

COMPANHIA ENERGÉTICA DE MINAS GERAIS – CEMIG

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

MARKET ANNOUNCEMENT

Reply to BM&FBovespa Official Letter SAE 2950/14, of September 17, 2014

Question asked by BM&F BOVESPA

“SAE 2950/14

September 17, 2014

CIA ENERGÉTICA DE MINAS GERAIS - CEMIG

Mr. Luiz Fernando Rolla

Investor Relations Officer

Dear Sir,

In view of the recent variations in the prices of your company’s shares, the increased number of trades and the increased number of shares traded, as set out below, we request you to inform us, by September 18, 2014, whether there is any fact you are aware of that could be the reason for this.

ON Shares									
Prices (R\$ per share)									
Date	Openning	Minimum	Maximum	Average	Closing	Change %	No. of trades	No. of shares	Total R\$
09/04/2014	19.30	19.26	19.72	19.61	19.57	1.93	350	155,700	3,052,731.00
09/05/2014	19.50	19.07	19.68	19.25	19.07	-2.55	296	60,700	1,168,243.00
09/08/2014	19.11	18.56	19.38	19.04	18.56	-2.67	326	54,000	1,028,039.00
09/09/2014	18.52	18.07	18.63	18.34	18.07	-2.64	225	57,700	1,058,426.00
09/10/2014	17.97	17.70	18.45	17.92	17.80	-1.49	436	88,900	1,593,018.00
09/11/2014	17.80	17.30	17.97	17.50	17.30	-2.81	169	38,800	678,971.00
09/12/2014	17.30	16.91	17.90	17.67	17.60	1.73	1,290	797,700	14,097,189.00
09/15/2014	17.95	17.65	18.01	17.84	17.70	0.57	126	35,500	633,173.00
09/16/2014	17.50	16.91	18.02	17.53	17.67	-0.17	648	340,300	5,964,194.00
09/17/2014*	17.71	16.95	17.71	17.03	17.03	-3.62	955	887,100	15,106,544.00

* Updated to 3:05pm.

PN Shares									
Prices (R\$ per share)									
Date	Opening	Minimum	Maximum	Average	Closing	Change %	No. of trades	No. of shares	Total R\$
09/04/2014	19.12	18.96	19.28	19.06	18.99	-0.68	6,199	3,895,000	74,236,145.00
09/05/2014	19.18	18.75	19.18	18.89	18.84	-0.84	5,542	1,933,000	36,513,143.00
09/08/2014	18.94	18.12	19.10	18.53	18.12	-3.36	12,734	3,512,700	65,100,657.00
09/09/2014	17.83	17.73	18.28	17.87	17.81	-1.98	9,619	4,320,700	77,217,355.00
09/10/2014	17.75	17.38	17.90	17.59	17.67	-0.67	13,994	4,736,300	83,321,282.00
09/11/2014	17.49	17.04	17.70	17.29	17.10	-2.84	14,502	6,096,900	105,389,977.00
09/12/2014	16.99	16.60	17.12	16.84	16.70	-2.00	17,325	9,152,800	154,106,864.00
09/15/2014	16.70	16.69	17.14	17.01	17.08	2.52	10,520	3,438,300	58,486,342.00
09/16/2014	16.45	16.03	17.07	16.75	16.96	-0.70	21,424	7,175,200	120,196,834.00
09/17/2014*	16.70	15.95	16.70	16.17	16.08	-5.13	15,613	7,836,100	126,692,010.00

* Updated to 3:05pm.

We would remind you that this request is made under the Cooperation Working Agreement made between the CVM and BM&FBOVESPA on December 13, 2011, and that non-compliance with it may make your company subject to imposition of an incentive fine by the SEP (Company Relations Management Unit) of the CVM, in accordance with the provisions of CVM Instruction 452/07.

