Corporate Presentation

Third quarter of 2014

AES Brasil

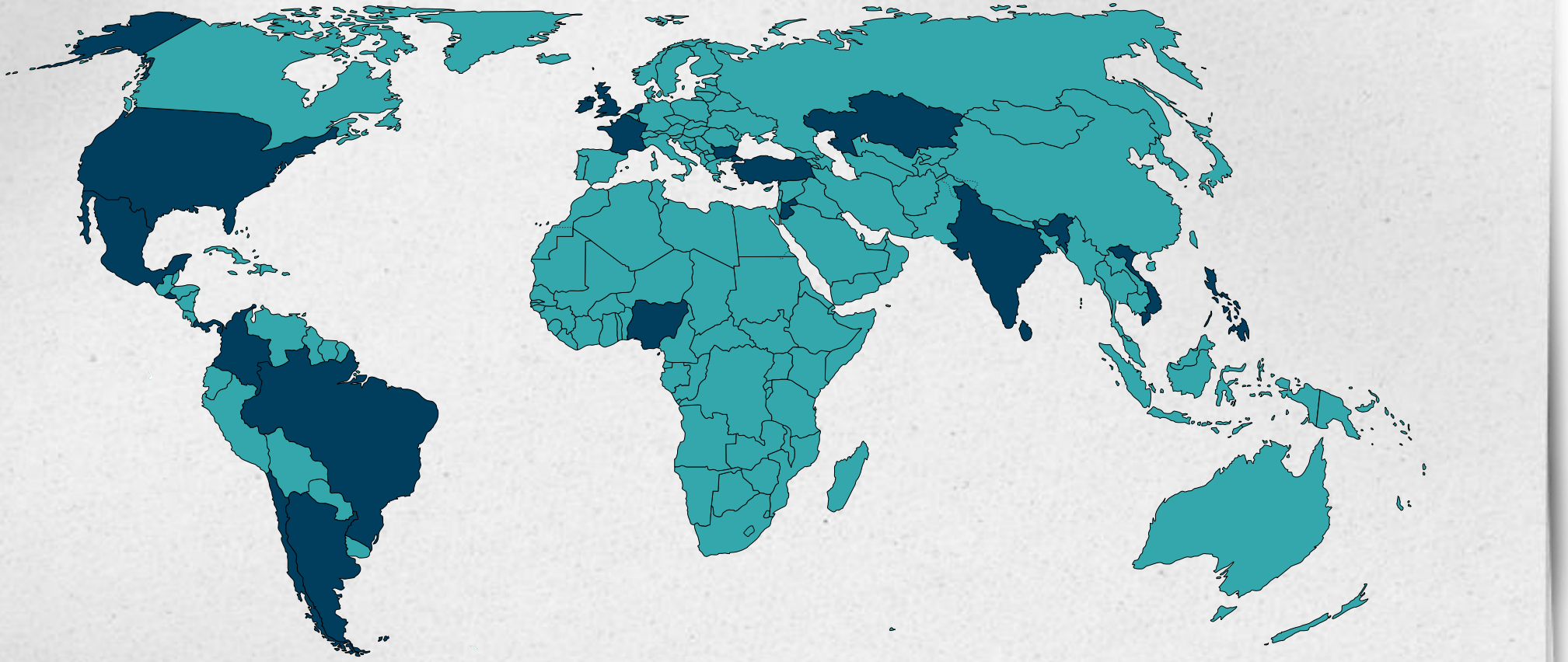
Global Company

AES Corp is present in **20 countries** and **5 continents**

35 GW
Installed capacity

Providing services to over **100 million people**

17.8 thousand employees

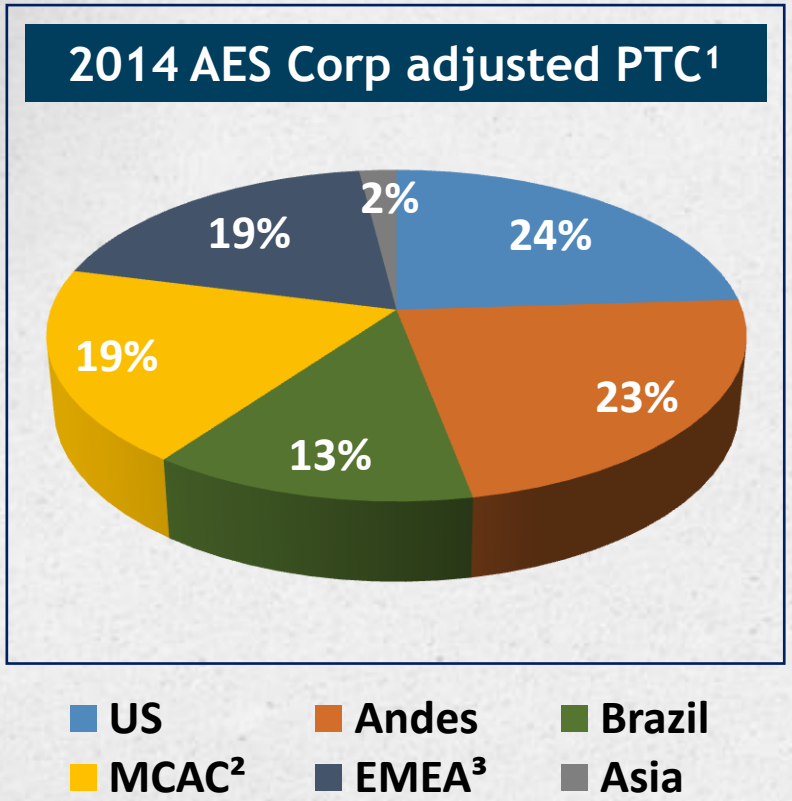


Countries in which **AES** develops its activities

AES Brasil SBU

Represents **13%** of 2014 **AES Corp** adjusted PTC[1]

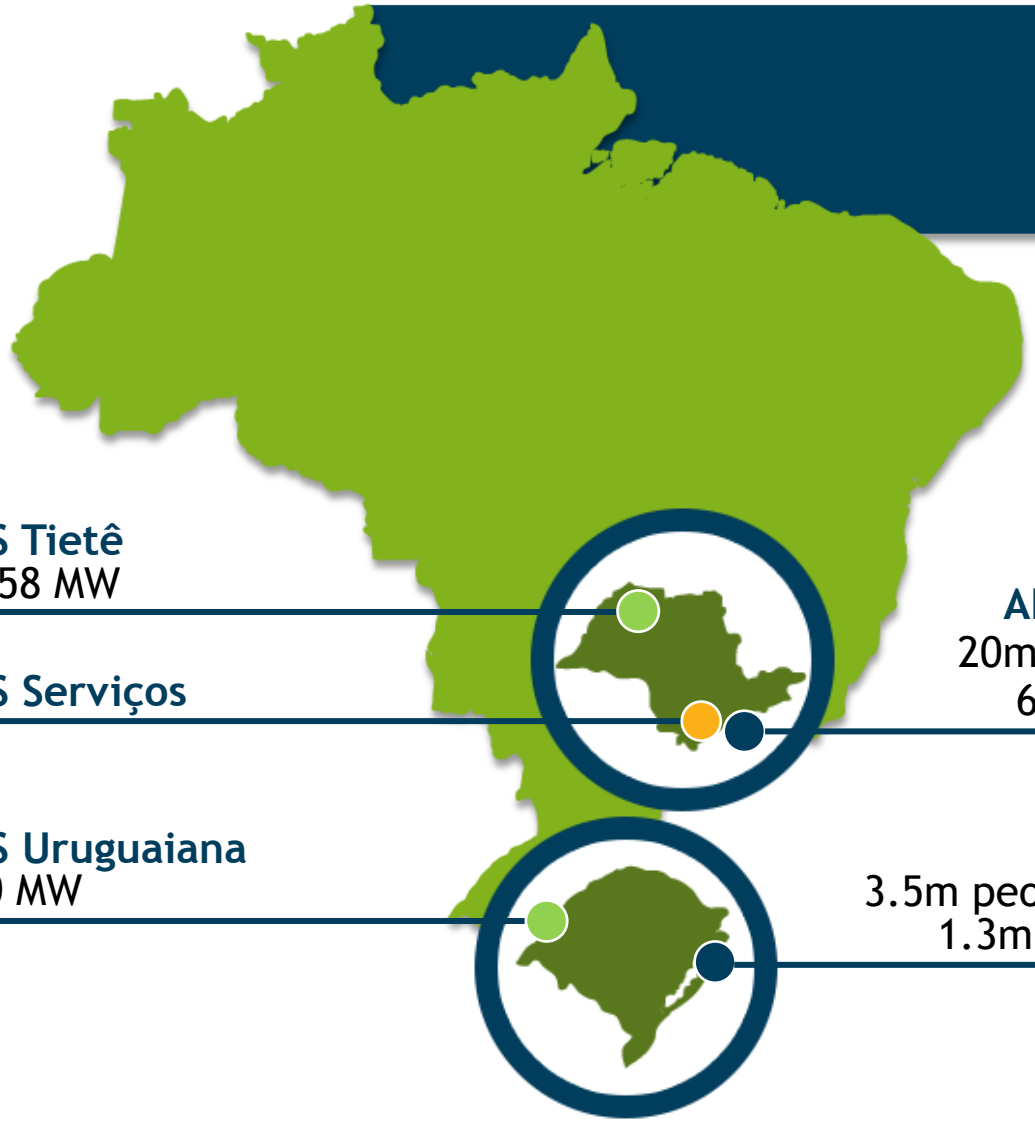
AES Brasil is one of AES Corp **priority markets**



AES Corp is organized in **Six Strategic Business Units (SBU)**, focused on key markets

1 - Pre-tax contribution (a non-GAAP financial measure); 2 - Mexico, Central America and Caribbean; 3 - Europe, Middle-East and Africa

Leading position in the energy sector in Brazil



AES Tietê
2,658 MW

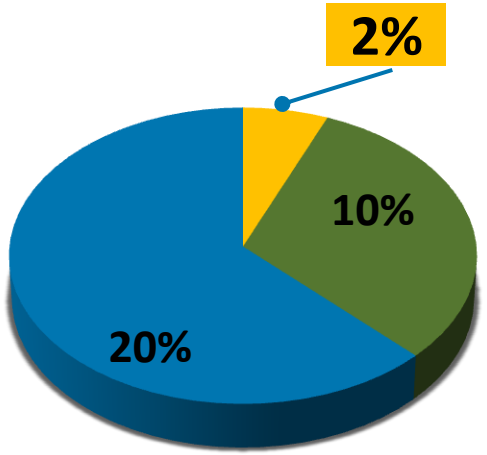
AES Serviços

AES Eletropaulo
20m people served
6.7m customers

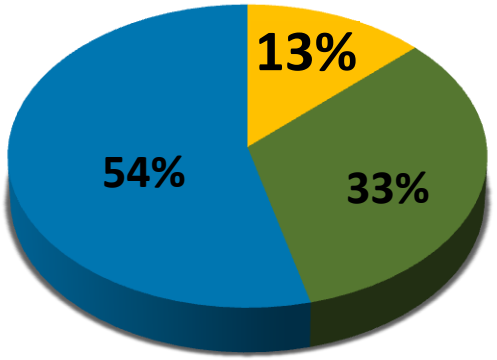
AES Uruguaiana
640 MW

AES Sul
3.5m people served
1.3m customers

Generation[1] Market Share



Distribution[2] Market Share

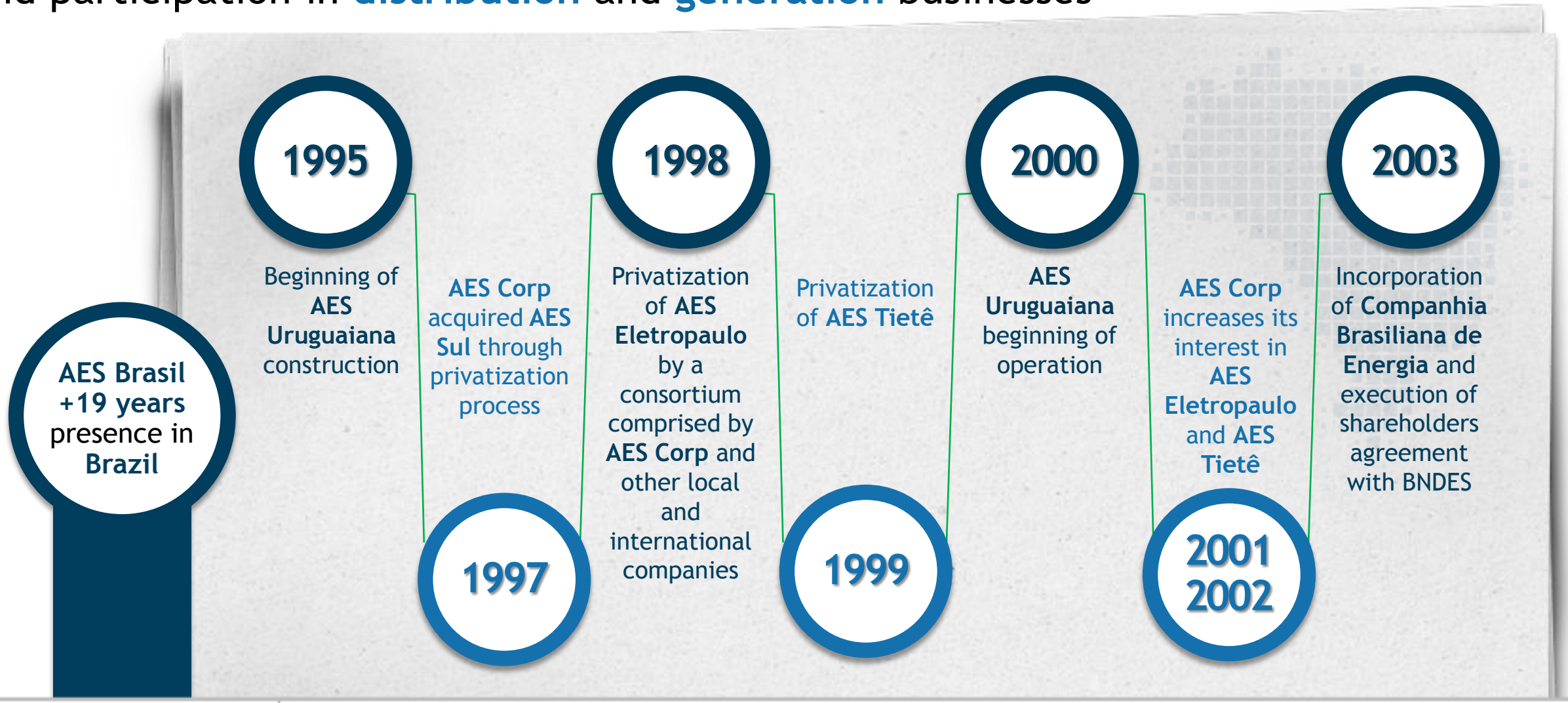


AES Brasil | State owned | Other

1 – in terms of installed capacity as of 2013; 2– in terms of distribution capacity as of 2013.

History in Brazil

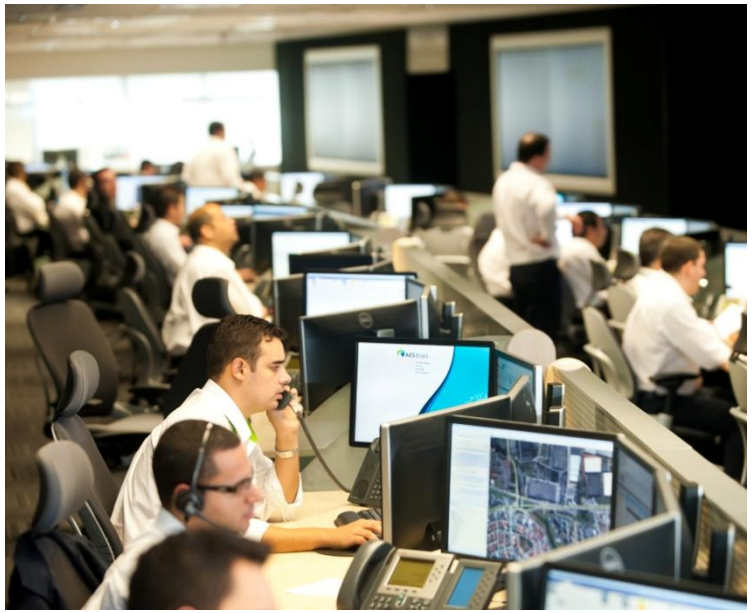
Solid participation in **distribution** and **generation** businesses



AES Brasil Mission, Vision and Values

Mission

To promote well being and development with the safe, sustainable and reliable provision of energy solutions



Vision

To be the leading power company in Brazil that safely provides sustainable, reliable and affordable energy

Values

- *Put safety first*
- *Act with integrity*
- *Honor commitments*
- *Strive for excellence*
- *Have fun through work*

AES Brasil environmental responsibility

- Reservoirs **repopulation**
- **Reforestation**, **border** and **archeological** management programs
- Water **quality monitoring**
- **Recycling** and **waste disposal** programs
- Programs aiming to **reduce** CO2 **emissions**
- **Risk Management** and identification of **opportunities** related to **climate change**

AES Brasil social responsibility

- Access to **reliable energy** through **social development**
- **Education** for **efficient** and **safe** use of **electricity**
- Program which offer **cultural** and **sports** activities simulating **citizenship practices**
- **Sustainable partnership** – **commitment** with **sustainable** development at AES Brasil' **value chain**

INVESTMENT PLAN

2014 - 2018

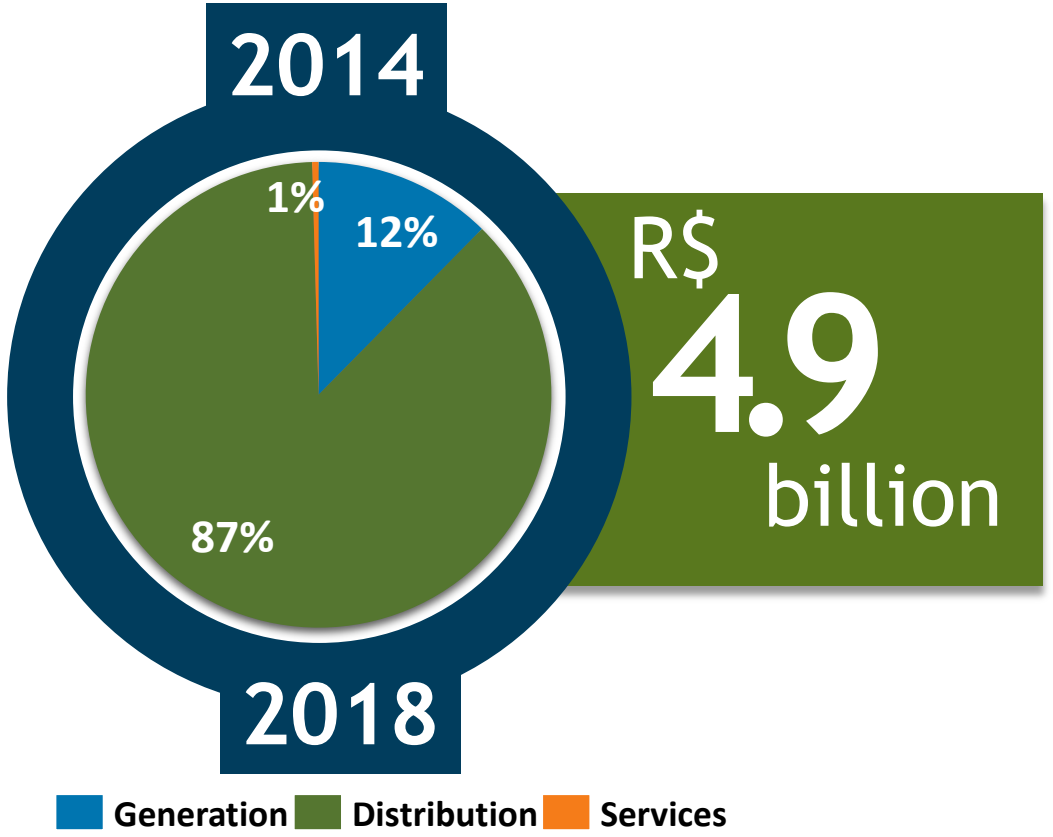
AES Tietê
R$ 0.6 billion

AES Eletropaulo
R$ 3.2 billion

AES Serviços
R$ 21.7 million

AES Uruguaiana
R$ 13.2 million

AES Sul
R$ 1.1 billion



AES Brasil widely recognized

AES Eletropaulo

ISE Índice de Sustentabilidade Empresarial

Prêmio Nacional da Qualidade 2009 Premiada

Fipecafi - Serasa Experian Troféu Transparência ANEFAC 2013

Prêmio Nacional da Qualidade 2012 Premiada

Fipecafi - Serasa Experian Troféu Transparência ANEFAC 2014

CartaCapital

Premio Iberoamericano de la Calidad Fundibeq Organización Ganadora 2010

Prêmio Consumidor Moderno de Excelência em Serviços ao Cliente

AES Tietê

ISE Índice de Sustentabilidade Empresarial

Fipecafi - Serasa Experian Troféu Transparência ANEFAC 2013

Prêmio Nacional da Qualidade 2012 Premiada

Prêmio Época de Mudanças Climáticas MultiPark

Premio Iberoamericano de la Calidad Fundibeq Organización Ganadora 2010

AES Brasil

guia EXAME Sustentabilidade

BEST INNOVATOR

AES Sul

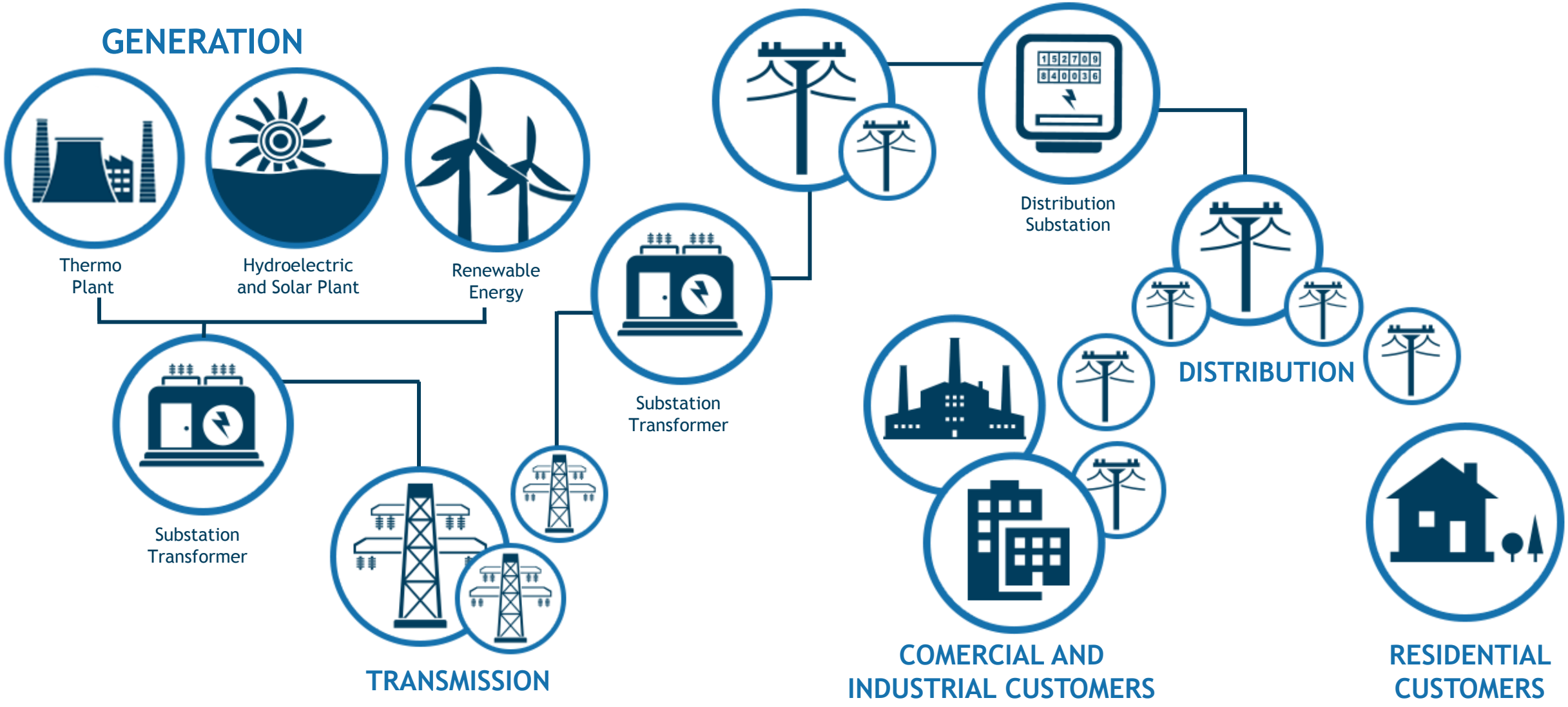
Prêmio Nacional da Qualidade 2014

Prêmio Nacional da Qualidade 2010 Premiada

Premio Iberoamericano de la Calidad Fundibeq Organización Ganadora 2010

Guia 2014 Você S/A As Melhores Empresas para Você Trabalhar

National Integrated System



Energy sector in Brazil: businesses segments

Generation[1]

