, it was awarded the Brazil Environment Prize (*Prêmio Brasil de Meio Ambiente*) in the category *Best fauna and flora preservation work*. In 2010, it was placed first in the Aberje Award in the category *Communication about programs centered on corporate sustainability*, a first for Cemig. In 2011 a work presented by the *Peixe Vivo* Program, entitled *Development of a methodology for evaluating risks of fish mortalities in Cemig s plants,* presented at the 21st Brazilian National Seminar on Production and Transmission of Electricity (*Seminário Nacional de Produção e Transmissão de Energia Elétrica*, or SNPTEE), was selected as the best work presented in the *Environmental Impact* group. In 2013 it was the finalist in the *Brasil 2013 Green Project Awards*, in the category *Products or Services*. In 2014, it was among the ten first-placed competitors for the 12th Brazil Benchmarking Award and, in recognition of having developed best practices for fish protection, was the winner in the *Best, Fauna* category of the fifth annual award of the Hugo Werneck Prize. In 2015 the Peixe Vivo program won two awards in presentations of technical papers during the 23rd SNPTEE, in the Environmental Impacts Group: (i) the paper Fish behavior downstream from a hydroelectric plant: mitigating impacts of generation, presented by Raquel Loures (GIA2), won first place as the best

paper presented; and (ii) Use of a Quantitative Tool for environmental management of river basins: applicability of the technique to the Brazilian electricity sector, presented by João Lopes (GIA4), won third place in the same group.

Urban Occupation of Rights of Way and Reservoir Banks

Gas Pipelines Our piped natural gas distribution networks are underground, crossing through inhabited areas and using public rights of way in common with underground piping utilities operated by other public concession holders and public agencies. This increases the risk of unauthorized work without prior communication and consultation of our natural gas distribution network registers, and there is a possibility that accidents may occur, causing significant personal, property and environmental damage in case of ignition or a leak. However, all our gas networks are explicitly, and intensively, marked and signaled. Gasmig has several inspectors monitoring its network daily, to prevent illegal or excavations in urban roads, invasions or constructions erosions, as applicable, or any other problem that might cause risk to the pipeline. Gasmig, through its Dig Safely (*Escave com Segurança*) program, has been building partnerships with the community, mainly with public authorities and holders of concessions, to disclose their registrations to companies that perform excavation on urban roads, to ensure that before digging close to the natural gas network, they call Gasmig s 24-hour helpline, and request guidance and support for safe execution of their work.

Table of Contents

In 2015 Gasmig had accidental emissions of a low volume of natural gas caused by unauthorized excavations by outside parties who had not previously examined our gas network maps. There was also an event in which a truck collided with measurement equipment on a customer s property.

Transmission Lines We have easements for our transmission and subtransmission networks over land with approximately 16,756 miles in length. A significant portion of such land is occupied by unauthorized construction, including residential constructions. This type of activity causes risks of electric shock and accidents involving local residents, and constitutes an obstacle to the maintenance and operation of our electricity system. We are currently seeking solutions for this problem, which will involve either removal of these occupants or improvements that would make it possible to maintain our electricity system safely and efficiently. The Security Monitoring Committee on Invasion Risk in the Transmission and Subtransmission Lines was created to mitigate these risks by monitoring and recording invasions and by taking action to prevent invasions on the paths of the transmission and subtransmission lines. A number of measures have been adopted to preserve the security of these lines, including: contracting of a company for systematic inspection, and implementation of security measures and works to minimize the risks of accidents; education of communities about the risks of accidents involving electric shocks arising from the invasion of sites and the building of homes; creation of community vegetable gardens; and removal of occupation of the transmission line pathways through agreements with local residents and other authorities, and/or through court actions.

Reservoir Areas We have implemented safety measures to protect our electricity generation facilities against invasions, using observation posts and mobile patrols to control the banks of reservoirs. Electronic security systems to monitor the generation power plant installations are also planned. Any invaders found inside the facilities are detained and taken to police stations, where police complaints are filed. There are signs on the banks of the reservoirs of our hydroelectric generation facilities, indicating ownership. Periodic inspections by the mobile patrol units operating on the reservoir areas report any invaders of reservoir banks. We frequently have to take legal action to recover possession of invaded areas. Due to the vast area and number of reservoirs, we are continually subjected to new trespasses and occupation of the banks of the reservoirs by unauthorized construction. However, we are making our best efforts to prevent these invasions, and prevent any environmental damage to the Permanent Preservation Areas (*Áreas de Preservação Permanente*, or *APPs*), around the reservoirs. To patrol the reservoir areas, we have driven approximately 185,131 km in vehicles, spent 1,064 hours navigating on reservoirs and waterways and made over 13,507 surveys. We have recently added one more inspection post for monitoring reservoir banks.

The Carbon Market

We believe Brazil has significant potential to generate carbon credits arising from clean energy projects that comply with the Clean Development Mechanism (CDM), or the Voluntary Markets. Every year we collect data to quantify our emissions, and publish our main initiatives on reduction of greenhouse gas emissions, by means, for example, of the Carbon Disclosure Project.

The Cemig group takes part in CDM projects at various stages of development, including seven Small Hydroelectric Plants with aggregate capacity of 116 MW, two hydroelectric plants with aggregate generation capacity of 3,708 MW, several wind plants with capacity totaling 375 MW, and a solar plant with a capacity of 3 MW.

Cemig began the process of measurement and sale of the carbon credits of the Cachoeirão Hydroelectric Plant, estimated at 181,000 ton CO2 eq avoided, over the period of 2012 through 2015.

Management of equipment and wastes contaminated with PCBs (Polychlorinated Biphenyls)

At Cemig, the large-scale equipment that contained PCBs and was manufactured before 1981 was withdrawn from the electricity system and sent for incineration in 2001.

Brazilian law has prohibited sale of PCBs since 1981, but allows its use in equipment that is still in operation. The Stockholm Convention, of which Brazil is a signatory and which was ratified by Decree No. 5,472/2005, requires operation of equipment contaminated with PCB to be removed by 2025, and finally disposed of by 2028.

A Normative Resolution is being prepared, under the aegis of the National Environment Council (*Conselho Nacional de Meio Ambiente*, or *Conama*), which will govern appropriate and controlled environmental management of Polychlorinated Biphenyls (PCBs) and their related wastes.

Table of Contents

All holders of contaminated equipment and materials will have staggered periods, up to a final deadline of 2025, to withdraw them from operation/use, and must finally dispose of them by 2028.

The draft of the Normative Resolution is being considered by the Legal Subjects Technical Board (CTAJ) of Conama, having been discussed in the Conama workgroup and by the Environmental Quality and Waste Management Technical Board (CTQAGR). There have been six meetings of the Conama workgroup, with no final consensus between members on a number of points. The CTQAGR has met eight times, and the text was considered to be approved in September 2014, in spite of several points that had extreme impact on the electricity sector. There were two meetings of the CTAJ, in September 2014 and March 2015, with further progress stayed on the matter until publication of procedural guides and manuals, which were published in June 2015. If there is approval at the next meeting the matter will go to the plenary meeting of Conama for voting.

There is a draft law on the same subject currently before Congress: No. 1,075/2011, put forward by Congressmen Penna and Sarney Filho. It has been reviewed by the Trade, Industry and Economic Development Committee (in 2011), and the Mining and Energy Committee (in 2014), and is under review by the Environment and Sustainable Development Committee (as of 2015), awaiting Opinion by the Rapporteur, Congressman Daniel Coelho (PSDB party). It still requires to be reviewed by the Constitution, Justice and Citizenship Committee, after which it would go onto the full lower house of Congress.

Cemig considers this information to be important. The control flow diagram currently followed in the Company may undergo some complementary adjustments necessary for full compliance with the requirements of the Resolution. This may result in high operational costs.

Cemig has participated in the discussions through the Brazilian Electricity Distributors Association (*Associação Brasileira de Distribuidores de Energia*, or *Abradee*) and the Electricity Industry Environment Forum (*Fórum de Meio Ambiente do Setor Elétrico*, or *FMASE*),through ABRADEE and FMASE.

Operational technologies

We continue to invest in automated monitoring and control equipment in connection with our strategy of increasing efficiency and further modernizing and automating our generation, distribution and transmission grids.

Load Dispatch Center

CEMIG s System Operation Center (*Centro de Operação do Sistema*, or *COS*), located at our head office in Belo Horizonte, is the nerve center of our operations. It coordinates the operations of our entire electricity and energy system, in real time, providing operational integration of the generation and transmission of energy. It also operates the interconnection with other generation, transmission and distribution companies. The supervision and control executed by the COS now extends to more than 50 high and extra high voltage substations, approximately 24 major generating power plants and 9 Small Hydroelectric Plants.

Through its activities, the COS permanently guarantees the security, continuity and quality of our supply of energy. The activities of the COS are supported by up-to-date telecommunications, automation and information technology resources, and executed by highly qualified personnel. The COS has a Quality Management System, with ISO 9001:2008 certification.

Distribution Operation Center

Our distribution network is managed by a Distribution Operation Center (*Centro de Operações de Distribuição*, or *COD*), located in Belo Horizonte. The COD monitors and coordinates our distribution network operations in real time. The COD is responsible for the supervision and control of 388 distribution substations, 306,159 miles of medium voltage distribution lines, and 10,766 miles of sub-transmission lines and 8,07 million customers and operates in 774 municipalities of Minas Gerais.

We provided an average of 10,923 operating services in the field a day in 2015. The COD is certified according to ISO Quality Standard 9001: 2000. There are various systems in use to automate and support the COD s processes including: trouble call, field crew management, distribution substation supervision and control, restoration of power, emergency switching, network disconnection, and inspection. Technologies including a geographic information system and satellite data communication helpline to reduce customer service restoration time and provide better customer service. These are devices, installed along our distribution network, that sense and interrupt fault currents, and automatically restore service after momentary outages, improving operational performance and reducing restoration time and costs.

Table of Contents

Geospatial Information & Technology

The operational and engineering processes of our business are strongly supported by geo-referenced information management technologies, making the planning, construction, operation and maintenance of the generation, transmission and distribution network more efficient. Additionally, the use of mobile technologies reduces costs and allows us to provide more efficient services to our customers.

Internal Telecommunications Network

We believe we have one of the largest telecommunication networks of all the Brazilian energy utility companies. Made up of high performance microwave links provided by more than 344 communication stations, and an optical system of approximately 1,747 miles of optical fiber, it provides for a mix of telecom solutions from telephonic to corporate networks and also monitoring, protection and control of substations, generation plants, transmission and distribution lines, dispatching of field teams to carry out mission-critical technical services and commercial contacts, lightning and storm prediction and hydro meteorological system to operate reservoirs.

Our robust data network also contains the communications facilities that share the site with more than 300 substations, 39 generation plants and 172 transmission and distribution lines. For support for supervision and control of the medium-voltage distribution system, a radio communication system is in place, installed in approximately 300 key terminals and more than 1,610 vehicle mobile terminals connected by satellite and Cellular Solution. The corporate data network serves more than 240 offices and units within the State of Minas Gerais.

The Telecoms Network Management Center (Centro de Gerência de Rede de Telecomunicações, or CGR), in Belo Horizonte, monitors and operates the telecoms infrastructure of Cemig Generation and Transmission and Cemig Distribution, operating 24 x 7 x 365 to guarantee continuity for perfect functioning of the telecoms services, aiming to meet the requirements for operational performance and service quality specified in operational agreements and concession contracts, regulations of ANEEL (the Brazilian electricity regulator), Anatel (the Brazilian telecom regulator), ANA (the Brazilian National Water Agency) as well as the procedures of the ONS (the National System Operator).

Corporate Data Network

Our corporate data network has 295 sites in 145 towns in Minas Gerais. The physical and logical architecture of the network employs security resources such as firewalls, Intrusion Prevention Systems (IPSs), Data Loss Prevention Systems (DLP) and anti-virus and anti-spam systems, which are continually updated to protect information against unauthorized access, in compliance with ISO 27002. A system of event logs makes it possible to investigate occurrences and also guarantee a historical record base to meet legal requirements.

IT Governance Program

Our Information Technology Governance Program aims to continually align IT with our business, adding value by applying information technology, appropriate resource management, risk management and compliance with legal, regulatory and Sarbanes-Oxley requirements.

Our information technology Project Management Office (or PMO) has been responsible since 2008 for ensuring that management of information technology projects is systematic, using dedicated software methodology, processes and tools.

Considering the central role of Information Technology Governance in our business, a dedicated management unit was created in 2009 to concentrate, plan and implement all the actions that are specific to information technology governance, including results arising from corporate strategy, strategic IT planning, legal and regulatory compliance, quality management, budget and financial management, services management and project management.

Table of Contents

Customer Relationship Channels

We have five major channels of service to our Minas Gerais customers. Customer service contact, whether of an emergency nature or to deal with normal service requests, can be made via: (i) our call center, which can handle up to 250,000 calls in an atypical day, and also operates with an efficient electronic service through Interactive Voice Response (IVR, or *Unidade de Resposta Audível* URA); (ii) in person at branches in the 774 municipalities of our concession; (iii) through our Virtual Branch, on the site www.cemig.com.br, which offers all of our 20 types of service; (iv) via SMS; (v) via the social networks Facebook (CEMIG. ATENDE) and Twitter (@ CEMIG_ATENDE; (vi) smartphone application Cemig Atende which offers 16 types of service and more recently Telegram application which offers 6 types of services.

Commercial Management System

We have established and consolidated an efficient customer care system, based on our SAP CCS/CRM platform which is totally integrated into our ERP and BI that support our decision-making processes. The CCS serves approximately 8 million customers who receive supply at high, medium and low voltage. It is a competitive tool, adding safety, quality and productivity to Cemig s business processes, and adapts itself with great efficiency and speed to legal, regulatory and market changes and requirements.

Maintenance and Repair Systems

The 10,766 miles of high voltage distribution lines in Cemig Distribution s network, operating at from 34.5kV to 161kV, are supported by approximately 54,230 structures, mainly made of metal.

The network of Cemig Generation and Transmission has 3,051 miles of high voltage transmission lines, supported by approximately 11,507 structures.

The majority of the service interruptions to our distribution and transmission lines are the result of lightning, farmers surface fires, vandalism, wind, and corrosion.

The entire high voltage transmission line system of Cemig Distribution is inspected once a year by helicopter, using a Gimbal gyro-stabilized system with conventional and infra-red cameras, allowing for simultaneous visual and thermographic (infra-red) inspections. Land-based inspections are also made at intervals of between one and three years, depending on the characteristics of the line, such as time in operation, number of outages, type of structure, and the line s importance to the electricity system as a whole.

All the extra high voltage transmission lines of Cemig Generation and Transmission are inspected twice a year by helicopter. Land-based inspections are made every two years to inspect the supporting structures. Line pathways are inspected annually, aiming to keep the areas free of vegetation that could lead to surface fires.

We use modern modular aluminum structures to minimize the impact of emergencies involving fallen structures. Most of our maintenance work on transmission lines is done using live-wire methods. We have a well-trained staff and special vehicles and tools to support live- and dead-wire work. In 2015, Cemig GT acquired 37 extra structures to be used in case of emergency. Cemig has a well-trained and equipped team to provide support whenever necessary.

Our set of spare equipment (transformers, breakers, arresters, etc.) and mobile substations is of great importance in prompt reestablishment of power to our customers in the event of emergencies involving failed substations.

Information security management

Information security, a permanent concern of ours, is ensured by a management system based on the Brazilian Standard (ABNT) NBR ISO/IEC 27001:2013, which is aligned with best market practices. Our information security management system includes processes for policy, risk, communication, information classification and information security management and control. In addition, recurring actions for improvement in processes, communication, awareness and training strengthen the Company s information security practices.

Management tools

In 2015, improvements were made to the SAP integrated ERP management system, involving the processes of human resources, maintenance, logistics and projects, solely to comply with federal regulatory requirements. An opportunity databank was developed for allocation, promotion and development of employees, ensuring greater transparency for internal reallocations, and that better use would be made of the human resources available.

Table of Contents

Our IT is developing a solution to automate freight costs in the processes of internal logistics, to meet the needs of the electricity sector regulatory body (Aneel) and also increase transparency.

A solution was developed aiming to optimize costs and time in planning and programing of maintenance of the various associated resources. This was done using the standard Multi-Resource Scheduling (MRS) functionality of SAP.

Different software programs that deal with maintenance of the protection equipment of the electricity system were integrated, to increase standardization, automation and execution of maintenance. To improve and clarify the physical and financial control of projects of the generation and transmission companies, a solution to analyze economic value added (EVA) was developed in the project management module.

Property, plant, and equipment; intangible assets

Our principal assets are the power generation plants and transmission and distribution facilities described in this Item 4. Our net book value of total property, plant and equipment and intangible assets, including our investment in certain consortia that operate electricity generation projects, including projects under construction, was R$14,215 million on December 31, 2015.

