Corporate Presentation
2015

AES Brasil

24/08

AES Corporation
Global Company

36 GW installed capacity

Providing services to over **100 million people**

18.5 thousand employees

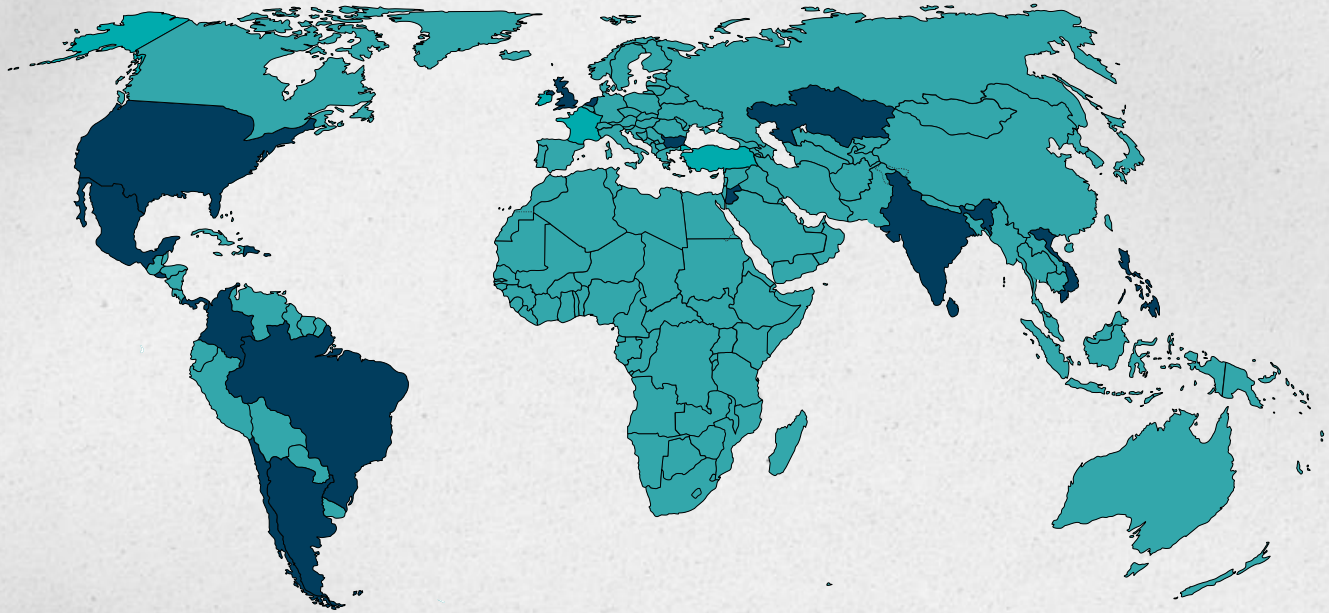
Natural gas and coal fired thermal plants
25.6 GW of installed capacity

Over **8.3 GW** of **Renewable sources**[1]

Distributed energy
+60MW of solar PV[2] projects in operation

World leader in **Energy Storage**
Total of 346 MW[3]

AES Corp is present in **18 countries** and **4 continents**



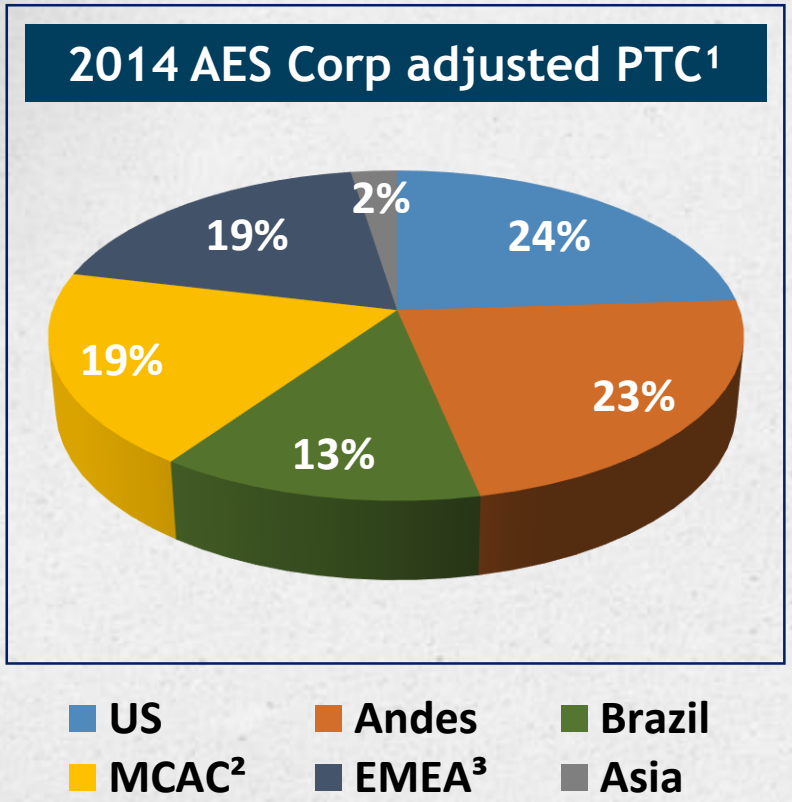
AES Brasil

1 – Includes hydro, wind, solar, energy storage, and biomass 2 - PV – Photovoltaic; 3 - Operating and under construction

AES Brasil SBU

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

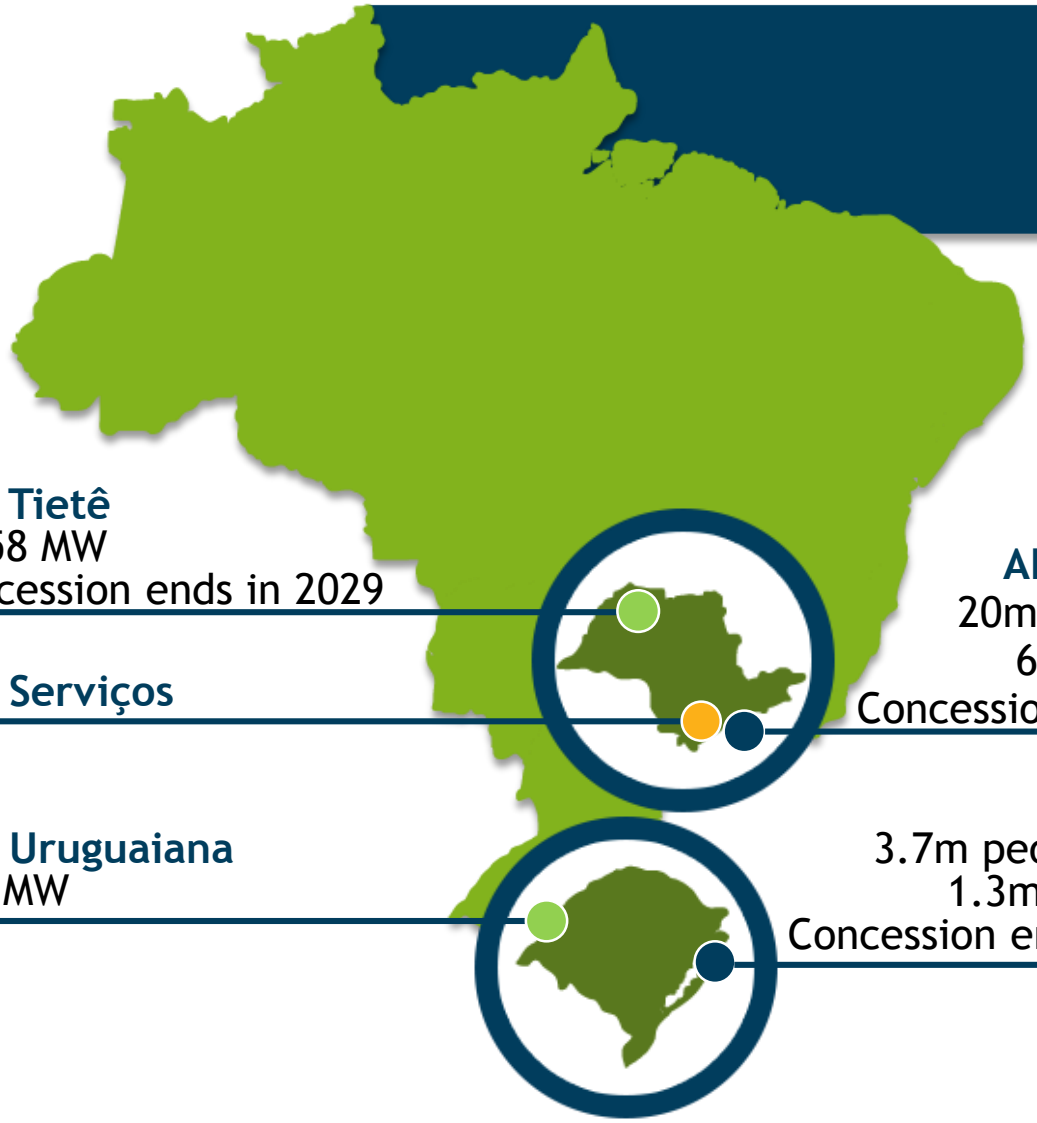
AES Brasil is one of AES Corp **priority markets**