- **3,493 power plants**
- **132 GW of installed capacity**
- System **based** on **hydro plants** (67%)
- **Contracting environment: free** and **regulated markets**

Transmission[2]

- **77** companies
- **High voltage transmission (>230 kV)**
- **110,546 km** lines (National Integrated System)
- **Regulated tariff** (annually adjusted by inflation)

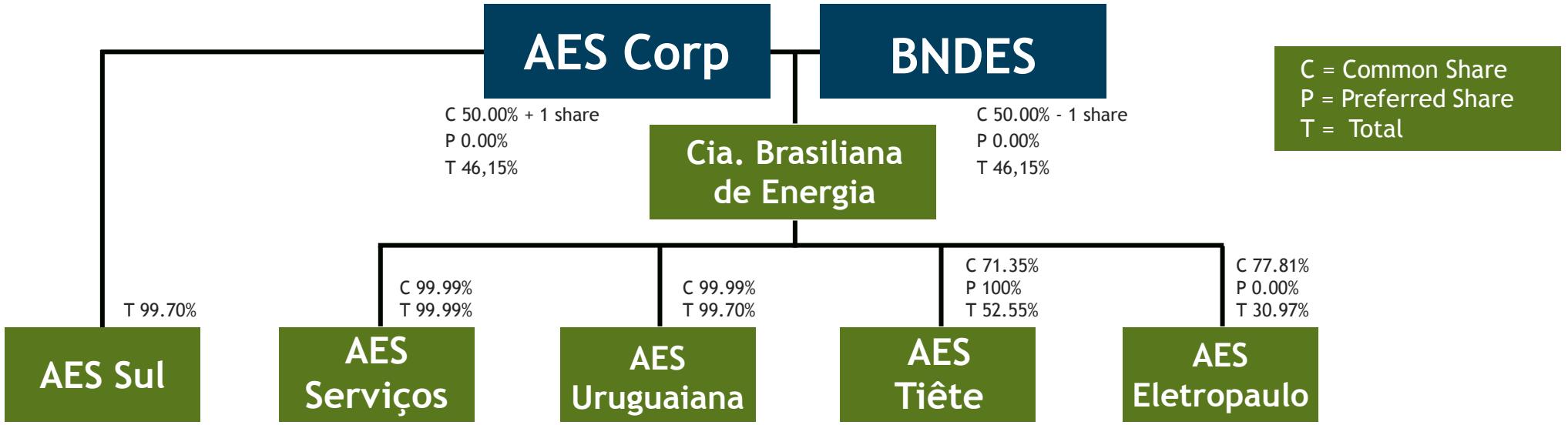
Distribution[2]

- **63** distribution companies
- **464 TWh** energy **distributed**
- **190 million** consumers
- **Annual** tariff **adjustment**
- **Tariff reset** every **four** or **five years**
- **Regulated contracting** environment

Sources: EPE, ANEEL, ONS, ABRADEE and Instituto Acende Brasil

1 – Refers to 2014 data; 2 – Refers to 2013 data

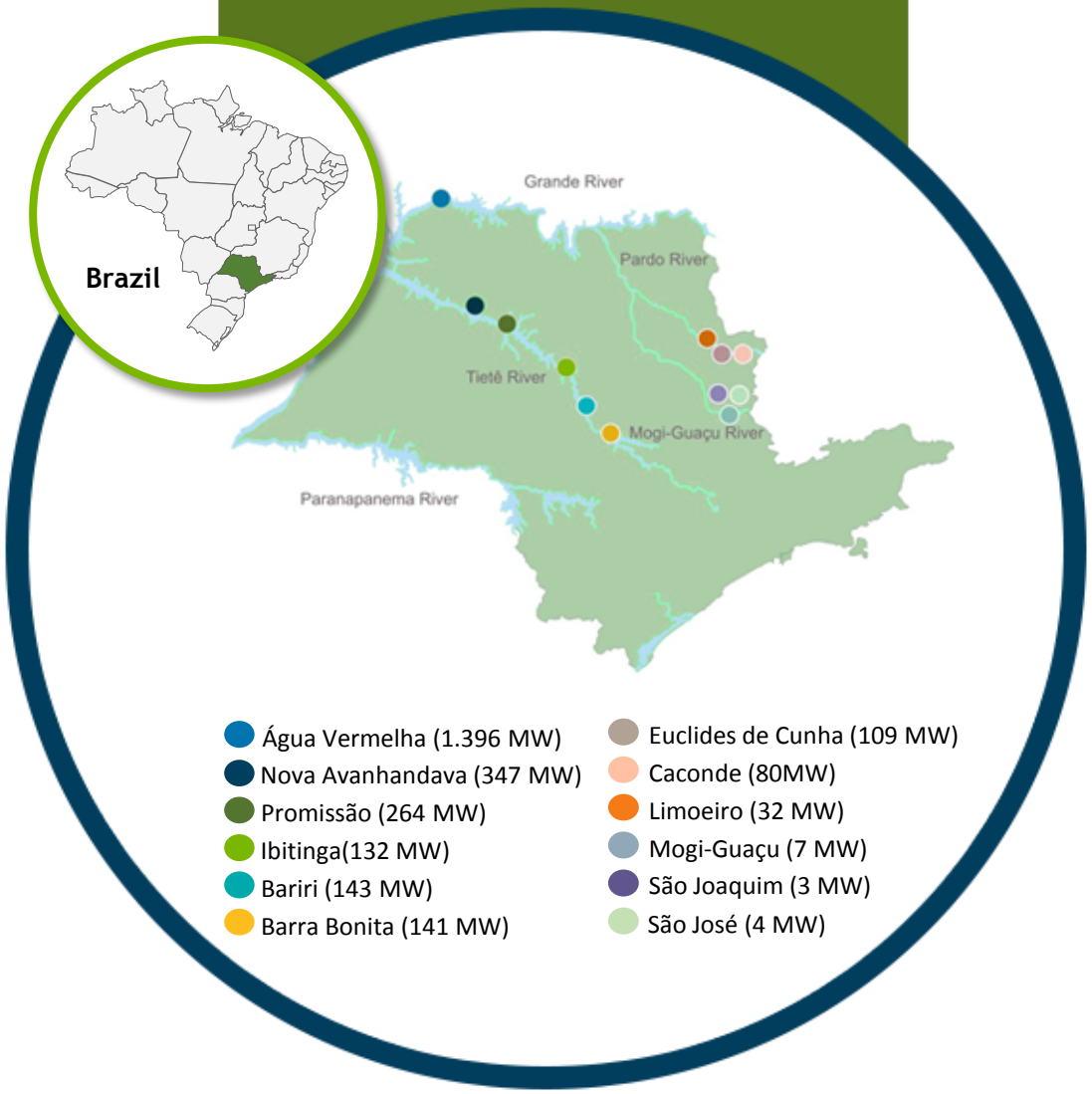
Ownership Structure



	AES[1]	BNDES[1]	Free Float	Others[2]	Market Cap[3]
AES Eletropaulo	16.1%	19.2%	56.3%	8.5%	US$ 0.6 bi
AES Tietê	24.2%	28.3%	39.5%	8.0%	US$ 2.5 bi

AES Brasil

1 - Parent, AES Corp and BNDES, have similar voting capital on each of the companies: approx 35,9% on AES Eletropaulo and 32,9% on AES Tietê; 2 - Includes Federal Government and Eletrobrás shares in AES Eletropaulo and AES Tietê, respectively; 3 - Base: 12/05/2014. Consider preferred shares for AES Eletropaulo and preferred and common shares for AES Tietê



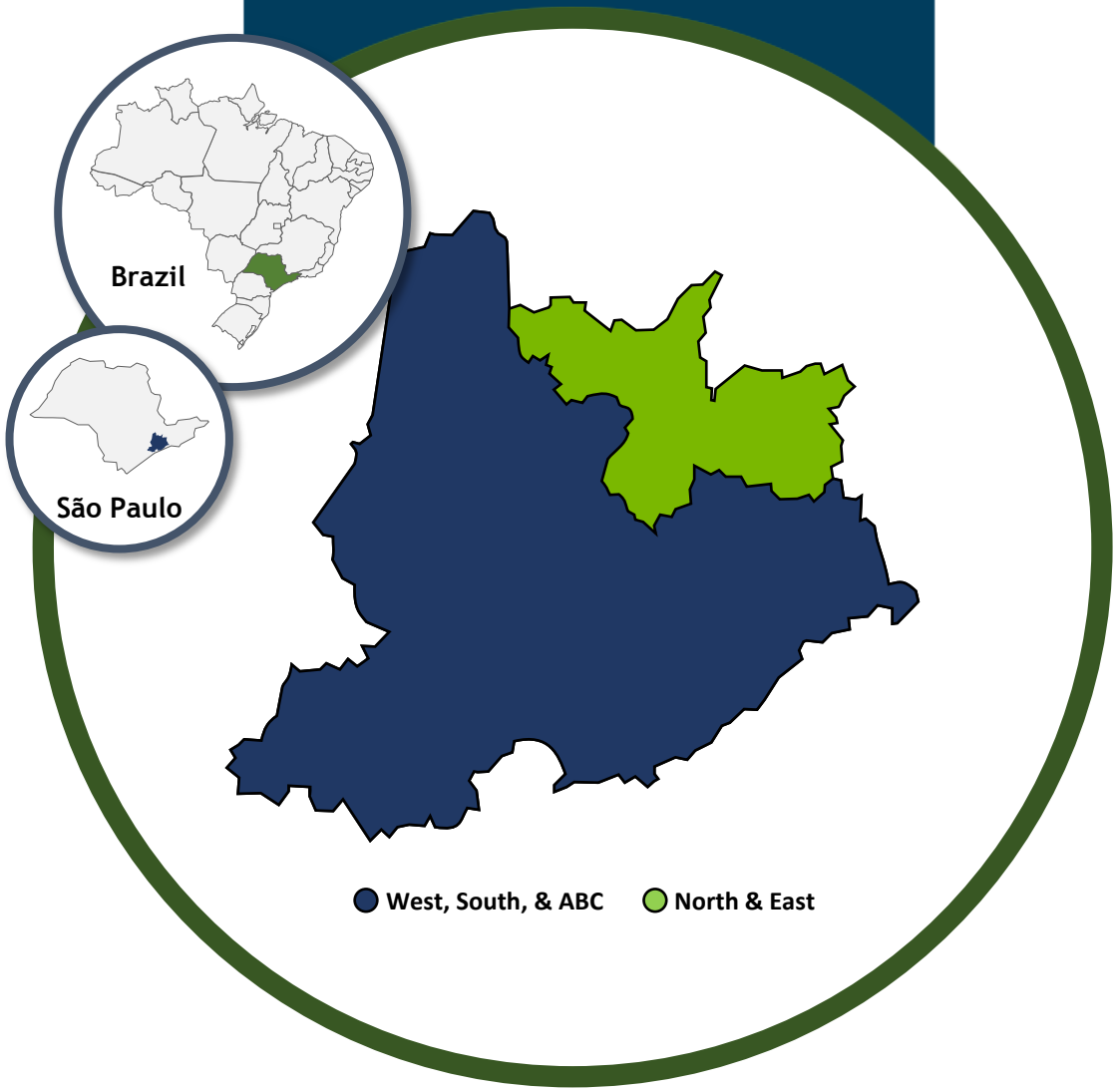
- **3rd largest** among private generation companies
- **Concession** expires in 2029
- **Market Cap:** US$ 2.5 billion[1]

- **9 hydroelectric** plants and **3 SHP**[3] in São Paulo
- Installed capacity of 2,658 MW, physical guarantee[2] of 1,278 MWavg
- **Physical guarantee fully contracted** with AES Eletropaulo through Dec, 2015

- **Dividend Yield:**
  - 2013: 12.6% PN and 12.4% ON
  - Last 3 years avg: 11.1% PN and 11.3% ON
- **Investment grade (Moody's):**
  - National: Aa1
  - International: Baa3

1 - Base:12/05/2014; 2 - Amount of energy allowed to be long term contracted; 3 – SHP – Small hydroelectric plant (installed capacity <30MW)

AES Eletropaulo



- **Largest distribution company** in Latin America
- **24 cities** attended in São Paulo metropolitan area
- Concession contract **expires in 2028**

- **17% of Brazil's GDP[1]** in its concession area
- **4,526 km²** concession area
- **46 thousand km** of distribution and transmission lines
- **6.7 million** customers
- **20 million** people served
- **46 TWh** distributed in 2013
- **6,287 employees** as of September 2014

Investment Grade:

	Fitch	S&P	Moody's
National	AA	AA-	Aa2
International	BB+	BB	Ba1

1 – Source: IBGE, 2010.

- SAIDI and SAIFI **30% better than in 2009**, within regulatory limits
- Operating costs **2% below** the **regulatory levels**
- Concession contract **expires in 2027**

- **118 cities attended** in Rio Grande do Sul state
- **1.3 million** customers
- **8,974 GWh** sold in 2013
- **99,512 km²**
- **3.5 million** people served
- **1,618** direct employees[1]
- Regional **GDP growth** of **3.1%**[2]

- **63%** dividend payout in 2012
- **R$ 124 million** Ebitda in 2013
- **R$ 277 million** invested in 2013

1 – as of October/2014. 2 - last 5 years average

AES Uruguaiana

- Beginning of commercial operations in **2000**
- Located in the State of **Rio Grande do Sul** – city of Uruguaiana

- **Operations** were **suspended** in 2008 due to **lack of gas supply**
- Initiated **arbitration against YPF** in Argentina
  - ICC[1] **awarded the merits** in favor of **AES Uruguaiana** in **2013**
  - **Next** and **final phase** refers to the **damages calculation**

- **Emergency operations** in **2013** and **2014** to **support reservoirs recovery** in Brazil
- Looking for **long-term solution**

Fast Facts
Combined cycle gas turbine (CCGT)

Capacity (MW)	640 MW
Authorization expiration	2027

1 – International Chamber of Commerce

AES Serviços

- **Customer-focused Company**, that provides electrical energy services
- Focus on offering **integrated and high-added-value solutions** to the electrical energy agents, industrial and commercial segments, based on AES Brasil strong capabilities and know-how

- **Products**
  - Commercial technical services
  - Consulting in electrical efficiency
  - Construction and maintenance of substations and transmission lines
  - Commercial service: ace-to-face service and debt collection
  - Affinities: insurance

- **Over 2 years** of operation
- **5 major clients** – AES Eletropaulo, Hebraica, Hospital Santa Marcelina and Universidade Guarulhos
- **2 operational bases** – cities of Barueri and São Paulo
- **110 vehicles**
- **610 employees**

Corporate governance
Key for the investment decision

- Operational and Investment Management Committee: **robust capital allocation process**
- **Corporate policy of Integrated Risk Management**[1] monthly assessed by Companie's Executive Officers and quarterly by Fiscal committee and Board of Directors

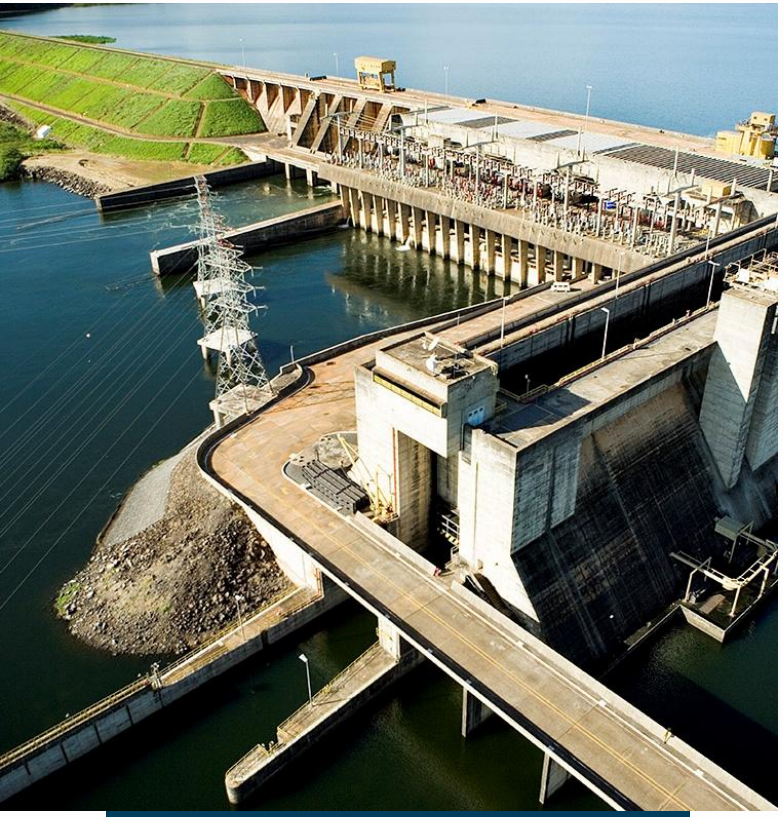
- **Corporate governance manual**; audit committee installed
- High level of **commitment**, with **monthly** Board of Directors **meetings**

- Listed at BM&FBovespa:
  - ELPL3 and ELPL4: **level II** and **listed** at **Ibovespa index**
  - GETI3 and GETI4: **traditional market**
- ISE Corporate Sustainability Index portfolio
- Tag along rights

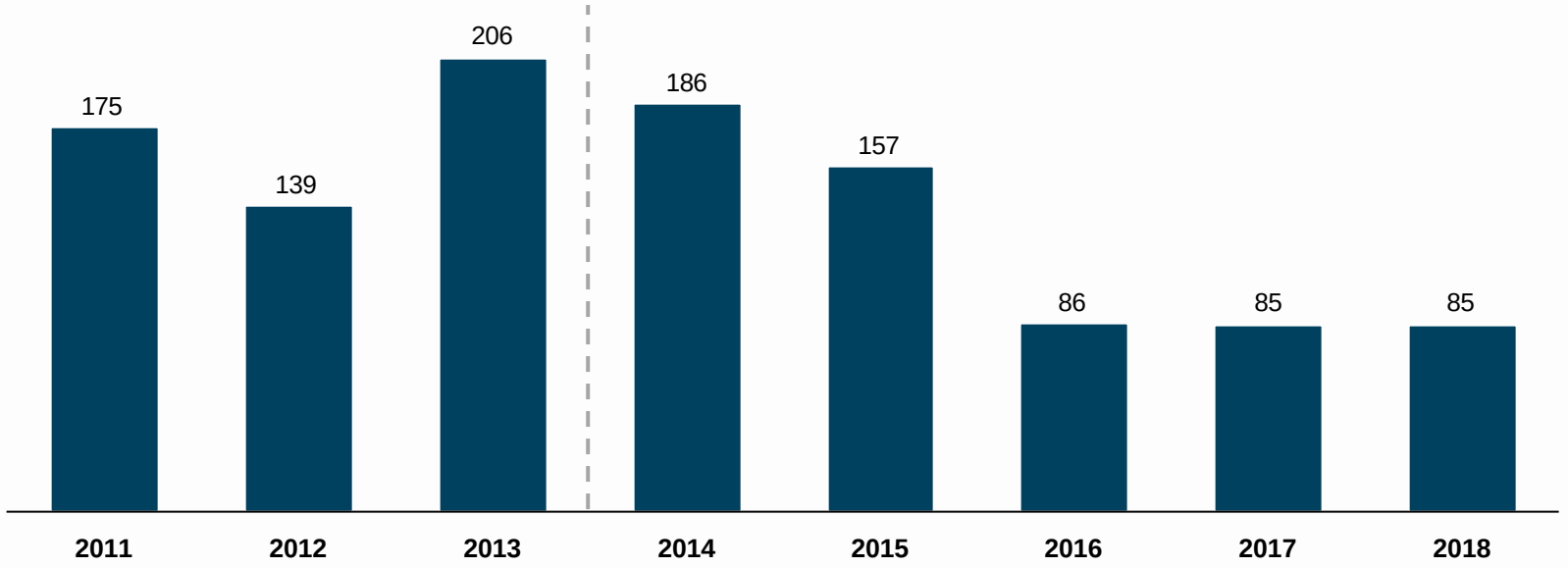
1 – Based on COSO_ERM and Brazilian Corporate Governance Institute models