Generation facilities represented 26% of this net book value, intangible assets represented 72%, of this net book value, (distribution facilities in intangible assets represented 82%, and other intangible, including our gas distribution system represented 18%) and other miscellaneous property and equipment, including transmission and telecommunication facilities, represented 2%.

The average annual depreciation rates applied to these facilities were: 2.76% for hydroelectric generation facilities, 6.15% for administration facilities, 7.65% for telecommunication facilities and 7.35% for thermoelectric facilities.

Apart from our distribution network, no single one of our assets produced more than 10% of our total revenues in 2015. Our facilities are in general adequate for our present needs and suitable for their intended purposes. We have rights of way for our distribution lines, which are our assets and do not revert to the landowner upon expiration of our concessions.

The Brazilian Power Industry

General

In the Brazilian electricity sector, generation, transmission and distribution activities were traditionally conducted by a small number of companies that had always been owned by either the federal government or the governments of individual states. Since the 1990s, several state-controlled companies were privatized, in an effort to increase efficiency and competition. The Fernando Henrique Cardoso administration (1995 2002) aimed to privatize the state-controlled part of the electricity sector, but the Luis Inácio Lula da Silva administration (2003 2010) ended this process and implemented a New Industry Model for the Brazilian electricity sector, expressed in Law No. 10,848, of March 15, 2004, referred to as the New Industry Model Law .

Subsequently, significant changes were implemented during Dilma Rousseff s administration (i.e., since 2011), by means of Provisional Measure 579/2012, which became Law No. 12,783/2013, establishing new rules for renewal of concessions, including rebidding for hydroelectric power generation concessions.

The New Industry Model

The primary objective of the New Industry Model was to guarantee security of supply and reasonableness of rates. With the objective of guaranteeing supply, the New Industry Model Law (a) requires distributors to contract their entire electricity production (loads), and to be responsible for making realistic projections of demand requirements; and (b) aims to arrange for the construction of new hydroelectric and thermal plants to be decided in ways that best balance security of supply and reasonableness of rates. To achieve reasonable rates, the New Industry Model Law requires (a) all purchases of electricity by distributors to be by auction, based on lowest price; (b) contracting to be through the Regulated Market (*Ambiente de Contratação Regulada*, or *ACR*), or the Pool system; and (c) contracting of load to be separated into two types of transactions, both always to be by auction: (i) contracts for supply from new plants to be built according to the contract (new source contracts) for the expansion of the system; and (ii) contracting of the power generated by existing plants (existing source contracts) aiming to meet existing demand.

Table of Contents

The New Industry Model created two environments for the purchase and sale of electricity: (i) the ACR, or the Pool, in which distribution companies purchase through public auctions all of the power they need to supply their customers; and (ii) the Free Market (*Ambiente de Contratação Livre*, or *ACL*), to include all purchases of electricity by non-regulated entities (such as Free Consumers and electricity traders). Distributors are allowed to operate only in the regulated environment, whereas generators may operate in both, maintaining their competitive characteristics.

Requirements for expansion of the sector are evaluated by the federal government through the Mining and Energy Ministry, or MME. Two entities were created to provide structure for the sector: (i) the Energy Research Company, or EPE (Empresa de Pesquisa Energética), a state-controlled company responsible for planning expansion of generation and transmission; and (ii) the Electricity Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or *CCEE*), a private company responsible for the accounting and settlement of short-term (spot) electricity sales. The CCEE is also responsible, through delegation by ANEEL, for organizing and conducting the Pool public power auctions, in which all distributors purchase energy.

The New Industry Model eliminated self-dealing, forcing distributors to purchase electricity at the lowest available price rather than from related parties. The New Industry Model exempted contracts executed prior to the enactment of the law, in order to provide regulatory stability to transactions carried out before it was enacted.

Several categories of power supply are not subject to the requirement for public auction via the Pool: (1) low capacity generation projects located near consumption points (such as certain co-generation plants and the Small Hydroelectric Power Plants); (2) plants qualified under the Proinfa (alternative generation sources) Program; (3) power from Itaipu, (4) purchase and sale agreements entered into before the New Industry Model Law; and (5) the concessions extended by Law No. 12,783, are not subject to the public auctions for the supply of electricity at the Pool, Power generated by Itaipu (on the border of Brazil with Paraguay), is traded by Eletrobrás. The rates at which the Itaipu generated electricity is traded are denominated in U.S. dollars and established by ANEEL pursuant to a treaty between Brazil and Paraguay, and there are also compulsory procurement volumes. As a consequence, the price of energy from Itaipu rises or falls in the U.S. Dollar/real exchange rate. Changes in the price of Itaipu-generated electricity are, however, neutralized by the federal government, which buys all the energy credits from Eletrobrás.

Challenges to the constitutionality of the New Industry Model Law

The New Industry Model Law is currently being challenged on constitutional grounds before the Brazilian Supreme Court. The Brazilian federal government moved to dismiss the actions, arguing that the constitutional challenges were moot because they related to a provisional measure that had already been converted into law. To date, the Brazilian Supreme Court has not reached a final decision upon the merits of this action and we do not know when such a decision may be reached. Thus, the New Industry Model Law is currently in force. Regardless of the Supreme Court s final decision, certain portions of the New Industry Model Law relating to restrictions on distributors performing activities unrelated to the distribution of electricity, including sales of energy by distributors to Free Consumers and the elimination of agreements between related parties, are expected to remain in full force and effect.

Coexistence of two Electricity Trading Environments

Under the New Industry Model Law, electricity purchase and sale transactions are carried out in two different market segments: (1) the regulated market, or the Pool, in which distribution companies buy all their power supply needs through public bids; and (2) the free market, for all purchases of electricity by non-regulated entities (such as Free Consumers, energy traders and energy importers).

The Regulated Market (the ACR or the Pool)

In the regulated market, distribution companies purchase electricity for their captive consumers through public auction regulated by ANEEL and conducted by the CCEE.

Energy purchases take place through two types of bilateral contract: (i) Energy Agreements (*Contrato de Quantidade de Energia*) and (ii) Capacity Agreements (*Contratos de Disponibilidade de Energia*). Under an Energy Agreement, a generator commits to supply a certain amount of electricity and assumes the risk that electricity supply could be adversely affected by hydrological conditions and low reservoir levels, among other conditions, that could interrupt the supply of electricity, in which case the generator will be required to purchase the electricity elsewhere to meet its supply commitments. Under a Capacity Agreement, a generator commits to make a certain amount of capacity available to the ACR. In this case, the revenue of the generator is guaranteed and the distributor must assume the hydrological risk. However if there are additional costs to the distributors, these are passed on to consumers. Together, these agreements comprise the energy purchase agreements in the ACR (*Contratos de Comercialização de Energia no Ambiente Regulado*, or CCEARs).

Table of Contents

The regulations under the New Industry Model Law stipulate that distribution companies that contract less than 100% of their total load consumption, accounted in the CCEE, will be subject to fines. There are mechanisms to reduce this possibility, such as participation in the MCSD mechanism, which allows for the managing of surpluses and deficits between distribution companies, or purchase of supply in auctions during the year. Any remaining shortfall from 100% of total load consumption can be purchased at the spot market price. If a company contracts more than 105% of its load consumption, it would be subject to price risk if it sells that supply in the spot market in the future. To reduce this price risk, a company may reduce its purchase contracts made at existing source auctions by up to 4% each year, and reduce those contracts due to loss of consumers that have opted to become Free Consumers (and are thus supplied by generators directly).

With the renewal of the hydroelectric power plant s concessions, the CCGF Contracts for the Physical Accounts Security were created. These contracts take into account 95% of the energy generated by the plants whose concessions were renewed in order to mitigate the hydrological risk. The execution of CCGF is mandatory and each distributor received an amount according to the assessment made by ANEEL.

The Free Market (the ACL)

In the Free Market, electricity is traded by power generators. The Free Market also includes certain grandfathered existing bilateral contracts between generators and distributors until the expiration of the current terms thereof. Upon expiration, such contracts would have to be renewed or executed under the New Industry Model Law.

Potentially Free Consumers are those whose energy demand exceeds 3 MW at a voltage equal to or higher than 69kV or at any voltage level if their supply began after July 1995. Also, consumers with contracted demand of 500kW or more may be serviced by suppliers other than their local distribution company if they move to supply from alternative energy sources, such as wind, biomass or Small Hydroelectric Plants.

Once a consumer has opted for the free market, it may only return to the regulated system after giving the distributor of its region five years notice. The distributor may reduce this term at its discretion. The aim of the extended notice period is to ensure that, if necessary, the distributor can purchase additional energy to supply the re-entry of Free Consumers into the Regulated Market. Also, distributors may also reduce the amount of energy purchased according to the volume of energy that they will no longer distribute to Free Consumers. State-owned generators may sell electricity to Free Consumers, but unlike private-sector generators, they are obliged to do so through an auction process.

Restricted Activities for distributors

Distributors in the Brazilian Grid (*Sistema Interligado Nacional*, or *SIN*) are not permitted to: (1) operate in the business of the generation or transmission of electricity; (2) sell electricity to Free Consumers, except for those in their concession area and under the same conditions and rates as captive consumers in the ACR; (3) directly or indirectly hold any interest in any other company, except entities incorporated for raising, investment and management of funds necessary for the distributor (or its parent company or related companies or partnerships); or (4) engage in activities that are unrelated to their respective concessions, except for those permitted by law or in the concession agreement.

Contracts executed prior to the New Industry Model Law

Under the New Industry Model Law, contracts executed by distribution companies and approved by ANEEL before the enactment of that law will not be amended to reflect any extension of their terms or change in prices or volumes of electricity already contracted.

Reduction of the Level of Contracted Electricity

Decree 5,163/2004, which regulates trading in electricity under the New Industry Model Law, allows distribution companies to reduce their CCEARs: (1) to compensate for the exit of Potentially Free Consumers from the regulated market, pursuant to a specific declaration delivered to the Mining and Energy Ministry, (2) by up to 4.0% per year of the initial contracted amount due to market deviations from their estimated market projections, at each distribution company s discretion, starting two years after the initial electricity demand was declared; and (3) in the event of increases in the amounts of electricity acquired under contracts entered into before March 17, 2004. This reduction can be made only with CCEARs of existing power plants.

The circumstances in which the level of contracted electricity may be reduced must be stated in CCEARs, and distribution companies may make such reductions at their own sole discretion, in compliance with the provisions described above, and ANEEL regulations.

Table of Contents

ANEEL regulations require any reduction of the level of contracted energy under the CCEARs of existing energy to be preceded by the Mechanism of Compensation of Surplus and Deficits, or MCSD, by means of which distribution companies that have contracted energy in excess of their demand may assign a portion of their CCEARs to distribution companies that have contracted less energy than needed to meet their consumers demand.

Limitations on pass-through

The New Industry Model also limits the pass-through of costs of electricity to final consumers. The Annual Reference Value corresponds to the weighted average of the electricity prices in A 5 and A 3 auctions, calculated for all distribution companies, and creates an incentive for distribution companies to contract for their expected electricity demands in the A 5 auctions, where prices are expected to be lower than in A 3 auctions. The Annual Reference Value is applied in the first three years of power purchase agreements from new power generation projects. After the fourth year, the electricity acquisition costs from these projects will be allowed to be passed through in full. The decree establishes the following limitations on the ability of distribution companies to pass through costs to consumers:

- No pass-through of costs for electricity purchases that exceed 105% of regulatory demand.
- Limited pass-through of costs for electricity purchases made in an A 3 auction, if the volume of the acquired electricity exceeds 2.0% of the demand found in A 5 auctions.
- Limited pass-through of electricity acquisition costs from new electricity generation projects if the volume re-contracted through CCEARs of existing generation facilities is below a Contracting Limit defined by Decree 5163.
- Electricity purchases from existing facilities in the A-1 auction are limited to 0.5% of distribution companies demand, frustrated purchases in previous A 1 auctions, involuntary exposure to captive consumer demand, plus the replacement , defined as the amount of energy needed to replace the power from power purchase contracts that expire in the current year (A 1), according to ANEEL Resolution 450/2011. If the acquired electricity in the A 1 auction exceeds the limit, the pass-through to final consumers of costs of the excess portion is limited to 70.0% of the average value of such acquisition costs of electricity generated by existing generation facilities. The Brazilian Mining and Energy Ministry will establish the maximum acquisition price for electricity generated by existing projects.
- Electricity purchases in market adjustment auctions are limited to 5.0% of a distribution concession holder s total demand (the previous limit, modified by Decree 8,379/2014, was 1.0%, except for 2008 and 2009) and pass-through of costs is limited to Annual Reference Value.
- If distributors fail to comply with the obligation to fully contract their demand, the pass-through of the costs from energy acquired in the short-term market will be the equivalent to the lower of the PLD or the Annual Reference Value.

Rationing under the New Industry Model Law

The New Industry Model Law establishes that, in a situation where the federal government decrees a compulsory reduction in the consumption of electricity in a certain region, all energy amount agreements in the regulated market, registered within the CCEE in which the buyer is located, shall have their volumes adjusted in the same proportion to the required reduction of consumption.

Rates

Electric energy rates in Brazil are set by ANEEL, which has the authority to adjust and review rates in accordance with applicable concession contracts. Each distribution company s concession contract provides for an annual rate. In general, Parcel A costs are fully passed through to consumers. Parcel A costs are the portion of the rate calculation formula which provides for the recovery of certain costs that are not within the control of the distribution company. Parcel B costs , which are costs that are under the control of the distributors, are restated for inflation in accordance with the National Consumers Price Index (*Índice Nacional de Preços*, or IPCA index[(1)]). The average annual rate adjustment includes components such as the inter-year variation of Parcel A costs (CVA) and other financial adjustments, which compensate for changes in the company s costs up or down that could not be previously taken into account in the rate charged in the previous period.

(1) Since the signing of the new concession contract The former Index was the IGP-M (General Market Price Index).

Table of Contents

Holders of electricity distribution concessions are also entitled to periodic revisions. Our concession agreements establish a five-year period between periodic revisions. These revisions aim: (i) to ensure necessary revenues to cover efficient operational costs, determined by the regulator, and adequate compensation for investments deemed essential for the services within the scope of each company s concession; and (ii) to determine the X factor , which is calculated based on the average productivity gains from increases in scale, and on labor costs. The X factor is a result of three components: a productivity factor representing those productivity gains (Xpd); the quality factor XQ, which punishes or rewards the distribution company depending on the quality of the service provided, and the factor Xt, which has the objective of reducing or increasing the regulatory operational costs during the five-year period between the rates revisions, to reach the level defined for the last year of the revision cycle.

In 2011, ANEEL completed Public Hearing 040/2010, in which it dealt with the methodology for the third periodic revision. To calculate the rate of return, ANEEL used the methodology of weighted average cost of capital (WACC), which resulted in a rate of 7.50% after tax, compared to the rate of 11.25% applied in the previous cycle. This rate of return is applicable to the investments made by Cemig D until the next tariff cycle, which will be conducted in 2018. After that, the new rate of return calculated by the regulator is 8.09% after tax.

ANEEL also changed the methodology used to calculate the X Factor: from a method based on discounted cash flow to the Total Factor Productivity (TFP) method, which consists of defining potential productivity gains for each company based on average productivity gains. It also included the other two components, as mentioned above: XQ and Xt. The components of the X factor, determined in the 2013 revision, for the period 2013/2018, were: Xt = 0.68%, and Xpd=1.15%. On each revision an XQ is calculated and added to the previous values.

ANEEL has also issued regulations governing access to the distribution and transmission facilities, and establishing the rate for use of the local distribution system Distribution Usage Rates, or TUSD; and the rate for the use of the transmission grid, or Transmission Usage Rates, or TUST. The rates to be paid by distribution companies, generators and Free Consumers for use of the interconnected power system are reviewed annually. The review of the TUST takes into account the permitted annual revenues (RAP) of transmission concession holders under their concession contracts. For more detailed information on the rate-setting structure, see The Brazilian Power Industry Rates for the Use of the Distribution and Transmission Systems.

In 2015, ANEEL separated part of the variable energy costs of distributors, which were previously agreed to be applied in 2016, and created an additional fee that would be passed on to consumers through their electricity bills. This system became known as tariff flags. The system provides consumers with a system disclosing the real costs of electricity generation. The system is a simple one: the colors of flags (green, yellow or red) indicate whether based on the conditions of electricity generation whether the cost of electricity to consumers will increase or decrease. When the system provides a green flag, the hydrological conditions for power generation are favorable and there should be no increase in the associated costs. If the conditions are somewhat less favorable, the system will indicate a yellow flag and there will be additional charges proportional to consumption, at a ratio of R$2.50 per 100 kWh (or fractions thereof). If conditions are even less favorable, the system will indicate a red flag and there will be an additional tariff imposed on consumers proportional to the consumption rate of R$4.50 per 100 kWh (or fractions thereof). Throughout the year 2015 the tariff flag remained in the red.

ANEEL, when determining tariff adjustment applicable to energy distributors, estimates the costs considering a favorable scenario for power generation. However, during 2015 such adjustments were delayed to the following year, to the date of next tariff adjustment.