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
Concession ends in 2029

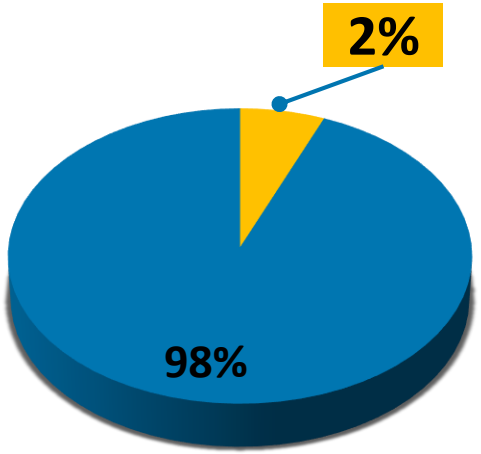
AES Serviços

AES Uruguaiana
640 MW

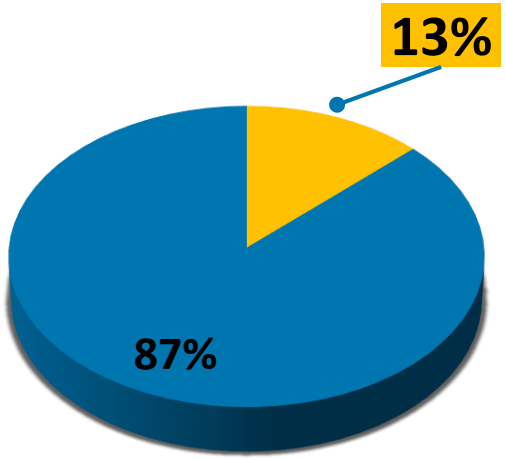
AES Eletropaulo
20m people served
6.8m customers
Concession ends in 2028

AES Sul
3.7m people served
1.3m customers
Concession ends in 2027

Generation[1] Market Share



Distribution[2] Market Share

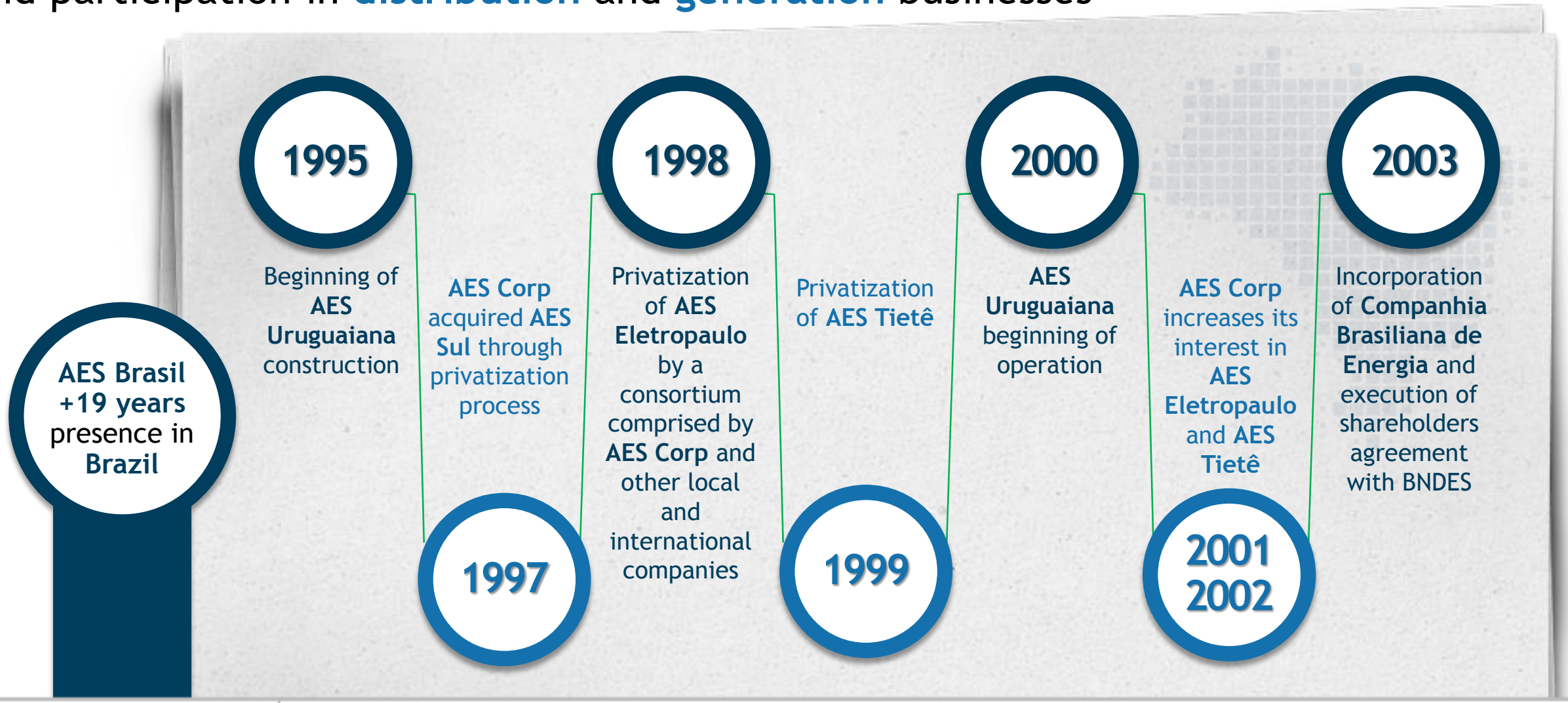


AES Brasil Other

1 – installed capacity as of 2015; 2 – Consumption (GWh) in 2014 (Source: ABRADEE)

History in Brazil

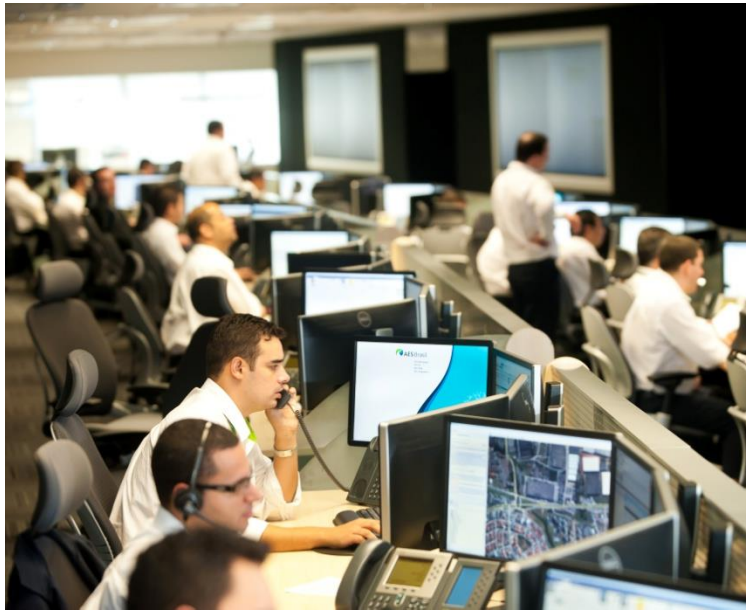
Solid participation in **distribution** and **generation** businesses



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**
- **Reforesting**, **border** and **archeological** management programs
- Water **quality monitoring**
- **Recycling** and **waste disposal** programs
- Programs aiming to **reduce** CO_2 **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's **value chain**