AES Tietê
Uma Empresa AES Brasil

Investment focused on power plants modernization



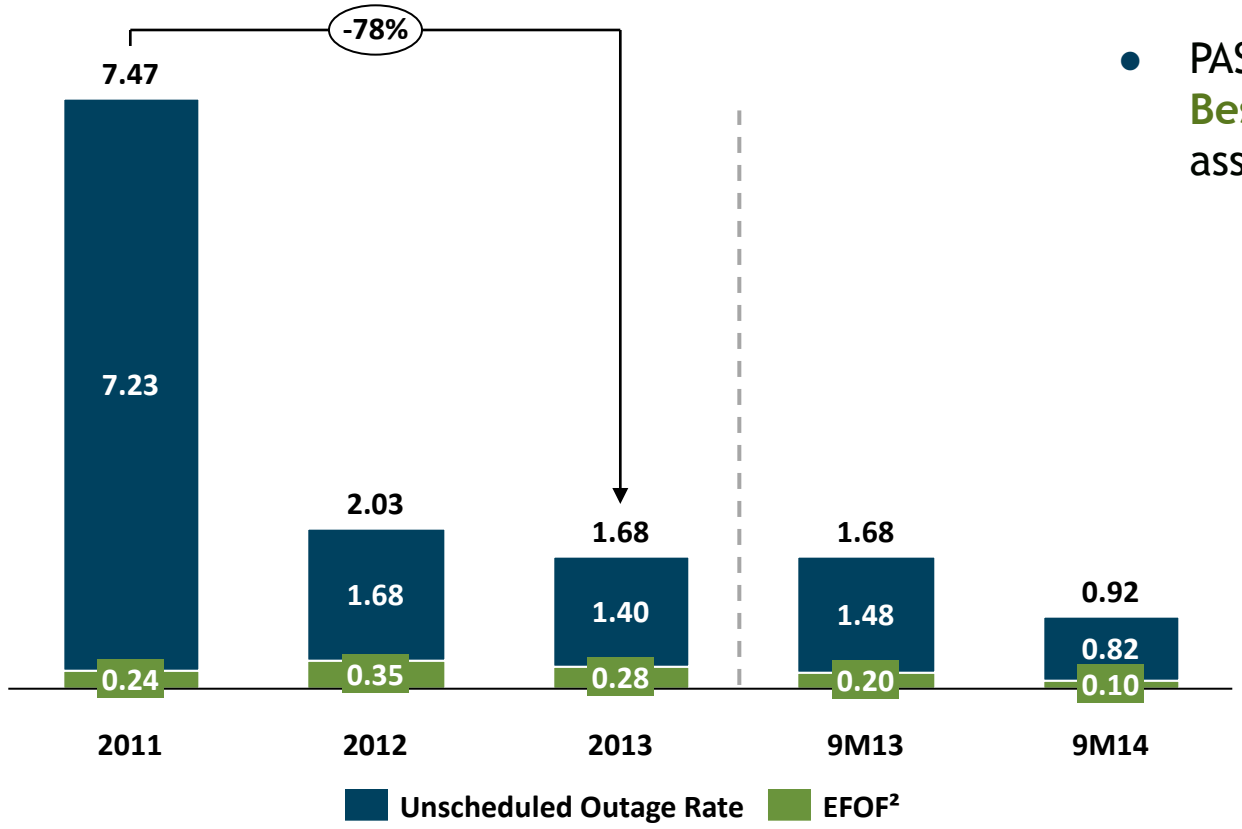
R$ 600 million projected for 2014-2018



Power plants modernization process, **aiming** for **continuous improvement** in **operational conditions** and **ensuring availability** in its **generation plants**

Investments and Best Practices in Asset Management, translates into outages reduction

Unscheduled outages (%)

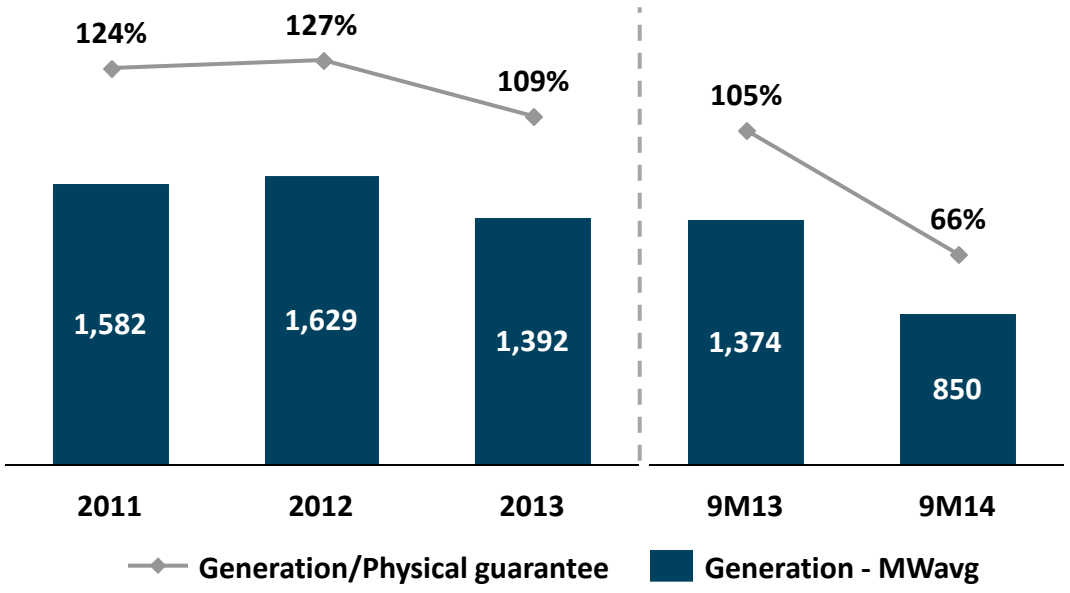


- PASS 55 **Certification: Best practices** in asset management[1]

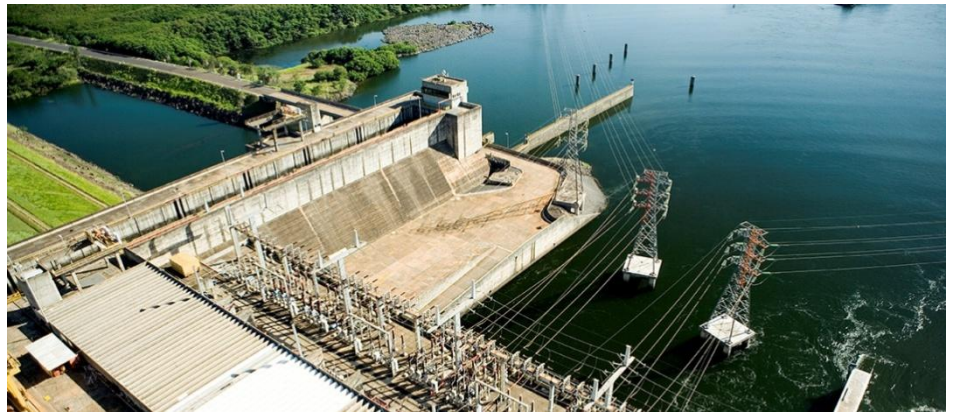
1 - AES Tietê was the first Latin American company to receive the certification from the British Standards Institute 2 - Forced outage equivalent factor

Energy generation reflects hydrology

Generated energy (MW average[1])



- Hydropower plants are dispatched by ONS[2]
- Dispatch are also related to hydrological conditions:
  - Low hydrology translates into low generation levels

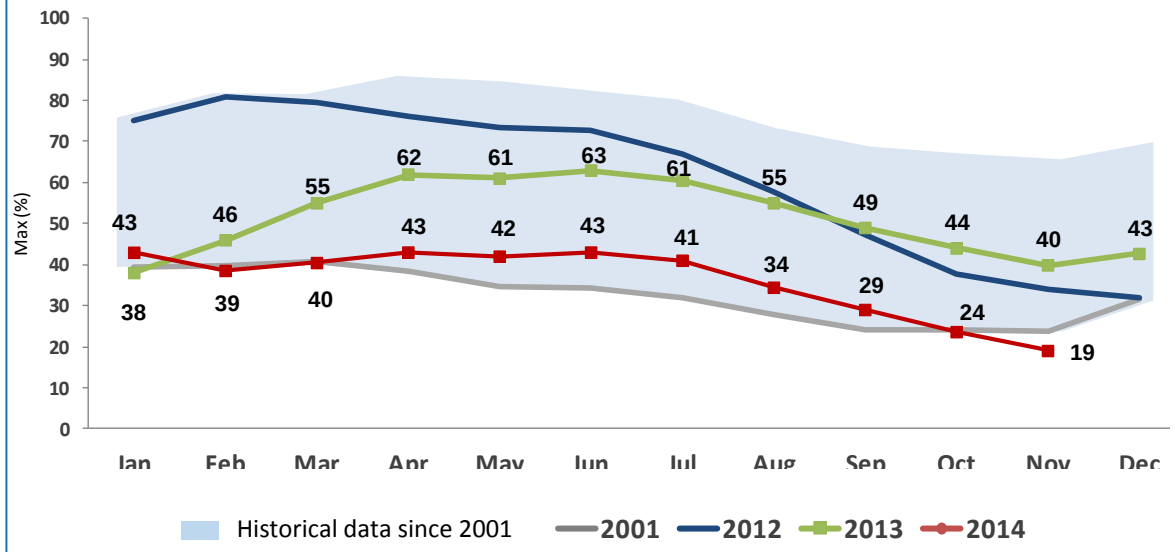


1 - Generated energy divided by the amount of hours; 2 - National System Operator

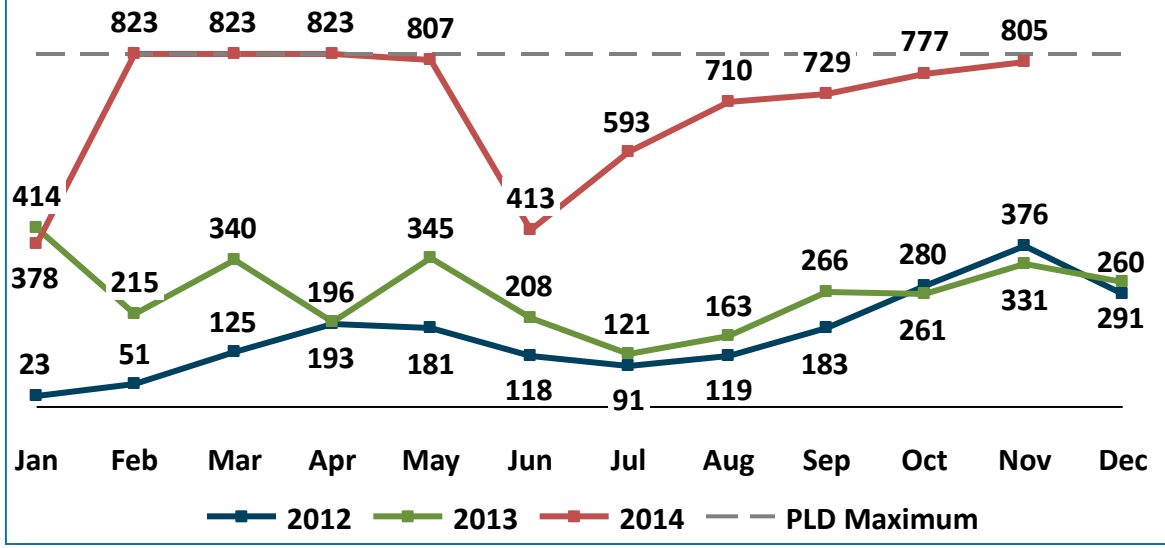
Challenges ahead

Hydrological scenario and spot price

Historical Level of Brazilian Reservoirs (%)



Monthly Evolution of Spot Price[1] (R$/MWh) SE/CO



- 2013/2014 rainfall regimes did not compensate Brazilian Reservoirs levels

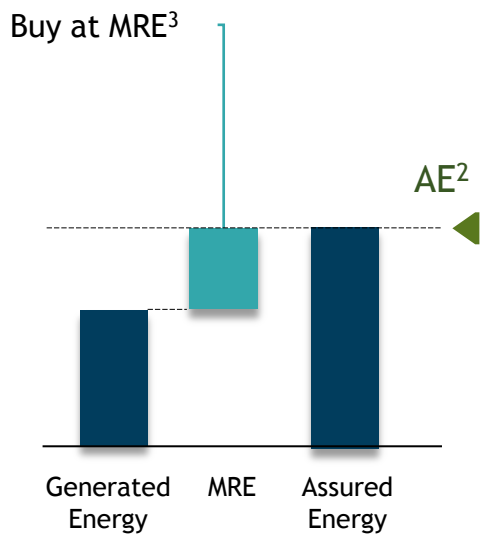
- System is relying on thermal generation (~17 GWavg as of Oct/14)

- AES Tietê physical guarantee is 100% contracted until 2015; reduction in generation will impact on higher energy costs

1 - The average prices from Apr to Aug/13 were calculated based on the values of PLD1; from Sep/13 on, we calculate only the values of spot, which incorporates the mechanisms of risk aversion to the calculation model.

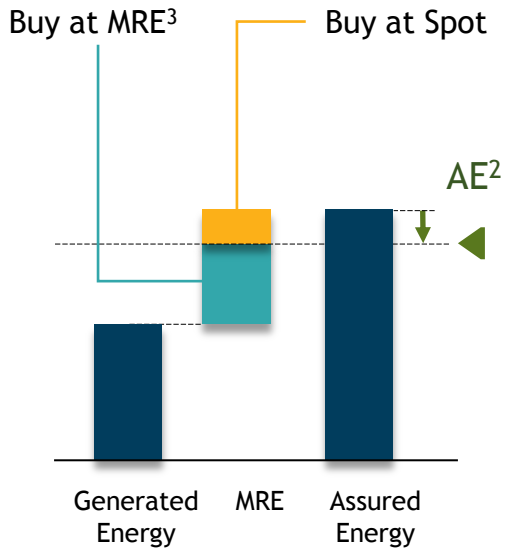
Energy Reallocation Mechanism
(MRE) for hydrological risk sharing

1) Equilibrium (GE[1] = PG[2])



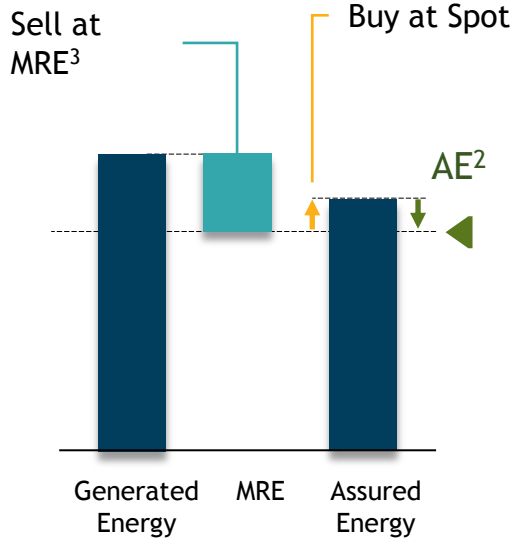
Genco A

2A) Deficit (GE[1] < PG[2])



Genco A

2B) Deficit (GE[1] < PG[2])



Genco B

- **A physical guarantee** (assured energy) is assigned to support contracts
- **Energy dispatch optimized** by centralized system operator (ONS) on a tight pool

Key drivers for hydrological risk

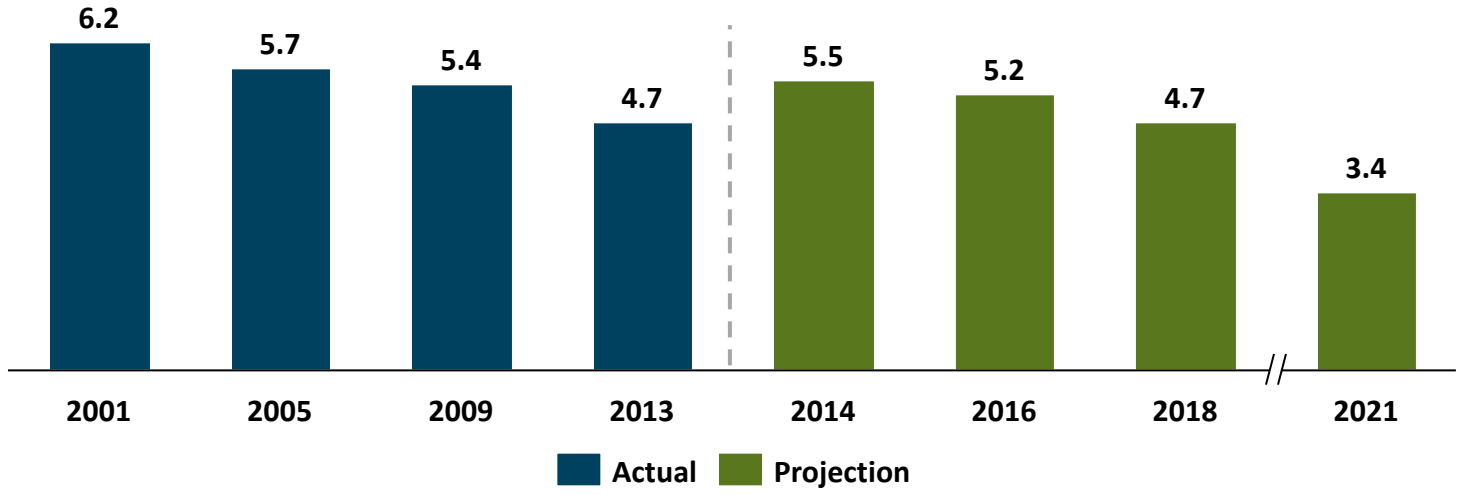
- **Generated Energy** (hydro) in the entire system (MRE) - influenced by hydrology
- **Spot Price** - marginal cost influenced by hydrology and thermal dispatch

1 -GE: Generated Energy; 2 -AE: Assured Energy; 3 -Enough to cover variable O&M costs

Tight hydrology and system storage capacity decrease demands firm energy

Thermo São Paulo (504MW) and Thermo Araraquara (640MW)

Storage capacity (months)



Current **contracted energy** is based on **renewable** (mainly Wind) and **run-of-river hydro projects,** which **has reduced the energy storage capacity over the recent years.**

Source: ONS and AES

Growth Initiatives –

Diversify Company investments

Thermal São Paulo Project
503 MW

- **Natural gas combined cycle** power plant
- **Previous license** granted in Oct, 2011 – valid for 5 years
- Next steps: obtain **installation license**, **gas supply** and **bid in the auction**

Thermal Araraquara Project
579 MW

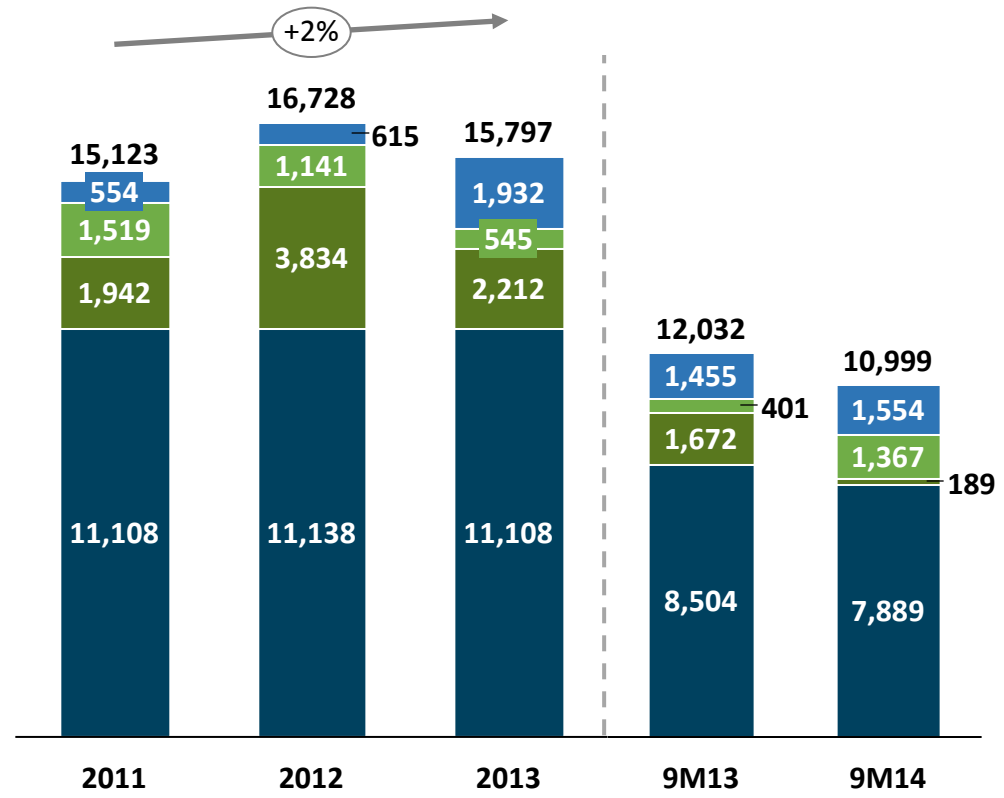
- **Natural gas combined cycle** power plant
- **Purchase option acquired** – March, 2012
- Next steps: obtain **installation license**, **gas supply** and **bid in the auction**

Other initiatives
(renewables)

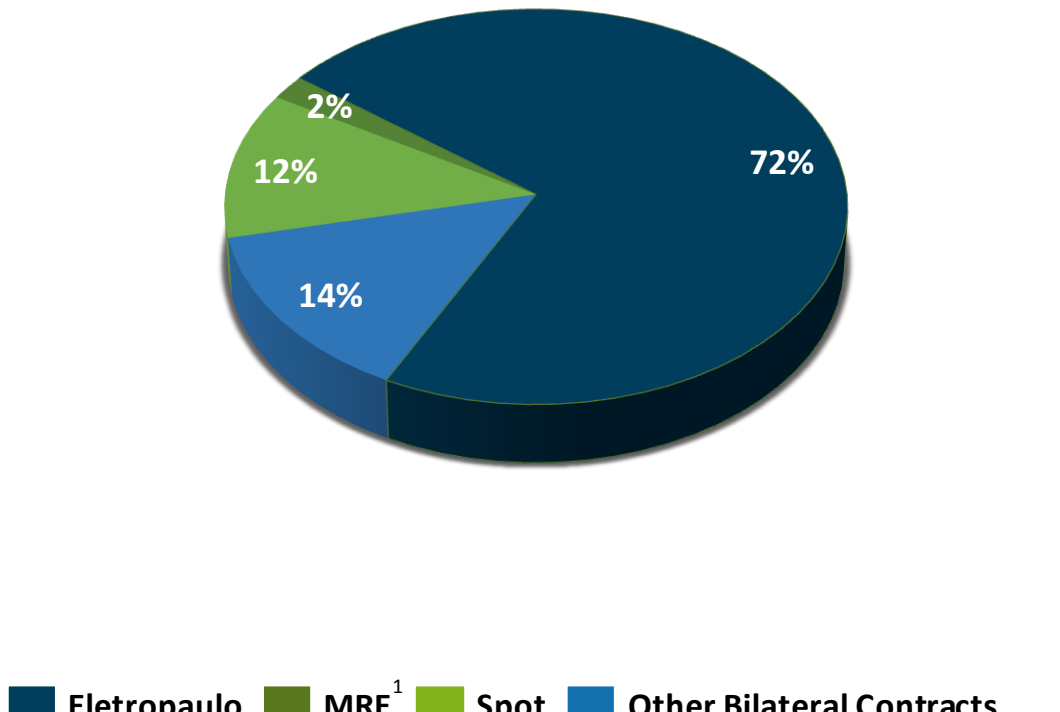
- **Solar project:** Located in Agua Vermelha power plant, capacity of 28.1 MWp
- **Company** evaluating other generation sources, aiming to increase shareholders value and diversify its portfolio

