

COMPANHIA ENERGÉTICA DE MINAS GERAIS – CEMIG

LISTED COMPANY – CNPJ 17.155.730/0001-64 – NIRE 31300040127

MARKET ANNOUNCEMENT

Reply to CVM Inquiry Letter 85/2017/CVM/SEP/GEA-1, of February 13, 2017

Question asked by the Brazilian Securities Commission (CVM)

Rio de Janeiro, February 13, 2017.

Subject: Request for information on news report.

Dear Sir,

1. We refer to the article published on February 11, 2017 in the *Folha de S. Paulo* newspaper, under the headline:

“Companies demanding R\$ 750 million from the Santo Antônio plant” –

which contained the following statements:

“ Companies of the electricity sector are demanding return of at least R\$ 750 million invested in the Santo Antônio hydroelectric plant in the state of Rondônia. The consortium that manages the plant refuses to return amounts invested by the partners, even with an arbitration judgment determining that stockholders who put money into the venture have the right to receive money back because directors of the company acted to the benefit of only a part of the group of partners.

Among the injured parties are the state-controlled public-sector companies Eletrobras, Furnas and Cemig, which are in conflict. Cemig, which belongs to the government of Minas Gerais State, is demanding that the federal state-controlled companies Eletrobras and Furnas, the majority stockholders, order the Executive Board of Santo Antônio Energia to return the funds. Santo Antônio Energia is a private-sector company whose partners, as well as the state-controlled companies, are companies linked to the construction companies Odebrecht and Andrade Gutierrez.

Alleging cash problems inhibiting payment of its commitments, Santo Antonio Energia has been asking its partners for more than R\$ 2 million since 2014. The company says that it suffered losses due to strikes that destroyed worksites of the plant and, for this reason, the project works were delayed and it became more expensive than planned, causing losses. In 2016, Cemig and Andrade refused to put new funds into the company, alleging that part of the funds was benefiting “a related party”, and deposited the amounts in escrow with the court.

Both alleged that the money would benefit Odebrecht. So as not to have to pay to Santo Antonio, the companies opened arbitration proceedings – a type of judgment that runs parallel to the courts.

DEADLINE

In a letter sent to Eletrobras in September, to which this newspaper (Folha de São Paulo) has had access, Cemig said that the amount of money paid irregularly is at least R\$ 750 million. The deadline for return of the money has passed, but no return has taken place. We approached Cemig, and it said that it would not make any statement because the arbitration proceedings are being held in secret. Eletrobras said that Furnas would answer.

Furnas stated that it has requested a copy of the whole proceedings, and said: “Since then, Furnas has been reiterating full and immediate implementation of the order given by the judgment”. Santo Antonio Energia stated that “It has always rigorously complied with all and any final, unappealable decision given by the courts or by arbitration, and will continue to do so.” ”

2. In view of the above, we order you to make a statement about the news and the possible impacts on the Company, and to comment on any other information considered to be important on the subject.
3. Your statement should be given through the Empresas.NET system, in the category: Market Announcement, under the sub-category: Responses to consultations by CVM/BOVESPA; subject heading: Media News Reports, and should include a transcription of this letter.
4. We warn you that, by order of our Company Relations Supervision Management, using its legal powers under Sub-item II of Article 9 of Law 6385/1976 and CVM Instruction 452/07, a coercive fine of **R\$ 1,000** (one thousand Reais) is applicable, without prejudice to other administrative sanctions, for non-compliance **by February 14, 2017** with the requirement contained in this Official Letter, which is sent exclusively by e-mail, notwithstanding the provisions of §1 of Article 6 of CVM Instruction 358/02.

Reply by CEMIG

“ Dear Ms. Nilza Maria Silva de Oliveira,

In reply to Official Inquiry No. 85/2017/CVM/SEP/GEA-1, of February 13, 2017, we inform you that, as disclosed in the Reference Forms for 2015 and 2016, duly filed by the Company with the CVM on October 21, 2014, the Extraordinary General Meeting of Stockholders (‘EGM’) of Madeira Energia was held, in which an increase in the share capital of Mesa was approved, by majority, in the amount of R\$ 1.59 billion. On November 19, 2014 SAAG Investimentos S.A. (‘SAAG’) and Cemig Geração e Transmissão S.A. (‘Cemig’) filed an action for provisional remedy against Mesa, requesting an interim order to suspend, until consideration on the merit by the Arbitration Tribunal, the period for exercise, by SAAG and by Cemig, of the right of first refusal to subscribe their proportional part (the disputed portion) of the capital of Mesa, in the amount of R\$ 174.72 million, approved by the Extraordinary General Meeting of Stockholders of Mesa held on October 21, 2014. The action also requested suspension of all the effects of the decisions as they relate to SAAG and Cemig 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 interim relief was granted on November 21, 2014, by the 39th Civil Court of the Central Jurisdiction of São Paulo.

Indeed, Cemig and SAAG voted against approval of the said capital increase in MESA, to be partially allocated to payment of the amounts requested by Santo Antônio Construction Consortium (‘CCSA’), in the amount of approximately R\$ 750 million, on the grounds of (i) the absence of calculation of the amounts supposedly owed, and (ii) the absence of prior approval by the Board of Directors, as is required by the by-laws and the Stockholders’ Agreement of MESA, and also (iii) the existence of credits receivable by the latter from CCSA, able to be offset, in an amount higher than the total amounts demanded. The other stockholders made the same vote as Furnas, which made the increase and the payment conditional upon the provision of a guarantee by CCSA that it would ensure the return of the money.

In parallel, the Executive Board of MESA posted an impairment of certain credits owed to MESA by CCSA, which had been regularly accounted in successive business years, reducing them by approximately R\$ 750M. Cemig and SAAG, and subsequently Furnas, stated that they were opposed to the reduction, carried out without legal grounds and against the express contractual rules.

For the purpose of obtaining annulment of the capital increase and of the impairment, Cemig and SAAG began arbitration proceedings against Mesa in the Market Arbitration Chamber (*Câmara de Arbitragem do Mercado*, or ‘CAM’). These proceedings are being held *in camera*, in accordance with the regulations of the CAM.

The judgment, in 2016, recognized the irregularities indicated above, in full, and ordered annulment of the acts that had been impugned. SAAG and Cemig are in the process of taking measures to implement the decision. At present the Executive Board of MESA has not complied with the decision in relation to either of the two matters. ”

Cemig takes this opportunity of reiterating its commitment to opportune and timely disclosure of all and any facts that are of interest to its stockholders, in accordance with Article 2 of CVM Instruction 358/2002.

Belo Horizonte, February 14, 2017

Paulo Roberto Castellari Porchia
Chief Finance and Investor Relations Officer