INVESTMENT PLAN

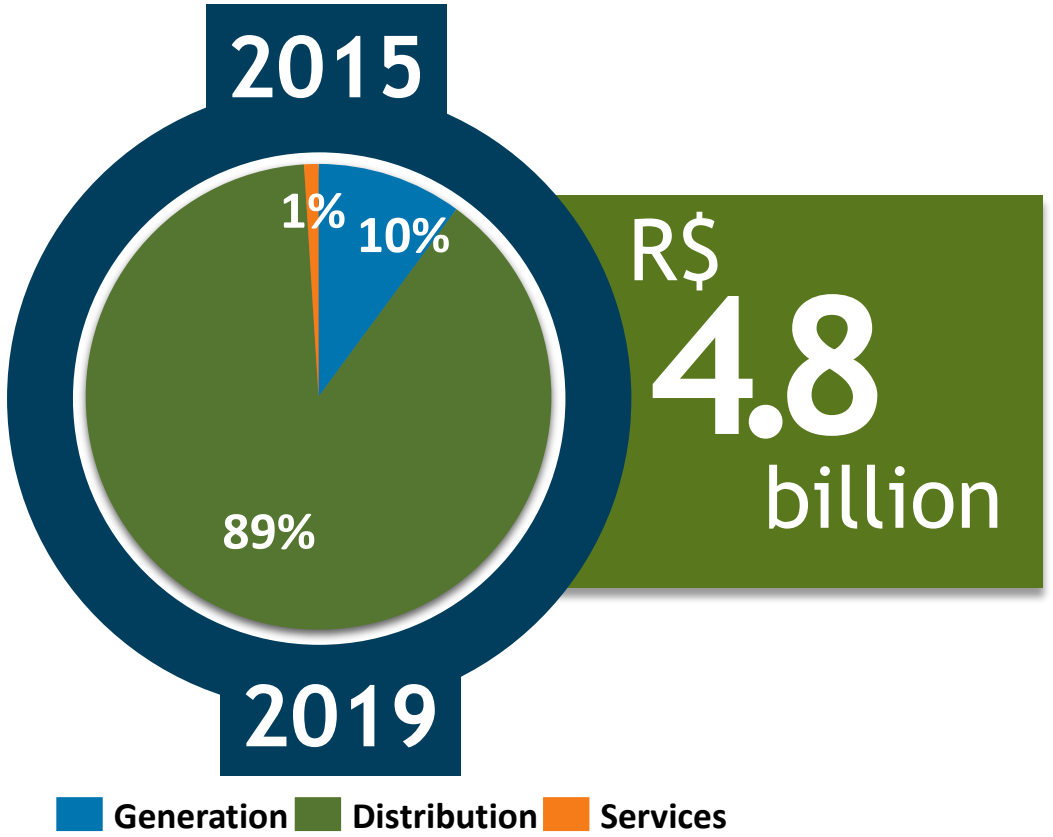
2015 - 2019

AES Eletropaulo
R$ 3.2 billion

AES Tietê
R$ 487 million

AES Sul
R$ 1.1 billion

AES Serviços
R$ 19 million



AES Brasil widely recognized

AES Eletropaulo

Índice de Sustentabilidade Empresarial ISE

Prêmio Nacional da Qualidade 2009 Premiada

Prêmio Nacional da Qualidade 2012 Premiada

Fipecafi - Serasa Experian Troféu Transparência ANEFAC 2013

Fipecafi - Serasa Experian Troféu Transparência ANEFAC 2014

Prêmio Consumidor Moderno de Excelência em Serviços ao Cliente

CartaCapital As Empresas Mais Admiradas no Brasil 2014

Premio Iberoamericano de la Calidad – Fundibeq – Organización Ganadora 2010

AES Tietê

Índice de Sustentabilidade Empresarial ISE

Fipecafi - Serasa Experian Troféu Transparência ANEFAC 2013

Prêmio Nacional da Qualidade 2012 Premiada

Prêmio Época de mudanças climáticas

Premio Iberoamericano de la Calidad – Fundibeq – Organización Ganadora 2010

AES Brasil

Guia Exame Sustentabilidade

Selo de Certificação 2014 / 2015 Prêmio IBEF de Sustentabilidade

1 Best Innovator

AES Holdings Brasil – Vencedor Elis – Estratégia, Liderança e Inovação para a Sustentabilidade – Prêmio Eco Brasil 2014

AES Sul

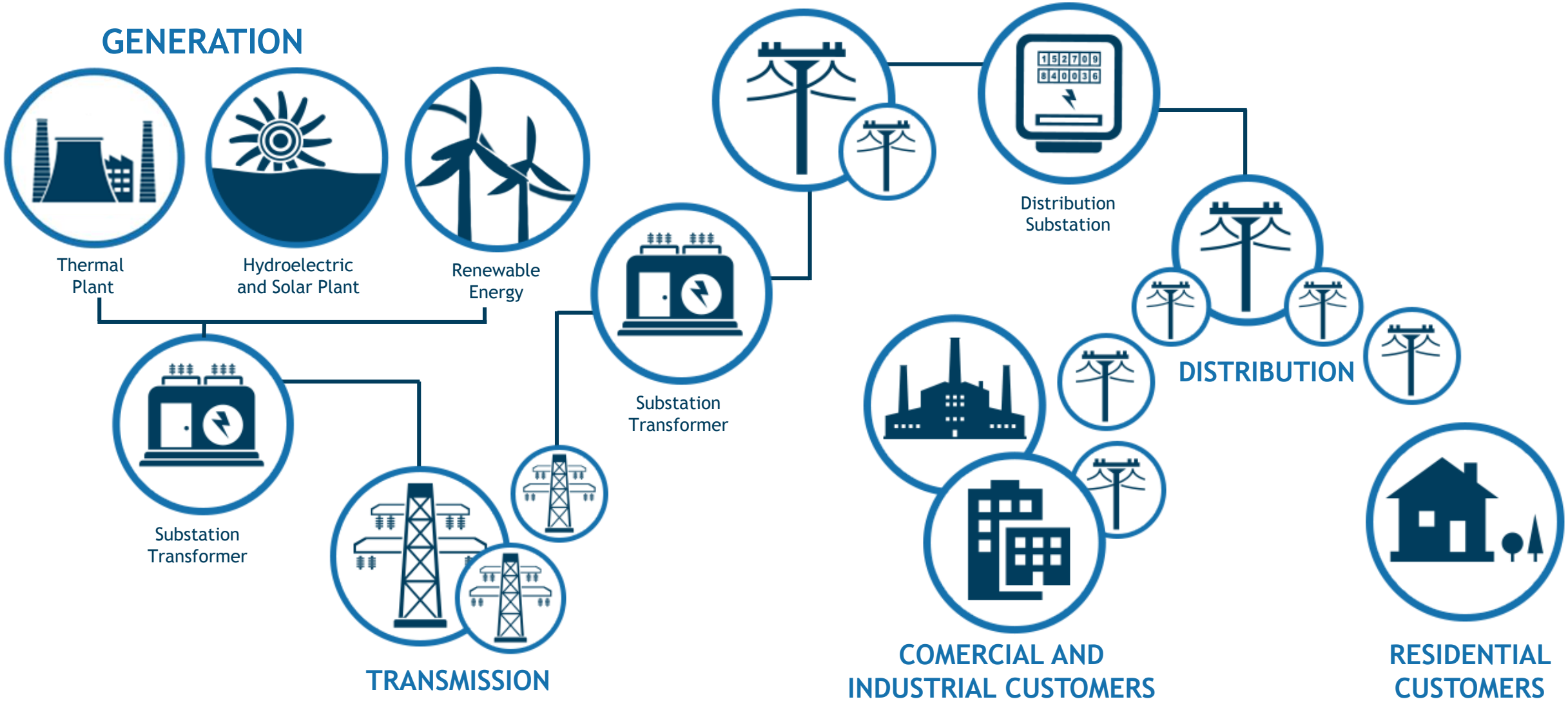
Prêmio Nacional da Qualidade 2014

Premio Iberoamericano de la Calidad – Fundibeq – Organización Ganadora 2010

Você S/A As Melhores Empresas para Começar a Carreira 2014

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

National Interconnected System



Energy sector in Brazil: businesses segments

Generation[1]

- **4,231 power plants**
- **138GW of installed capacity**
- System **based** on **hydro plants** (66%)
- **Contracting environment: free** and **regulated markets**

Transmission[2]

- **104** agents
- **High voltage transmission (>230 kV)**
- **116,767 km** lines (National Integrated System)
- **Regulated tariff** (annually adjusted by inflation)

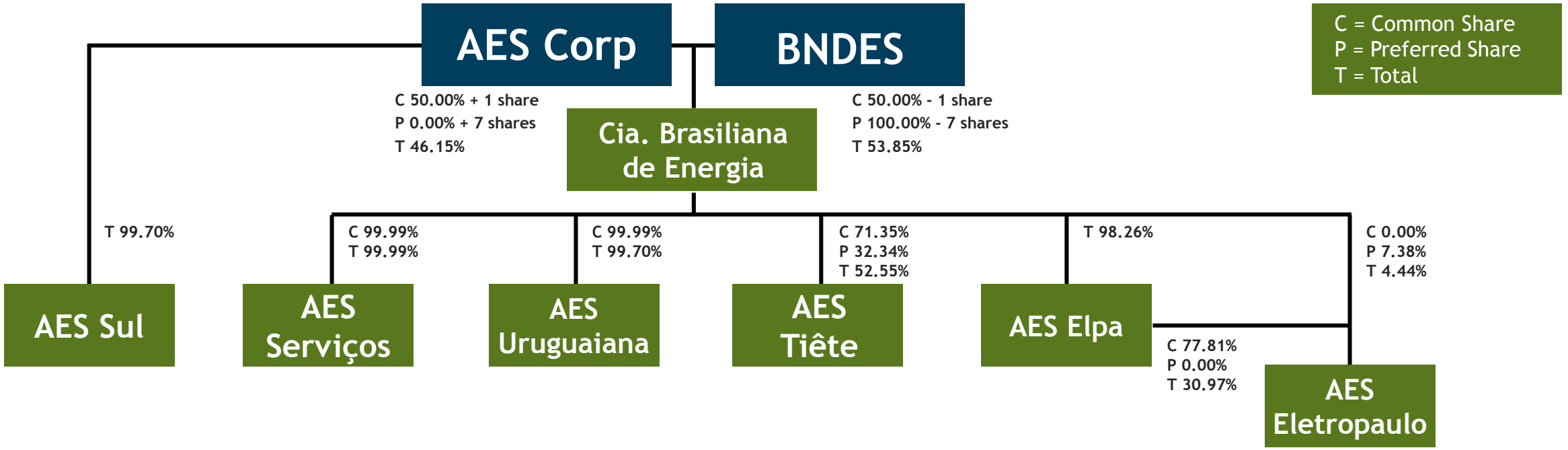
Distribution[2]

- **63** distribution companies
- **342 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