Land acquisition

The concessions granted to the Company by the Federal Government do not include a grant of the land upon which the power plants are located. In general, electricity utilities in Brazil have to negotiate with each owner of property to obtain the needed land. However, in the event that a concessionaire is unable to obtain needed land in this way, such land may be condemned for the concessionaire s use through specific legislation. In cases of governmental condemnation, the concessionaires may have to participate in negotiations relating to the amount of compensation with landowners and the resettlement of communities to other locations. We make all efforts to negotiate with the communities before applying to the judiciary.

Table of Contents

The Brazilian electric power system operational overview

Brazil s power production and transmission is a large-scale hydroelectric and thermal system made up predominantly of hydroelectric power stations, with many separate owners. The Brazilian Grid links companies in the Southern, Southeastern, Center-West, and Northeastern Regions and part of the Northern Region of Brazil. Approximately 2% of the country s electricity production capacity is not connected to the Brazilian Grid, in small isolated systems located mainly in the Amazon region. Brazil s abundant hydrological resources are managed through storage reservoirs. It is estimated that Brazil has hydroelectric power generation potential of close to 247,465 MW, of which only 43% has been developed or is under construction, according to Eletrobrás studies compiled in July 2014.

Brazil has an installed capacity in the interconnected power system of 150.24 GW, approximately 61.34% of which is hydroelectric, according to the *Matriz de Energia Elétrica* available at the *Banco de Informações de Geração BIG*, published by ANEEL. This installed capacity includes half of the installed capacity of Itaipu a total of 14,000MW owned equally by Brazil and Paraguay. There are approximately 78,189 miles of transmission lines operating at 230 kV or above in Brazil.

Approximately 34% of Brazil s installed generating capacity and 55% of Brazil s high voltage transmission lines are operated by Eletrobrás, a company owned by the federal government. Eletrobrás has historically been responsible for implementing electricity policy, conservation and environmental management programs. The remaining high voltage transmission lines are owned by state-controlled or local electric power companies. Distribution is conducted by approximately 60 state or local utilities, a majority of which have been privatized by the federal government or state governments.

Historical background

The Brazilian Constitution provides that development, use and sale of energy may be undertaken directly by the federal government or indirectly through the granting of concessions, permissions or authorizations. Since 1995, the federal government has taken a number of measures to restructure the power industry. In general, these have aimed to increase the role of private investment and eliminate restrictions on foreign investment, thus increasing overall competition in the power industry.

In particular, the federal government has taken the following measures:

- The Brazilian Constitution was amended in 1995 to authorize foreign investment in power generation. Prior to this amendment, all generation concessions were held either by a Brazilian individual, or by an entity controlled by Brazilian individuals, or by the federal government or a state government.

The Federal Government enacted Law No. 8,987 on February 13, 1995, or the Concessions Law, and Law No. 9,074 on July 7, 1995, or the Power Concessions Law, that together:

- required that all concessions for the provision of energy-related services be granted through public bidding processes;

gradually allowed certain electricity consumers with significant demand (generally greater than 3 MW), referred to as Free Consumers, to purchase electricity directly from suppliers holding a concession, permission or authorization;

provided for the creation of generation entities, or Independent Power Producers, which, by means of a concession, permission or authorization, may generate and sell all or part of their electricity to Free Consumers, distribution concessionaires and trading agents, among others;

granted Free Consumers and electricity suppliers open access to all distribution and transmission grids; and

eliminated the need for a concession to construct and operate power projects with capacity from 1 MW to 30 MW, or Small Hydroelectric Power Plants , which was amended on May 28, 2009 by Law No. 11,943, raising the limit from 30 MW to 50 MW, independently of being a Small Hydroelectric Power Plant or not.

The present regulator, ANEEL, and the CNPE (*Conselho Nacional de Política Energética* National Energy Policy Council), were created in 1997.

Table of Contents

In 1998 the federal government enacted Law No. 9,648, or the Power Industry Law, to overhaul the basic structure of the electricity industry, providing as follows:

Establishment of a self-regulated body responsible for operation of the short-term electricity market, or Wholesale Energy Market, replacing the prior system of regulated generation prices and supply contracts.

Creation of the ONS, the National Electricity System Operator, a non-profit, private entity responsible for the operational management of the generation and transmission activities of the interconnected power system.

Establishment of public bidding processes for concessions for construction and operation of power plants and transmission facilities, in addition to the bidding process requirements under the Concessions Law and the Power Concessions Law.

On March 15, 2004, the Brazilian federal government enacted Law No. 10,848, or the New Industry Model Law, in an effort to further restructure the power industry, with the ultimate goal of providing consumers with secure electricity supplies combined with low rates. On July 30, 2004 the federal government published Decree 5163, governing purchase and sale of electricity under the New Industry Model Law, as well as the granting of authorizations and concessions for electricity generation projects. These include rules relating to auction procedures, the form of power purchase agreements and the method of passing costs through to final consumers.

On September 12, 2012 the Brazilian federal government enacted PM 579/2012, which was converted into the Law No. 12,783, related to the extension of the concessions granted prior to Law No. 9,074 , of July 7, 1995, aiming to decrease sector charges and extend the low tariffs. This legislation alters the revision and extension of certain concessions, and implements new bidding process rules for certain utilities, adjustments to tariffs, and changes to regulation governing an industry participant s mobility between the ACR and ACL, and allocation of energy offered to both markets.

On December 8, 2015 the Brazilian federal government published Provisional Measure 688, enacted as Law No.13,203, of December 8, 2015 (Law No. 13,203), which created the mechanism of voluntary re-negotiation of hydrological risks as they affect the hydroelectric generation companies. In the same law the government changes the bidding process rules.

Rationing and Extraordinary Rate Increases

Rationing of electricity; government measures to compensate electricity concession holders.

In late 2000 and early 2001, low levels of rainfall, significant growth in demand for electricity, and Brazil s significant dependence on electricity generated from hydroelectric sources resulted in an abnormal fall in levels at several of the reservoirs used by Brazil s largest hydroelectric generation plants. In May 2001 the Brazilian federal government announced a group of measures requiring reduction in consumption of electricity in response to those conditions (the Brazilian electricity rationing plan). Under this agreement electricity distribution and generation companies (such as our Company) were compensated for the losses of revenue resulting from the rationing imposed by the federal

government either due to lower volume of sales, or reduction in electricity selling prices, or purchases of electricity on the CCEE. This compensation was given in the form of the right to charge extraordinary increases in electricity tariffs to consumers over a future period, which averaged 74 months, and ended in March 2008.

However, the New Industry Model (its main purpose being to guarantee the supply of electricity) created auctions for the Regulated Market (*Ambiente de Contratação Regulado*, or *ACR*), in which it is possible to buy electricity from new plants to guarantee supply. Since the New Industry Model was introduced, approximately 47,000MW of capacity have been placed in these auctions, for installation between 2008 and 2017.

Of this amount, a total of 5.97MW was contracted in Reserve Auctions that is to say, this power capacity is not committed to any contract, or to any minimum supply.

In the rainy season of late 2012 and early 2013, there was much less rainfall than expected in Brazil s Southeastern region (November to March), and in this situation the thermoelectric plants were activated to generate complementary supply to meet the system s electricity consumption needs. During this period the principal strategy of the national system operator (ONS) *Operador Nacional do Sistema Elétrico*) was to preserve storage capacity at the reservoirs of hydroelectric plants, to ensure supply of the system s energy needs over the whole of the year 2013. This resulted in a high level of expenses on thermoelectric generation, and a sustained increase in the spot market price which averaged R$121.29/MWh in July 2013.

Table of Contents

Once again, in the rainy season of late 2013 and early 2014, rainfall in the Southeast was lower than the expected averages, an all-time low. This placed the system in a state of alert during the whole of 2014, concentrating the efforts of the operators on how to maintain the capacity of the system to supply consumption needs. The ONS continued to dispatch all the thermal plants, and introduced some flexibility to hydroelectric restrictions so as to maintain the levels of storage and meet demand. Over the year the price of electricity reached the regulatory limit, with the spot price rising to R$822/MWh for several months. Its average in the year was R$688/MWh. At the end of 2014, the levels of storage once again reached their lowest level, putting great pressure on the ONS to guarantee full operation of the system.

In order to maintain the requisite supply during 2015, the ONS continued to utilize the full capacity of thermoelectric plants, as there was no improvement in hydrology during the rainy season. In order to avoid possible rationing, the Brazilian federal government revised the applicable tariffs by removing subsidies and passing the cost of thermoelectric generation directly to consumers, the effect of which was an increase in the cost of energy by 50%. The effect of the increase in energy prices, coupled with the poor performance of the economy led to a drop in energy consumption of 1.3% compared to 2014. With lower power consumption, additional thermal utilization and the improvement in the hydrology of the second half of 2015, the Brazilian electricity system met the demand and there was no need for rationing. Once again, we ended the year with low levels of water being stored in reservoirs.

In the spot market, the spot price closed December 31, 2015 with a yearly average of R$287.20/MWh. The price cap for 2015 was R$388.48/MWh.

Conflicts of interest between the Company and other users of water.

The operation of reservoirs for generation of electricity by Cemig requires CEMIG to assess the multiple uses of water by other users of the relevant river basin, and this in turn requires CEMIG to consider the applicability of a number of factors, including environmental factors, irrigation, , waterways, bridges, and . In periods of severe drought, such as the one from 2013 through CEMIG was actively involved in monitoring and forecasting the levels of reservoirs and in maintaining a dialogue with the public authorities, civil society and users. While the Company engages other essential users and takes into account societal interests with respect to its water use, competing interests with respect to the use of water could, subject to certain minimum limits established by law, affect the use of water in our operations, which in turn could affect our operational results and financial condition. Potential conflicts between Cemig and other usersare monitored through the Company s active participation in River Basin Committees, and also in the related Technical Boards and Working Groupswhere users of water, organized civil society and public authorities arerepresented. Cemig participates in 5 River Basin Committees of rivers under federal control, and 20 River Basin Committees of rivers under local State control. The Company also monitors news published in various media outlets, receives comments and complaints during the periods of floods or drought, and acts to resolve any conflicts with communities living in the river basins where it has hydroelectric plants.

For new projects, Cemig prepares a socio-environmental impact study, and carries out public hearings with all interested parties, where suggestions in assessing any potential conflicts are analyzed. When the project is operational, a Plan for Environmental Conservation and Use of the Artificial Reservoir Surroundings (*Plano Ambiental de Conservação e Uso do Entorno de Reservatório Artificial*) is prepared with the participation of stakeholders. This plan is intended to govern conservation, recovery, use and environmental protection of the reservoir and its surrounding area in a balanced way, complying with the applicable legislation, the needs of the project and the demands of society.

Cemig also conducts a program called *Proximity* (Proximidade , which coordinates activities aimed at improving the relationship with affected communities. Through this program, the Company hosts public meetings which cover topics such as the operational and security procedures in its hydroelectric plants; climate conditions; and environmental

aspects. The Company also provides opportunities for the public to take guided tours of plant facilities. Via the *Proximity* program, Cemig also receives comments and complaints from the affected population and establishes partnerships with local community leaders, publicentities, the local media and other actors responsible for safety and flood, including Civil Defense associations, the Fire Brigade and the Military Police.

Finally, the Company uses a risk management system to analyze scenarios and estimate the degree of financial exposure to risks, considering the probability of each event, and its impact. In the scenarios related to potential conflicts with other users, Cemig also evaluates the effects arising from prolonged droughts, which can lead to an increase in competition for water between the electricity sector and other users, and also the risks arising from consequences of floods due to excessive rain.

Table of Contents

Concessions

We conduct the majority of our activities in generation, transmission and distribution of electricity through concession contracts executed with the Brazilian Federal Government. The Brazilian Constitution requires that all concessions for public services must be the subject of competitive tenders. In 1995, in an effort to implement these provisions of the Constitution, the Federal Government instituted certain laws and regulations, referred to collectively as the Concessions Law, which govern the procedures for competitive tenders in the electricity sector.

On September 22, 2004, while the rules established by Law No. 9,074 on July 7, 1995 were still in effect, we requested from Aneel an extension for 20 years of the concessions of the Emborcação and Nova Ponte Hydroelectric Plants. On January 14, 2007, the Federal Government approved the extension of these concessions for a period of 20 years from July 24, 2005 until July 24, 2025. The related concession contract was amended on October 22, 2008, to reflect the extension granted to Cemig GT.

On September 11, 2012, the Federal Government issued Provisional Measure 579 of 2012 (PM 579), which became Law No. 12,783 of January 11, 2013 (Law No. 12,783), governing the extension of concessions granted before Law No. 9,074 of July 7, 1995 (Law No. 9,074/1995). Under PM 579, concessions granted before Law No. 9,074/1995 could be extended for a single time, for a period of up to 30 years.

On December 4, 2012, the Company signed the second amendment to transmission contract 006/1997, which extended the concessions under such contract for 30 years, in accordance with PM 579, beggining in January 1, 2013. This resulted in an adjustment to the Permitted Annual Revenue (RAP) from these concessions, which will reduce the revenue which we will receive arising from those concessions. The Brazilian government has compensated us for the reduction of the RAP in part but the assets in operation before the year of 2000 have not yet been compensated. In accordance with Law No. 12,783, we are required to be compensated for the reduction of the RAP of the assets in operation before 2000, over a period of 30 years, the amounts being adjusted by the IPCA inflation index.

Also on December 4, 2012, the Company elected not to accept the extension of the generation concessions that expired in the years 2013 to 2017, namely Três Marias, Salto Grande, Itutinga, Volta Grande, Camargos, Peti, Piau, Gafanhoto, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Dona Rita, Sumidouro, Poquim and Anil. In relation to the power plants which had their first extension of the related concessions after the issuance of PM 579, namely Jaguara, São Simão and Miranda, the Company believes that Generation Concession Contract 007/1997 enabled the Company to extend these concessions for a further 20 years, until 2033, 2035 and 2036, respectively, without restrictions.

Based on this understanding Cemig GT applied for a writ of mandamus against an act of the Mining and Energy Minister with the objective of ensuring its right to extend the concession of the Jaguara hydroelectric plant, pursuant to the terms of Clause 4 of Concession Contract 007/1997. The Company was granted an interim injunction on September 3, 2013, which is still in effect, to continue commercial operation of the Jaguara plant until a judgment was issued by the courts on the writ of mandamus. Judgment was issued on this action, denying Cemig GT s writ of mandamus application. Before the result of that judgment was published, Cemig GT petitioned to the Federal Supreme Court (*Supremo Tribunal Federal*, or STF) seeking provisional remedy and asking for an interim injunction permitting it to continue operating and managing the plant. The interim injunction was granted on December 21, 2015, but the STF has not issued a final rulling on the provisional remedy yet.

In addition to the litigation relating to the Jaguara plant, Cemig GT has also applied for a writ of mandamus with respect to the São Simão plant against an act of the Mining and Energy Minister, in order to ensure its right to extend the concession of this plant.

106

Table of Contents

The interim injunction originally obtained by the Company on December 19, 2014, to remain in control of commercial operation of the São Simão plant until the judgment on the writ of mandamus, was reviewed, and overturned, by the Reporting Judge on June 30, 2015. While this proceeding is ongoing, Cemig GT is still in control of the plant, and since September 2015 the power generated by the São Simão plant has been allocated to the Regulated Market and has been paid for under the quota regime, whereby Cemig GT is entitled to receive an amount equal to the costs of operating and maintaining the plant and it subject to adjustments related to the performance of the generation of electricity, instead of being able to sell the energy in the Free Market. On September 23, 2016 Cemig GT appealed the reversal of the interim injunction to the Superior Court (*Superior Tribunal de Justiça*, or STJ), but there has been no judgement on the appeal yet, nor on the merits of the writ of mandamus.

For other hydroelectric plants, the concessions of which would expire for the second time by the year 2017, which include Três Marias, Salto Grande, Itutinga, Camargos, Piau, Gafanhoto, Peti, Tronqueiras, Joasal, Martins, Cajuru, Paciência, Marmelos, Dona Rita and Volta Grande,the company elected, in December 2012, not to accept the extension of their contracts under the terms of PM 579, and to continue to operate these facilities commercially until the termination of their respective concessions. As a result, with respect to the foregoing plants, with the exception of the Volta Grande plant, termination of the applicable concession occurred in July 2015.

During 2013 and 2014 Brazil experienced hydroelecrical shortages. A new regulatory framework was established by Provisional Measure 688/2015 (PM 688), which became Law No. 13,203/2015. Among other matters, PM 688 and Law No. 13,203/2015 significantly altered Law No. 12,783/2013. Following publication of the tender documents for Generation Auction 12/2015 on October 7, 2015, which included the new regulatory provisions for renewal of concessions of existing plants stipulated by Law No. 13,203/2015, Cemig s Board of Directors authorized our participation in Generation Auction 12/2015, and Cemig GT was successful at this auction, held at the BM&F Bovespa on November 25, 2015. Cemig won concessions for Lot D which comprises the concessions for 18 hydroelectric plants: Três Marias, Salto Grande, Itutinga, Camargos, Cajuru, Gafanhoto, Martins, Marmelos, Joasal, Paciência, Piau, Coronel Domiciano, Tronqueiras, Peti, Dona Rita, Sinceridade, Neblina and Ervália. The total installed capacity of these plants is 699.5 MW, and their guaranteed basic offtake is 420.2 MW average.