Currently, **AES Eletropaulo** is our main client

Billed energy (GWh)



9M14 (%) - Clients per net revenue



1 - Energy Reallocation Mechanism

Contracting environment and opportunities

post-2015

Regulated Market

Existing Energy Auctions

Via auctions organized by federal government

Distribution companies

Free Market

Bilateral contracts

Via bilateral agreements

Free Consumers[2]

Spot Market

Non contracted energy

Exposed to Spot Market price

CCEE Settlement

AES Tietê

1 – Free Consumers (Conventional free consumer - demand above 3MW and connected to a line of 69kV – and incentivized/ special free consumer - demand above 0.5MW), Generating Companies and Trading Companies

Commercialization strategy post-2015 leveraging cash flow

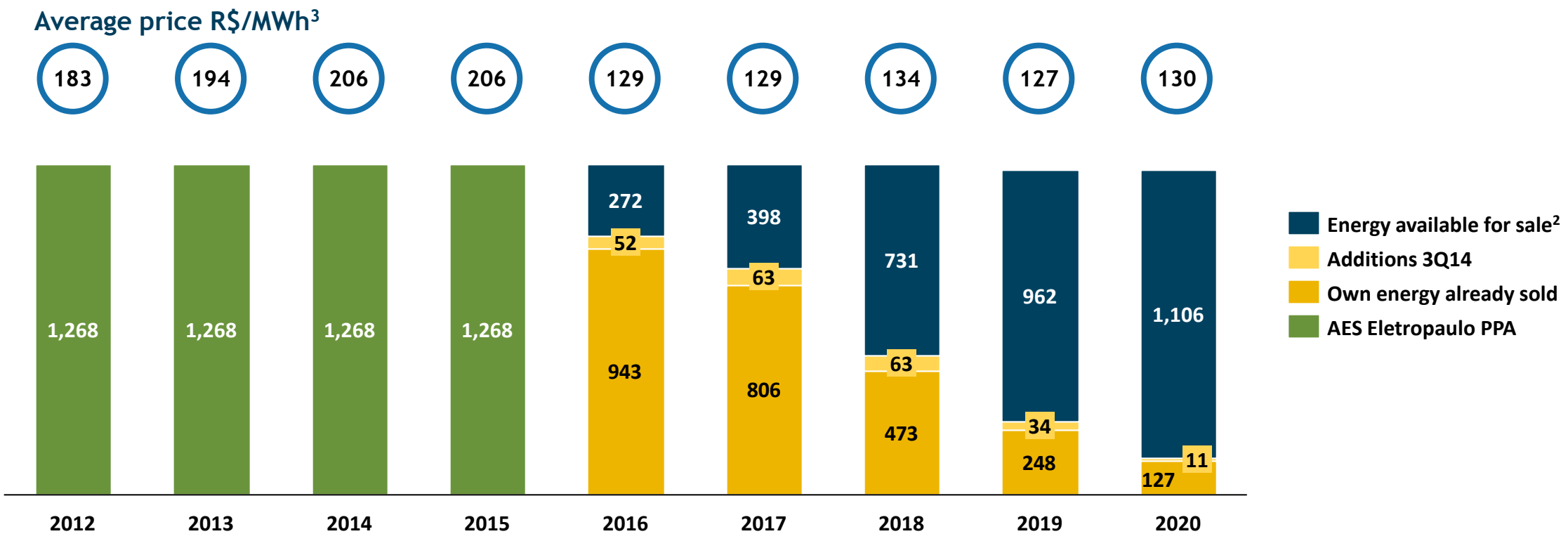
Our goal is to sell the major part of Company' physical guarantee in the free market

- **Customized energy with global experience**
- **Focus on long term contracts** and **off takers with a strong financial background** aiming to ensure Company' cash flow
- **Practices** and **policies** to **ensure** an **adequate risk-profile** assessment
- Client **Relationship actions** to **promote** AES Tietê and **identify clients needs** (i.e.: workshops, site visits, satisfaction surveys)
- **367 visits** promoted by the team **to clients** within **2013** and **2014**
- We've already sold 79% of the available energy for 2016, 69% for 2017 and 40% for 2018

Commercialization strategy–

Consistent evolution of client portfolio

Client portfolio[1] (MWavg)

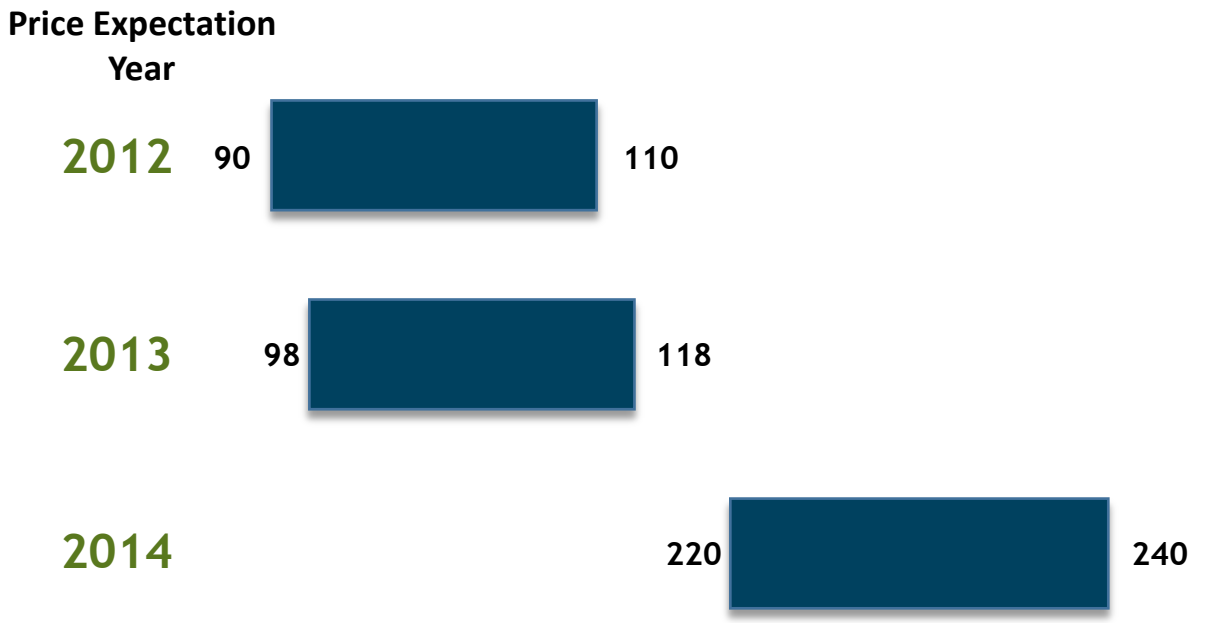


1 - Includes PPAs celebrated in the period from until November 5th, 2014 and only conventional energy; 2 - Excludes losses and internal consumption; 3 - Average price (based on Sep/14)

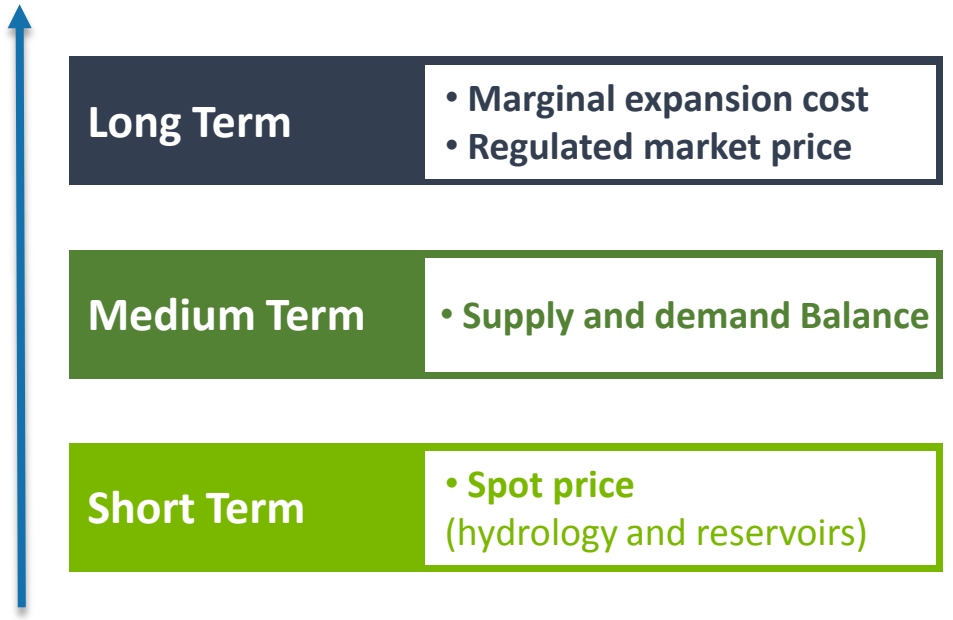
Free Market

Dynamic and competitive market

Avg energy price for 2016 (R$/MWh)



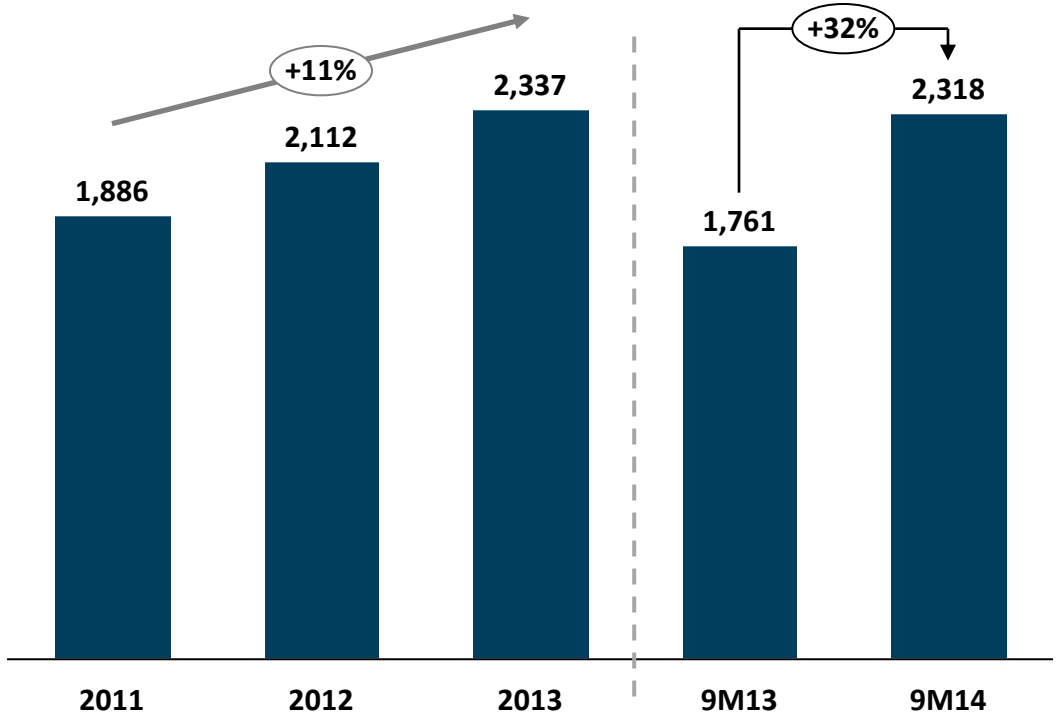
Price formation methodology



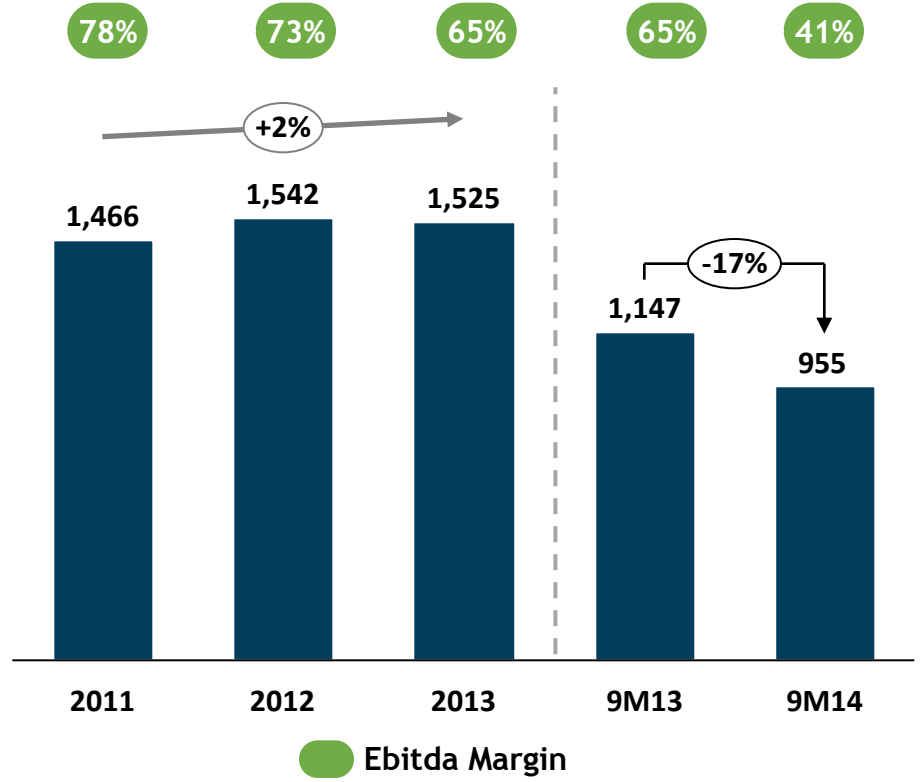
1 – Refers to price quotation executed by AES Tietê team, values updated in November/14

Strong and consistent results...

Net revenue (R$ million)

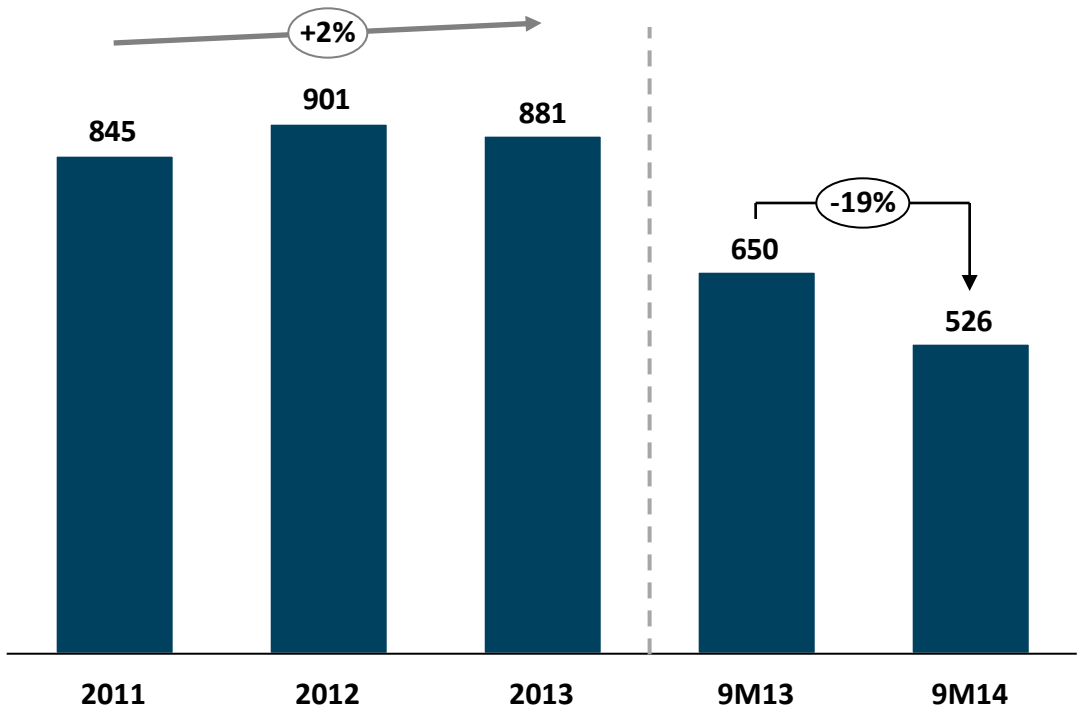


Ebitda (R$ million)



… and attractive returns

Net Income (R$ Millions)

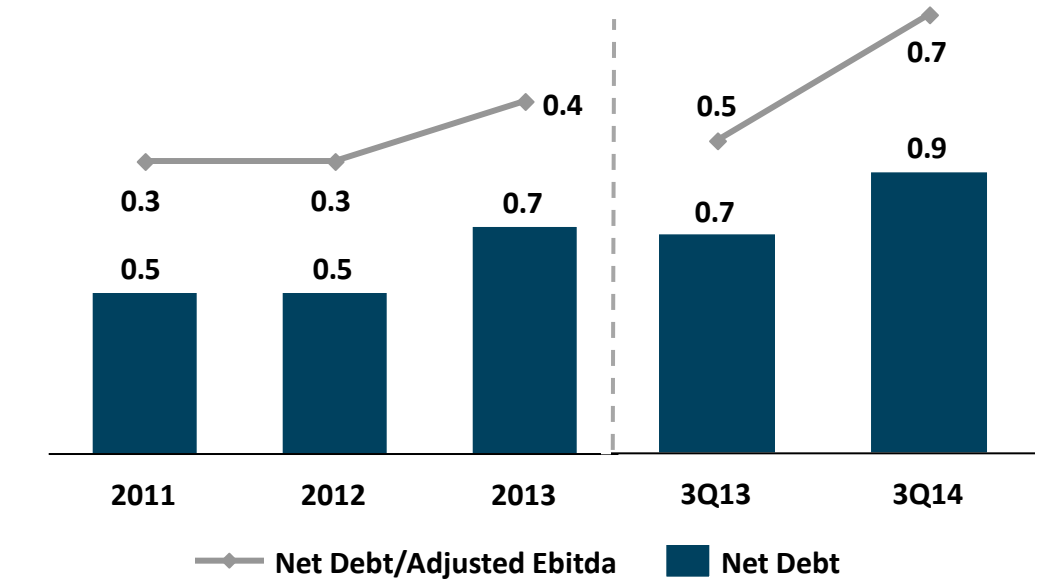


- **25%** of **minimum pay-out** according to bylaws
- Distribution practice: **quarterly basis**
- **Average payout** from 2008 to 2013: **107%**
- **Average dividends** since 2008: **R$ 864 million** per year[1]
- Dividends already **approved in 2014: R$ 644 million**

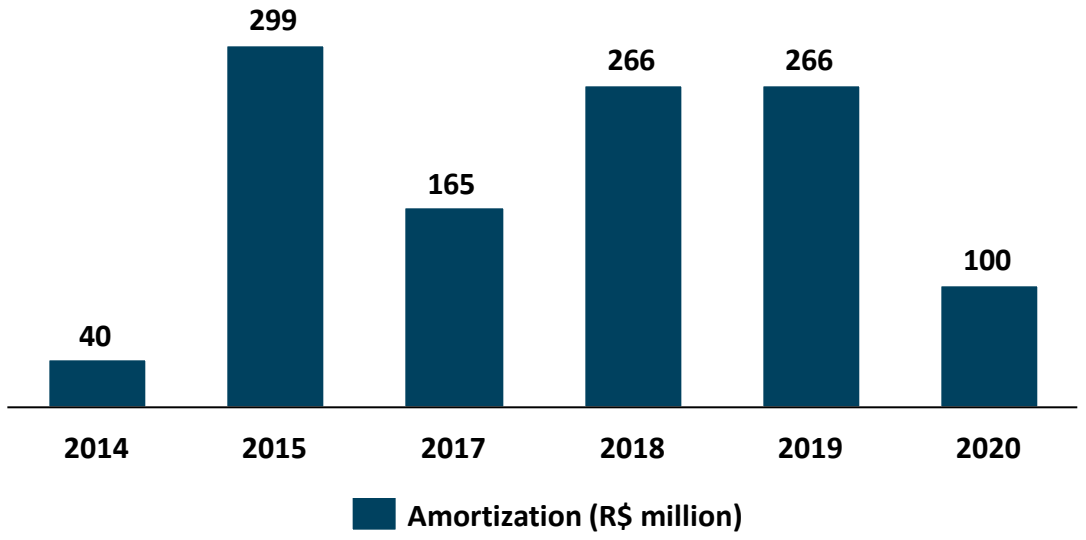
1 – from 2008 until 2013.

Low leverage level...