Yours,

Nelson Barroso Ortega
Company Monitoring Management Unit
BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros

c.c.: CVM – Brazilian Securities Commission
Mr. Fernando Soares Vieira – Company Relations Management Unit
Mr. Waldir de Jesus Nobre – Market and Intermediaries Relationship Management Unit”

Reply by CEMIG

Dear Sirs,

In compliance with the request made by BM&FBovespa in Official Letter SAE 2950/14 of September 17, 2014, in relation to the recent variations in the prices of our company's shares, and the increased number of trades and volume of shares traded, we inform you that there is no fact or event arising from our activity or business that could account for these events.

The changes observed in the amounts and volumes traded arise from evaluation made by investment analysts – in the attached reports – of an interview given to Valor Econômico newspaper by a representative of a candidate, published on September 16, and the result of an opinion poll on the elections for governor of the state of Minas Gerais.

Cemig reiterates its commitment to timely publication of all and any material information.

Belo Horizonte, September 18, 2014

Luiz Fernando Rolla

Chief Finance and Investor Relations Officer

Annex I

“Valor Econômico” news published on September 16, 2014.

12:00 AM (GMT -03:00) – Sep 16 2014

Workers' Party wants to make Cemig less market oriented

By **Marcos de Moura e Souza** | Belo Horizonte

Leading polls in the Minas Gerais governor race, Workers' Party (PT) candidate Fernando Pimentel is preparing several changes in the management of state-controlled utility Cemig. One of the largest Brazilian companies in the industry, Cemig has the state of Minas Gerais as majority shareholder and is traded on Bovespa and the New York and Madrid stock exchanges.



Marco Aurélio Crocco

In an interview with Valor PRO, the real-time news service of Valor, Mr. Pimentel's chief campaign coordinator, Marco Aurélio Crocco, said that among the plans of a PT administration is lowering power bills.

He also spoke about a revision of what he considers an excessive priority on generating results to shareholders to the detriment of improving public services. He also questions the real need for the partnership under discussion with Spain's Gas Natural Fenosa.

"Today Cemig is more guided by market mechanisms than fulfilling the needs of the state of Minas Gerais," Mr. Crocco says. "The company's service quality has deteriorated. We must change this behavior. It cannot be a company seeking only high profits to guarantee dividends to shareholders. It's a state company." He says there's a "conflict" that needs to be conciliated.

Cemig, which reported a profit of R\$741 million in the second quarter, 20% higher than the year-ago period, respond to criticism by citing it's been included for the 15th consecutive time in the Dow Jones Sustainability Index, which takes into consideration quality and shareholder gains.

This is the first time the PT is leading the elections for the state government in Minas Gerais. The Brazilian Social Democracy Party (PSDB) has been dominating the state's politics for 12 years. Minas Gerais is the electoral base of PSDB Senator and presidential candidate Aécio Neves, who governed it for two terms (2003 to 2010) and elected allies as his successors. The state is currently governed by Alberto Pinto Coelho (Progressive Party, PP).

The electoral fight is between Mr. Pimentel and PSDB candidate Pimenta da Veiga. Mr. Pimentel has been leading since last year. Mr. Veiga rose in polls but continues in second place. Last week's Datafolha poll showed the PT candidate with 34% of votes, while the PSDB contender had 23%.

Mr. Pimentel would win a second round if the election was today, according to the poll, with 42% of votes against 29%. Asked about his plans for Cemig, Mr. Veiga praised the company's performance in the last few years. "The general lines are certain. We're not proposing any huge change." He promised that Cemig will be treated "in a technical way, as it has been treated" during PSDB administrations, and questioned Mr. Pimentel's proposals to change tariff policies. The PSDB candidate says the experience of the Dilma Rousseff government (PT) – where Mr. Pimentel was a minister until early this year – in trying to reduce tariffs was a "complete disaster."

Mr. Crocco says that Mr. Pimentel has a “clear intent” on lowering Cemig's power prices as a way of benefiting residential and business consumers. At least two ideas are being considered: lowering the sales tax (ICMS) over electricity and not fully passing on to consumers all price raises determined by the National Agency of Electric Energy (Aneel).