These concession contracts have a period of 30 years beginning in January 2016 and expiring in January 2046 and, during the first half of 2016, were assigned by Cemig GT to 7 wholly-owned subsidiaries created for commercial operation of these concessions.

Distribution contracts: In relation to the extension of the distribution concession contracts, Cemig D, in accordance with Decree No. 7,805/2012 and Decree No. 8,461/2015, indicated acceptance of the extension of its concession contracts, and signed the Fifth Amendment to its Concession Contract in December 2015. This amendment guarantees extension of the foregoing concessions for a further 30 years from January 1, 2016 until January 2, 2046, but also requires the Company s compliance with more stringent rules regarding service quality and with respect to the Company s economic and financial sustainability, that must be met during the full 30 years of the concession.

Such compliance will be annually assessed by ANEEL, and if there is non-compliance the concession holder may be obliged to arrange for capital contributions by its controlling stockholders. Non-compliance for two consecutive years, or for a total of five non-consecutive years, will result in legal termination (*caducidade*) of the concession

Table of Contents

Principal Regulatory Authorities

National Energy Policy Council CNPE

In August 1997, the National Energy Policy Council (*Conselho Nacional de Política Energética*, or *CNPE*), was created to advise the Brazilian president regarding the development and creation of the national energy policy. The CNPE is presided over by the MME, and the majority of its members are officials of the Federal Government. The CNPE was created to optimize the use of Brazil s energy resources and to assure the supply of electricity to the country.

Mining and Energy Ministry MME

The MME is the federal government s primary regulator of the power industry. Following the adoption of the New Industry Model Law, the federal government, acting primarily through the MME, undertook certain duties that were previously under the responsibility of ANEEL, including the drafting of guidelines governing the granting of concessions and the issuance of directives governing the bidding process for concessions relating to public services and public assets.

National Electric Energy Agency ANEEL

The Brazilian power industry is regulated by ANEEL, an independent federal regulatory agency. After enactment of the New Industry Model Law, ANEEL s primary responsibility is to regulate and supervise the power industry in line with the policy to be dictated by MME and to respond to matters which are delegated to it by the Brazilian Federal Government and or the MME.

National System Operator ONS

The ONS was created in 1998 as a non-profit private entity comprising Free Consumers, electricity utilities engaged in the generation, transmission and distribution of electricity, and other private participants such as importers and exporters. The New Industry Model Law granted the federal government the power to appoint three directors of the ONS, including the Director-general. The primary role of the ONS is to coordinate and control the generation and transmission operations in the interconnected power system, subject to ANEEL s regulation and supervision.

Electricity Trading Chamber CCEE

One of the main roles of the CCEE is to conduct public auctions in the regulated market, including the auction of existing electricity and new electricity. Additionally, the CCEE is responsible, among other things, for (1) registering the volume of all the energy purchase agreements within the regulated market (*Contratos de Comercialização de Energia no Ambiente Regulada*, or *CCEAR*), and the agreements resulting from the free market, and (2) the accounting for and clearing of short-term transactions.

Under the New Industry Model Law, the price of electricity bought or sold in the spot market, known as the Differences Settlement Price (*Preço de Liquidação de Diferenças*, or *PLD*), takes into account factors similar to the ones used to determine the Wholesale Energy Market spot prices prior to the New Industry Model Law. Among these factors, the variation of the PLD will be mainly linked to the equilibrium between the market supply and demand for electricity as well as the impact that any variation on this equilibrium may have on the optimal use of the electricity generation resources by the ONS.

The members of the CCEE are generators, distributors, trading agents and Free Consumers, and its board of directors comprises four members appointed by these agents and one appointed by the MME, who is the chairman of the board of directors.

Energy Research Company EPE

The Brazilian federal government created the Electricity Research Company, or EPE, by a decree of August 16, 2004. It is a state-owned company, responsible for carrying out strategic research on the energy industry including electricity, oil, gas, coal and renewable energy sources. EPE is responsible for: (i) studying projections for the Brazilian energy matrix; (ii) preparing and publishing the national energy balance; (iii) identifying and quantifying energy resources; and (iv) obtaining the required environmental licenses for new generation concession holders. EPE s research is used to support the MME in its policymaking role in the domestic energy industry. EPE is also responsible for approving the technical qualification of new electricity projects to be included in the related auctions.

Table of Contents

The Electricity Sector Monitoring Committee CMSE

Decree No. 5,175 of August 9, 2004 established the Electricity Sector Monitoring Committee, or CMSE, which acts under the direction of the MME. The CMSE, is responsible for monitoring and permanently evaluating the continuity and security of electricity supply conditions and for indicating necessary steps to correct identified problems.

Ownership limitations

On November 10, 2009, ANEEL issued Resolution No. 378, requiring it to notify the SDE (the Economic Law Secretariat *Secretaria de Direito Econômico* of the Ministry of Justice) if it identifies any act that may cause unfair competition or may result in significant market control under Article 54 of Law 8,884 of June 11, 1994. After the notification, SDE must inform CADE. On November 30, 2011, Law No. 8,884 was revoked and replaced by Law No. 12,529 which terminated the SDE and replaced it with the Competition General Management Unit (*Superintendência Geral*) which, if necessary, will require ANEEL to analyze any such events, upon which CADE will decide if there should be any sanctions applied. Under Articles 37 and 45 of Law No. 12,529 these may vary from pecuniary penalties to dissolution or other disposition of the offending company.

Incentives for Alternative Sources of Power

In 2000, a federal decree created the Thermoelectric Priority Program (*Programa Prioritário de Termeletricidade*, or *PPT*), for the purpose of diversifying the Brazilian energy matrix and decreasing its strong dependency on hydroelectric plants.

In 2002, the Proinfa Program was established by the federal government to create certain incentives for development of alternative sources of energy, such as wind energy projects, Small Hydroelectric Power Plants and biomass projects.

Law No. 9,427/96, as amended by Law No. 10,762/03, further established that hydroelectric plants with an installed capacity of 1MW or less, generation plants classified as Small Hydroelectric Plants, and those with qualifying solar, wind, biomass or cogeneration sources, with capacity to supply 30MW or less, used for independent production or self-production, will have the right to a discount of at least 50% on the rates for use of the transmission and distribution system, charged on production and consumption of the energy sold. This legal provision was regulated by ANEEL through its Resolutions 077/2004, 247/2006 and 271/2007.

Also the government held two alternative energy generation auctions and four backup regulated auctions, for power from wind energy projects, SHP projects, or biomass projects.

Regulatory charges

Global Reversion Fund and Public Use Fund RGR and UBP

In certain circumstances, power companies are compensated for assets used in connection with a concession if this concession is eventually revoked or is not renewed. In 1971, the Brazilian Congress created a Global Reversion Fund (*Reserva Global de Reversão*, or *RGR*), designed to provide funds for such compensation. In February 1999, ANEEL revised the assessment of a fee requiring all distributors, transmission companies and certain generators operating under public service regimes to make monthly contributions to the RGR at an annual rate equal to 2.5% of the company s fixed assets in service, but not to exceed 3.0% of total operating revenues in any year. In recent years, the RGR has been used principally to finance generation and distribution projects.

The federal government has imposed a fee on IPPs reliant on hydrological resources, except for Small Hydroelectric Power Plants and generators under the public services regime, similar to the fee levied on public-industry companies in connection with the RGR. IPPs are required to make contributions to the Public Use Fund (*Fundo de Uso de Bem Público*, or *UBP*), according to the rules of the corresponding public bidding process for the granting of concessions. Until December 31, 2002 Eletrobrás received the UBP payments. Since then they have been paid directly to the federal government.

Since January 2013, the Global Reversion Fund has not been charged to: (i) any distribution companies; (ii) any transmission or generation utilities whose concessions have been extended under Law No. 12,783; or (iii) any transmission utilities that started their bidding procedure on or after September 12, 2012.

Table of Contents

Fuel Consumption Account CCC

The Fuel Consumption Account (*Conta de Consumo de Combustível*, or CCC), was created in 1973 to generate financial reserves to cover the high costs associated with the use of thermoelectric energy plants, especially in the Northern Region of Brazil, due to the higher operating costs of thermoelectric plants compared to hydroelectric plants. All electricity companies were required to contribute annually to the CCC. Annual contributions were calculated on the basis of estimates of the cost of fuel needed by the thermoelectric energy plants in the following year. The CCC was then used to reimburse generators operating thermoelectric plants for a substantial portion of their fuel costs. The CCC was administered by Eletrobrás.

Since January 2013, with the enactment of Law No. 12,783/2013, utilities and market participants are no longer required to contribute to the CCC.

Charge for the Use of Water Resources

With the exception of Small Hydroelectric Plants, all hydroelectric utilities in Brazil must pay fees to Brazilian states and municipalities for the use of hydrological resources. The amounts are based on the amount of electricity generated by each utility and are paid to the states and municipalities where the plant or the plant s reservoir is located.

Energy Development Account CDE

In 2002, the federal government instituted the Energy Development Account (*Conta de Desenvolvimento Energético*, or *CDE*), to be in effect for 25 years, funded by: (i) annual payments made by concession holders for the use of public assets; (ii) penalties and fines imposed by ANEEL; and, (iii) since 2003, the annual fees to be paid by agents offering electricity to final consumers, by means of a charge to be added to the rates for the use of the transmission and distribution system. The amounts are adjusted annually. The CDE was created to support: (1) development of electricity production throughout the country; (2) production of electricity from alternative sources; and (3) universalization of energy services throughout Brazil. With the enactment of Law No. 12,783/2013 these fees were used to contribute to reduction of electricity tariffs. The CDE is managed by Eletrobrás.

Under the New Industry Model Law, failure to pay the contribution to the RGR, the Proinfa Program, the CDE or any payments for purchases of electricity in the regulated market prevents the non-paying party from receiving a rate readjustment (except for an extraordinary revision), or receiving resources arising from the RGR or CDE.

ANEEL Inspection Charge TFSEE

The Energy Services Inspection Charge, or TFSEE, is an annual tax charged by ANEEL for its administrative and operational costs. It is calculated according to the Tariff Regulation Procedure (*Procedimento de Regulação Tarifária*, or *Proret*) (Subsection 5.5: Energy Services Inspection Charge TFSEE) based on the type of service provided (including independent production), and is proportional to the size of the concession, permission or authorization. It is limited to 0.4% of the annual economic benefit, considering the installed capacity, earned by the concessionaire, permit holder or authorized party and must be paid directly to ANEEL in 12 monthly installments.

The ACR Account

Contracts held by distribution companies for a total supply of approximately 8,600 MW expired in December 2012. These contracts had been executed in the first auctions of energy from existing supply sources in 2005, and the energy should have been re-contracted in a further auction, but the Brazilian Federal government did not hold the

auction in 2012 because it expected that with the renewal of the concession contracts this supply would come from Assured Energy Quota Contracts. However, the energy supply that was renewed was lower than expected and the distribution companies were under-contracted by 2,000 MW in 2013, and by 2,500 MW in 2014. By 2015 the lower consumption of electricity fixed the under-contracted scenario lead the distribution to a regular energy balance situation. The ACR Account was established in 2014 to cover exposure that distribution companies could have as a result of under-contracted amounts. By 2015, the lower consumption of electricity eliminated the under-contracted shortfall and resulted in a more regular contract. Thus, the ACR Account was not needed to cover the exposure of distribution companies during 2015.

This situation was further exacerbated by the fact that certain power plants did enter into operation when expected, and by the low level of contracting in the auctions held in 2013 and 2014. The result was that the total level of under contracting in 2014 was 3,500 MW. In this scenario the only option for the distribution companies, in a situation of under contracting, is to purchase the required supply in the spot market.

Table of Contents

The hydrological situation of the system in 2013 and 2014, as explained above, raised the energy cost in the spot market to its highest level, causing the financial exposure of the distribution companies to reach billions of Reais. Since the cost of the distribution companies exposure is passed through to consumers only in the following year, this gap caused a problem in the companies cash flow. By 2015 the new price cap lower than 2014 and the tariff flags mechanism helped the distribution companies to balance their exposure so no new loan was necessary.

To deal with this, the government created the ACR Account, by Decree No. 8,221/2014 (of January 1, 2014), regulated by ANEEL Resolution No. 612/2004, which created an account to be managed by the CCEE, aiming to cover part or all of the costs resulting from the involuntary exposure to the spot market and of the dispatching of the thermal plants linked to the availability contracts in the regulated market. To cover these costs the CCEE obtained a financing from a group of private and public institutions. These funds were then passed to the distribution companies, as determined by Decree No. 8,221/2014 and ANEEL Resolution 612/2014. In 2014, R$21 billion was raised by this account and passed through to the distribution companies.

Starting in 2015, the total amount of these loans contracted was paid in 24 months, by means of the payment of charges through CDE, by all the distribution companies proportionally to their captive markets. This charge was added to the electricity rates charged by the distribution companies to their consumers.

Tariffs Flags

In 2015, ANEEL separated part of the variable energy costs of distributors, which were previously agreed to be applied in 2016, and created an additional fee on that would be passed on to consumers through their electricity bills. This system became known as tariff flags. The system provides consumers with a system disclosing the real costs of electricity generation. The system is a simple one: the colors of flags (green, yellow or red) indicate whether based on the conditions of electricity generation whether the cost of electricity to consumers will increase or decrease. When the system provides a green flag, the hydrological conditions for power generation are favorable and there should be no increase in the associated costs. If the conditions are somewhat less favorable, the system will indicate a yellow flag and there will be additional charges proportional to consumption, at a ratio of R$2.50 per 100 kWh (or fractions thereof). If conditions are even less favorable, the system will indicate a red flag and there will be an additional tariff imposed on consumers proportional to the consumption rate of R$4.50 per 100 kWh (or fractions thereof). Throughout the year 2015 the tariff flag remained in the red.

Energy Reallocation Mechanism

The Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*, or *MRE*), attempts to mitigate the risks involved in the generation of hydroelectric power by mandating that all hydro generators share the hydrological risks within the Brazilian Grid. Under Brazilian law, the revenue from sales by generators does not depend on the amount of energy they in fact generate, but on the Guaranteed Energy or Assured Energy of each plant, indicated in each concession agreement.

Any imbalances between the power energy actually generated and the Assured Energy is covered by the MRE. In other words, the MRE reallocates the energy, transferring a surplus from those who generated in excess of their Assured Energy to those who generated less than their Assured Energy. The volume of electricity actually generated by the plant, either more or less than the Assured Energy, is priced pursuant to an Energy Optimization Tariff which covers the operation and maintenance costs of the plant. This additional revenue or expense is accounted for on a monthly basis by each generator.

The MRE is efficient in mitigating the risks of individual plants that have adverse hydrological conditions in a river basin, but it does not succeed in mitigating this risk when low hydrological levels affect the whole Grid, or large regions of it. In extreme situations, even with the MRE, the aggregate generation of the whole System will not attain the levels of the total Assured Energy, and hydrological generators may be exposed to the spot market. In these situations, the shortage in hydro resources will be compensated by greater use of thermal generation, and spot prices will be higher.

Table of Contents

In 2014 Brazil was subject to very adverse hydrological conditions, which resulted in a lower level of hydroelectric generation, and on the full utilization of thermoelectric plants of the system, as noted above. This led the plants of the MRE to generate at levels below their physical guarantee levels, causing an exposure for the generation companies to the short-term market. The proportion of the exposure is calculated by the ratio between the electricity generated by all the plants of the MRE and the total of all the physical guarantees. This ratio is called the Generation Scaling Factor or GSF (*Fator de ajuste da energia*). In 2014, the GSF was 0.91, which indicates that the generation companies had their physical guarantee reduced by 9% in that year. In 2015, this exposure continued to occur, despite of a slightly better hydrology, but with the continued thermal dispatch and lower energy consumption the GSF closed the year at 0.84.