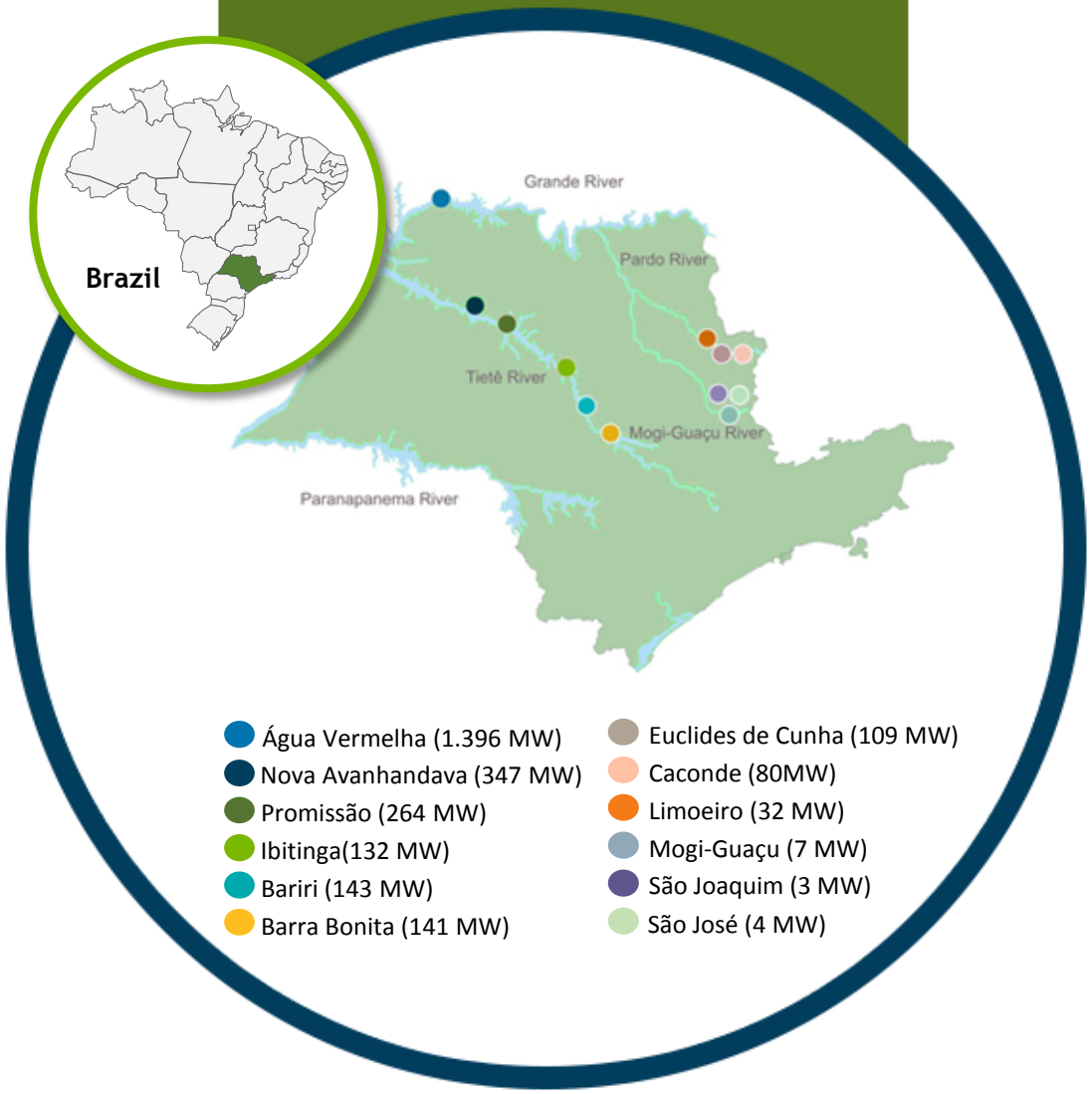
1 – Refers to 2015 data; 2 – Refers to 2014 data

Ownership Structure



	AES[1]	BNDES[1]	Free Float	Others[2]	Market Cap[3]
AES Eletropaulo	16.1%	19.2%	56.3%	8.5%	US$ 0.7 bi
AES Tietê	24.2%	28.3%	39.5%	8.0%	US$ 1.8 bi

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: 08/21/2015. FX rate 3.4896 BRL/1 USD



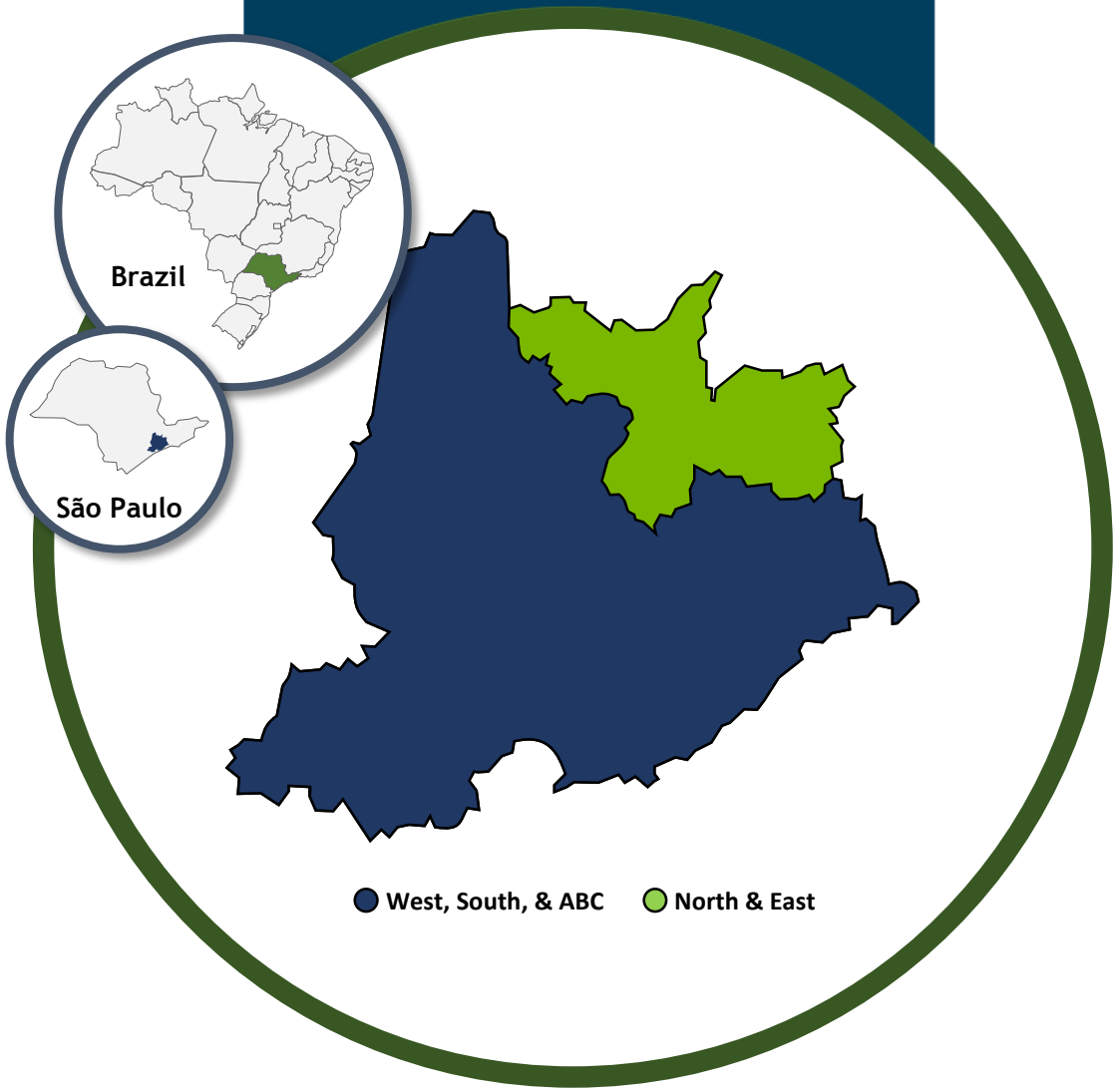
- 3rd largest among private generation companies
- Concession expires in 2029
- Market Cap: US$ 1.8 billion[1]

- 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:
  - 2Q15: 2.0% PN and 2.3% ON
  - Last 3 years avg: 11.0% PN and 11.4% ON
- Investment grade (Moody's):
  - National: Aa3
  - International: Ba2

1 – Base: 08/21/2015. FX rate 3.4896 BRL/1 USD; 2 - Amount of energy allowed to be contracted in the long term; 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**
- **Market Cap:** US$ 617 million[1]

- **16% of Brazil's GDP[2]** in its concession area
- **4,526 km²** concession area
- **46 thousand km** of distribution and transmission lines
- **6.8 million** customers
- **20 million** people served
- **46 TWh** distributed in 2014
- **6,294 employees** as of July 2015

Investment Grade:

	Fitch	S&P	Moody's
National	A+	AA-	Aa3
International	BB	BB	Ba2

1 – Base: 08/21/2015 FX rate 3.4896 BRL/1 USD; 2 - Source: IBGE, 2010.

- SAIDI and SAIFI **23% and 33% better than in 2009**
- Operating costs **2% below** the **regulatory levels**[1]
- **118 cities attended** in Rio Grande do Sul state
- Concession contract **expires in 2027**

- **1.3 million** customers
- **9,528 GWh** sold in 2014
- **99,512 km²** concession area
- **3.7 million** people served
- **1,951** direct employees[1]
- Regional **GDP growth** of **3.2%**[2]

- **R$ 100 million** dividend payout in 2013
- **R$ 57 million** Ebitda in 1H2015
- **R$ 49 million** invested in 1H2015
- National investment grade (S&P): **A-**

1 – as of December/2014. 2 – 2010-2014

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, 2014** and **2015** 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

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

- **Over 5 years** of operation
- 5 major clients – AES Eletropaulo, AES Sul, Level 3, Palácio do Governo do Estado de SP e Bridgestone
- **3 operational bases** – cities of Barueri, São Paulo and Itapecerica da Serra
- **92 vehicles**
- **505 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 Companies' Executive Officers and quarterly by Fiscal committee and Board of Directors