“There are several ways of doing this: either you work it from what's the state's responsibility, in this case lowering ICMS, which is included in prices, or not passing on all price hikes allowed by the Aneel,” says Mr. Crocco, who holds a PhD in economists from University of London and is a professor on the Economics Department of the Federal University of Minas Gerais.

An analyst with a foreign bank who covers the electricity industry told Valor that the PT's campaign in Minas Gerais is signaling that Cemig's future is bad from the market standpoint, because the proposals could hurt the company's financial health. The analyst thinks the proposal of lowering tariffs gives the market the impression that Cemig could be treated like Copel, the Paraná utility, was during the Roberto Requião administration (Brazilian Democratic Movement Party, PMDB) – a politician that spearheaded confrontations with the private sector. The analyst, who declined to be named, said that Mr. Requião twice didn't pass on to consumers price increases calculated by Aneel.

Cemig CEO Djalma Bastos de Moraes says that lowering the ICMS to bring down bills is a welcome measure, but questioned its viability. Mr. Moraes has been ahead of the company since 1999, when the governor was Itamar Franco.

“The controlling shareholder, which is the state government, has its priorities. If the next governor is Mr. Pimentel, and when calculating what has to be invested and personnel expenses he manages to lower the ICMS, then great. Great for the industry, great for those choosing to install [companies] in Minas. But since the time of Doctor Itamar Franco I haven't seen on the horizon ways of making state expenses compatible with cuts in the ICMS. I haven't seen. Maybe the next government could reach this conditions,” the executive told Valor. “I have never seen, in this period, a government letting go of the ICMS.”

Mr. Crocco says that in a potential Pimentel administration “no contracts would be broken” and all parts would be heard. The campaign coordinator also advanced what would be the position of a potential PT administration on privatizing Gasmig, the state's gas distributor and Cemig subsidiary. Privatizing it is being planned by the current government, which wants to build a gas pipeline to supply a nitrogen fertilizer plant constructed by Petrobras in Uberaba.

Lacking the project's estimated cost of R\$1.8 billion, Cemig's management negotiated a partnership with Fenosa. The Spaniards would consolidate Gasmig into a new distributor charged with building the pipeline. But the Spaniards want Gasmig to be privatized.

“It hasn't been determined that the best option is the Spanish company. Cemig still has financing capacity. Why not a BNDES loan, for instance? It would be easy for Cemig to seek such a partnership,” Mr. Crocco says.

Another controversial issue is Cemig's fight with the Rousseff government. The company says it has the right to a new concession over three hydroelectric plants that the federal government argues should be returned to the Union and auctioned again. The disagreement began in late 2012, when the federal government defined new rules for the electricity industry.

The rules were approved when Mr. Pimentel was still the Development, Industry and Foreign Trade minister of the Rousseff administration. Mr. Crocco says the campaign considers “fundamental” maintaining the plants with Cemig. “If this is possible through a court measure or new bidding for the concession, we can't say because we don't know the litigation's details.”

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<http://www.valor.com.br/international/news/3696458/workers-party-wants-make-cemig-less-market-oriented#ixzz3DnghMeWO>

Annex II

Market analyst reports on the effects of electoral forecasts on Cemig's shares.

J.P.Morgan

Latin America Equity Research

17 September 2014

Brazilian Utilities

Utilities Daily: PT could win in the first round in Minas Gerais (negative for Cemig)

I hope you're doing well. There are some topics on Brazilian utilities today that I believe could be of interest. Let me know if you want to discuss any of the items.