During 2015, the low values of GSF s in conjunction with high spot prices again left producers of hydroelectric generation with high financial exposure. Thus, starting in March 2015, generators began to obtain court injunctions to prevent such exposure. Such injunctions claimed that the GSF s calculation methodology was wrong which caused undue exposure to producers. From March to September there was an exponential increase in the number of injunctions issued which led to a paralysis of the market. In order to address this situation the Brazilian federal government proposed (by means of MP 688) the renegotiation of the hydrological risk, enabling generators with ACR s contracts to transfer the exposure to consumers in exchange for a risk s premium payment to be deposited in the so-called tariff band deposit account (the tariff band surcharges are deposited in such account and transfers to the distribution concessionaires are made from this account as well) and would be indemnified for the losses suffered in 2015 by means of, among other measures, an extension of their power generation grants (concessions or authorizations, as the case may be) for up to 15 years. In other words, hydroelectric power plants would recover the costs incurred with GSF deficits retroactively to January 2015, and such recovery would form a regulatory asset which would be amortized over the term of the concession/authorization. If the remaining concession/authorization period is insufficient (i.e., not long enough to amortize the regulatory asset), then generating companies would have a concession/authorization extension (limited to 15 years). To be able to use the mechanism the companies have to waive all claims filed and all injunctions obtained, as well as waive any further rights they would have in connection with any such legal action. This mechanism enables plants with contracts signed in the regulated market and the free market to renegotiate them. However, the system and mechanism for renegotiating are different in the two markets. In both, this mechanism functions as a hedge in which the generators bear the high cost of reserve of energy, and for their generation they receive the amount stipulated by the spot market price.

In the free market, the system did not have the same acceptance levels that were present in the regulated market, since the value of the risk premium was too high and, in order to hedge their GSF exposure, the generation companies would have to acquire reserve energy contracts. For these reasons, and considering that and there are other alternatives available in the free market to mitigate the hydrological risk, the voluntary negotiation, in general, was deemed inefficient by generation companies.

Consequently, acceptance of the mechanism by the regulated market was, approximately 90%. However, it was not accepted by the free market.

Charges for Use of the Distribution and Transmission Systems

ANEEL oversees rate regulations that govern access to the distribution and transmission systems and establish rates: (i) for the use of the local distribution system Distribution Usage Rates, or TUSD; and (ii) for the use of the interconnected transmission grid Transmission Usage Rates, or TUST. Additionally, distribution companies of the South, South-East and Midwest parts of the grid pay specific charges for transmission of electricity generated at Itaipu. All these rates and charges are set by ANEEL. The following is a summary of each rate or charge:

TUSD

The TUSD is paid to a distribution company by generation companies, other distribution companies and consumers, for the use of the distribution system to which they are connected. It is adjusted annually according to an inflation index, the variation in transmission costs, and regulatory charges. This adjustment is passed to customers of the Distribution network in the Annual Rate Adjustment or Revisions.

Table of Contents

TUST

The TUST is paid by generators, distributors and Free Consumers, for the use of the basic transmission grid to which they are connected. It is adjusted annually according to an inflation index and taking into account any adjustment to the annual revenue of the transmission companies. According to criteria established by ANEEL, owners of the different parts of the transmission grid were required to transfer the coordination of their facilities to the ONS in return for receiving regulated payments from the transmission system users. Generation and distribution companies, and Free Consumers, also pay a fee for exclusive transmission connections to some transmission companies. The fee is set by the regulator for a 12-month period and it is paid monthly through the issuance of invoices.

Distribution rates

Distribution rates are subject to review by ANEEL, which has the authority to adjust and review rates in response to changes in electricity purchase costs, charges payments or transmissions payments, or other factors related to market conditions. ANEEL divides the costs of all distribution companies into: (1) costs that are beyond the control of the distributor, or Parcel A costs; and (2) costs that are under the control of the distributor, or Parcel B costs. The rate adjustment is based on a formula that takes into account the division of costs between the two categories.

Parcel A costs include, among others, the following:

- Regulatory Charges (CDE, TFSEE and Proinfa);
- Costs of electricity purchased for resale (CCEARs, power from Itaipu, and bilateral agreements); and
- Transmission charges (National Grid, the Transmission Frontier grid, transport of electricity from Itaipu, use of network for connection to other transmission companies, use of networks of other distribution companies, and the ONS).

Parcel B costs are those that are within the utility s control, and include:

- return on investment;
- taxes;
- regulatory default;
- depreciation costs; and
- costs of operation of the distribution system.

In general, Parcel A costs are fully passed through to consumers. Parcel B costs, however, are restated for inflation in accordance with the IGP M inflation index (General Market Price Index *Índice Geral de Preços do Mercado*), adjusted by the X Factor. Electricity distribution companies, according to their concession contracts, are also entitled to periodic revisions. These revisions aim: (i) to ensure necessary revenues to cover efficient Portion B operational costs and adequate compensation for investments deemed essential for the services within the scope of each company s concession; and (2) to determine the X factor.

The X factor is used to adjust the proportion of the change in the IGP-M index that is used in the annual adjustments and to share the company s productivity gains with final consumers.

In addition, holders of electricity distribution concessions are entitled to an extraordinary review of rates, on a case-by-case basis, in the event of unusual circumstances, to ensure their financial equilibrium and compensate them for unpredictable costs, including taxes that significantly change their cost structure.

Item 4A. Unresolved Staff Comments

Not Applicable.

Table of Contents

Item 5. Operating and Financial Review and Prospects

You should read the information contained in this section together with our financial statements contained elsewhere in this annual report. The following discussion is based on our financial statements, which have been prepared in accordance with IFRS and presented in reais.

Statement of compliance

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Basis of measurement

The consolidated financial statements have been prepared based on historical cost, with the exception of the following material items recorded in the Statement of financial position (balance sheet):

Non-derivative financial assets measured at fair value through profit or loss.

Financial assets held for trading measured at fair value.

Financial assets of the Concession measured by the New Replacement Value (VNR), equivalent to fair value.

Financial liabilities related to put options, measured at fair value through discounted cash flow.

Critical Accounting Policies

The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to make assumptions about matters that are highly uncertain.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation. For more detailed information about our Critical Accounting Policies and Estimates, please refer to Note 2 to our audited consolidated financial statements as of December 31, 2015 (the Financial Statements).

Allowance for doubtful accounts

We record an allowance for doubtful accounts in an amount that we estimate to be sufficient to cover presently foreseeable losses, as follows: (i) for consumers with material debts, an individual analysis of the balance is made, taking into account the history of default, negotiations in progress and the existence of real guarantees; (ii) for other consumers, the debts that are more than 90 days past due for residential consumers, or more than 180 days past due for commercial consumers, or more than 360 days past due for the other consumer categories, are provisioned at 100%. These criteria are the same as those established by ANEEL.

We continuously monitor collections and payments from consumers and review and refine our estimation process. A future change in our estimates could result in an increase in the allowance for doubtful accounts which could have a material adverse impact on our operating results and financial condition.

Deferred income tax and Social Contribution tax

We account for income taxes in accordance with IFRS. IFRS requires an asset and liability approach to recording current and deferred taxes. Accordingly, the effects of differences between the tax basis of assets and liabilities and the amounts recognized in our consolidated financial statements have been treated as temporary differences for the purpose of recording deferred income tax.

Table of Contents

We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Property, plant and equipment

The assets in Property, plant and equipment are valued at the cost incurred on the date of their acquisition or formation, including deemed cost, and capitalized financial costs, less accumulated depreciation. The cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Intangible assets

The following criteria are applied to individual cases: (i) Intangible assets acquired from third parties are measured at total acquisition cost, less expenses of amortization; and (ii) intangible assets generated internally are recognized as assets in the phase of development, provided that the technical feasibility of using them is demonstrated and that the future economic benefits are probable. They are measured at cost, net of accumulated amortization and accumulated impairment losses.

Financial Assets of the Concession

Our accounting treatment for financial assets of the concession depends on the valuation criteria for the assets linked to the concession.

For the distribution activity assets We measure the value of the assets which will not be fully amortized by the end of the concession agreement period and report this amount as a financial asset of the concession because it is an unconditional right to receive cash or other financial assets directly from the concession-granting power (the grantor). The portion of the assets of the concession that will be fully amortized during the concession period is recorded as an intangible asset and is amortized in full during the concession agreement period.

New assets are recorded initially as Intangible assets, valued at acquisition cost, including capitalized borrowing costs. When the assets are brought into operation they are split into financial assets and intangible assets, according to the criterion mentioned in the previous paragraph: the portion of the assets that is recorded in financial assets is valued based on the new replacement cost, having as a reference the amounts homologated by the grantor as the Remuneration Base of Assets (Base Regulatória de Remuneração, or BRR) in the tariff review process.

For the transmission activity assets Since the transmission contracts determine that the concession holders have an unconditional right to receive cash or another financial asset directly from, or in the name of the grantor, for new transmission concessions, we recorded a financial asset at fair value, corresponding to the transmission revenue to be received during the whole period of the concession.

Auctions of electricity generation concessions

Provisional Measure 579/2012, enacted as Law 12,783/2013 on January 11, 2016, conditioned the acceptance of the concessions of 15 plants of Cemig GT (Cajuru, Camargos, Gafanhoto, Itutinga, Joasal, Marmelos, Martins, Paciência, Peti, Piau, Salto Grande, Três Marias, Tronqueiras, Dona Rita and Volta Grande), and those of the Jaguara, São Simão and Miranda plants to acceptance by the concession holder of predefined tariffs, although under certain circumstances concession holders could be compensated for the investments made in each plant and not yet amortized. Cemig GT did not agree with the terms for renewal and, therefore, did not renew the concession at that time.

Table of Contents

In November 2015, Cemig GT took part in Auction 12/2015 and won the concessions for Lot D. Lot D comprised the concessions for 18 plants. For five of these, the concession had been previously held by Furnas S.A. The total assured average power offtake of the 18 plants is 420 MW, as follows:

Generating plant	Concession expiry date	Installed capacity (MW)	Average physical offtake guarantee level (Assured Energy) MW
Três Marias Hydroelectric Plant	Jan.2045	396.00	239.00
Salto Grande Hydroelectric Plant	Jan.2045	102.00	75.00
Itutinga Hydroelectric Plant	Jan.2045	52.00	28.00
Camargos Hydroelectric Plant	Jan.2045	46.00	21.00
Piau Small Hydroelectric Plant	Jan.2045	18.01	13.53
Gafanhoto Small Hydroelectric Plant	Jan.2045	14.00	6.68
Peti Small Hydroelectric Plant	Jan.2045	9.40	6.18
Tronqueiras Small Hydroelectric Plant	Jan.2045	8.50	3.39
Joasal Small Hydroelectric Plant	Jan.2045	8.40	5.20
Martins Small Hydroelectric Plant	Jan.2045	7.70	1.84
Cajuru Small Hydroelectric Plant	Jan.2045	7.20	2.69
Paciência Small Hydroelectric Plant	Jan.2045	4.08	2.36
Marmelos Small Hydroelectric Plant	Jan.2045	4.00	2.74
Coronel Domiciano Small Hydroelectric Plant	Jan.2045	5.04	3.59
Dona Rita Small Hydroelectric Plant	Jan.2045	2.41	1.03
Ervália Small Hydroelectric Plant	Jan.2045	6.97	3.03
Neblina Small Hydroelectric Plant	Jan.2045	6.47	4.66
Sinceridade Small Hydroelectric Plant	Jan.2045	1.42	0.35
		699.59	420.27

Please note that the information presented on installed capacity, guaranteed average offtake, and other operational information, is not part of the scope of an audit of financial statements, and has thus not been examined by the external auditors.

The contract for these plants provided Cemig with the concession for their commercial operation for the next 30 years until 2046, and requires that for 2016 the entirety of the output must be sold in the Regulated Market, under the Physical Guarantee Quota System (*Sistema de Cota de Garantia Física*, or CGF); and from 2017 until the end of the concessions, 70% of the output will be sold in the Regulated Market and 30% in the Free Market.

Cemig s offer for the annual payment was R$499, and the single fee paid for the grant of the 30-year concession for the 18 hydroelectric plants was R$2.2 billion. Of this fee, 65% was paid on January 4, 2016, and the remaining 35% was paid on July 1, 2016. The contract was signed on January 5, 2016.

Depreciation and amortization

Depreciation and amortization is computed using the straight-line method, at annual rates based on the estimated useful lives of the assets, in accordance with ANEEL regulations and industry practice in Brazil.

Our accounting treatment for amortization of intangible assets depends on the nature of the intangible asset. Intangible assets linked to a service concession agreement, net of residual value, are amortized in accordance with IFRIC 12 on a straight-line basis over the concession period stipulated in the concession contract. Other intangible assets are amortized on a straight-line basis over the estimated useful economic lives of the assets in conformity with the amortization rates established by the concession authority.

To the extent that the actual lives differ from these estimates, there would be an impact on the amount of depreciation and amortization accrued in our consolidated financial statements. A significant decrease in the estimated useful life of a material amount of property, plant and equipment, intangibles, or in the assets of the electricity generation project consortium in which we are a partner, could have a material adverse impact on our operating results in the period in which the estimate is revised and in subsequent periods.

Table of Contents

Employee post-retirement benefits

We sponsor a defined-benefit pension plan and defined-contribution pension plan covering substantially all of our employees.

The determination of the amount of our obligations for pension and other post-retirement benefits depends on certain actuarial assumptions. These assumptions are described in Note 21 to our consolidated financial statements and include, among others, the expected long-term rate of return on plan assets and mortality rate. While we believe that our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other post-retirement obligations.

Provision for risks

We are party to certain legal proceedings in Brazil arising in the normal course of business regarding tax, labor, civil and other issues.

Such provisions are estimated based on historical experience, the nature of the claims, as well as the current status of the claims. Accounting for contingencies requires significant judgment by management concerning the estimated probabilities and ranges of exposure to potential liability. Management s assessment of our exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact our consolidated results of operations, cash flows and financial position.

Unbilled electric power supplied

Unbilled retail supply of electric power, from the period between the last billing and the end of each month, is estimated based on the billing from the previous month and is accrued for at the end of the month. While we believe that our accruals are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our receivables from consumers.

Derivative instruments

Accounting for derivative transactions requires us to employ judgment to compute fair market values, which are used as the basis for recognition of the derivative instruments in our consolidated financial statements. Such measurement may depend on the use of estimates such as long-term interest rates, foreign currencies and inflation indices, and becomes increasingly complex when the instrument being valued does not have counterparts with similar characteristics traded in an active market. For more detailed information about Derivative Instruments please refer to Note 28 to our Financial Statements.

Cemig granted to Fundo de Participações Redentor, which is a stockholder in Parati, a put option to sell the totality of its shares in Parati, exercisable in May 2016. The exercise price of the option is calculated from the sum of the value of the amounts injected by the Fund into Parati, plus the running expenses of the fund, less Interest on Equity, and dividends, distributed by Parati. The exercise price is subject to monetary updating by the CDI (Interbank CD) Rate plus financial compensation at 0.9% per year. For more details please see note 14 to the financial statements.

Cemig GT and the private pension plan entities participating in the investment of SAAG entered into put option agreements exercisable by the funds in July 2021. The exercise price of the put options will correspond to the amount invested by each private pension plan, updated *pro rata temporis* by the IPCA index as published by the IBGE

(*Instituto Brasileiro de Geografia e Estatística*), plus interest at 7% p.a., discounting dividends and interest on equity that have already been paid by SAAG to the private pension plan entities. For more details please see Note 14 to our financial statements.

Rules, interpretations and changes that came into effect on January 1, 2015, with possible impacts on the Company

The following rules and changes of rules came into effect during the business year:

Changes to IAS 19/CPC 33 (R1) Defined-benefit plans: Contributions by employees.

IFRS Annual Improvements cycles: 2010-2012 and 2011-2013.

Table of Contents

The Company has analyzed impacts of these changes and did not have material impacts in its financial statements.

New and revised rules and interpretations already issued and not yet adopted, with possible impacts for the Company

In effect for annual periods starting on or after January 1, 2016:

Changes to IFRS 11 *Joint Arrangements*: Provide instructions on accounting for the acquisition of a business combination as defined by IFRS 3 *Business Combinations*.

Changes to IAS 1 *Presentation of Financial Statements*: These offer guidance regarding the application of the concept of materiality.

Changes to IAS 16 and IAS 38: Provide clarification with respect to acceptable methods for depreciation and amortization.

Changes to IFRS 10, IFRS 12 and IAS 28 *Investment entities: Applying exception from consolidation*: provide guidance as to the applicability to controlling entities that are subsidiaries of an investment entity, (as defined in the guidance) of provisions allowing for investment entities to not consolidate its subsidiaries in its financial statements but instead value them at fair value therein.

Changes to IFRS 5 provide guidance with respect to cases where an entity reclassifies a non-current asset from held for sale) from held for sale to held for distribution (or vice-versa).

Changes to IFRS 7 provide additional guidance to clarify whether a service contract constitutes continuous involvement in an asset transferred, for the purposes of the necessary disclosures in relation to the transferred assets.

Changes to IAS 19 clarified that the rate used to discount obligations for post-retirement benefits should be determined based on AA corporate bond yields at the end of the reporting period.

The Company is still evaluating the impacts that these new rules and alterations of existing rules will have on the amounts and disclosures presented in its consolidated financial statements.

In effect for annual periods starting on or after January 1, 2017:

Changes to IAS 12 Recognition of deferred tax assets for non-realized losses.

Disclosure Initiative (Changes to IAS 7) Changes IAS 7 *Statement of Cash Flows*: Clarifies that entities should provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities applicable to annual periods starting on or after January 1, 2017.