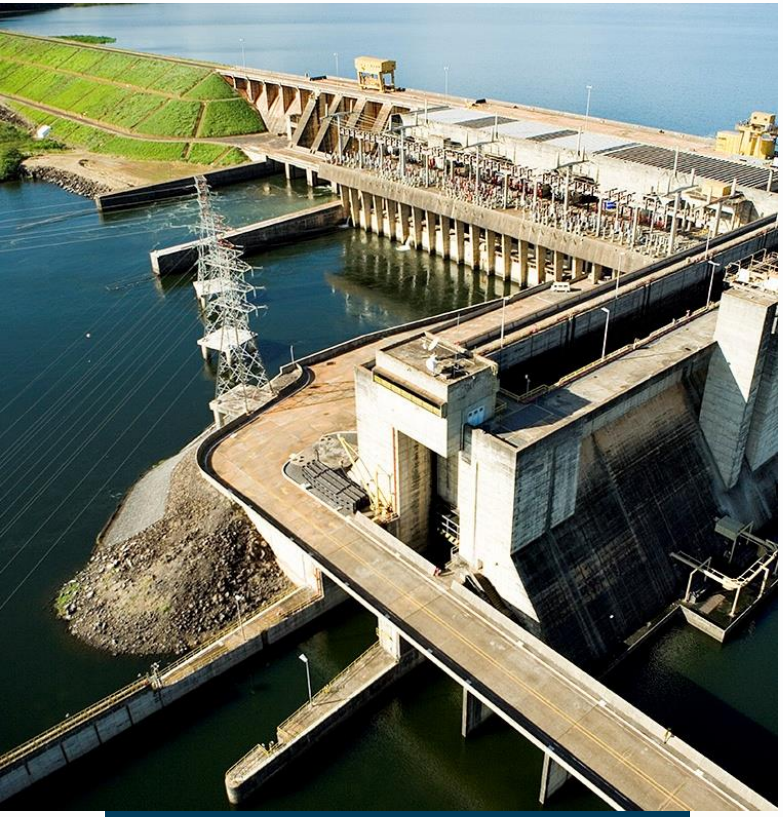
- **Corporate governance manual**; audit committee installed
- High level of **commitment**, with **monthly** Board of Directors **meetings**

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

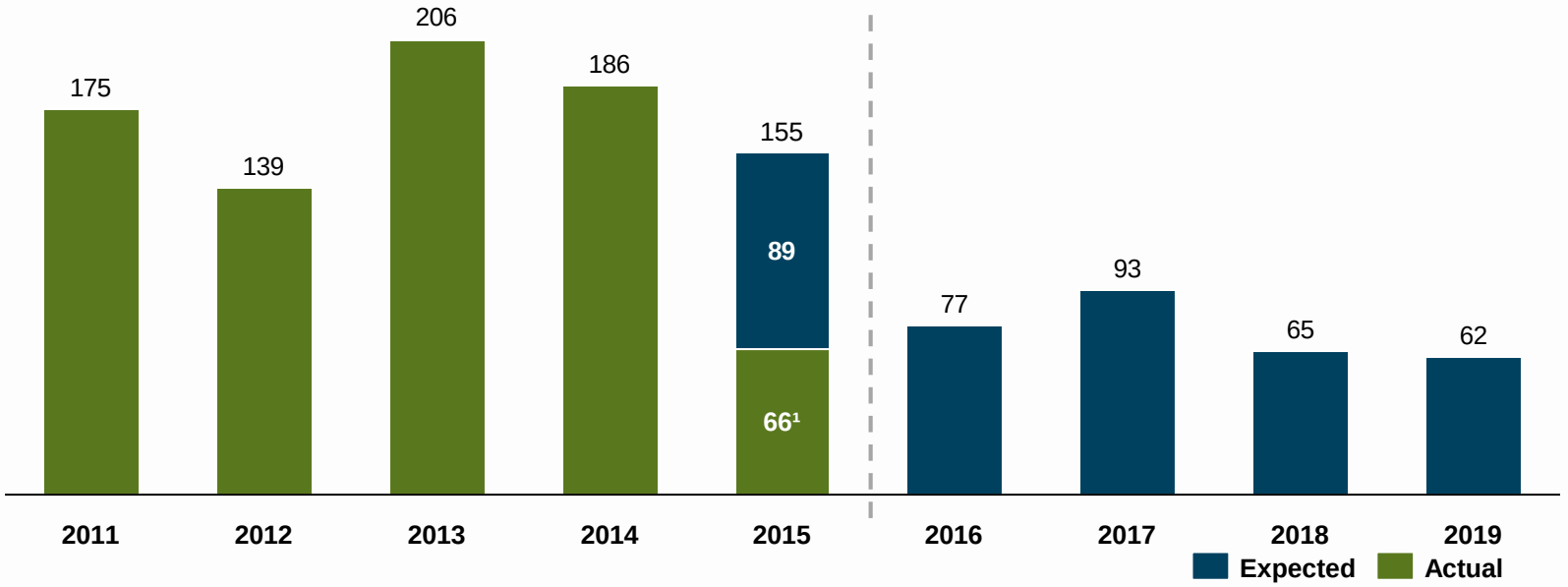
1 – Based on COSO_ERM and Brazilian Corporate Governance Institute models


AES Tietê
Uma Empresa AES Brasil

Investment focused on power plants modernization



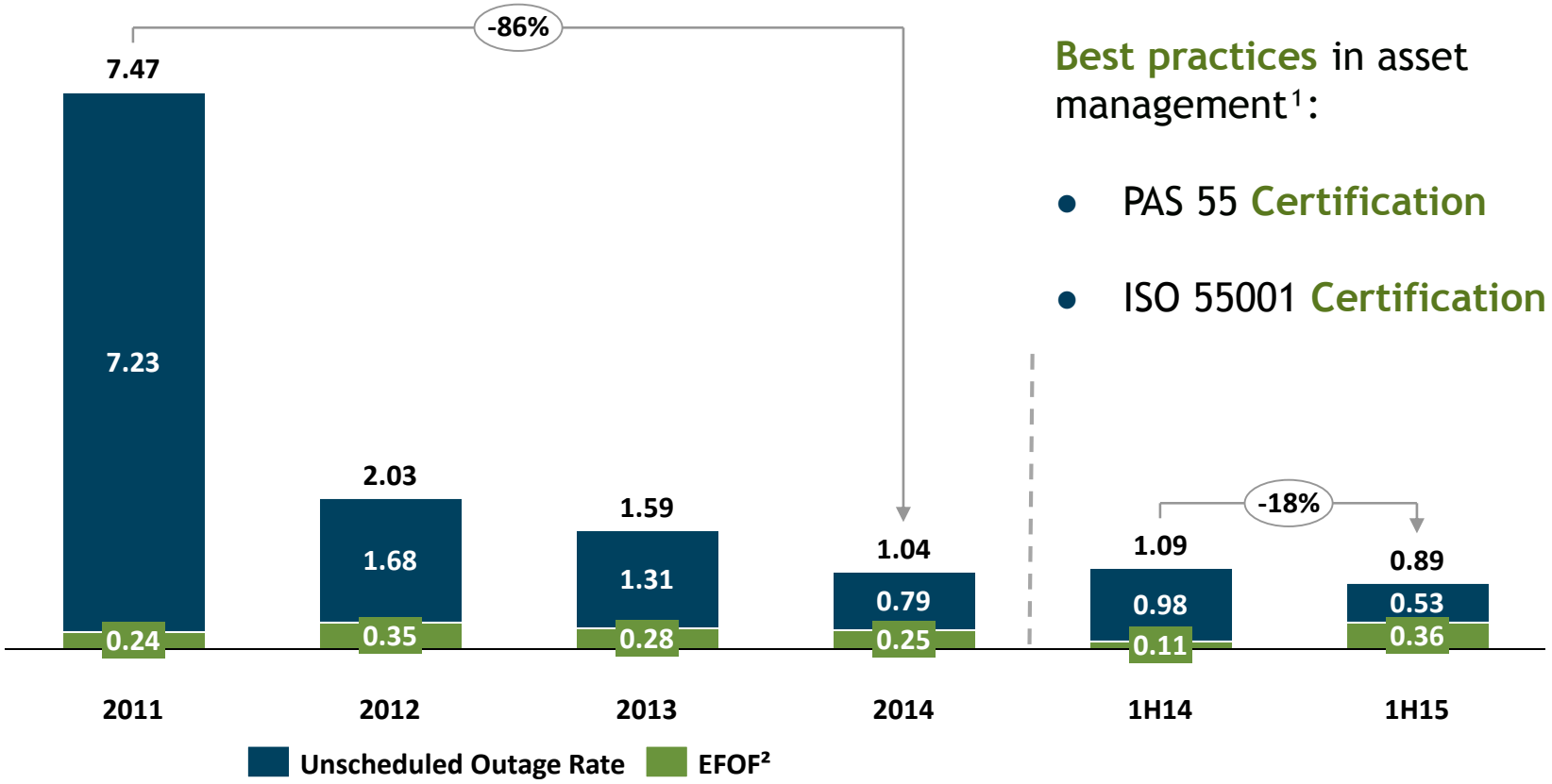
R$ 487 million projected for 2015-2019



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 (%)



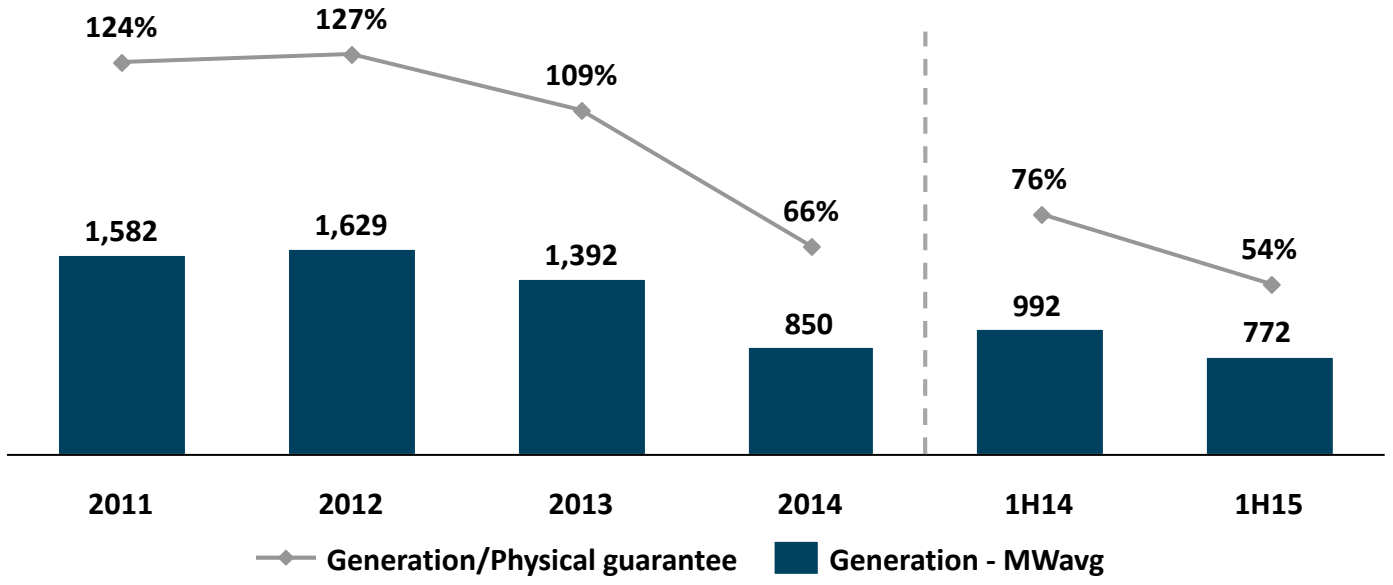
Best practices in asset management[1]:

- PAS 55 **Certification**
- ISO 55001 **Certification**

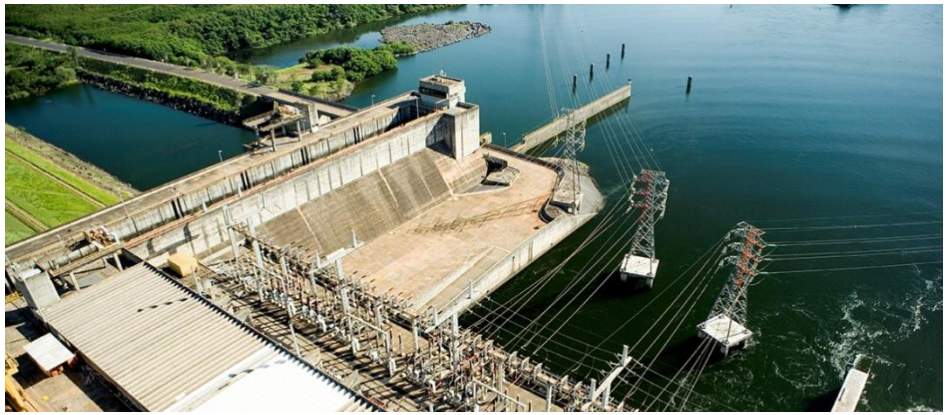
1 - AES Tietê was the first Latin American company to receive the certification from the British Standards Institute 2 – Equivalent Forced outage Factor - EFOF

Energy generation decrease reflects hydrology behavior in the country

Generated energy (MW average[1])



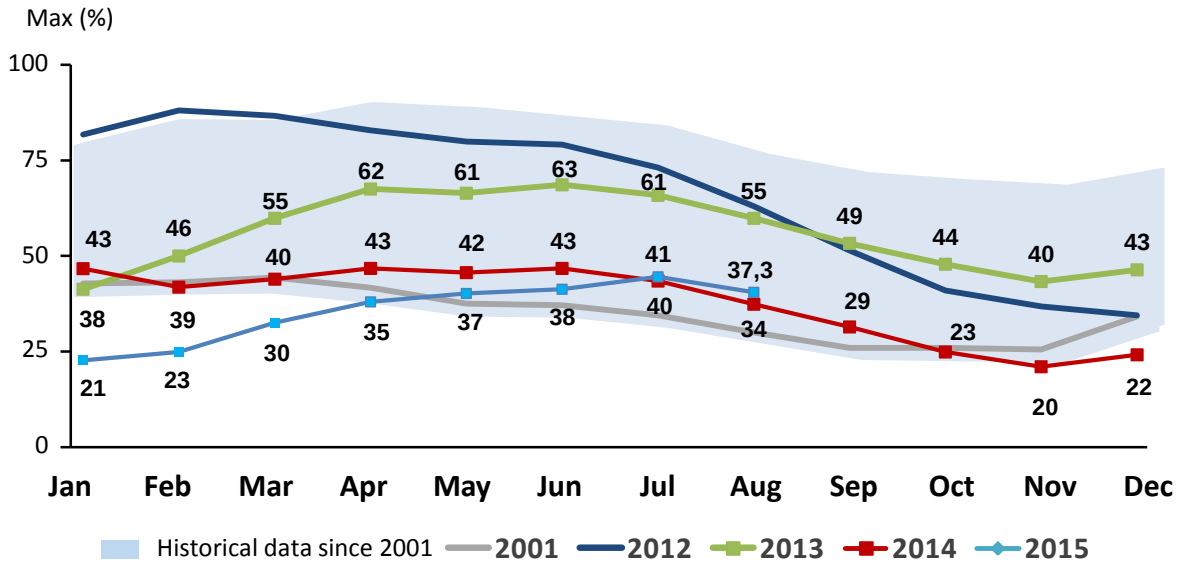
- Hydropower plants are dispatched by ONS[2]
- Dispatch are also related to hydrological conditions:
  - Low hydrology translates into low generation levels



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

Critical hydrological scenario over the last 2 years

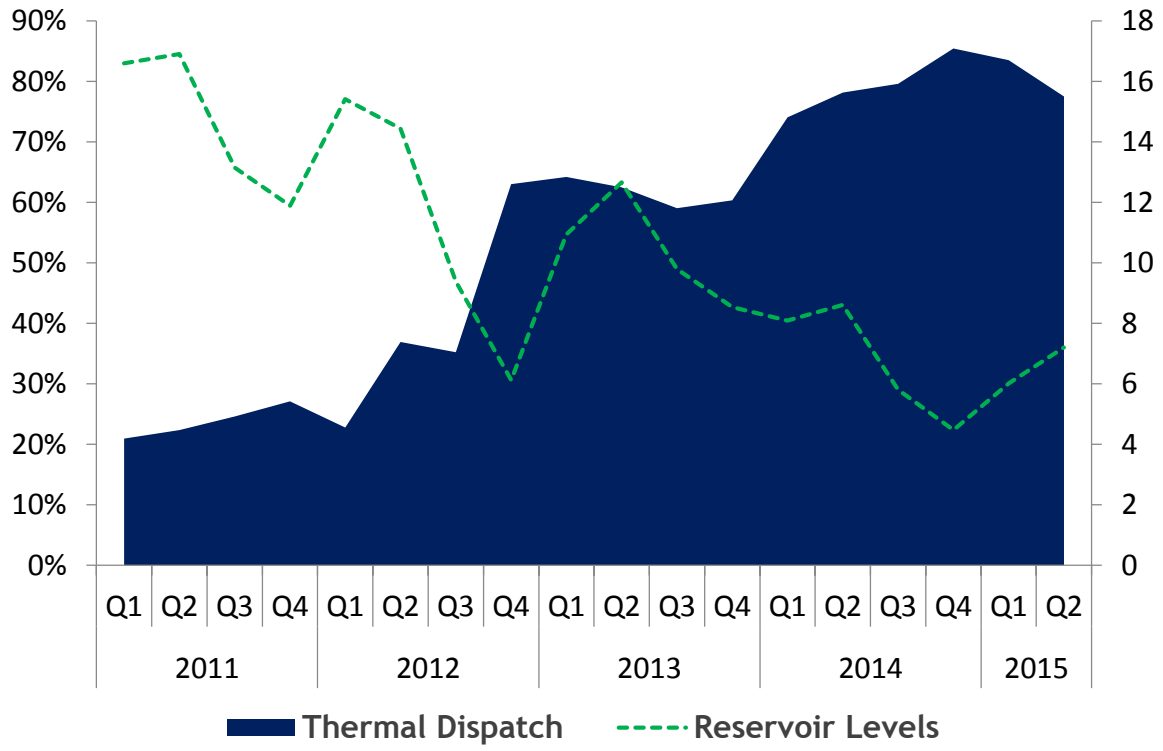
Historical Level of Brazilian Reservoirs (%)



Average Annual Inflow:

2001	2012	2013	2014	2015[1]
82%	87%	97%	81%	80%

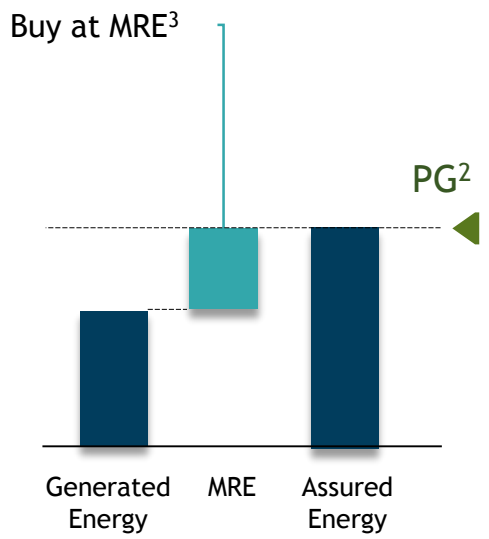
Reservoirs (%) vs. Thermal Dispatch (GW avg[2])



1 - Data base: Jan-Jul/15 (as of Aug 24th); 2 - Generated energy divided by the amount of hours.