- PT could win in the first round in Minas Gerais – negative for Cemig, in our view.** Last night, Ibope institute released a new opinion poll for the gubernatorial election in MG. As expected, Fernando Pimentel (PT) widened to 20pp from 14pp his difference to Pimenta da Veiga (PSDB). The PT candidate has now 43% (6pp above the previous poll), while the PSDB candidate remains at 23% (flat). The possibility of a definition in the first round pro PT is real, in our view. Ibope also showed a simulation for the second round in MG: PT 48% vs. PSDB 26%. We recommend a trade idea for Long PETR4 (N) x Short CMIG4 (UW). We also see negative read-thru for Light (LIGT3) and Taesa (TAEE11), which are not directly controlled by Cemig. In our view, the next administration may implement meaningful changes in the companies' top management as well as setting a non return-oriented growth strategy.
- DisCo's involuntary exposure in 2015 is a major concern.** *CanalEnergia* press highlighted yesterday that disCos' regulated contracts with genCos in the amount of 4.2 GW avg. will expire in January 2015 and need to be re-contracted in the A-1 energy auction, expected in November 2014. However, most of this 4.2 GW avg. is tied to concessions that will only expire in July 2015 (2.6 GW avg. related to Ilha Solteira/Jupiá concessions), creating a hole that must be tapped by purchases in the spot market – involuntary exposure, similar to what happened in 2014. The market is anxious for a solution, including: i) tailored products in the A-1 auction that would fit the different energy volume needs in 1H15 and 2H15; ii) further CDE/CCEE loans to offset the involuntary exposure in 1H15; iii) implementation of the tariff flags in January 2015; iv) allocation of Jaguará and São Simão plants (both belonging to Cemig) into quotas as early as January 2015 (i.e. preventing additional injunctions in favour of Cemig).
- Tapajós HPP (8.1GW) tender postponed.** According to Valor newspaper, the government stepped back and revoked the permits for the tender of Sao Luiz do Tapajós HPP (8.1 GW), previously set for Dec 15th. According to the government, further studies on the impacts for indigenous people need to be contemplated, and IBAMA environmental authority should take more than 150 days to grant the preliminary construction license. This is considered the last giant hydro power project to be constructed in the Amazon region with a total capex of R\$30.6bn (estimates). Tapajós HPP is a complex project, and would pose several execution/capex overrun risks for the winning consortium. The government did not announce the new date for this tender. We believe this project would face significant headwinds if Marina Silva wins the elections, as she has historically been a defender of the environment and against huge dams in the Amazon region. Given the dreadful track record of large Greenfields in Brazil (Santo Antônio, Jirau and Belo Monte HPPs) and all the risks involved in Tapajós (environmental, Indian communities, just to mention a few), we think this news is slightly positive on sentiment for Copel and Energias do Brasil, which we think would be interested in bidding for this project.
- Brazil to become a net importer of aluminum.** Valor also reports today that Brazil should be a net importer of aluminum this year, as opposed to one of the biggest net exporters in 2013. The reason for this shift is that aluminum manufacturers (Alcoa, Votorantim, etc) face low prices and soaring electricity

prices in Brazil, a key cost component in the aluminum production. Moreover, with the spike in spot prices this year, aluminum players saw a good opportunity for windfall profits by stopping production and re-selling their energy contracts in the spot market at sky rocket Brazil. We think this choice will be made in 2015 as well. Furthermore, the continuity of aluminum industry in Brazil is at risk with the upward trend in power prices for new contracts after 2016-17. **This is another element that supports our negative stance on Brazil's GDP growth rate in 2015.**

LatAm Utilities

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Companies Discussed in This Report (all prices in this report as of market close on 16 September 2014) Cemig (CMIG4.SA/R\$16.95/Underweight), Copel (CPLE6.SA/R\$36.13/Underweight), EDP Energias do Brasil (ENBR3.SA/R\$10.43/Neutral), Light (LIGT3.SA/R\$22.30/Neutral), PETROBRAS PN (PETR4.SA/R\$21.55/Neutral), Taesa (TAE11.SA/R\$22.50/Underweight)