In effect for annual periods starting on or after January 1, 2018:

Changes to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*: Provides guidance with respect to situations that involve the sale or contribution of assets between an investor and its associate or joint-venture.

IFRS 9 *Financial instruments*: Establishes that all financial assets recognized that are within the scope of IAS 39 must be subsequently measured at amortized cost or fair value.

In relation to the impairment of financial assets, IFRS 9 requires use of a forward-looking expected loss impairment model, in contrast to the model of actual impairment stated in IAS 39.

IFRS 15 *Revenue from Contracts with Customers*: In May 2014 IFRS 15 was issued and established a simple and clear model for companies to use in accounting for revenue arising from contracts with clients. IFRS 15 will replace the current guidance on recognition of revenue contained in IAS 18 *Revenues*, IAS 11 *Construction Contracts,* and the related interpretations, when it comes into effect.

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

IFRS 16 *Leases*: With this new rule, lessors will have to recognize the liability for future payments and the right to use of the leased asset for practically all leasing contracts, including those currently classified as operational leasing contracts.

The Company is still evaluating the impacts that these new rules and alterations of existing rules will have on the amounts and disclosures presented in its consolidated Financial Statements.

Table of Contents

Principal factors affecting our financial condition and results of operations

Analysis of electricity sales and cost of electricity purchased

Electricity rates in Brazil, related to electricity distribution companies sales to captive customers, are set by ANEEL, which has the authority to readjust and review rates in accordance with the applicable provisions of the concession contracts. See Item 4: The Brazilian Power Industry Rates .

We charge captive consumers for their actual electricity consumption during each 30-day billing period at specified rates. Certain large industrial consumers are charged according to the electricity capacity contractually made available to them by us, with adjustments to those rates according to consumption during peak demand time as well as capacity requirements that exceed the contracted amount.

In general, rates on electricity that we purchase are determined by reference to the capacity contracted for as well as the volumes actually used.

The following table sets forth the average rate (in reais per MWh) and volume (by GWh) components of electricity sales and purchases for the periods indicated. The term average rate refers to revenues for the relevant class of consumers divided by the MWh used by such class and does not necessarily reflect actual rates and usage by a specific class of end-users during any particular period.

	Year ended December 31,		
	2015	2014	2013
Electricity sales:			
Average rate to final consumers (R$/MWh)			
Industrial rate	251.69	184.16	171.54
Residential rate	742.42	517.58	476.93
Commercial rate	614.86	435.65	390.06
Rural rate	416.27	267.85	244.72
Public services rate and others	473.41	320.05	284.49
Total sales to final consumers (GWh)			
Industrial consumers	22,969	26,026	23,452
Residential consumers	9,830	10,014	9,473
Commercial consumers	6,434	6,395	6,035
Rural consumers	3,380	3,390	3,028
Public services and other consumers	3,422	3,462	3,371
Average rate (R$/MWh)	441.03	302.53	277.50
Total revenues (R$million)	20,319	14,922	12,597
Sales to distributors:			
Volume (GWh)	10,831	14,146	16,127
Average rate (R$/MWh)	203.77	163.30	132.94
Total revenues (R$million)	2,207	2,310	2,144

Distribution rates

Our operational results have been significantly affected by fluctuations in the levels of rates that Cemig Distribution (Cemig D) is authorized to charge for distribution of electricity. The process of setting rates in Brazil has been

influenced, historically, by government attempts to control inflation. With the restructuring of the Brazilian electricity sector, which began in 1995, and under the terms of the renewal of the concession contract that we signed with ANEEL in 1997, there have been significant changes in the process of setting tariffs.

Table of Contents

Every year, in April, ANEEL issues a resolution that establishes the average annual rate adjustment for Cemig D (our distribution company). This rate (usually a positive figure, indicating increase) was 3.06% in 2013, 16.3% in 2014 and 41.41 % in 2015.

In January 2013 the Brazilian federal government enacted Law Nº 12,783, which removed some charges imposed on providers of electricity, reducing (i) the prices of electricity sold by those generators that had their concession agreements renewed, and also (ii) the prices for transmission of electricity, due to reduction of the Permitted Revenue of those transmission companies that had their concessions renewed. On January 24 of that year, ANEEL set new tariffs for the distributors, to pass through the effects of that law to consumers. This adjustment was made by an Extraordinary Tariff Review, for all the distributors. For Cemig, this tariff adjustment represented a reduction of invoiced revenue by 22%.

However, this adjustment did not affect our operational revenue, because it was applied only in the costs of Portion A, which are the costs which are not controllable.

On April 7, 2015 ANEEL defined the annual tariff adjustment for Cemig D (Distribution): an increase of 35.83%. This had the following components: (i) an increase of 29.99%, due to the Tariff Adjustment Index; (ii) an increase of 6.97% due to the variation in Portion A costs (CVA non-manageable costs); and (iii) an increase of -1.12% related to other financial adjustments. Starting in 2013, subsidies given to certain consumers have been treated externally to the tariff figures, and no longer appear as a component of the tariff adjustment index.

The average annual tariff adjustments of Cemig D in 2015, 2014 and 2013, and the revisions of their respective components are given in this table:

	2015	2014	2013
Average annual/periodic rate adjustment	35.83%	14.76%	2.99%
Components			
Tariff adjustment index	29.99%	10.77%	0.47%
Inter-year variation in fixed costs (CVA)	6.97%	2.78%	1.03%
Subsidies	0.00%	0.00%	1.45%
Other financial adjustments	-1.12%	1.23%	0.11%

On February 27, 2015, ANEEL defined new rates for the distributors. This adjustment was made by an Extraordinary Tariff, applicable to all distributors. This adjustment was applied a specific and simplified calculation procedure to treat material change costs of CDE and power purchase. For Cemig this tariff adjustment represented an increase of 28.8% in their tariffs, effective from March 2, 2015 to April 7, 2015.

On April 8, 2015, ANEEL determined the annual tariff adjustment to be applied to Cemig D. This adjustment resulted in an average increase of 12.61% in electricity tariffs paid by CEMIG D s customers, effective from April 8, 2015 to April 7, 2016.

On May 24, 2016, Aneel determined that the Annual Tariff Adjustment should be applied to the tariffs of Cemig D. The result was an average increase in consumer electricity rates by 3.78%, in effect as of May 28, 2016 until May 27, 2017.

Transmission rates

The revenue adjustment of the electricity transmission grids owned by Cemig, as specified by the concession contract, is made annually in June. The concession contract previously established a four-year period between periodic revisions. Law No. 12,783/2013 (Extension of Concessions) amended the term to provide for a frequency of every five years, from 2013 onward.

In 2010, ANEEL approved the results for the second periodic revision, again with a reassessment of the entire asset base of Cemig GT. The results were released by means of Resolution 988 of June 18, 2010, setting a decrease in annual revenue of 15.88%. This was retroactively applied to 2009, since the regulator had been working on the definition of the rules to be applied for this revision.

The concession contract provides that revenues must be restated for inflation annually. Until January 2013, the index used to restate for annual inflation was the General Market Price inflation Index, or IGP M. The IGP-M posted inflation of 4.26% from June 2011 to May 2012, increasing the revenue for the 2012 2013 cycle. In June 2011, ANEEL approved an increase in the transmission revenue of 5.0%. After the implementation of Law 12,783/2013, from 2013 onward concession contracts are amended to set IPCA inflation as the index used for the annual adjustment of transmission companies Permitted Annual Revenue (*Receita Annual Permitida*, or *RAP*).

Table of Contents

At the end of 2012, the federal government renewed Cemig s transmission concession and reduced its revenue, from January 2013, to R$148 million per year. It also removed from the amount of revenue two taxes previously included: the Government Employees Pension Fund Contribution (*Programa de Formação do Patrimônio do Servidor Público*, or *Pasep*) and the Contribution to Finance Social Security (*Contribuição para o Financiamento da Seguridade Social*, or Cofins).

In July 2013, as a result of the annual tariff adjustment, Cemig GT s RAP was increased to R$199 million, resulting from the addition of revenue from new works, a portion for adjustments related to the previous year, and the inflation adjustment by the IPCA index. The total variation in the RAP from January to July of 2013 was 11.66%.

In July 2014, the annual tariff adjustment increased Cemig GT s RAP to R$224 million a further increase of 12.30%.

In July 2015, Cemig GT s RAP was adjusted by 23.6%, due to the application of IPCA on revenue already approved and also due to the recognition of new reinforcements. Cemig Itajubá, in turn, had an increase of 4.1% of revenue approved for the 2015-2016 cycle, relating to the two concessions, totaling R$270.7 million.

In July 2016, the RAP of Cemig GT was increased by 26.2%, as a result of the application of the IPCA inflation index to the revenue previously approved, and also due to recognition of new improvements strengthening the network. The substation that had been put out to tender, Cemig Itajubá, ,which is No. 079/2000, was awarded a positive adjustment of 3.0%. The increase for the Itajubá facility was lower than average inflation as measured by the IGP-M index, due to the reduction of the RAP for this concession starting on the first half of 2017. The approved revenue for the 2016-17 period, for the two concessions, is an aggregate of R$340 million.

Rationing of electricity and government measures to compensate electricity concession holders

In late 2000 and early 2001, low levels of rainfall, significant growth in demand for electricity, and Brazil s significant dependence on hydroelectric generation sources resulted in an abnormal fall in levels at several of the reservoirs used by Brazil s largest hydroelectric generation plants. In May 2001 the federal government announced a group of measures mandating reduction in consumption of electricity in response to those conditions. Under these measures, electricity distribution and generation companies (such as our Company) were reimbursed for the losses of revenue resulting from the rationing imposed by the federal government arising either from lower sales volume, or lower sales prices of electricity, or from having purchases of electricity made on the CCEE. This compensation was given in the form of the right to charge extraordinary increases in electricity tariffs to consumers over a future period, which averaged 74 months, and ended in March 2008.

However, the New Industry Model (one of the principal purposes of which is to guarantee supply of electricity) created auctions for the Regulated Market (Ambiente de Contratação Regulado ACR), in which it is possible to buy electricity from new plants to be built to guarantee supply. Since the New Industry Model was introduced, contracts for supply of approximately 47MW from new generation capacity to be provided by new-build plants have been placed in these auctions, supply to start over the period from 2008 through 2017.

Of this amount, a total of 5.97MW was contracted in Reserve Auctions that is to say, this power capacity is not committed to any contract, or to any minimum supply level.

In the rainy season of late 2012 and early 2013 (November 2012 to March 2013), there was much less rainfall than expected in Brazil s Southeastern region, and due to this situation the thermoelectric plants were activated to generate complementary supply to meet the system s electricity consumption needs. In this period the principal strategy of the National System Operator (*Operador Nacional do Sistema Elétrico* ONS) was to preserve storage capacity in the

reservoirs of hydroelectric plants, to ensure supply of the system s energy needs over the whole of the year 2013.

This resulted in a high level of expenses on thermoelectric generation, and a sustained increase in the spot market price which averaged R$121.29/MWh in July 2013.

In the rainy season of late 2013 and early 2014, rainfall in the Southeast was again significantly lower than the expected averages. This placed the system in a state of alert at the beginning of 2014, focusing on means of maintaining the capacity to supply the system s consumption needs. Storage levels were again lower than expected for the period, and final figures for rainfall and flows in the period were awaited, to give a complete picture of the need for adjustments of load to preserve the capacity to serve the market.

Table of Contents

Again in the rainy season of late 2014 and early 2015the rainfall in the Southeast was below the historic average, completing two consecutive rainy seasons with low precipitation in the Southeast. As the reservoirs finished 2014 with the lowest recorded historic level, the ONS continued to dispatch all the thermoelectric generation through 2015 and hope for a load reduction. By March 2015 the government decided to remove some subsidies in the energy tariff leading it to a rise of 50%, this tariff rise and the industrial load reduction due to the effect of economy recession gave the system a relief in the first semester of 2015.

During the winter (dry season) of 2015, the climate began to change due to the effect of El Niño (climate phenomenon that occurs when Pacific Ocean gets warmer than average). This phenomenon affects the rain in Brazil bringing more rain to the south and less to the north and northeast. With rain in the south being above average from June to December, the system ended 2015 with a reservoir condition better than it did in 2014. By 2016, still under El Niño s effect the Southeast had an above historic average rainfall in January leading to a great recover in the south east reservoir. Due to these improved conditions for hydroelectric generation, in February 2016 the ONS began to reduce thermoelectric generation.

Exchange rates

Substantially all of our revenues and operating expenses are denominated in reais. However, we have some foreign currency-denominated debt. As a result, in reporting periods when the real declines against the U.S. dollar or other foreign currencies in which our debt is denominated, our operating results and financial position are adversely affected. Foreign exchange gain or loss and monetary variation gain or loss may impact our results of operations in periods in which there are wide swings in the value of the real relative to the U.S. dollar or high inflation. We have a number of financial and other contracts under which we owe, or are entitled to, amounts in respect of monetary variation as measured by an index of price inflation in Brazil. In 2012, the Company had swap contracts for the purpose of converting the original interest rate, of a particular financing, from an interest rate based on the variation in the exchange rate of the U.S. dollar, to an interest rate based on the Brazilian Interbank CD Rate (the Certificado de Depósito Interbancário, or CDI, Rate). These transactions were settled during 2013.

Operating Results

Year ended December 31, 2015 compared to the year ended December 31, 2014

Net operating revenues

Net operating revenues increased 8.97% from R$19,540 million in 2014 to R$21,292 million in 2015.

	2015 (in millions of R$)	% of net operating revenues	2014 (in millions of R$)	% of net operating revenues	2015 versus 2014 %
Electricity sales to final consumers	20,319	95.4	14,922	76.4	36.2
Revenue from wholesale supply to other concession holders	2,207	10.4	2,310	11.8	(4.5)
CVA (compensation for changes in Portion A items) account and Other financial components of tariffs	1,704	8.0	1,107	5.7	53.9

Revenue from use of the electricity distribution grid TUSD	1,465	6.9	855	4.4	71,3
Revenue from use of the concession transmission system	261	1.2	557	2.9	(53.1)
Transmission indemnity revenue	101	0.5	420	2.1	(76.2)
Construction revenues	1,252	5.9	941	4.8	33.0
Transactions in electricity on the CCEE	2,425	11.4	2,348	12.0	3.3
Supply of gas	1,667	7.8	422	2.2	295.0
Other operating revenues	1,440	6.7	1,284	6.5	12.1
Taxes on revenue and regulatory charges	(11,549)	(54.2)	(5,626)	(28.8)	105.3
Total net operating revenues	21,292	100.0	19,540	100.0	9.0

Table of Contents

Electricity sales to final consumers

Total revenue from electricity sales to final consumers (excluding Cemig s own consumption) was R$20,319 million in 2015, representing an increase of 36.17% over 2014 (R$14,922 million).

The variation mainly reflects the following insights:

Annual tariff adjustment for Cemig D, with average effect on consumer tariffs of 14.76%, effective from April 8, 2014 (full effect in 2015).

The Extraordinary Tariff Adjustment (RTE) for Cemig D, which resulted in an average increase in consumers tariffs of 28.76%, applicable from March 2, 2015.

An annual tariff adjustment, with average effect on consumer tariffs of 7.07%, effective from April 8, 2015.

Creation, in 2015, of the Tariff Flag mechanism, at the following rates per 100 kWh consumed: (i) as from January 2015, R$1.50 per 100kWh for the Yellow Flag tariff, and R$3.00 for the Red Flag tariff; (ii) as from March 2015, R$2.50 per 100kWh for the Yellow Flag tariff and R$5.50 for the Red Flag tariff; and finally (iii) from September 2015, R$2.50 for the Yellow Flag tariff and R$4.50 for the Red Flag tariff. The Red Flag rates were in effect for the whole of 2015.

Volume of electricity sold in 2015 was 10.35% lower than in 2014.

Market Evolution

The total for sales of Cemig s consolidated electricity market comprises sales to: (i) captive consumers in Cemig s concession area in the State of Minas Gerais, (ii) Free Consumers in both the State of Minas Gerais and other States of Brazil, in the Free Market (*Ambiente de Contratação Livre*, or ACL), (iii) other agents of the electricity sector traders, generators and independent power producers, also in the Free Market, (iv) distributors, in the Regulated Market (*Ambiente de Contratação Regulada*, or ACR); and (v) sales in the Wholesale Trading Chamber (*Câmara de Comercialização de Energia Elétrica*, or CCEE), eliminating transactions between companies of the Cemig Group.

The total volume of electricity sold by Cemig in 2015 was 10.3% less than in 2014.

	GWh		
	2015	**2014**	**Var %**
Residential	9,830	10,014	(1.8)
Industrial	22,969	26,026	(11.7)
Commercial, Services and Others	6,434	6,395	0.6
Rural	3,380	3,390	(0.3)
Public Power	892	891	0.1

Public Illumination	1,326	1,298	2.2
Public Service	1,204	1,273	(5.4)
Subtotal	46,035	49,287	(6.6)
Own Consumption	38	37	2.7
	46,073	49,324	(6.6)
Supply to Other Concessionaires (1)	10,831	14,146	(23.4)
Total	56,904	63,470	(10.3)

(1) Includes Regulated Market Electricity Sale Contracts (CCEARs) and bilateral contracts with other agents.