Net debt (R$ billion)



Debt amortization schedule



Covenants

Net debt/Adjusted Ebitda[2] ≤ 3.5x
Adjusted Ebitda[2]/Financial Expenses ≥ 1.75x

Debt Cost	3Q13	3Q14
Average cost (% CDI)[1]	110%	107%
Average term (years)	2.64	2.99
Effective rate	11.3%	12.7%

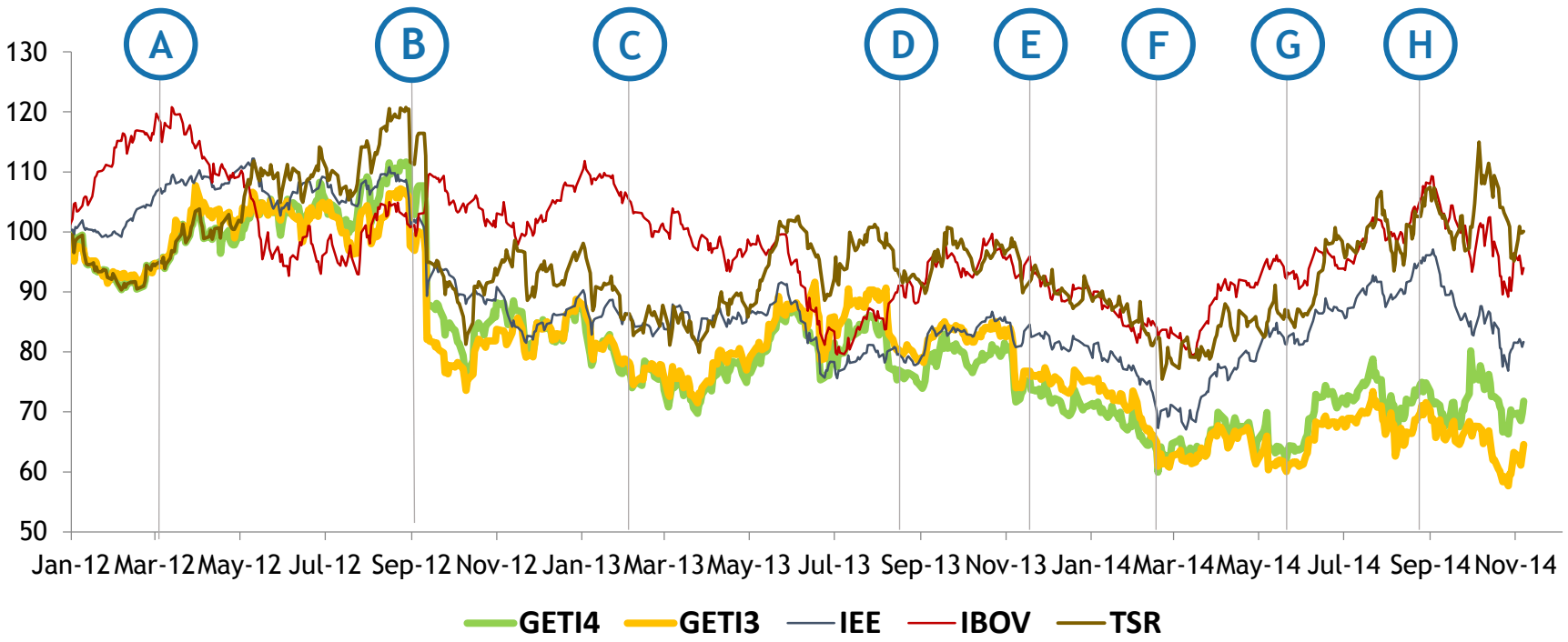
1 - Brazilian Interbank Interest Rate
2 - Adjusted Ebitda - (i) by the financial expenses/revenues and (ii) by the depreciation and amortization values to improve the reflection of the Company's operational cash generation

...and consistent cash flow

R$ Million	3Q13	3Q14	9M13	9M14
Initial Cash	**374,8**	**451,8**	**396.9**	**456.7**
Operating Cash Flow	**397,3**	**239,7**	**1,086.0**	**1,296.0**
Investiments	**(54,9)**	**(41,1)**	**(101.6)**	**(131.9)**
Net Financial Expenses	**(2,3)**	**(13,5)**	**(30.6)**	**(55.6)**
Net Amortization	**-**	**(0,0)**	**192.3**	**(1.0)**
Income Tax	**(20,2)**	**(24,8)**	**(436.9)**	**(449.8)**
Free Cash Flow	**320,0**	**160,4**	**709.2**	**657.7**
Dividends and IoE	**(258,0)**	**(389,4)**	**(669.4)**	**(891.7)**
FINAL CASH CONSOLIDATED	**436,8**	**222,7**	**436.8**	**222.7**

Capital markets

AES Tietê x IEE x Ibovespa[1] - 24 months

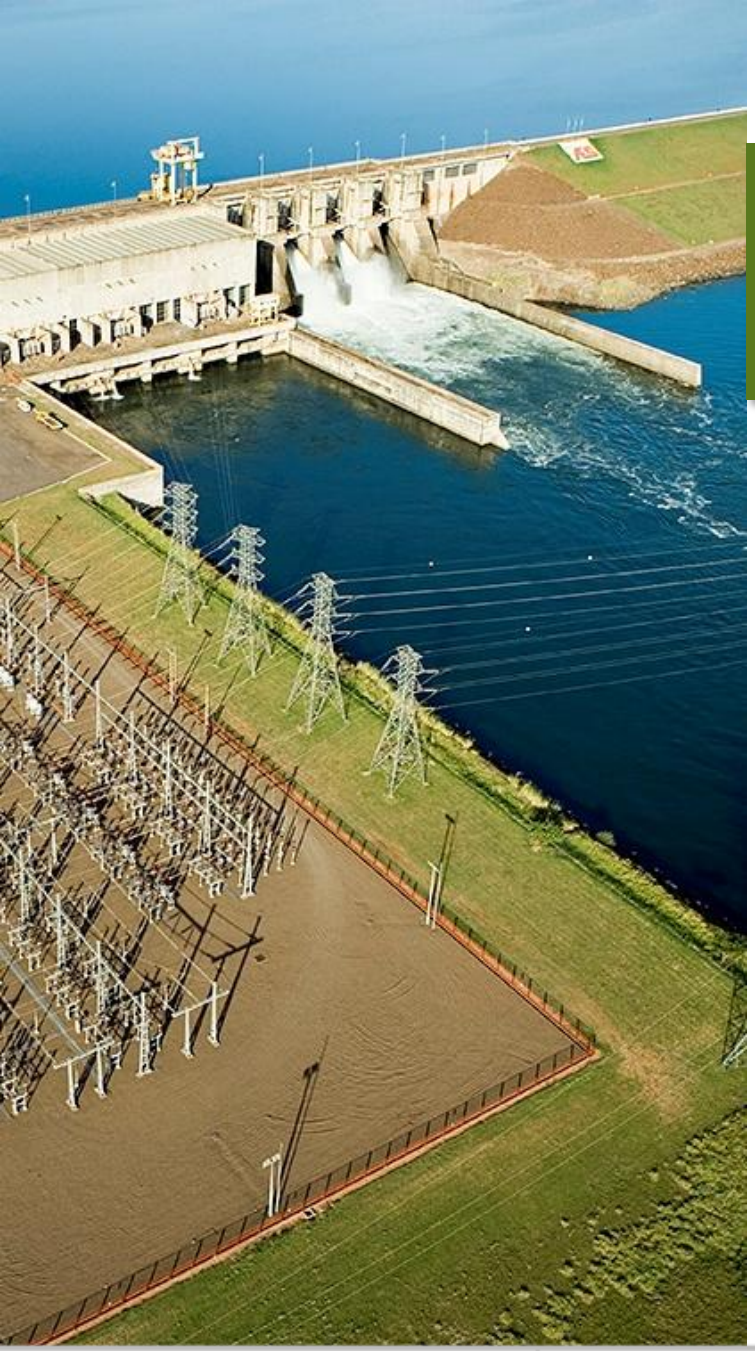


- **A** **Mar/2012:** 4Q11 results above market expectations
- **B** **Sept/2012**: announcement of the Energy Reduction Program, through the PM 579[4]
- **C** **Feb/2013:** High thermoelectric dispatch to conserve water in the reservoirs increase spot prices
- **D** **Aug/2013:** 2Q13 results above consensus due to higher-than-expected spot prices
- **E** **Nov/2013:** weak 3Q13 results affected by seasonality strategy
- **F** **Feb/2014:** 4Q13 results slightly below consensus but market show high expectations on 2014 commercialization strategy
- **G** **May/2014:** 1Q14 EBITDA above expectation benefited from seasonality strategy
- **H** **Aug-Oct/2014:** high volatility due to Brazilian elections expectations

- **Market cap[3]:** US$ 2.5 billion / R$ 6.3 billion
- **BM&FBOVESPA:** GETI3 (common shares) and GETI4 (preferred shares)
- **ADRs negotiated in US OTC Market:** AESAY (common shares) and AESYY (preferred shares)

ISE Índice de Sustentabilidade Empresarial

1 - Base 100: from 01/01/2012 to 12/05/2014; 2 - Total Shareholders' Return; 3 - Index: 12/05/2014; 4 - Government program to reduce energy tariffs.

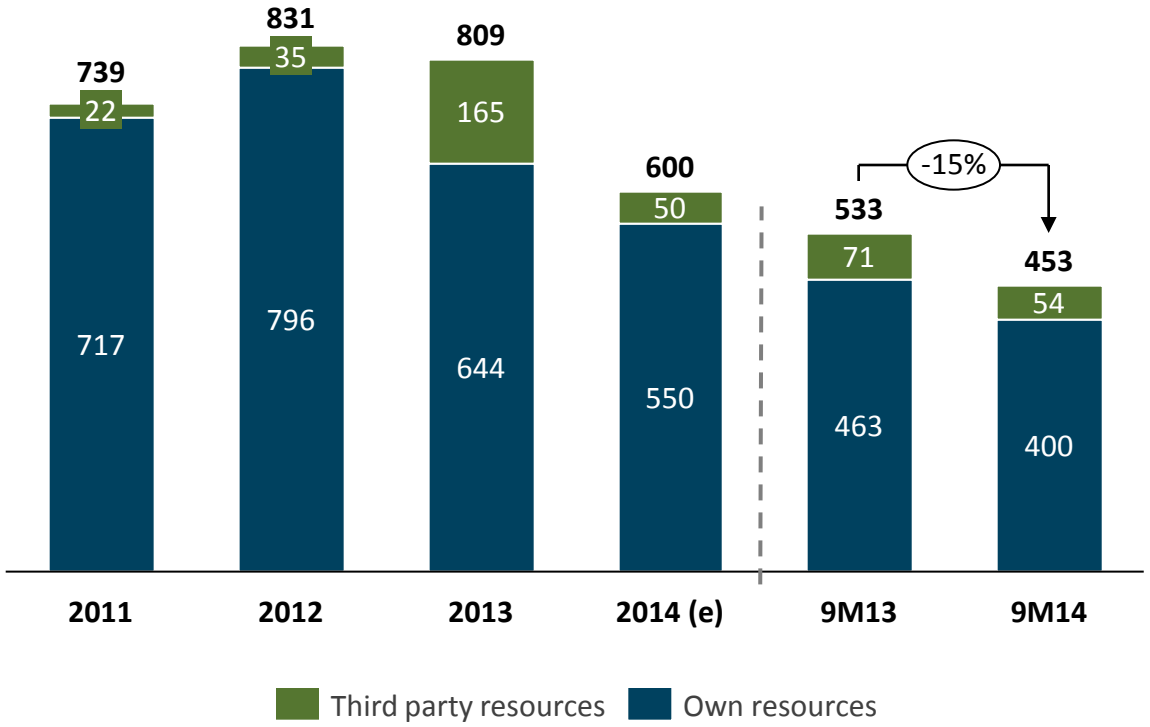


We have strong capabilities and business governance

- **PASS 55** certification, **1st** Generation company in Latin America
- **AES Tietê** has been included in the ISE since **2007**
- **Attractive** returns to investors. **Strong** cash **generation**; Maximization of payout
- **Cost efficiency** and **optimized capital** allocation
- Established **risk management capability**


AES Eletropaulo
Uma Empresa AES Brasil

2014 investments focused on
system expansion and quality of service



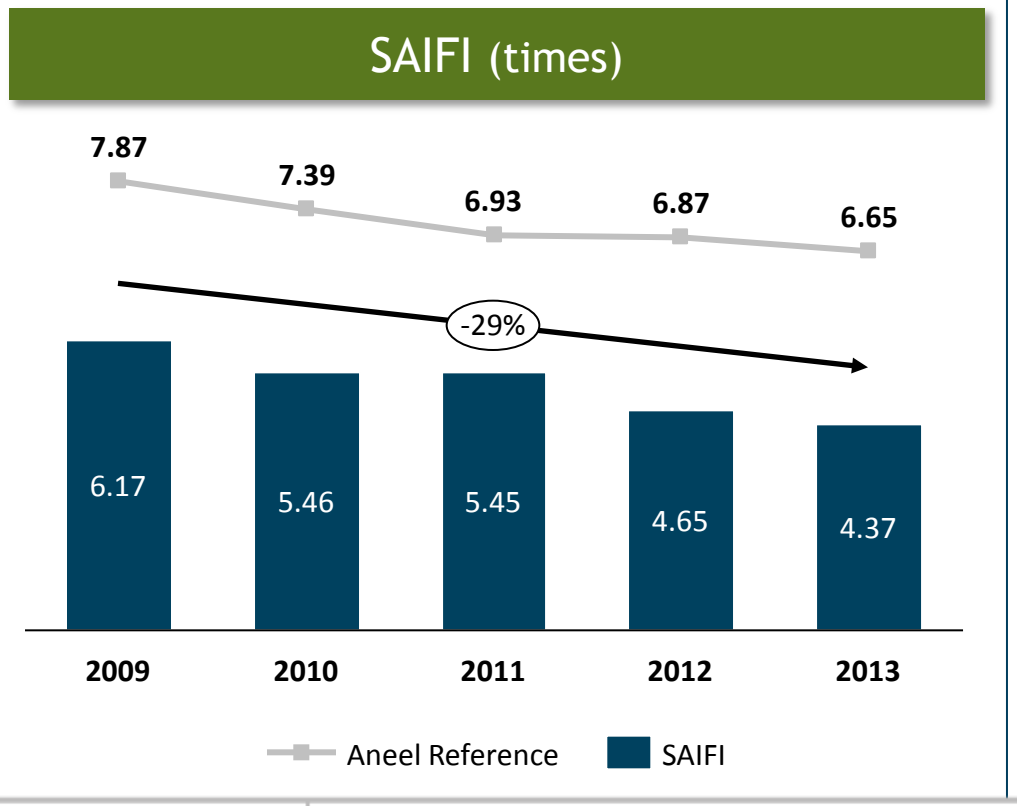
2014 Investment **focused on**

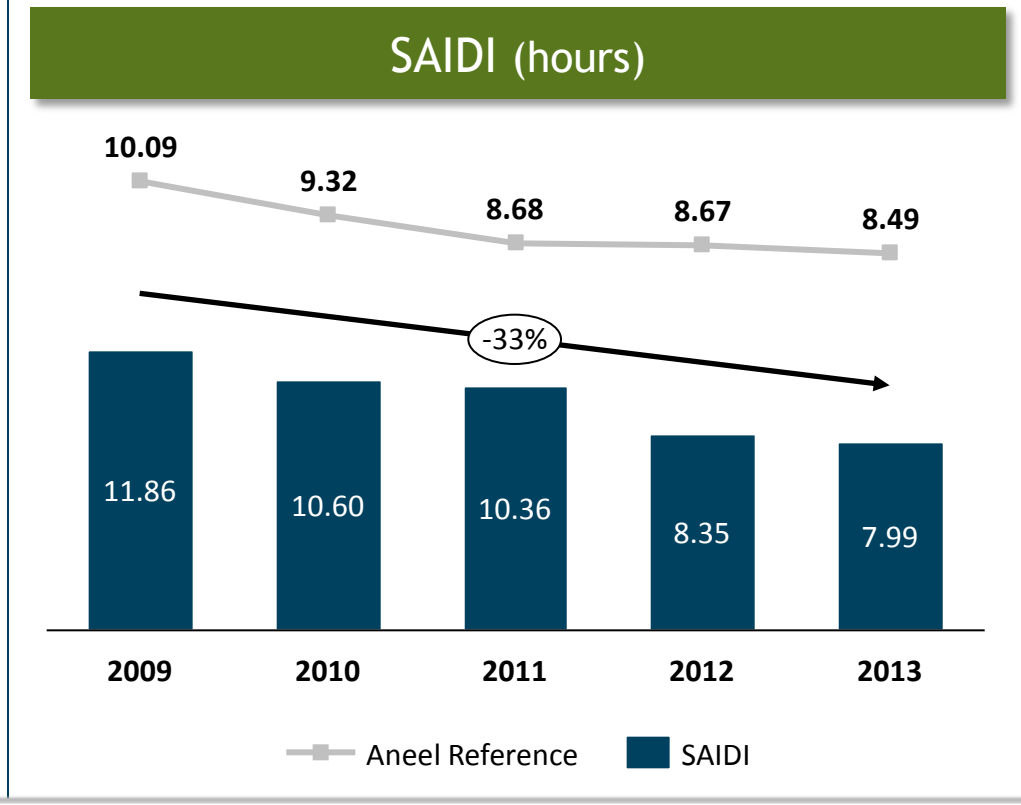
- **Substation repowering** and energization adding 280MVA to the system's capacity
- **17 km** of new distribution lines
- Maintenance in **over 5.6 thousand km** of the distribution grid
- **Regularization** of 50 thousand connections

2nd best SAIFI and 6th best SAIDI

among the country's largest distributors[1]

- **SAIFI: 29%** reduction in **frequency of interruptions in the last 5 years**
- **SAIDI: 33%** reduction in **hours of interruptions (2009 vs. 2013)**

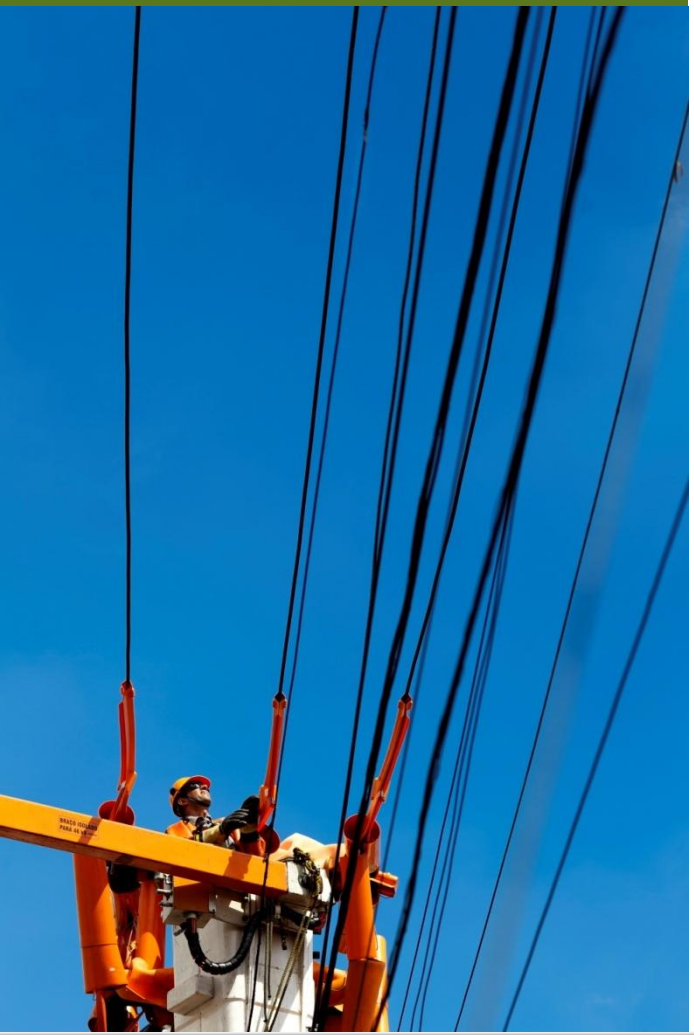


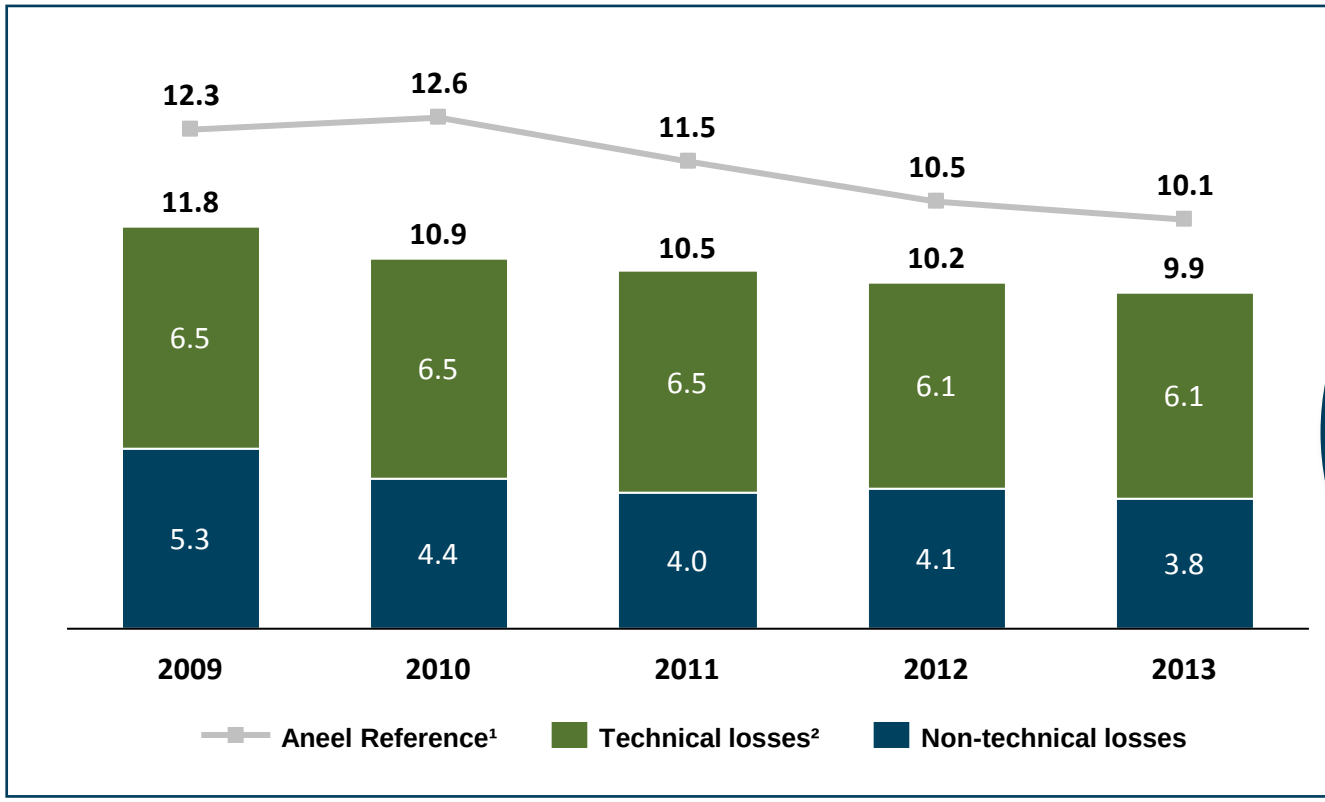


1 - Distributors that have more than 500 thousand clients

Consistent losses reduction

over the last five years



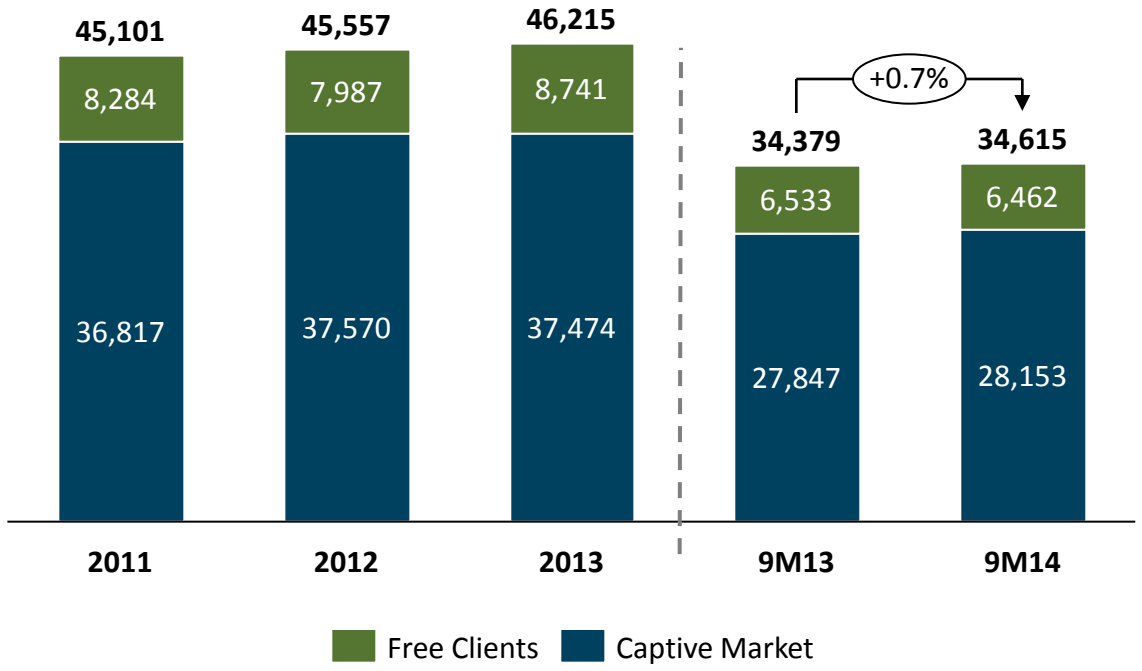


28% reduction in **non-technical losses** in the **last 5 years** and **total losses** within **regulatory limits**