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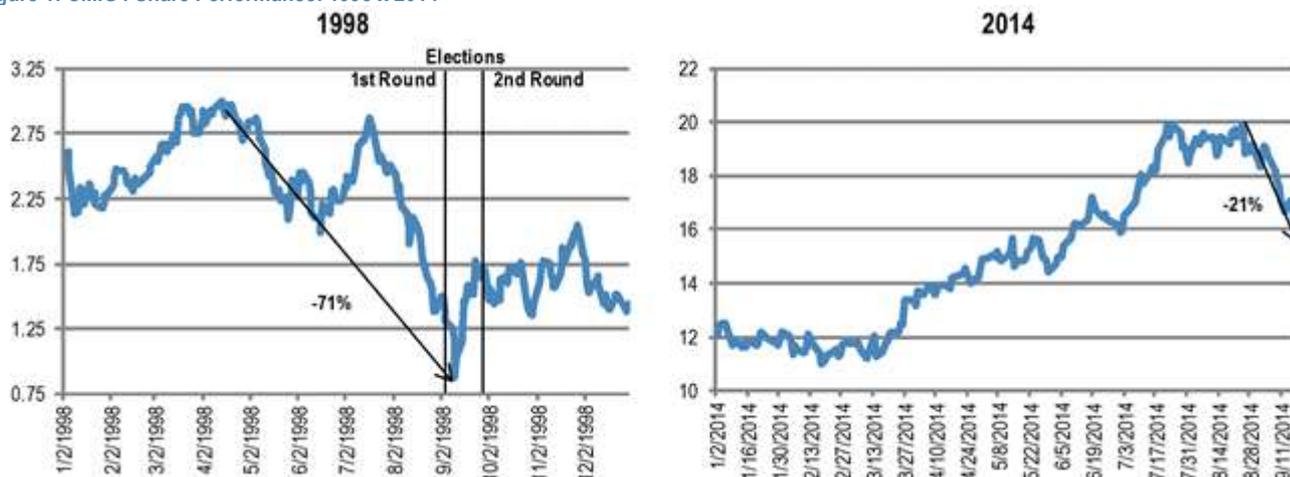
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Brazilian Utilities

Utilities Daily: A Lot of Noise on Cemig; EdB Anticipates Start-up of Jari HPP; Tariff Flags Coming Next Year

- Cemig: What effect would the election have on shares?** It seems investors are trying to understand what the effect would be for CMIG4 shares with a victory of the PT in this October gubernatorial elections. The recent opinion polls show PT candidate Fernando Pimentel winning in the first round, which could make it more difficult for PSDB candidate, Pimenta da Veiga, to turn this around. As a reminder, the stock fell 44% in 1998 (January to December) after the PMDB government in October 1998 adopted non market-friendly measures and lost market support. CMIG4 printed a 71% sell-off between April and September 1998, when the government's agenda became clear. It is difficult to assess the impacts of a PT administration for Cemig, **as it seems the only certainty for next year is, curiously, uncertainty.** We believe the recent skepticism was triggered by the *Valor* article earlier this week, quoting Fernando Pimentel's campaign coordinator on eventual tariff reductions. So far, CMIG4 is down 21% from its peak in August 2014. We note that Cemig's bylaws oblige the administration to implement in full the tariff increases granted by ANEEL, but this could be changed through a general shareholders meeting. All in all, we think the major question now is: **How might Cemig's top management change under a possible PT government?**
- In our view, there are further factors to pay attention to:** i) use of the genCo/trading business to foster industrial activity in the MG state by lowering genCo prices to clients, which could erode EBITDA margins; ii) revision of bylaws to allow for disCo tariff cuts – this would require approval from a general shareholders meeting, but the governor would have a majority of seats on the board to possibly pass this; iii) potential change in top management, revision of the dividend policy, shift of investment strategy; iv) bids for large greenfield projects at returns that could be suboptimal; v) opex increases; just to mention a few. Last, but not least, a reminder that Andrade Gutierrez holds a 5% stake in Cemig's preferred shares (CMIG4), related to the stock dividend paid by Cemig in Dec-13, which raises the risk of an overhang on PNs.