Table of Contents

Comments on the various consumer categories:

Residential: Residential consumption in 2015 was 1.84% lower than in 2014. This reflects a reduction of consumption which we believe was a reaction to the significant increases in the rates charged to final consumers during 2015 and the application of the Flag Tariff rates during 2015. Average monthly consumption per consumer in 2015 was 126.5 KWh/month, or 3.6% less than in 2014 (131.2 KWh/month) this was the first year-on-year reduction in this category since 2008.

Industrial: Consumption by captive and Free industrial clients was 11.74% less than in 2014, due mainly to contracts terminating at the end of 2014 not being renewed with Cemig GT, and lower levels of economic activity than in 2014 a factor that directly affects industrial consumption of electricity.

Commercial, Services and Others: Consumption by captive and Free Consumers both inside the concession area in Minas Gerais and outside the state, was 0.6% higher in 2015, mainly reflecting higher volumes invoiced by Cemig GT and its wholly-owned subsidiaries to Free Consumers offset by lower volume invoiced to the captive consumers of Cemig D.

Rural: Total consumption by rural consumers was 0.31% lower in 2015, than in 2014 reflecting less use of irrigation, and the higher price of electricity during 2015, increasing farmers production costs.

Other categories: Consumption by the other consumer categories (public authorities, public lighting, public services and Cemig s own consumption) was 1.13% lower in 2015 than in 2015.

Revenue from wholesale supply to other concession holders

Revenue from wholesale supply to other concession holders was R$2,207 million in 2015, or 4.46% less than in 2014 (R$2,310 million). It reflects a decrease in *volume* of electricity sold to other concession holders of 23.43% compared to in the previous year: 10,831 GWh in 2015, compared to 14,146 GWh in 2014.

Revenue from use of the electricity distribution grid (TUSD)

This is revenue from the charging of the Tariff for Use of the Distribution System (*Tarifa de Uso do Sistema de Distribuição*, or TUSD), to Free Consumers, for transport of electricity sold. In 2015 this revenue was R$1,465 million, 71.35% more than in 2014 (R$855 million).

The increase reflects the increase in the tariff for free consumers, as from April 8, 2014, of 8.79% (full effect in 2015), and the further impact of tariff increases of 96.21% in 2015. The 2015 increases were mainly due to passing through of the increase in the quota payable for the Energy Development Account (*Conta de Desenvolvimento Energético*, or CDE) (See Note 10 of the Financial Statements). The effect of the increase in tariffs was partially offset by the effect of lower activity in the industrial sector which consumed 11.74% less electricity than in 2014.

The CVA Account and Other financial components, in tariff increases

Cemig recognizes the difference between actual non-controllable costs (in which the CDE and electricity bought for resale are significant components) and the costs that were used as the basis for determining the rates charged to consumers. This balance the amount that will be passed through to clients in Cemig D s next tariff adjustment has been recorded as an operational revenue item of R$1,704 million in 2015, compared to R$1,107 million in 2014.

Revenue from use of the concession transmission system

Revenue from use of the concession transmission system totaled R$261 million in 2015, compared to R$557 million in 2014, a decrease of 53.1%. This was mainly due to a reduction in the revenues related to the conection from the generation system to the transmission system.

Transmission indemnity revenue

Transmission indemnity revenue totaled R$101 million in 2015, compared to R$420 million in 2014, a decrease of 76.2%. The higher revenue recorded in 2014 is due to the diference between the accounting amounts previously recorded by Cemig related to the transmission assets and the preliminary indemnity amount approved by Aneel related to such assets. The amount recorded in 2015 represents an adjustment of the amount recorded in 2014 and in prior years.

Table of Contents

Revenue from transactions in electricity on the CCEE

Revenue from transactions in electricity on the CCEE was R$2,425 million in 2015, compared to R$2,348 million in 2014, representing an increase of 3.28%. The components of this figure were: (i) Higher total volume sold, at 7,157,641 MWh in 2015, compared to 3,354,224 MWh in 2014; and (ii) the Spot Price (*Preço de Liquidação de Diferenças*, or PLD) in the wholesale market 58.31% lower (at R$287.20/MWh in 2015, compared R$688.89/MWh in 2014).

Revenue from supply of gas

Cemig reported revenue from supply of gas totaling R$1,667 million in 2015, compared to R$422 million in 2014, representing an increase of 295.02%. The variation reflects the fact that results for Gasmig began to be consolidated into Cemig s results in October 2014 (in 2014 the revenue reported corresponds to only 3 months).

Construction revenues

Construction and infrastructure revenue (in transmission and distribution) totaled R$1,252 million in 2015, compared to R$942 million in 2014, an increase of 32.91%. This revenue is fully offset by Construction costs, of the same amount, and corresponds to the Company s investments in assets of the concession during the period.

Other operating revenues

Other operating revenues totaled R$1,440 million in 2015, compared to R$1,284 million in 2014, an increase of 12.1%. This was mainly due to an increase in the revenue from subsidies applicable to users of distribution services, which amount was reimbursed by Eletrobras. Those subsidies totaled R$996 million in 2015, compared to R$790 million in 2014.

Deductions from Revenue

Taxes and charges applied to operational revenue in 2015 were R$11,549 million, or an increase of 105.30% from 2014 (R$5,626 million). This was mainly due to an increase in the CDE costs (explained in more detail below) and also higher net revenues (most of these charges are calculated simply as percentages of revenue).

The Energy Development Account CDE

Payments to the Energy Development Account (CDE) are decided by an Aneel Resolution. The purpose of the CDE is to cover costs of concession indemnities, tariff subsidies, the subsidy for balanced tariff reduction, the low-income consumer subsidy, the coal consumption subsidy, and the Fuels Consumption Account (CCC).

Charges for the CDE in 2015 were R$2,870 million, compared to R$211 million in 2014. This is the result of the new budget for the CDE in 2015, in which Aneel increased the annual amount to be paid by Cemig D, which is passed through to the consumer in the Sector Charges component of tariffs.

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

Consumer charges the Tariff Flag system

In 2015, with the creation of the Tariff Flag mechanism, Cemig attributed, within Consumer charges, a total of R$1,067 million arising from the Tariff Flag system.

Table of Contents

Operating costs and expenses

Operational costs and expenses, excluding Financial Revenue (expenses) in 2015 were R$ 18,317 million, 26.8% more than in 2014 (R$ 14,451 million). For more information please refer to Note 25 to our Financial Statements.

	2015 (in millions of R$)	% of net operating revenues	2014 (in millions of R$)	% of net operating revenues	2015 versus 2014 %
Electricity purchased for resale	(9,542)	(44.8)	(7,428)	(38.0)	28.5
Gas purchased for resale	(1,051)	(4.9)	(254)	(1.3)	313.8
Charges for the use of transmission facilities of the basic grid	(999)	(4.7)	(744)	(3.8)	34.3
Depreciation and amortization	(835)	(3.9)	(801)	(4.1)	4.2
Personnel	(1,435)	(6.7)	(1,252)	(6.4)	14.6
Employees and managers profit shares	(137)	(0.6)	(249)	(1.3)	(45.0)
Outsourced services	(899)	(4.2)	(953)	(4.9)	(5.7)
Post-employment obligations	(156)	(0.7)	(212)	(1.1)	(26.4)
Materials	(154)	(0.7)	(381)	(1.9)	(59.6)
Provisions for operating losses	(1,402)	(6.5)	(581)	(3.0)	141.3
Construction costs	(1,252)	(5.9)	(942)	(4.8)	32.9
Other operating expenses, net	(455)	(2.1)	(654)	(3.3)	(30.4)
Total operating costs and expenses	(18,317)	(86.0)	(14,451)	(74.0)	26.8

The following are the main variations in expenses between 2015 and 2014:

The expense on electricity purchased for resale in 2015 was R$9,542 million. Compared to R$7,428 million in 2014, representing an increase of 28.46%. The main factors contributing to such increase are:

Expense on electricity acquired via auctions was 22.70% higher, at R$3,978 million in 2015, compared to R$3,242 million in 2014, arising mainly from availability contracts, due to expenditure on fuel for generation by the thermal plants.

Expense on electricity from Itaipu Binacional was 108.92% higherin 2015 than in 2014. This amount, indexed to the U.S. dollar, was R$1,734 million in 2015, compared to R$830 million in 2014. This reflects both an increase in the tariff in U.S. dollarsfrom US$ 26.05/kW-month in 2014 to US$ 38.07/kW-month as from January 2015, and also the appreciation of the U.S. dollar against the Real in 2015, compared to 2014. The average exchange rate for the U.S. dollar in invoices in 2015 was R$3.38, or 43.83% higher than the average rate of R$2.35 used in invoices in 2014.

The expense on electricity purchased in the free market was 56.75% higher, at R$2,762 million in 2015, compared to R$1,762 million in 2014. The difference mainly reflects that the volume of electricity purchased for resale by Cemig GT was 48.10% higher in 2015 (at 15,273,685 MWh), than in 2014 (10,313,226 MWh), reflecting lower generation capacity, with the termination of the concessions of some plants.

The cost of purchases of supply in the spot market was lower by 25.97% in 2015 compared to 2014, at R$935 million in 2015, compared to R$1,263 million in 2014, reflecting the lower cost of electricity in the wholesale market in 2015.

Charges for use of the transmission facilities of the basic grid totaled R$999 million in 2015, compared to R$744 million in 2014, represents an increase of 34.27%.

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

Table of Contents

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 in the subsequent tariff adjustment.

Provisions for operating losses in 2015 totaled R$ 1,402 million, compared to R$ 581 million in 2014, an increase of 141.31%. This change mainly reflected provisions, of R$ 1,079 million and R$ 119 million, respectively, made in 2015 for losses relating to put options on equity interests in Parati, and SAAG (the *Santo Antônio* plant investment). More details on the criteria for making of these provisions are in Note 14 to our Financial Statements (Under *Put options*).

Personnel expenses were R$1,435 million in 2015, compared to R$1,252 million in 2014, an increase of 14.62%. This increase is primarily due to the following items:

Salary increases, under the Collective Agreemententered into between us and the unions which represent our employees (Collective Agreement) of 6.34%, coming into effect in November 2014 (full effect in 2015).

Salary increases of 3% beginning in March 2015, as a result of the collective negotiation decided by the courts on application from organizations representing the employees.

Salary increases, under the Collective Agreement, of 10.33%, as from November 2015.

Expenses on raw materials and inputs for production of electricity in 2015 totaled R$84 million, compared to R$282 million in 2014 , representing a reduction of 70.21%. This reflects lower acquisition of fuel oil in 2015 for burning by the *Igarapé* thermal plant because that plant was shut down during the year for maintenance and the installation of new equipment.

Infrastructure construction costs totaled R$1,252 million in 2015, compared to R$942 million in 2014, an increase of 32.91%. This line records the Company s investment in assets of the concession in the period, and is fully offset by the line Construction Revenue , in the same amount.

Outsourced services totaled R$899 million in 2015, compared to R$953 million in 2014, a decrease of 5.7%. This was mainly due to a R$62 million reduction in outsourced services related to collections and meter reading of the distribution business.

Employees and managers profit shares totaled R$137 million in 2015, compared to R$249 million in 2014, a decrease of 45.0%. This was mainly due to a reduction in Cemig s net income in 2015 compared to 2014, since this is the main determinant of profit sharing.

In 2015, the company recorded an expense of R$1,051 million on acquisition of gas, compared to an expense of R$254 million in 2014, an increase of 313.78%. This increase can be explained by the fact that results and data for Gasmig began to be consolidated into Cemig s results in October 2014 (in 2014 the revenue reported corresponds to only 3 months).

Fair value results in corporate operation

In 2015 the Company posted a gain of R$729 million relating to valuation at fair value of the assets of Aliança Geração de Energia. This is described in more detail in Note 14 to our Financial Statements.

Equity gain (loss) in subsidiaries

In 2015 Cemig posted a net gain by the equity method of R$393 million, compared to a net loss of R$210 million in 2014. This was mainly due Madeira Energia reporting a loss of R$2 million in 2015, compared to a loss of R$388 million in 2014. In 2015, as a result of the Eletrobras internal investigation, Cemig recorded a loss of R$23 million in Cemig s equity in earnings of unconsolidated investees for Aliança Norte, Amazônia Energia and Light, from its interest in Amazonia Energia. This variation is mainly due to a specific loss registered by Madeira in the previous year related to the contract with the construction company and also to losses in electricity operations in the investee.

Table of Contents

Net Financial Expenses

Cemig had net financial expenses of R$735 million in 2015, compared to net financial expenses of R$1,101 million in 2014. The main factors affecting our net financial expenses were:

Recognition, as from 2015, of the foreign exchange variation and monetary updating on the balances of the CVA and the *Other financial components* elements of tariff adjustments, representing an increase in financial revenue of R$68 million in 2015.

A higher gain on updating of Financial assets in the Remuneration Assets Base (BRR): this represented an item of R$606 million in 2015, compared to R$58 million in 2014. This reflected:

Alteration of the index used. In November 2015 Aneel ordered an alteration of the index of the BRR from the IGP-M inflation index to the IPCA inflation index. This change generated an adjustment retrospectivelly calculated from to January 2013. The effect of this change in financial revenue recorded in December 2015 was R$143 million.

Higher variation in the present index of the BRR the IPCA index which was 10.67% in 2015, compared to a variation of 3.69% in the IGP-M index in 2014.

In June 2014, there was a reversal in the monetary updating of the BRR, totaling R$110 million, due to the final, definitive, homologation of the value of the BRR of Cemig D.

Recognition of monetary updating on deposits linked to legal actions, representing a gain in financial revenue of R$212 million in 2015.

Higher expenses of exchange rate variations on loans and financings, and Itaipu Binacional, which totaled R$172 million in 2015, compared to R$26 million in 2014. This reflects the effects on Cemig D of the higher variation of the U.S. dollar in 2015 (47.01% over 2015, compared to 13.39% in 2014);

Charges for loans and financings were 48.87% higher at R$1,386 million during 2015, compared to R$931 million in 2014. This mainly reflects higher debt indexed to the CDI Rate and also the higher CDI rate itself, in 2015 (representing 13.23% in the year, compared to 10.81% in 2014);

Expense on monetary correction of loans and financings was 42.80% higher, at R$387 million in 2015, compared to R$271 million in 2014. This reflects a higher variation in the IPCA inflation index in the period (10.67% in 2015, compared to 6.41% in 2014).

Revenue from cash investments was 15.77% lower, at R$251 million in 2015, compared to R$298 million in 2014 due to a lower amount of cash invested in 2015.

Please see the Net Financial Expenses and Incomes composition at Note 26 to our financial statements.

Income tax and the Social Contribution tax

In 2015, the expense on income tax and the Social Contribution tax totaled R$893 million, on pre-tax profit of R$ 3,362 million, an effective rate of 26.56%.

In 2014, the expense on income tax and the Social Contribution tax totaled R$1,343 million, on pre-tax profit of R$4,479 million, an effective rate of 29.98%. There is a reconciliation of these effective rates with the nominal tax rates in Note 10 to our Financial Statements.

Table of Contents

Year ended December 31, 2014 compared to the year ended December 31, 2013

Net operating revenues

Net operating revenues increased 33.6% from R$14,627 million in 2013 to R$19,540 million in 2014.

	2014 (in millions of R$)	% of net operating revenues	2013 (in millions of R$)	% of net operating revenues	2014 versus 2013 %
Electricity sales to final consumers	14,922	76.4	12,597	86.1	18.5
Revenue from wholesale supply to other concession holders and Proinfa	2,310	11.8	2,144	14.7	7.7
CVA (compensation for changes in Portion A items) account and Other financial components of tariffs	1,107	5.7			
Revenue from use of the electricity distribution grid TUSD	855	4.4	1,008	6.9	(15.2)
Revenue from use of the concession transmission system	557	2.9	404	2.8	37.9
Transmission indemnity revenue	420	2.1	21	0.1	1,900.9
Construction revenues	941	4.8	975	6.7	(3.4)
Transactions in electricity on the CCEE	2,348	12.0	1,193	8.2	96.8
Other operating revenues	1,706	8.7	1,047	7.2	62.8
Taxes on revenue and regulatory charges	(5,626)	(28.8)	(4,762)	(32.6)	18.1
Total net operating revenues	19,540	100.0	14,627	100.0	33.6

Electricity sales to final consumers

Revenue from electricity sales to final consumers (excluding Cemig s own consumption) increased R$2,325 million or 18.5% from R$12,597 million in 2013 to R$14,922 million in 2014.

The variation mainly reflects the following factors:

Annual tariff adjustment, with average effects on consumer tariffs of 2.99%, effective from April 8, 2013 (full effect in 2014).