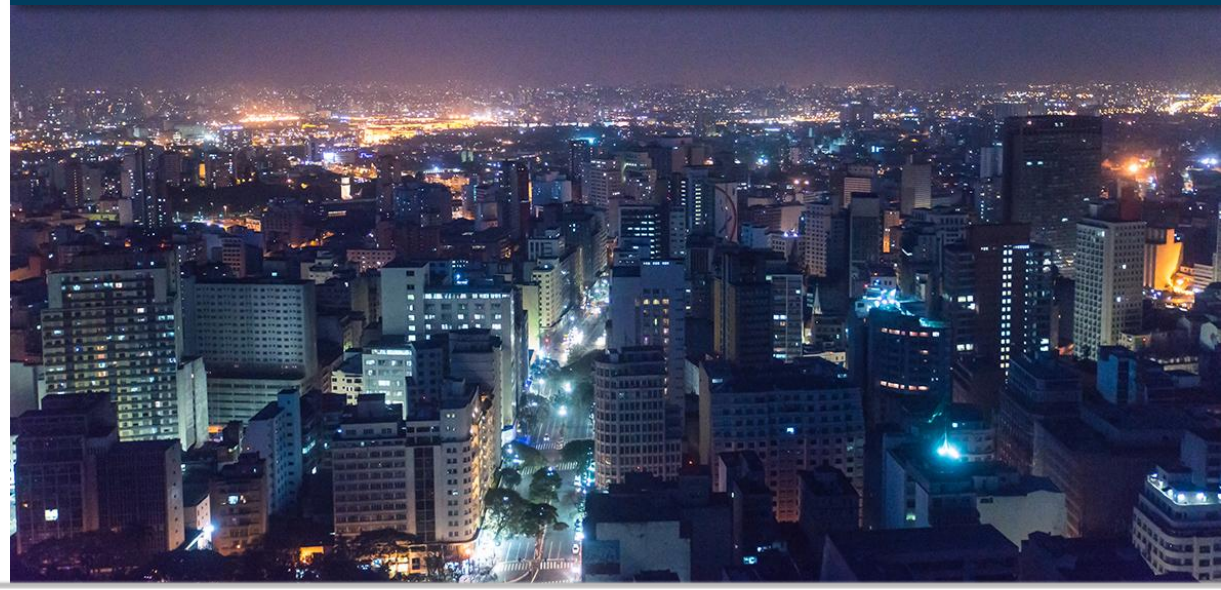
1 – Aneel benchmark with standardized values for the calendar year; 2 - Values estimated by the Company to Aneel reference for non-technical losses of the low voltage market

Large and resilient concession area

Total Market[1] (GWh)



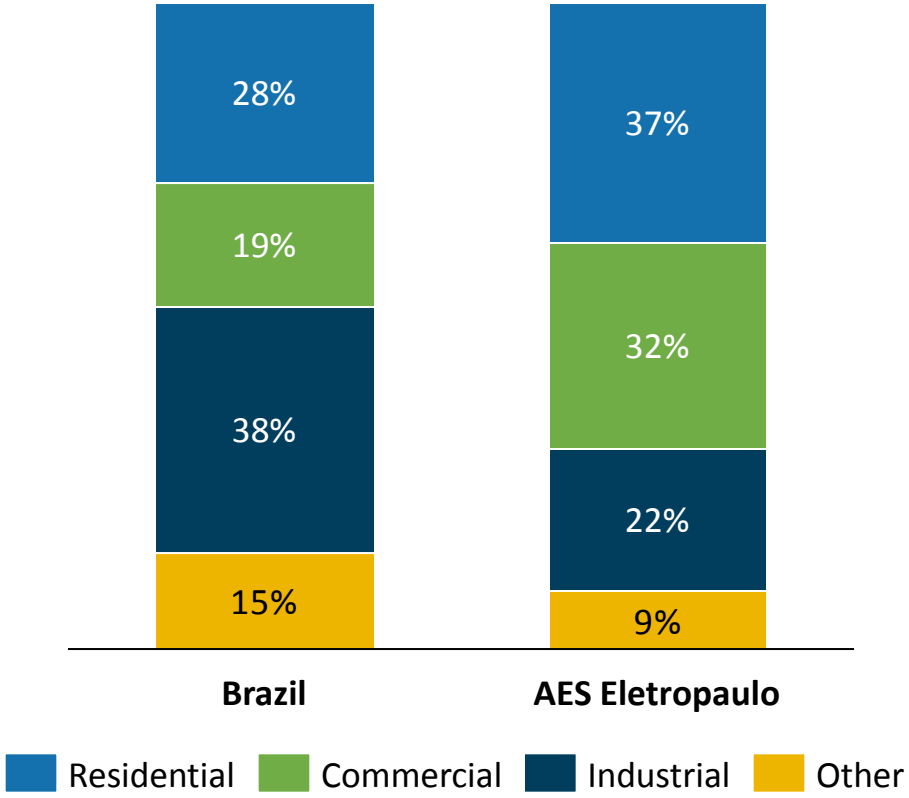
- AES Eletropaulo concession area consists of a mature market, representing approx. 17% of national GDP[2]
- State of São Paulo's GDP average growth of 2.2% p.a. for the last 5 years[3]



1 – Own consumption not included; 2 – Source: IBGE, 2010; 3 – base date: 2009-2013

Consumption expansion is mostly in **residential** and **commercial classes**

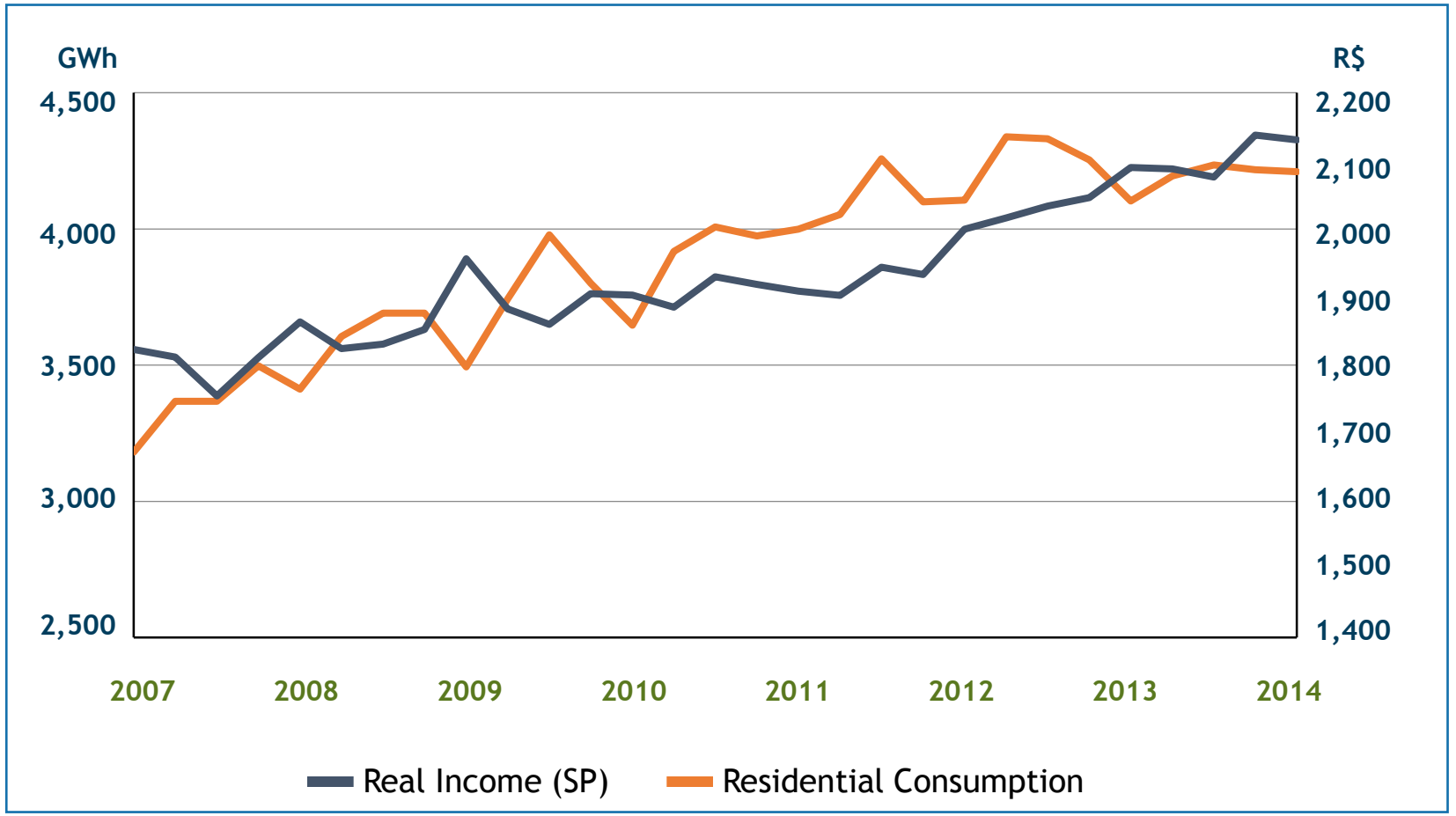
Consumption by class[1] – 9M14



1 - Own consumption not included.

Residential Class

consumption in line with São Paulo state real income

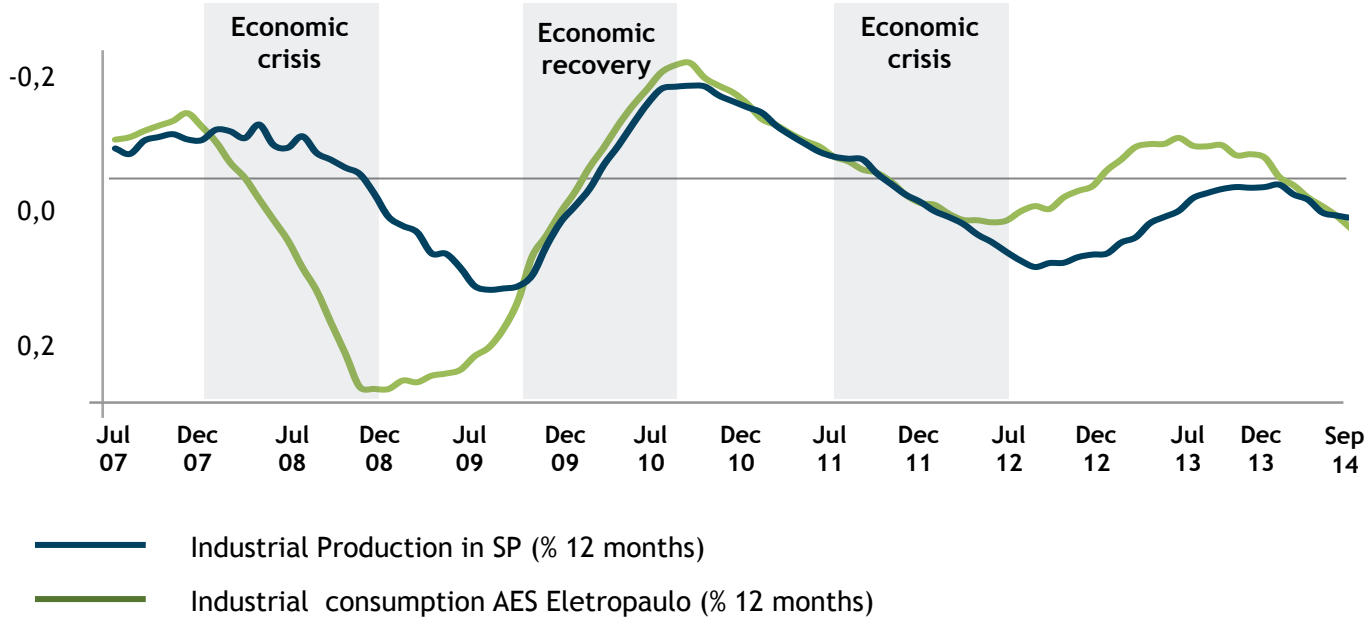


Residential consumption per client grew an average of 1.3% in the last 7 years[1]

1 - base date: 2007-2013

Industrial class consumption
tied to the industrial production growth in the state of São Paulo

Industrial class X Industrial production in SP[1]

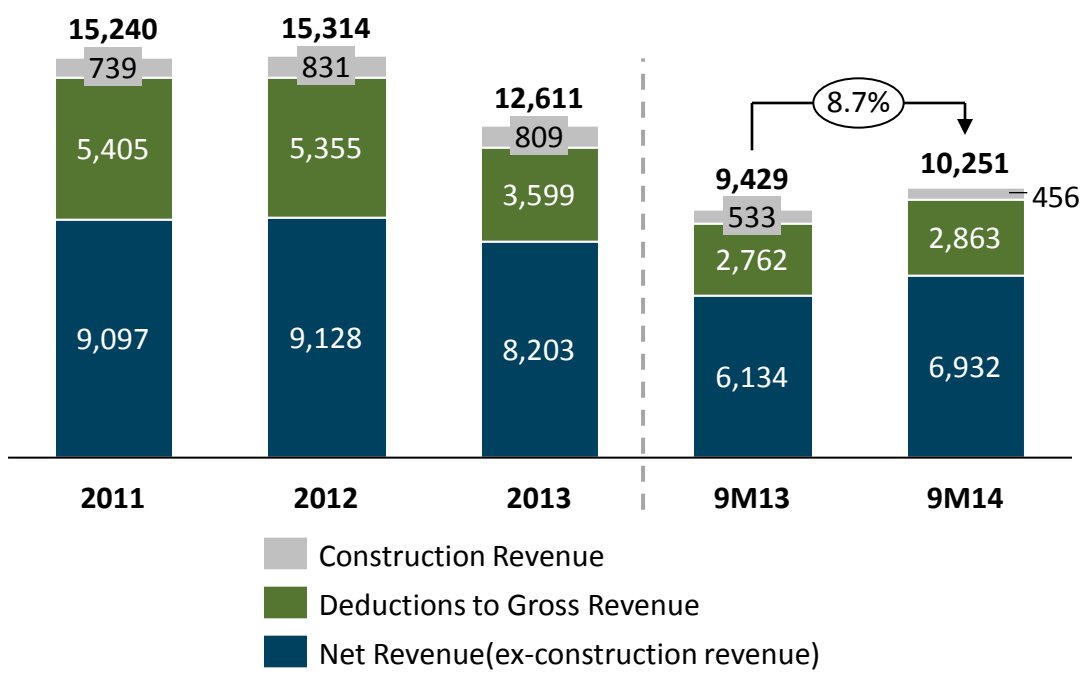


- Industrial consumption impacted by lower industrial production in Brazil
- Consumption focused on more resilient segment (residential and commercial classes)

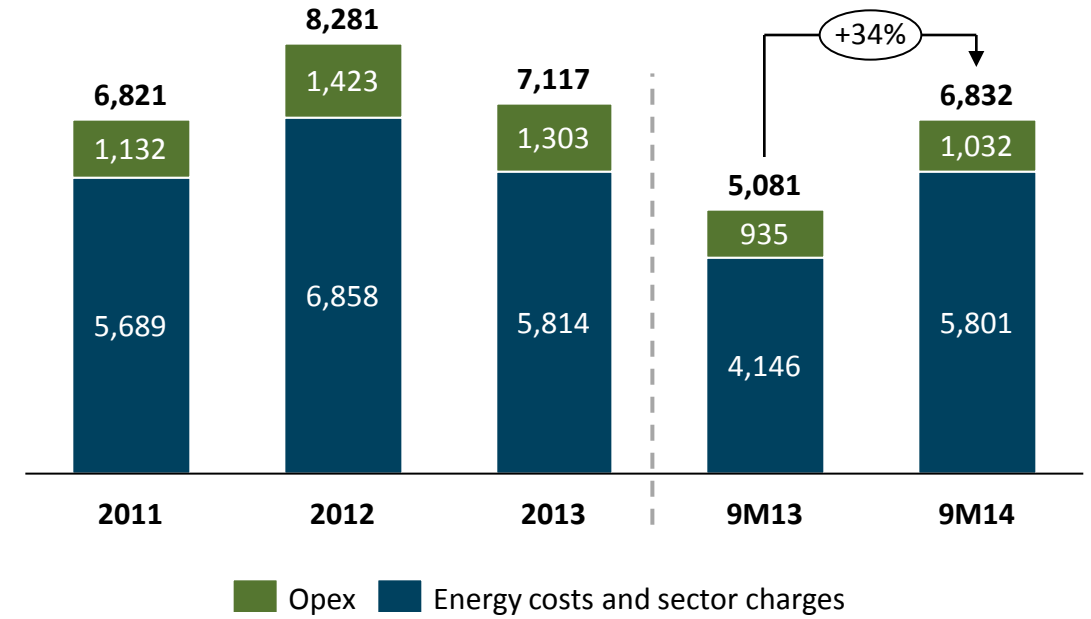
1- São Paulo metropolitan area. Information **until September 2014.**

9M14 positively influenced by the tariff readjustment and overcontracted energy

Gross revenue (R$ million)

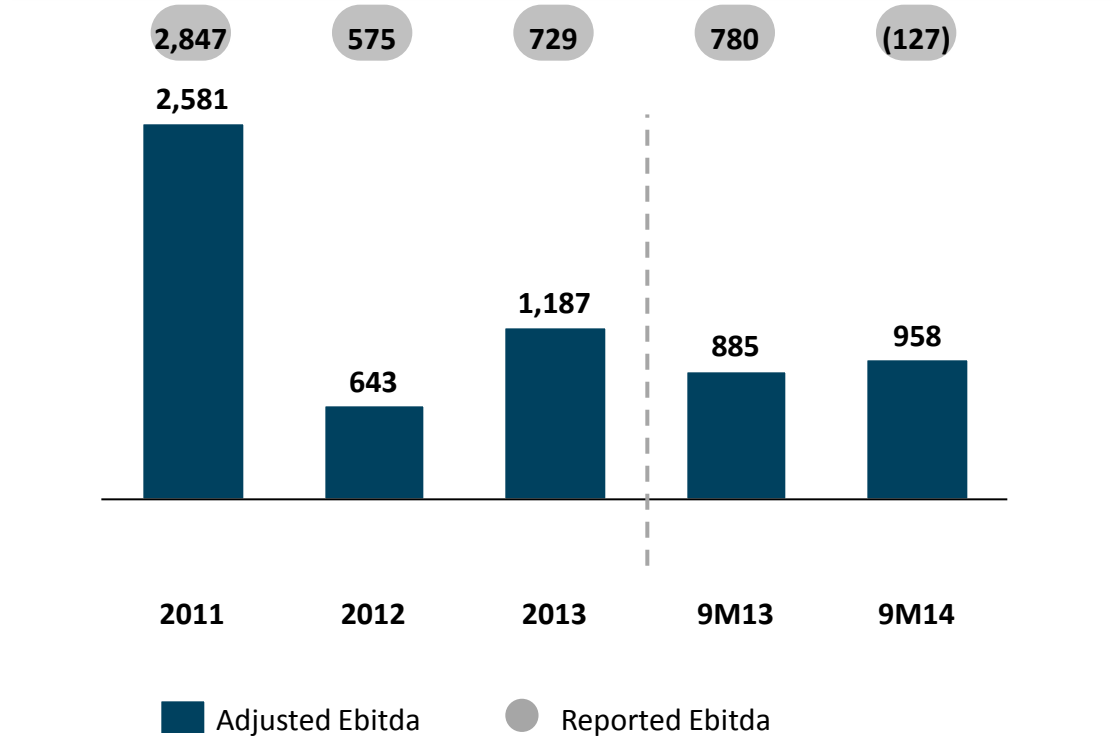


Costs (R$ million)

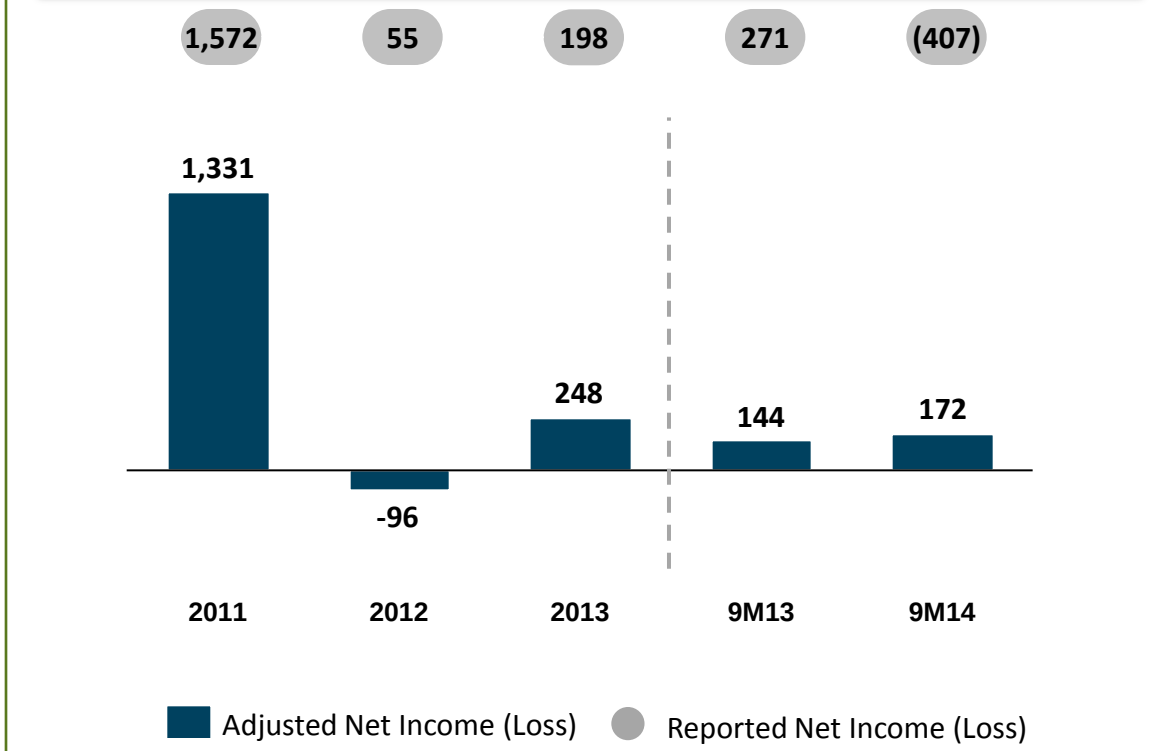


Adjusted Ebitda driven by market and tariff readjustment in 9M14

Adjusted Ebitda[1] (R$ million)