Figure 1: CMIG4 Share Performance: 1998 x 2014



Source: Bloomberg and J.P. Morgan.

- **Tariff flags confirmed for January 2015.** According to *Estadão* newspaper, ANEEL's director, André Pepitone, confirmed that the tariff flags mechanism will be put in place in January 2015 (the original schedule was January 2014). This is positive news for disCos in general, given that every time spot prices surpass R\$350/MWh, captive tariffs will be raised by R\$30/MWh (a hike of ~10% to current power rates). It is important to mention that, while the small involuntary exposure will be liquidated at spot prices (higher than R\$30/MWh), the ~10% hike will be applied over the entire customer base of the disCo, implying much more revenues. The extra revenue for the disCo should solve problems related to negative working capital stemming from involuntary exposure to the spot market and thermo dispatch costs that are not covered by current tariffs.
- **EDP Brasil anticipates greenfield hydro project, offset by Pecém I stoppage.** Energias do Brasil announced the operational start-up of the Jari HPP (373 MW). The official start-up was scheduled for January 2015, but the company managed to move the start-up to August this year. According to our estimates, EDP is likely to profit R\$100m this year by selling the electricity in the spot market. This is a positive event for the stock, but we believe it is not enough to counter the potential large effects of negative GSF (hydro generation deficits) that should occur in 2H14.

LatAm Utilities

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 Cemig (CMIG4.SA/R\$15.85/Underweight)

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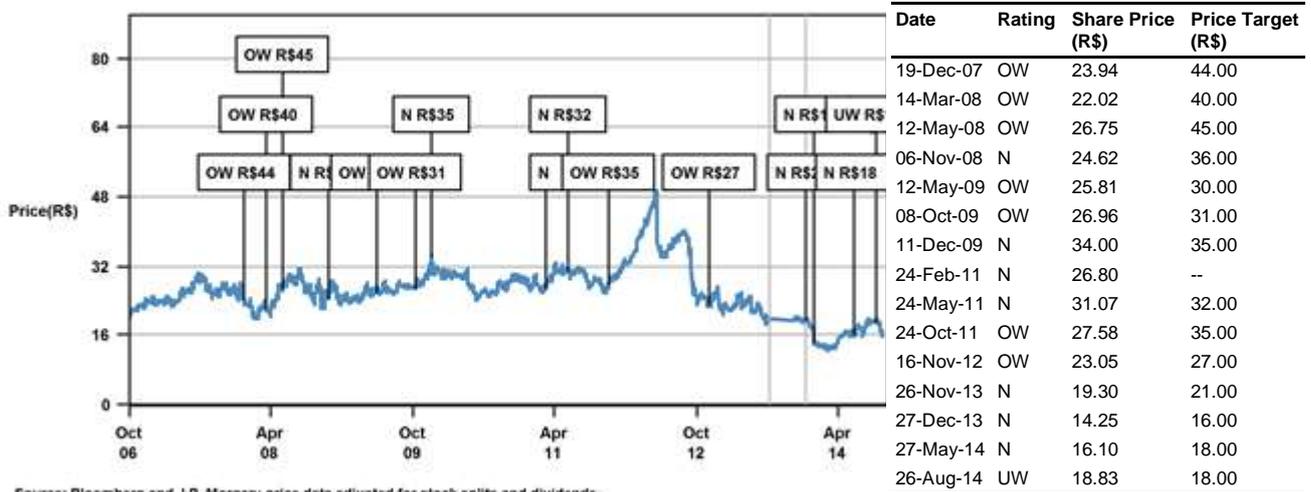
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Cemig (CMIG4.SA, CMIG4 BZ) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Break in coverage Feb 24, 2011 - May 24, 2011.

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