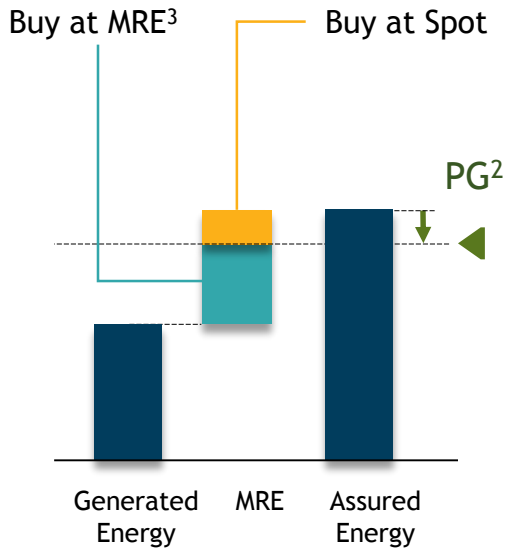
Energy Reallocation Mechanism
(MRE) for hydrological risk sharing

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



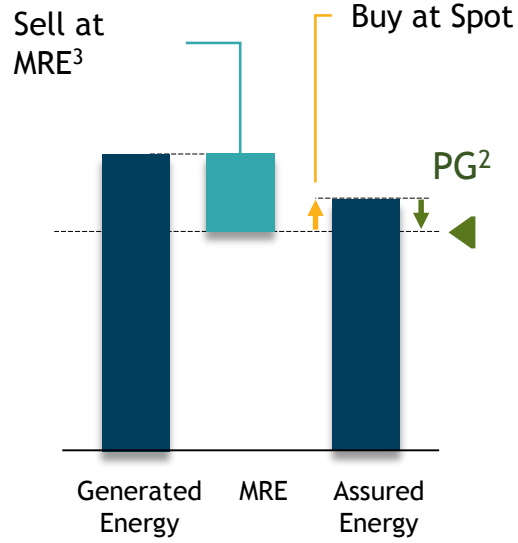
Genco A

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

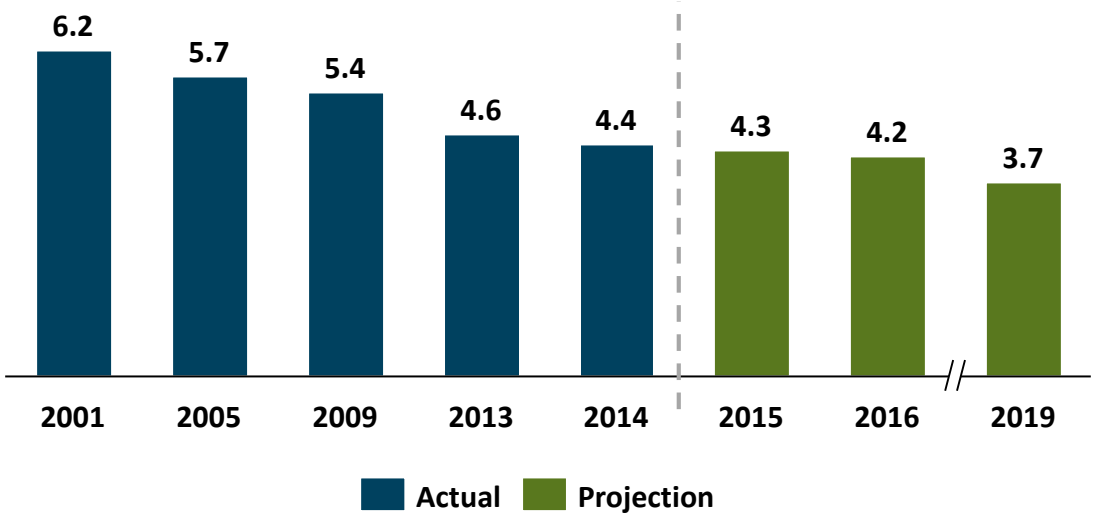
- **Generated Energy** (hydro) in the entire system (MRE) - influenced by hydrology
- **Spot Price** - marginal cost influenced by hydrology and thermal dispatch

1 – GE: Generated Energy; 2 – PG: Physical Guarantee; 3 – Enough to cover variable O&M costs

Tight hydrology and lower system storage capacity requires more flexible generation

Thermo São Paulo (503MW) and Thermo Araraquara (579MW)

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

AES Brasil growth perspectives

Natural Gas Power Plants

1.5GW of dispatchable source

- **2 natural gas combined cycle** power plants ready to go to energy auctions
- **Peak generation:** short-term dispatch solution
- Assessing **M&A opportunities**

Renewable Energy
Solar and Wind

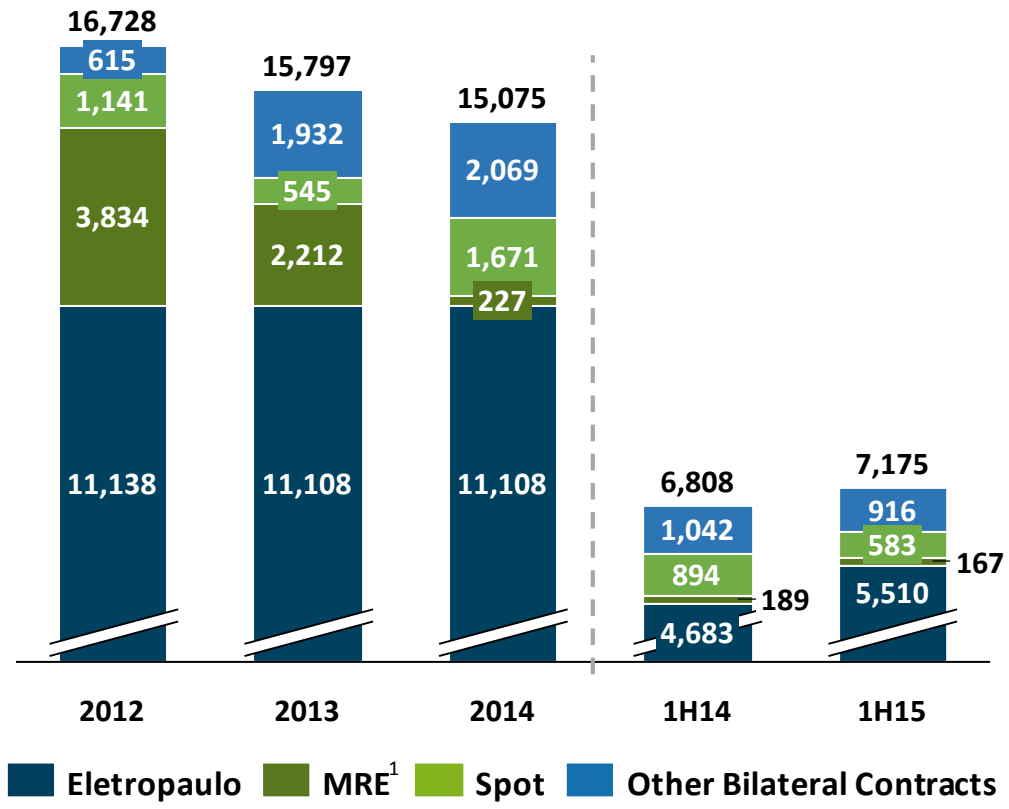
- **30 MW solar project:** located in Agua Vermelha HPP[1] (Minas Gerais side). Ready to go to energy auctions
- **~150MW solar project:** located in Agua Vermelha HPP (São Paulo side). Ready to go to energy auction
- Assessing **M&A opportunities**

AES Tietê

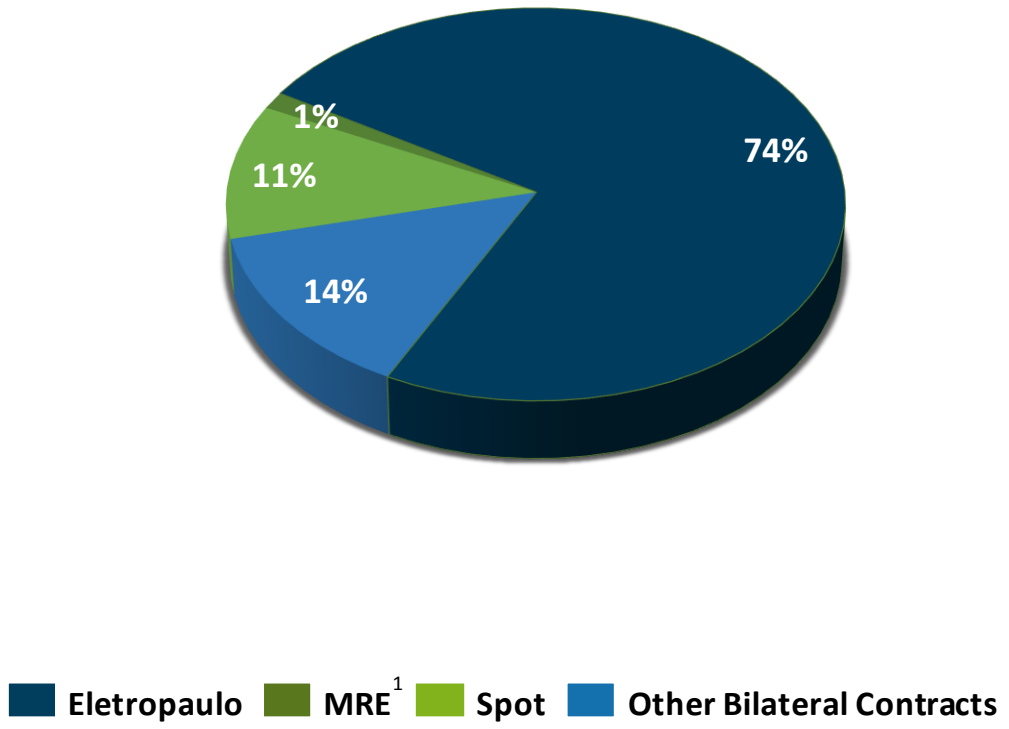
1 – Exsting AES Tietê hydroelectric power plant on the border of the states of Minas Gerais and São Paulo

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

Billed energy (GWh)