Adjusted Net Income (Loss)[2] (R$ million)



1 - EBITDA adjusted by expenses related to Pension Plan and to regulatory assets and liabilities. 2 - Net income (loss) adjusted by regulatory assets and liabilities

Cost management projects generated R$ 623 MM[1] in savings until 2013

1st wave - 2007-2010

- Headcount reduction
- Support functions centralization - shared services
- Overhead reduction - management and contracts renegotiation
- Leadership headcount reduced by 44% from 2008 to 2013
- Currently operating at the same PMSO level as in 2007 while every quality indicators have improved

2nd wave - 2010-2012

- Benchmark approach
- Process review and IT tools to increase performance
- Development of strategic sourcing capability
- Continuous overhead reduction
- Administrative and operational activities centralized in a new site
- Real Estate Plan: sale of assets and maximization of occupancy rate

3rd wave - 2013-2015

- Efficiency gains through process transformation and IT tools integration
- Cost management and innovation as part of the Company's culture
- Consider the total cost of ownership for CAPEX/OPEX allocation decisions
- Sustainability driving value (e.g., ABS initiative with suppliers)

AES Eletropaulo

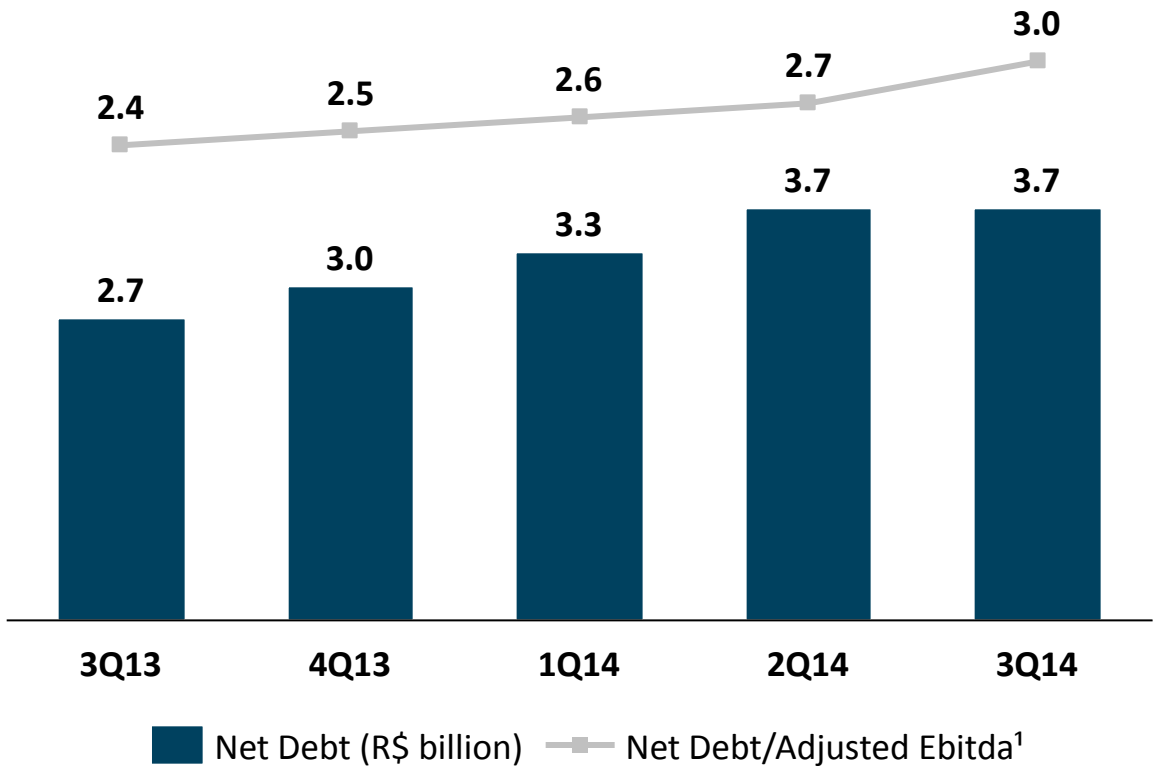
1 -Nominal total from 2007 until 2013 FY. Includes recurring and non-recurring reductions and the avoidance of cost increases

Operational cash flow generation

R$ Million	3Q13	3Q14	9M13	9M14
Initial Cash	986	255	814	974
Operating cash generation	587	341	1,419	292
Investiments	(184)	(181)	(565)	(434)
Net Financial Expenses/Net Amortization	(11)	550	(206)	360
Pension fund expenses	(55)	(43)	(165)	(166)
Income Tax	(15)	-	(22)	(47)
Disposal of assets	13	24	40	24
Cash restricted and/or locked	(32)	(3)	(28)	(61)
Free cash	301	687	474	(33)
FINAL CASH CONSOLIDATED	1,288	942	1,288	942

Leverage level within financial covenants

Net debt (R$ billion)



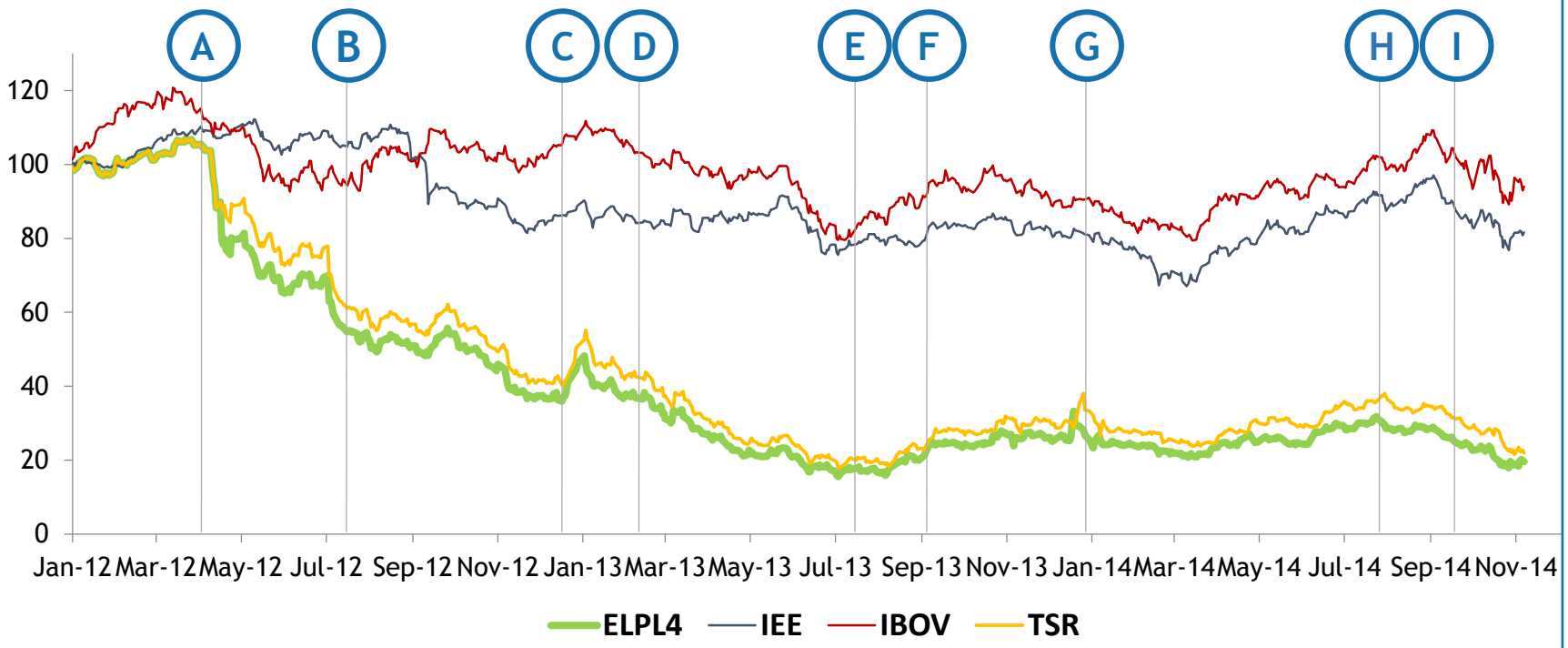
- **Average maturity** of **debt** reaching **5.3 years**
- **Covenants within** the **limits** established by debt contracts

Debt Cost	3Q13	3Q14
Average term (years)	6.3	5.3
Effective rate	12.1%	12.9%

1 – EBITDA adjusted by expenses related to pension plan and regulatory assets and liabilities

Capital markets

AES Eletropaulo x IEE x Ibovespa[1] - 30 months



- **A** **Apr/2012: Aneel announced** 3PTRC proposal (tariff cut of 8.81%)
- **B** **Jul/2012: Aneel announced** official 3PTRC (tariff cut of 9.33%) lowering dividend payout expectations
- **C** **Dec/2012:** Court deems Eletropaulo liable for Eletrobras lawsuit. Eletropaulo appealed the decision.
- **D** **Feb/2013:** 4Q12 EPS affected by energy costs and regulatory charges
- **E** **Jul/2013:** Low tariff adjustment due to payment of 2/3 of 3PTRC "Bubble"
- **F** **Aug/2013:** 2Q13 results above expectations. Efficiency in cost reduction.
- **G** **Dec/2013:** Eletropaulo granted RAB addition and Cable dispute postponed
- **H** **Jul/2014:** Tariff readjustment approved by ANEEL including 50% of "cable" restitution
- **I** **Aug-Oct/14: :** high volatility due to Brazilian elections expectations

- **Market cap[3]:** US$ 0.6 billion/R$ 1.4 billion
- **BM&FBOVESPA:** ELPL3 (common shares) and ELPL4 (preferred shares)
- **ADRs at US OTC Market**: EPUMY (preferred shares)

ISE Índice de Sustentabilidade Empresarial

NÍVEL 2 BOVESPA BRASIL

itag Índice de Ações com *Tag Along* Diferenciado

1 – Base 100: from 01/01/2012 to 12/05/2014; 2 – Electric Power Index; 3 – Index: 12/05/2014

We have strong capabilities and corporate governance

- **AES Corporation and BNDES as major shareholders:** long-standing reputation in the market
- Consumption focused on **more resilient segment** (residential /commercial market)

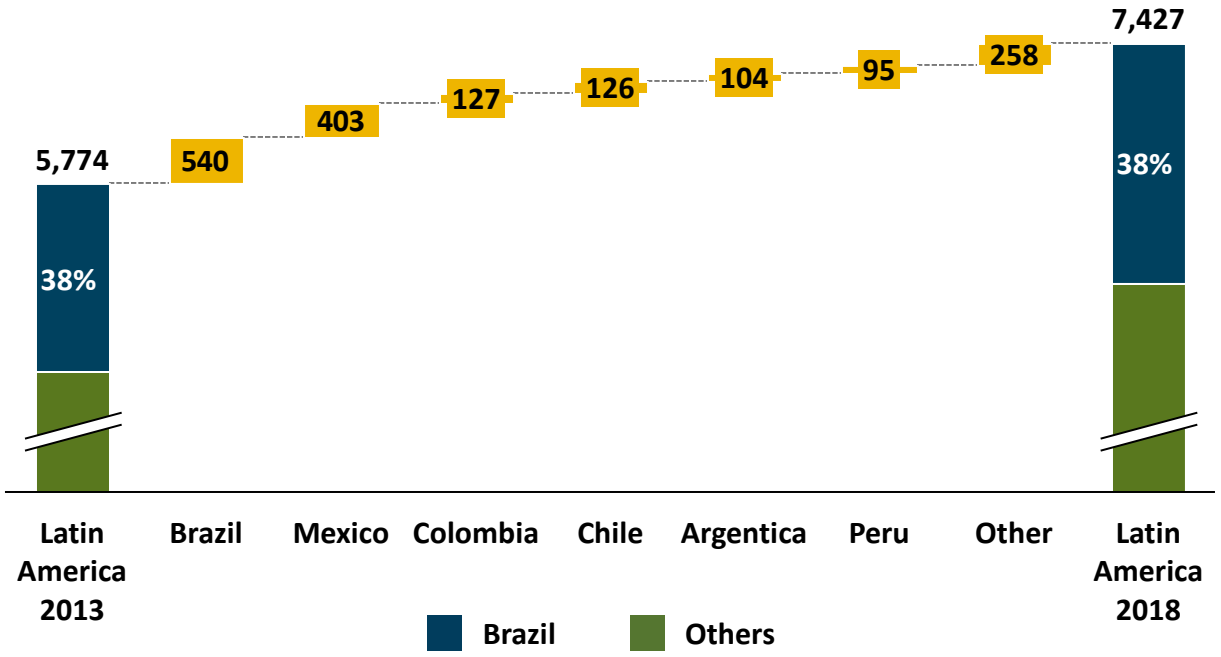
- **2014-2018 investment** plan of **R$ 3.2 billion** mainly focused on **customer services** and **better quality indicators**
- **Efficiency** on recognizing investments on the RAB
- **Deleveraging and improving** capital structure

Brazilian Opportunities

Brazil remains as the most relevant economy in Latin America with plenty growth opportunities

- Brazil represented **38% of Latin America's** 2013 GDP
- Brazil is expected to contribute with **~33% of Latin America's growth** from 2013-2018[1]
- Brazil has **~200 million inhabitants**[2]

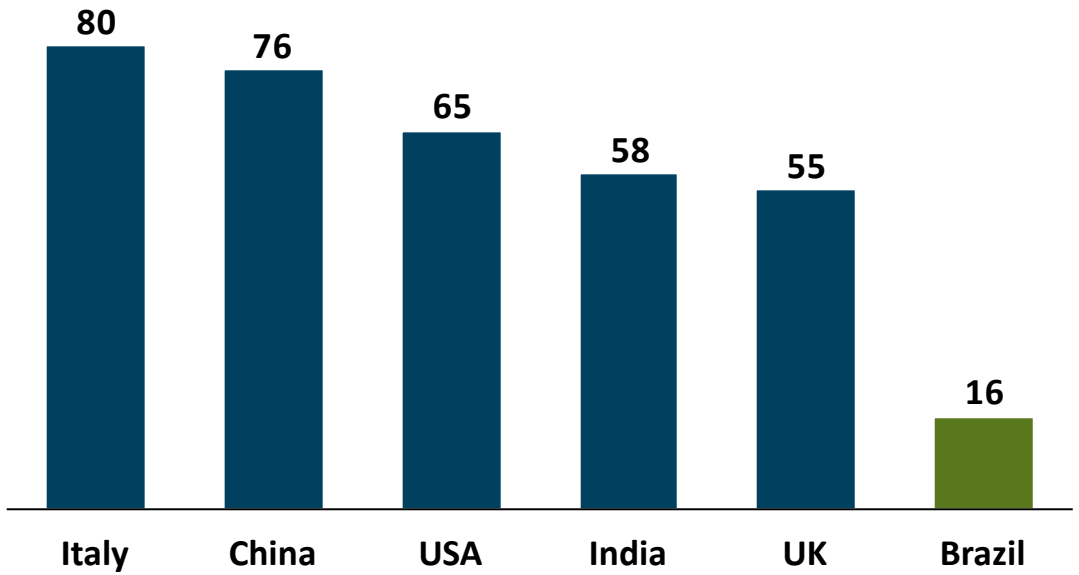
Latin America GDP | USDm, in nominal terms



1 – International Monetary Fund; 2 – Instituto Brasileiro de Geografia e Estatística (2014)

Infrastructure investments are required for Brazil development

Value of infrastructure assets[1]
(% of GDP, 2013)

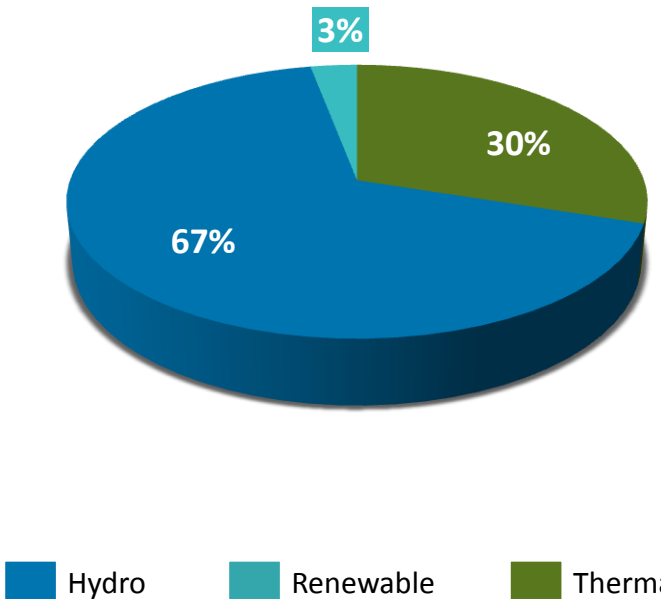


GDP growth is associated to investments in infrastructure, mainly energy and logistics (highways, roads, ports and airports)

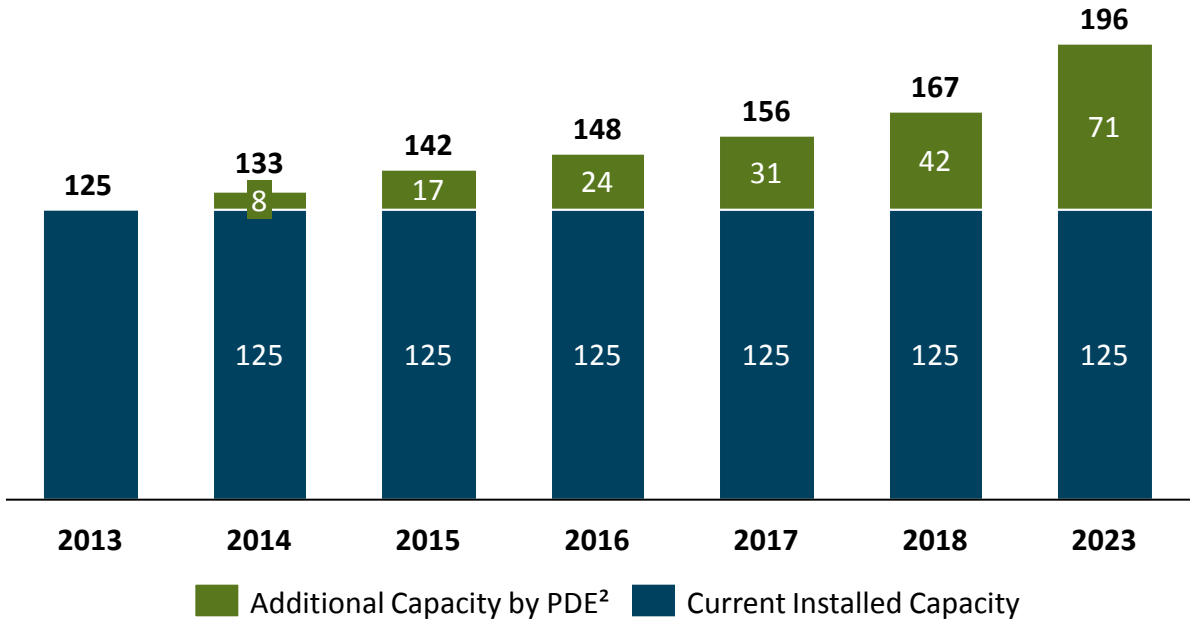
1 – McKinsey Global Institute analysis (2013)

… and generation – Brazilian Energy Matrix and perspectives

Brazilian Energy Matrix[1]



Governmental Expansion Plan



- Energy matrix based on hydropower plants
- Thermal source is responsible for system reliability
- Expansion based mainly on renewable and run-of-river hydropower plants

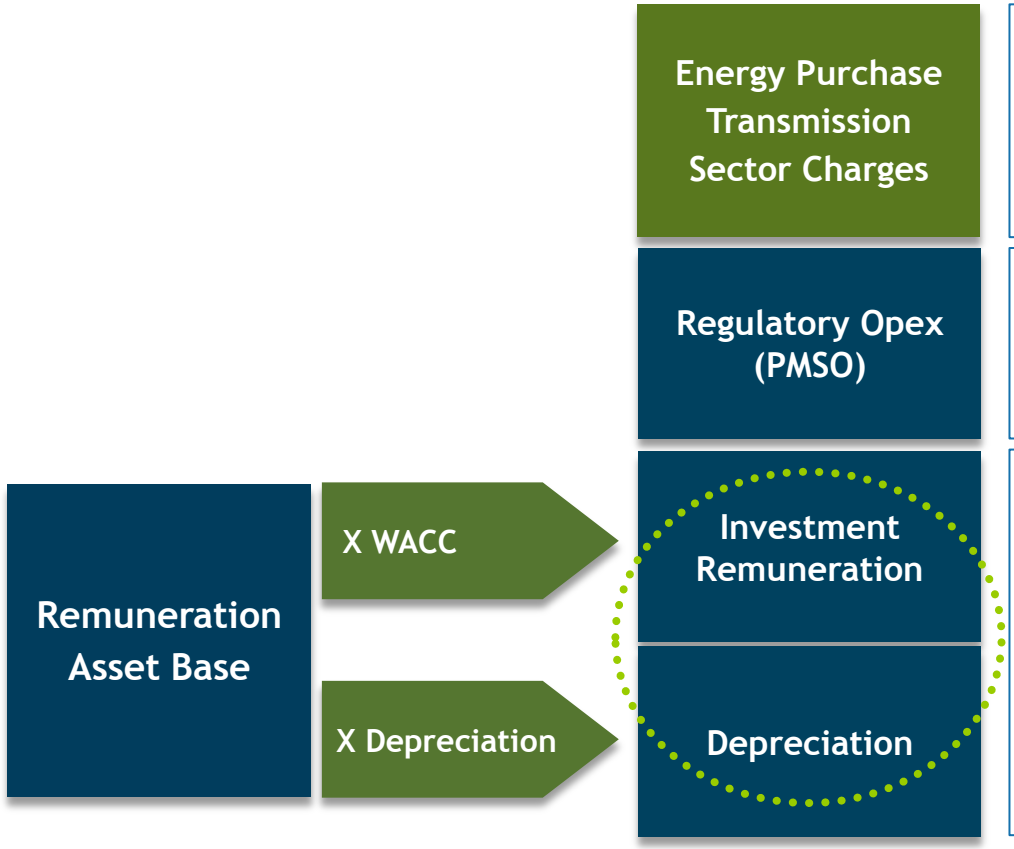
1 – ANEEL database (2014). 2 – Energy development plan (PDE 2013-2023)