Tariff increase for Cemig D, with average effect on tariffs for captive consumers of 14.76%, in effect from April 8, 2014.

The quantity of electricity supplied to final consumers was 8.66% higher in 2014.

Market Evolution

The total of Cemig s consolidated electricity market comprises sales to (i) captive consumers in Cemig s concession area in the State of Minas Gerais; (ii) Free Consumers in both the State of Minas Gerais and other States of Brazil, in the Free Market (Ambiente de Contratação Livre, or ACL); (iii) other agents of the electricity sector traders, generators and independent power producers, also in the ACL; (iv) distributors, in the Regulated Market (*Ambiente de Contratação Regulada*, or ACR); and (v) the wholesale trading chamber (*Câmara de Comercialização de Energia Elétrica*, or (CCEE) eliminating transactions between companies of the Cemig Group).

Table of Contents

The total volume of electricity sold by Cemig in 2014 was 3.2% more than in 2013.

	GWh		
	2014	2013	Var %
Residential	10,014	9,473	5.7
Industrial	26,026	23,452	11.0
Commercial, Services and Others	6,395	6,036	5.9
Rural	3,390	3,028	12.0
Public Power	891	861	3.5
Public Illumination	1,298	1,267	2.4
Public Service	1,273	1,242	2.5
Subtotal	49,287	45,359	8.7
Own Consumption	37	35	5.7
	49,324	45,394	8.7
Supply to Other Concessionaires (*)	14,146	16,127	(12.3)
Total	63,470	61,521	3.2

(*) Includes Energy Trading on Regulated Market Agreements (Contrato de Comercialização de Energia no Ambiente Regulado or CCEAR) and bilateral agreements with other agents;

Comments on the various consumer categories:

Residential: Consumption by the residential category grew by 5.70% in 2014, from 2013. The increase is associated mainly with connection of new consumers, higher temperatures in the year, and more use of air conditioners or ventilators in homes. The average monthly consumption per consumer rose by 2.2% from 2013, to 131.2 kWh/month, the highest level since 2001.

Industrial: Consumption by free and captive industrial clients was 10.98% higher than in 2013, mainly reflecting volume of electricity invoiced to Free Consumers 13.7% higher in the year, as new clients were added, and as available supply was redirected following the termination, in December 2013, of supply contracts in the Regulated Market, to the Free Market.

Commercial: Consumption by Free and Captive commercial clients in Cemig s concession area in Minas Gerais, and outside the State, was 5.9% higher in 2014, basically reflecting connection of new consumer units, and also an increase of consumption, principally through air conditioners as a result of the high temperatures in 2014.

Rural: Consumption by rural consumers grew by 11.94% in the year, reflecting increase demand for electricity for irrigation, due to the a-typical climate conditions over the year of 2014, with less rain and higher temperatures.

Other consumer categories: Consumption by the other consumer categories (public authorities, public lighting, public services and Cemig s own consumption) was 2.8% higher in 2014.

Revenue from wholesale supply to other concession holders and Proinfa

Revenue from wholesale supply to other concession holders increased by R$166 million or 7.7% from R$2,144 million in 2013 to R$2,310 million in 2014.

Although the volume of electricity sold to other concession holders was 12.3% lower in the year, at 14,146,109 MWh, vs. 16,127,376 MWh in 2013, the increase in revenue resulted from the average sale price being 20.7% higher, at R$159.16 per MWh in 2014, compared to R$132.94/MWh in 2013.

Table of Contents

The increase in average price was mainly due to the reduction of supply of electricity in 2014, which in turn was the result of the lower level of reservoirs.

Revenue from use of the electricity distribution grid (TUSD)

This is revenue from charging of the Tariff for Use of the Distribution System (Tarifa de Uso do Sistema de Distribuição, or TUSD), to Free Consumers, for transport of electricity sold. Revenue from the use of the electricity distribution system (TUSD) decreased 15.18%, from R$1,008 million in 2013 to R$855 million in 2014.The difference is mainly caused by the factors affecting Cemig D, such as (a) lower industrial activity in the sector reflected in 10.3% lower volume of energy transported; and (b) the tariff impact for Free Consumers as from April 8, 2013, with reduction of the TUSD by 33.2%, which began to be offset by the increase of 8.8% as from April 8, 2014.

The CVA Account and Other financial components in tariff increases

Due to the alteration in the concession contracts of the electricity distributors, the Company began to recognize the balances of non-manageable costs to be passed through to the next tariff adjustment of Cemig D, representing a revenue of R$1,107 million in 2014. This is explained in detail in Explanatory Note 13 to the financial statements.

Revenue from transactions in electricity on the CCEE

Revenue from transactions on the wholesale electricity market through the Electricity Trading Chamber (*Câmara de Comercialização de Energia,* or *CCEE*) totaled R$2,348 million in 2014, compared to R$1,193 million in 2013 an increase of 96.8% from the previous year. This basically reflects the increase of 161.88% in the average price in the wholesale market, resulting from the low level of reservoirs of the hydroelectric plants in 2014 (R$688.89/MWh in 2014, compared to R$263.06/MWh in 2013).

Transmission indemnity revenue

Transmission indemnity revenue totaled R$420 million in 2014, compared to R$21 million in 2013, an increase of 1,900.9%. The higher revenue recorded in 2014 is due to the diference between the accounting amounts previously recorded by Cemig related to the transmission assets and the preliminary indemnity amount disclosed by Aneel related to such assets.

Construction revenues

Construction revenues were R$34 million lower, compared to R$975 million in 2013 and R$941 million in 2014, due to a smaller investment in concession assets. These revenues represent the investments in concession assets. See Note 25 to our financial statements.

Other operating revenues

Other operating revenue increased by R$659 million, or 62.9%, from R$1,047 million in 2013 to R$1,706 million in 2014. Our other operating revenues are:

	2014	**2013**
	(in millions of reais)	

Supply of Gas	422	
Charged service	11	10
Telecommunications services	135	127
Services rendered	118	122
Grants (*)	790	673
Rentals and leasing	81	57
Other	149	58
Total	1,706	1,047

(*) Revenue recognized for the tariff subsidies applicable to users of distribution services, reimbursed by Eletrobrás. The higher figure in 2014 was mainly due to inclusion of the revenue from supply of gas, R$422 million, because of the change in the accounting system to consolidation of Gasmig, as from October 2014.

Table of Contents

Taxes and charges applicable to revenues

Taxes and charges on revenues were R$5,626 million in 2014 compared to R$4,763 million in 2013, representing a growth rate of 18.1%. This mainly reflects the increases in Revenue, to which they are applied.

Operating costs and expenses

Operating costs and expenses, excluding Financial Revenue (expenses) in 2014 were R$14,451 million, 28.6% more than in 2013 (R$11,232 million). For more information please refer to Note 25 to our financial statements.

	2014 (in millions of R$)	% of net operating revenues	2013 (in millions of R$)	% of net operating revenues	2013 versus 2012 %
Electricity purchased for resale	(7,428)	(38.0)	(5,207)	(35.6)	42.7
Gas purchased for resale	(254)				
Charges for the use of transmission facilities of the basic grid	(744)	(3.8)	(575)	(3.9)	29.4
Depreciation and amortization	(801)	(4.1)	(824)	(5.6)	(2.8)
Personnel	(1,252)	(6.4)	(1,284)	(8.8)	(2.5)
Employees and managers profit shares	(249)	(1.3)	(221)	(1.5)	12.7
Outsourced services	(953)	(4.9)	(917)	(6.3)	3.9
Post-employment obligations	(212)	(1.1)	(176)	(1.2)	20.5
Materials	(381)	(1.9)	(123)	(0.8)	209.8
Royalties for usage of water resources	(127)	(0.6)	(131)	(0.9)	3.1
Provisions for operating losses	(581)	(3.0)	(305)	(2.1)	90.5
Construction costs	(942)	(4.8)	(975)	(6.7)	3.4
Other operating expenses, net	(527)	(2.7)	(493)	(3.4)	6.5
Total operating costs and expenses	(14,451)	(74.0)	(11,231)	(76.8)	28.7

The following are the main variations in expenses:

The expense on electricity purchased for resale was R$7,428 million in 2014, compared to R$5,207 million in 2013, representing a growth of 42.7%. The main factors in this difference are:

Expense on purchase of electricity in the free market in 2014 was R$477 million higher, due to higher trading activity, and also the higher price of electricity in 2014 due to low reservoir levels at the hydroelectric plants.

Involuntary exposure of Cemig D (Distribution) to the spot market in 2014, together with the higher price of electricity, due to the low levels of the hydroelectric plants reservoirs. This resulted in the company having an expense in this market of R$1,263 million in 2014, compared to R$304 million in 2013.

The expense on electricity from Itaipu Binacional was 18.3% lower in 2014, at R$830 million in 2014, than in 2013 (R$1,016 million), reflecting a volume of electricity purchased 28.7% lower, at 6,254,980 MWh in 2014, compared to

8,777,227 MWh in 2013. This electricity is priced in dollars, and the effect of this reduction in quantity was partially offset by the appreciation of the dollar against the Real in 2014. The average exchange rate for the dollar in invoices in 2014 was R$2.4, compared to R$2.16 in 2013 an increase of 8.8%.

Table of Contents

Charges for use of the transmission network, which are set by ANEEL, were 29.4% higher in 2014, at R$744 million, compared with R$575 million in 2013. These rates, which are set by an ANEEL resolution, are paid by the distribution and generation agents, for use of the facilities that comprise the National Grid. This is a non-manageable cost: the difference between the amounts used as a reference for calculation of tariffs and the cost actually incurred is compensated for in the next tariff adjustment.

Provisions for operating losses were 90.5 higher in 2014, at R$581 million, compared to R$305 million in 2013. The main factors in the reduction were:

A provision of R$195 million made in 2014, comprising: R$166 million on the valuation of the put option for shares in Parati, and R$29 million from the same effect in the put options for shares in SAAG (investment in Madeira Energia), signed between Cemig GT and private pension plan entities. For more details please see Explanatory Note 14 to our financial statements.

Provisions for employment-law legal actions R$71 million higher in 2014 (at R$242 million, compared to R$171 million in in 2013). This mainly reflects a provision of R$127 million in 2014 resulting from the salary increase of 3% in real terms for the employees, resulting from the judicial arbitration, sought by representatives of the employees, on an annual collective employment agreement. More details are in note 22 to our financial statements.

Personnel expenses were 2.5% lower in 2014 at R$1,252 million, compared with R$1,284 million in 2013. This mainly reflects an extraordinary expense of R$78 million in 2013 on the PID Voluntary Retirement Program.

Expenses on raw materials and inputs for production of electricity in 2014 totaled R$282 million, compared with R$56 million in 2013 an increase of 403.6%. This mainly reflects the need for acquisition of a higher quantity of fuel oil in 2014, for the Igarapé thermoelectric plant, which was dispatched more in this year due to the low level of water in the hydroelectric reservoirs.

Infrastructure Construction Costs in 2014 were R$942 million, 3.38% less than in 2013 (R$975 million).This line records the Company s investment in assets of the concession in the period, and is fully offset by the line Construction Revenue, in the same amount.

Net Financial Expenses

Net financial expenses were R$1,101 million in 2014 compared to net financial revenues of R$309 million in 2013. The main factors that impacted our net financial results in 2014 were:

In 2013 Cemig recorded a gain of R$313 million, recognized in Financial Revenue (expenses), comprising R$81 million as reversal of Pasep and Cofins taxes, and R$232 million as revenue from monetary updating. This resulted from final judgment (i.e. subject to no further appeal) on Cemig s court challenge claiming illegality of expansion of the calculation basis for the Pasep and Cofins taxes to include Financial revenue and other Non-operational revenue, for the period 1999 to January 2004.

Charges for loans and finances were 33.38% higher, at R$931 million, in 2014, compared to R$698 million in 2013, due to the higher volume of funds indexed to the CDI rate in 2014, and also the CDI itself being higher (10.81% in 2014, vs. 8.05% in 2013).

A financial expense of R$239 million was recognized in 2014 for complimentary monetary updating representing the difference between the Cemig rate and the IGP-M rate applied to the amount of the Advance against Future Capital

Increase made by the Minas Gerais State government in previous years. For more details please see Explanatory Note 22 to our consolidated financial statements.

Please see the Net Financial Expenses and Incomes composition at Note 26 to our consolidated financial statements.

Table of Contents

Income tax and the Social Contribution tax

In 2014, Cemig s expense on income tax and the Social Contribution tax was an expense of R$1.343 million, on pretax profit of R$4,479 million, representing a rate of 30.0%. In 2013 this expense was R$950 million, on pretax profit of R$4,054 million, a rate of 23.4%. There is a reconciliation of these effective rates with the nominal tax rates in Explanatory Note 10 to the financial statements.

Liquidity and capital resources

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

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

On December 31, 2015 the Company s consolidated current liabilities exceeded its consolidated current assets by R$3,697 million. The reason for this working capital deficiency was, primarily, new financings with short-term maturities for the Company s Investment Program, and transfer of debentures from long term to short term, associated with the provision for dividends and Interest on Equity in the amount of R$1,256 million, in December 2015 and the loss on put options in the amount of R$1,245 million.

Management monitors the Company s cash flow, and for this purpose assesses measures to adjust the present situation of its financial assets and liabilities to the levels considered appropriate to meet its needs. In this specific case, negotiations are in progress with financial institutions to extend of the debt becoming due in 2016, for long-term maturities.

Cash and Cash Equivalents

On December 31, 2015 neither our cash position nor our cash equivalents were maintained in any other currencies than the Real.

Cash and cash equivalents on December 31, 2015 totaled R$925 million, compared to R$887 million on December 31, 2014. Below are the main components of this variation:

Cash flow from operational activities

The totals of net cash generated by operational activities in 2015 and 2014 were, respectively, R$3,007 million and R$3,734 million. The decrease net cash from operational activities in 2015 than 2014 mainly reflects the reduction net profit in 2015, after adjustment for items not affecting cash flow. Net profit adjusted for items not affecting cash flow in 2015 was R$3,998 million, or 29.15% lower than the figure of R$5,643 million for 2014.

Cash flow used in investment activities

The Company used net cash of R$3,217 million in investment activities in 2015, compared to net cash of R$4,299 million generated by investment activities in 2014. This mainly represents the acquisitions of equity interests in 2014, in which the highlights were Renova, Madeira Energia and Gasmig. See more details in Note 14 to our Financial Statements.

134

Table of Contents

Cash flow used in financing activities

Net cash flow generated by financing activities in 2015 totaled R$247 million, comprising amortizations of financings totaling R$4,696 million, and payments of R$796 million in dividends and Interest on Equity, offset by receipt of funds from financings totaling R$5.739 billion.

Net cash flow consumed by financing activities in 2014 totaled R$750 million, comprising amortizations of financings totaling R$1,394 million, and payments of R$3,917 million in dividends and Interest on Equity, partially offset by receipt of funds from financing totaling R$4,562 million.

Indebtedness

Our indebtedness from loans, financings and debentures as of December 31, 2015 was R$15,167 million, composed of R$6,300 million of current debt and R$8,867 million of non-current debt. Our indebtedness from loans, financings and debentures as of December 31, 2014 was R$13,509 million, composed of R$5,291 million of current debt and R$8,218 million of non-current debt. Of our debt as of December 31, 2015 R$47 million was denominated in foreign currencies (R$33 million of which was U.S. dollar-denominated and R$14 million of which was Euro-denominated) and R$8,828 million denominated in reais. See Note 19 to our financial statements.

Our indebtedness from loans, financings and debentures as of December 31, 2014 was R$13,509 million, composed of R$5,291 million of current debt and R$8,218 million of non-current debt. Our indebtedness from loans, financings and debentures as of December 31, 2013 was R$9,457 million, composed of R$2,238 million of current debt and R$7,219 million of non-current debt. Of our debt at December 31, 2014 R$39 million was denominated in foreign currencies (R$25 million of which was U.S. dollar-denominated) and R$13,470 million denominated in *reais*. See Note 19 to our Financial Statements.

Table of Contents

Our main financial contracts, on a consolidated basis, as of December 31, 2015, are shown in the following table:

Amounts in thousands of reais: LENDER	Principal Maturity	Annual Financial Cost (%)	Currency	Total consolidated in 31/12/2015
Foreign currency				
Banco do Brasil S.A. Various Bônus (1)	2024	Various	US$	33
KFW	2016	4.50	EURO	3
KFW	2024	1.78	EURO	11
Debt in foreign currency				47
BRAZILIAN CURRENCY				
Banco do Brasil	2017	108.33% do CDI	R$	144
Banco do Brasil	2017	108.00% do CDI	R$	433
Banco do Brasil	2016	104.10% do CDI	R$	925
Banco do Brasil	2016	104.25% do CDI	R$	804
Banco do Brasil	2017	111.00% of CDI	R$	100
Banco do Brasil	2020	114.00% of CDI	R$	499
BNDES	2026			