Appendix

Tariff methodology for distributors

- **Tariff Reset is applied each 4-5 years**
  - AES Eletropaulo next tariff reset: Jul/2015;
  - AES Sul next tariff reset: Apr/2018
  - Parcel A: costs are passed through to the tariff
  - Parcel B: costs are set by ANEEL

- **Annual tariff adjustment**
  - Parcel A : costs are passed through to the tariff
  - Parcel B: cost are adjusted by IGPM +/- X Factor[1]



- **Parcel A Costs**
  - Non-manageable costs that are passed through to the tariff
  - Incentives to reduce costs

- **Regulatory Opex**
  - Efficient operating cost determined by ANEEL

- **Remuneration Asset Base**
  - Prudent investments used to calculate the investment remuneration (applying WACC) and depreciation

Regulatory Ebitda

Parcel A - Non-Manageable costs

Parcel B - Manageable costs

1 - X Factor: index that capture productivity gains

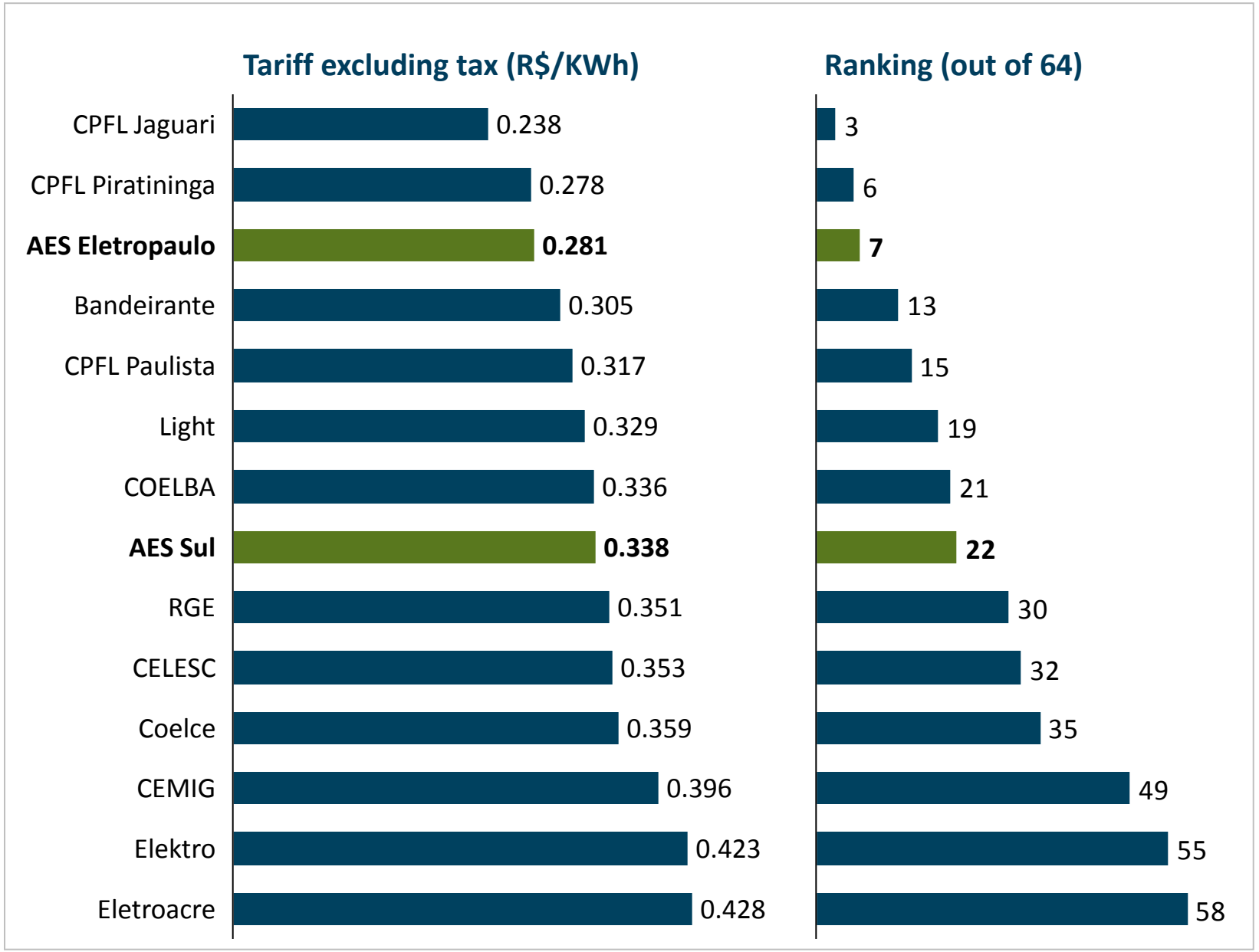
X Factor methodology

X Factor =	Pd	+ Q	+ T
Definition	Distribution productivity	Quality of service	Operational expenses trajectory
Objective	Capture productivity gains	Stimulate improvement of service quality	Implement operational expenses trajectory
Application	Defined at tariff reset, considers the average productivity of the sector adjusted by market growth and consumption variation	Defined at each tariff readjustment, considers variation of SAIDI and SAIFI and comparative performance of discos	Defined at tariff reset, considers reference company and benchmarking methodologies

Tariff Reset Cycles

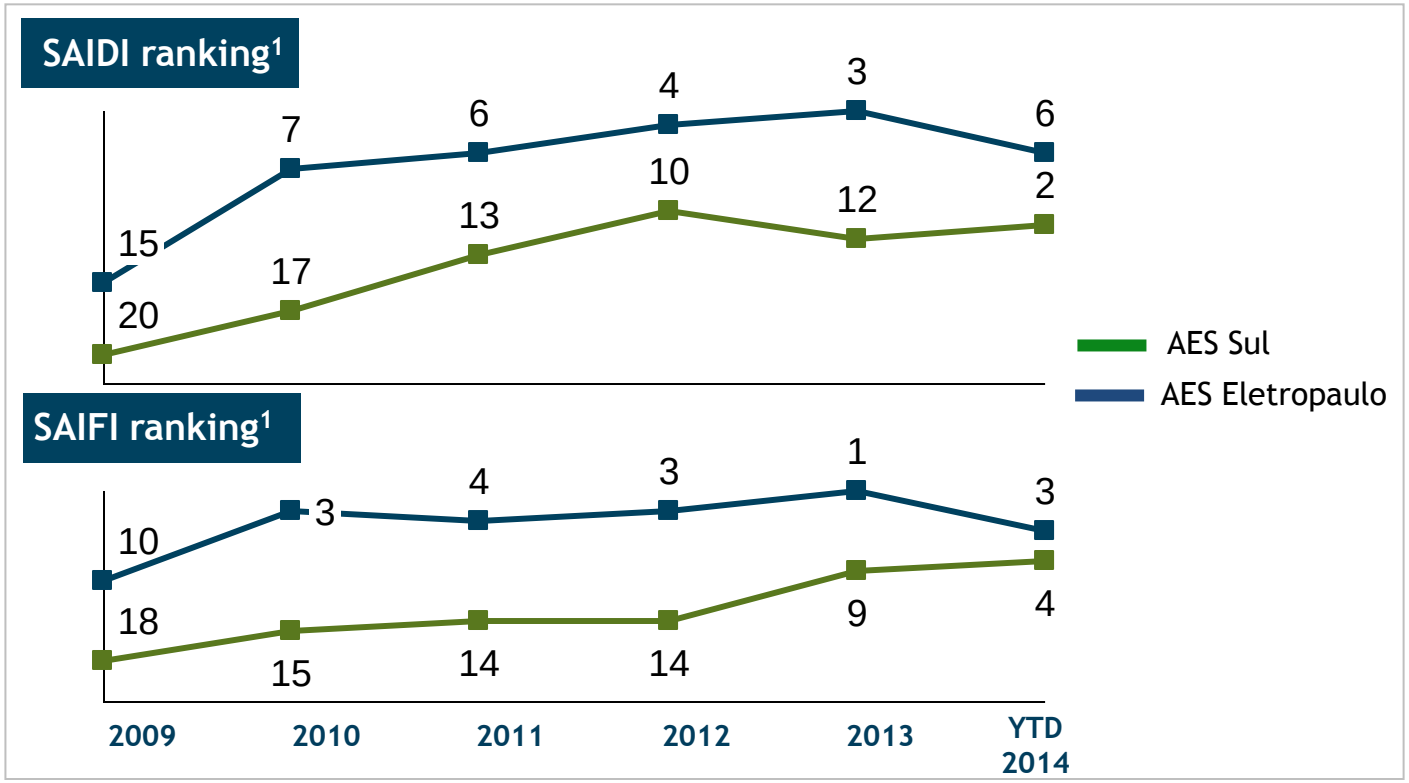
	Third Tariff Reset Cycle	Fourth Tariff Reset Cycle Discussion
Regulatory Asset Base	Approximately 20% of investments not recognized in the RAB	Proposal to define average regulatory COM and CA
Invested Capital Compensation WACC	WACC net nominal: 10.13% WACC net real: 7.50% FX Risk and Regulatory Risk no longer part of the formula	Only topic to be defined during Stage 1 - Real net WACC: 7.16% - Recalculated every 3 years with a methodology revision every 6 years
OPEX	Transition methodology: Updated Reference Company value of the 2nd cycle (w/o detailed calculation) and use of non parametrical benchmarking methodology	Maintenance of efficiency calculation through benchmarking and the proposal of new parameters to evaluate efficiency, including non-technical losses and service quality
X Factor	Total Productivity Factor (TPF) methodology: based on potential productivity gains and the quality of the service provided	Sector's average productivity = 1.91% (3TRC of 1.11%)

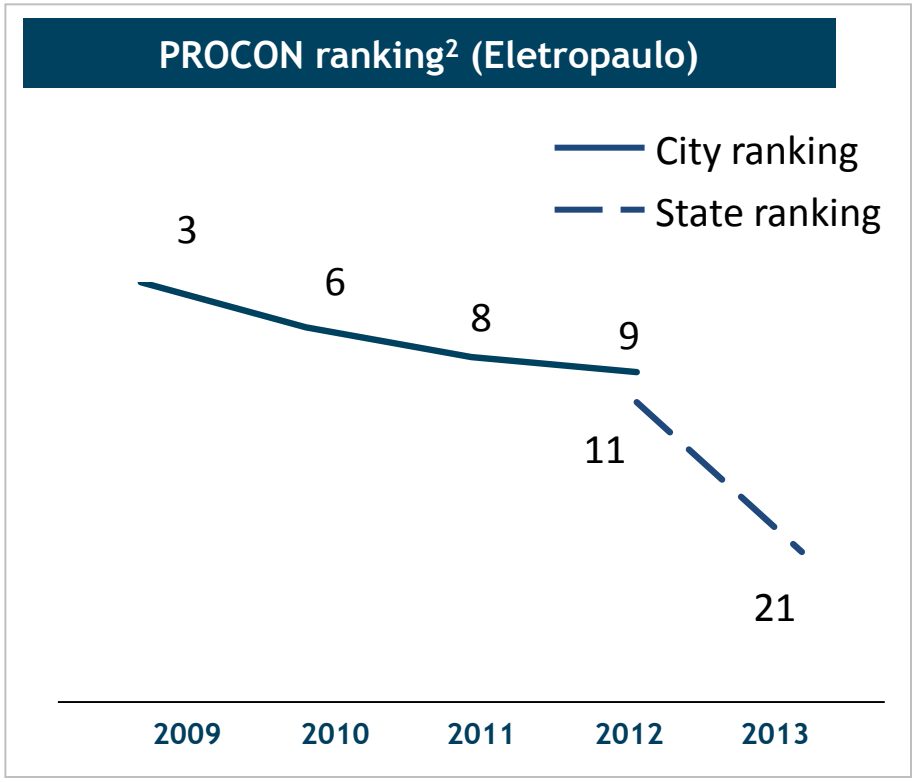
AES Brasil discos among the lowest distribution tariffs in the country



Source: Aneel website. Tariffs as of October/2014.

AES distribution companies have been improving their service level performance over the years





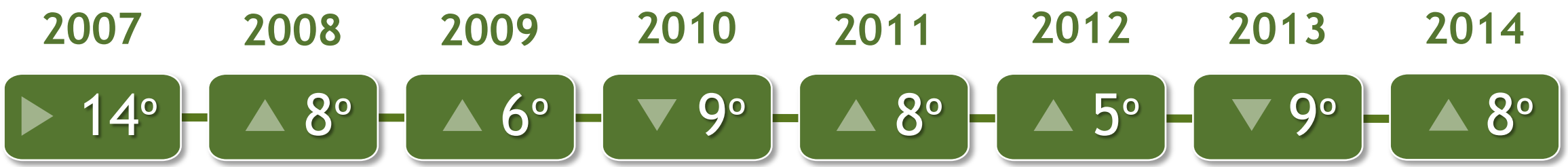
- **Eletropaulo** had the 3rd **best SAIFI** in Brazil in **the 3T14**; **AES Sul** reached **TOP 10** (7.38 occurences);
- **Eletropaulo** had the **6th SAIDI** in **Brazil (8.34 hours)**; **AES Sul** with **best performance in history** (14.08 hours);
- **Eletropaulo** had **reduced** amount of **claims** by **33.33%**, from 2012 to 2013 (384 in 2013).

AES Brasil

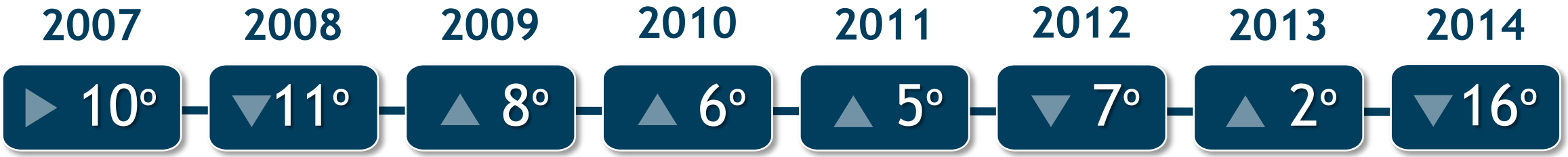
1- Considers distribution companies with more than 500k customers; 2- PROCON ranks companies most claimed by costumers

Abradee's[1] Ranking

AES Eletropaulo



AES Sul

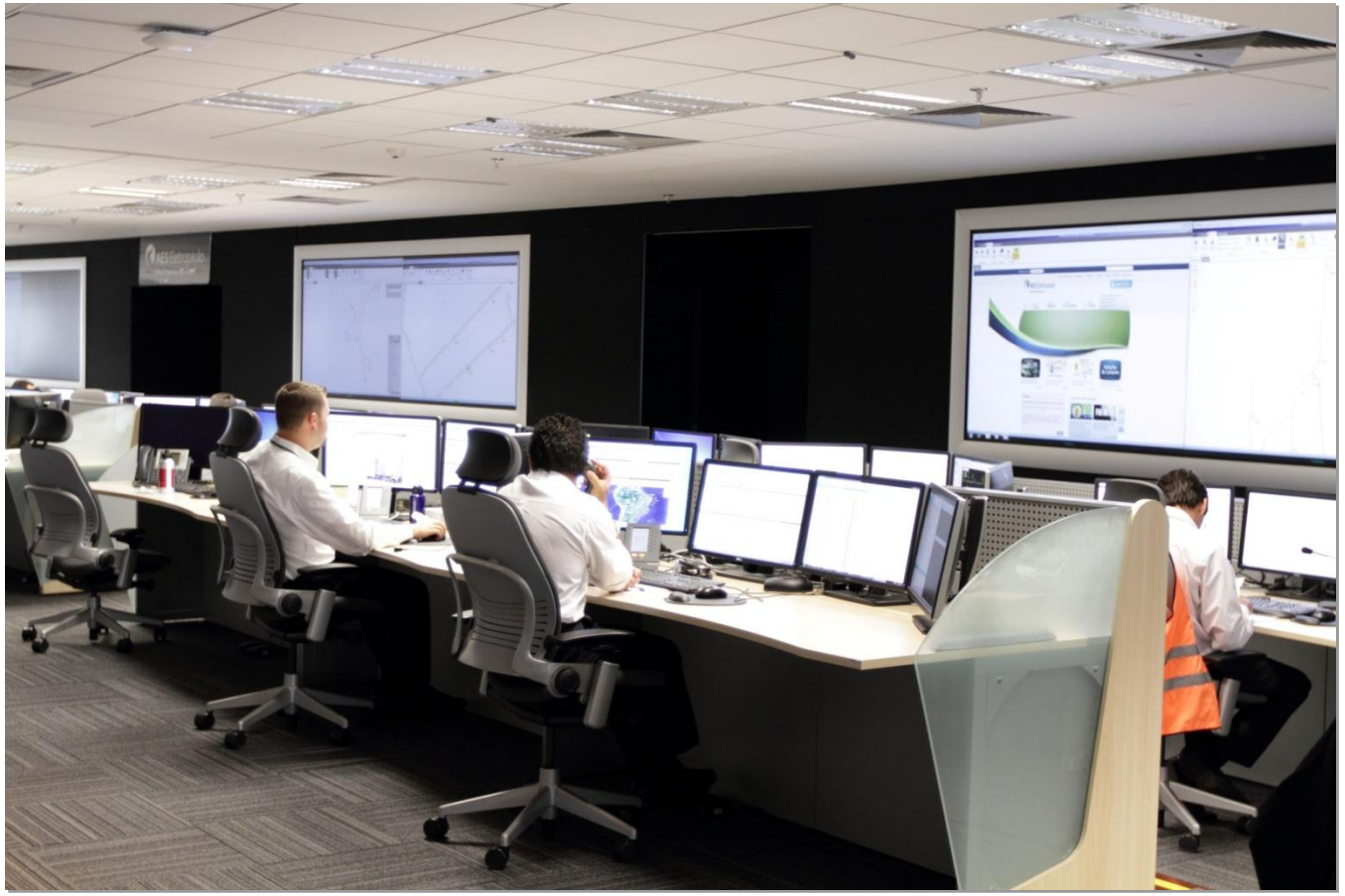


1 – Association of Brazilian electricity distributors

New distribution and sub-transmission operations center allows efficiency gains

Modern layout maximizes the dispatch efficiency and decision making during the outage power restoration

- Integration of DOC[1] and SOC[2] technicians into a modern and collaborative workplace:
  - enabling to rearrange positions at any time optimizing the use of resources
  - improving operational efficiency
  - encouraging a multifunctional profile



1 – Distribution Operating Center; 2 – Subtransmission Operating Center

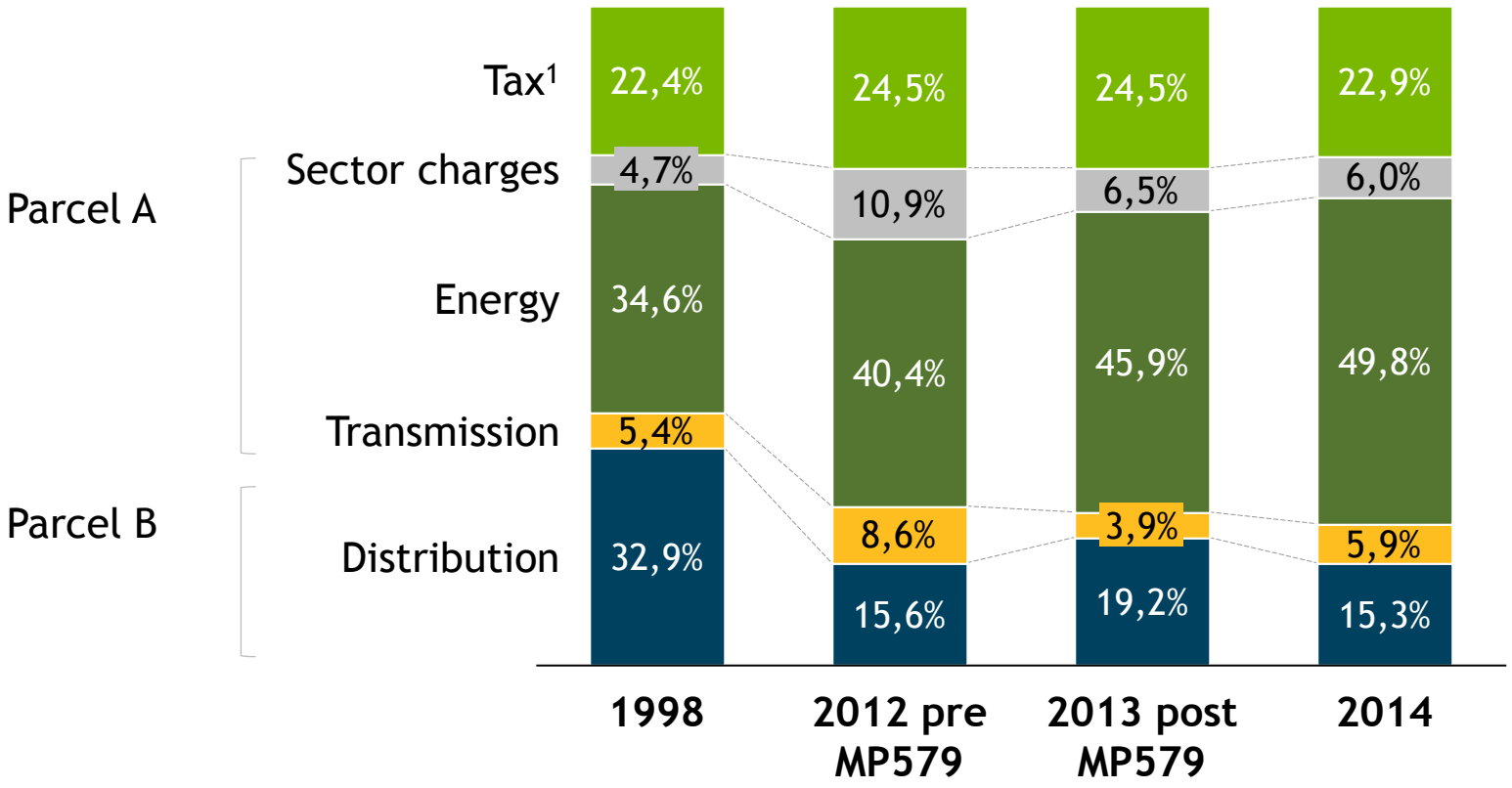
Modern and integrated systems contributes to the best allocation of resources

Integrated and automated systems allow the monitoring of sub-transmission and distribution grid and the best allocation of resources for operational efficiency gains

- State of the art in technologies for management of events and teams, providing a global vision of emergency teams location throughout the concession area;
- Service orders transmission through data devices, dispatching service teams that are closer to the location, minimizing attendance time;
- Innovative technology for forecasting and monitoring of summer rains, strategically located in the Company's substations anticipating the resources allocation

Tariff components evolution

Evolution of tariff components (%)



1 – ICMS, PIS, COFINS