2014 (%) - Clients per net revenue



1 - Energy Reallocation Mechanism

Contracting environment and opportunities

2016 and beyond

Regulated Market

Existing Energy Auctions

Via auctions organized by federal government

Distribution companies

Free Market

Bilateral contracts

Via bilateral agreements

Free Consumers[1]

Spot Market

Non contracted energy

Exposed to Spot Market price

CCEE Settlement

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)

Commercialization strategy post-2015 leveraging cash flow

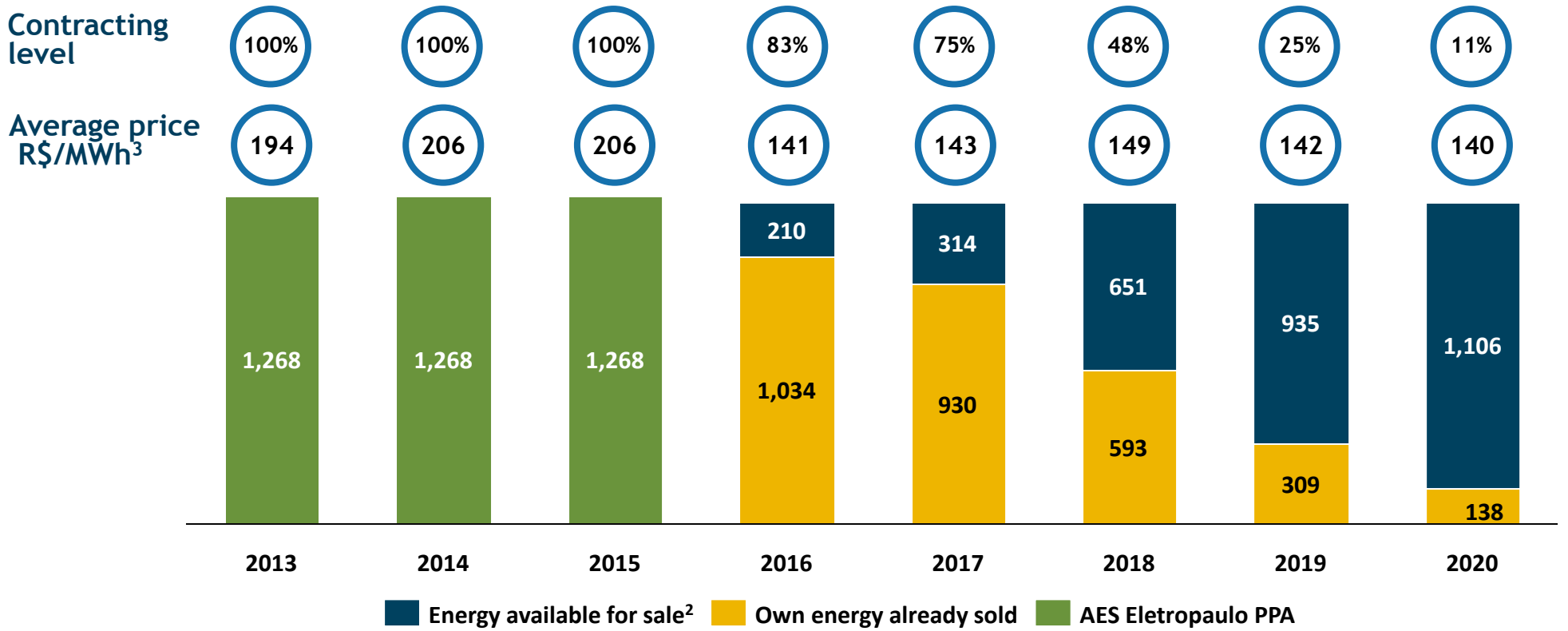
Our goal is to sell the major part of Company' physical guarantee in the free market

- **Customized energy with global experience**
- **Focus on long term contracts** and **off takers with a strong financial background** aiming to ensure Company's 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)
- We've already sold 83% of the available energy for 2016, 75% for 2017 and 48% for 2018

Commercialization strategy–

Consistent evolution of client portfolio

Client portfolio[1] (MWavg)

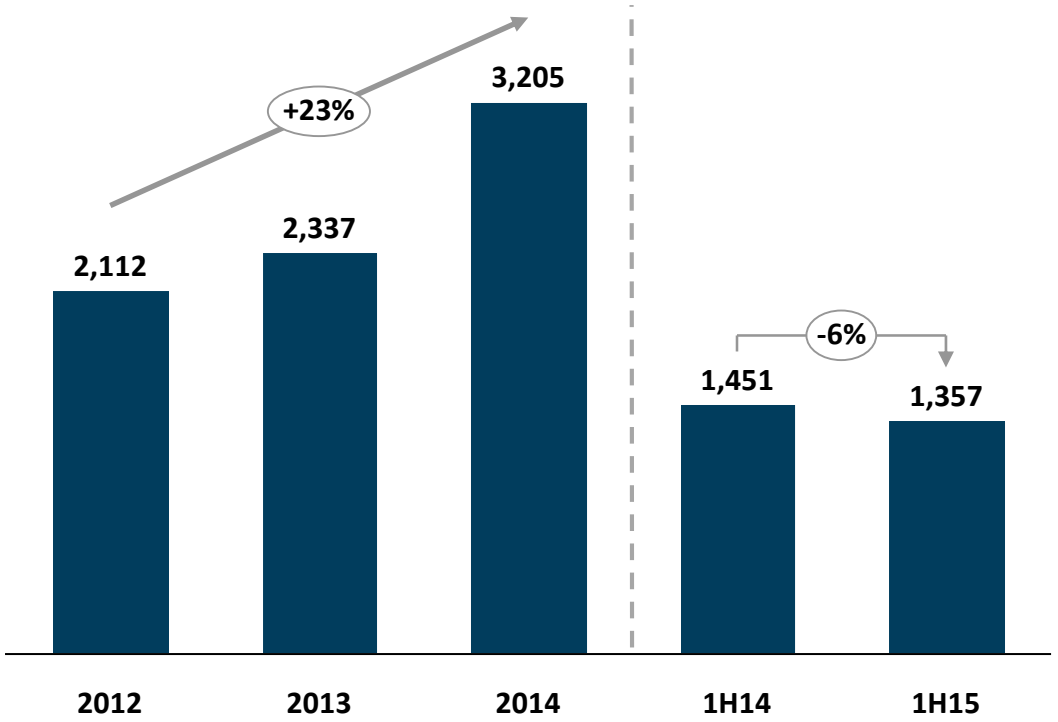


- Price expectation in the range of **R$160/MWh to R$180/MWh** for **3 year** contracts, to deliver in 2017 onwards
- **From 2020,** the price expectation is close to the **Marginal Cost of Expansion,** around **R$150/MWh to R$162/MWh**

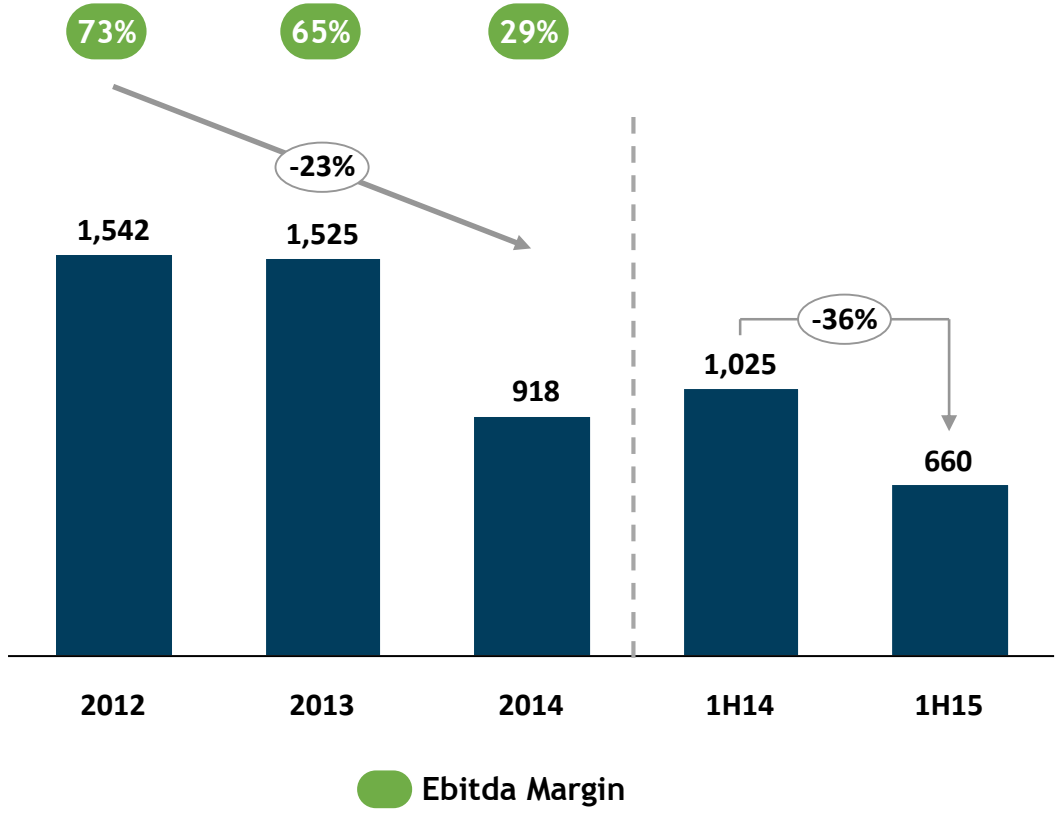
1 - Includes energy contracts firmed until June 30th; 2 - Excludes losses and internal consumption; 3 - Average price (based on June/15)

Consistent annual results (1/2)

Net revenue (R$ million)

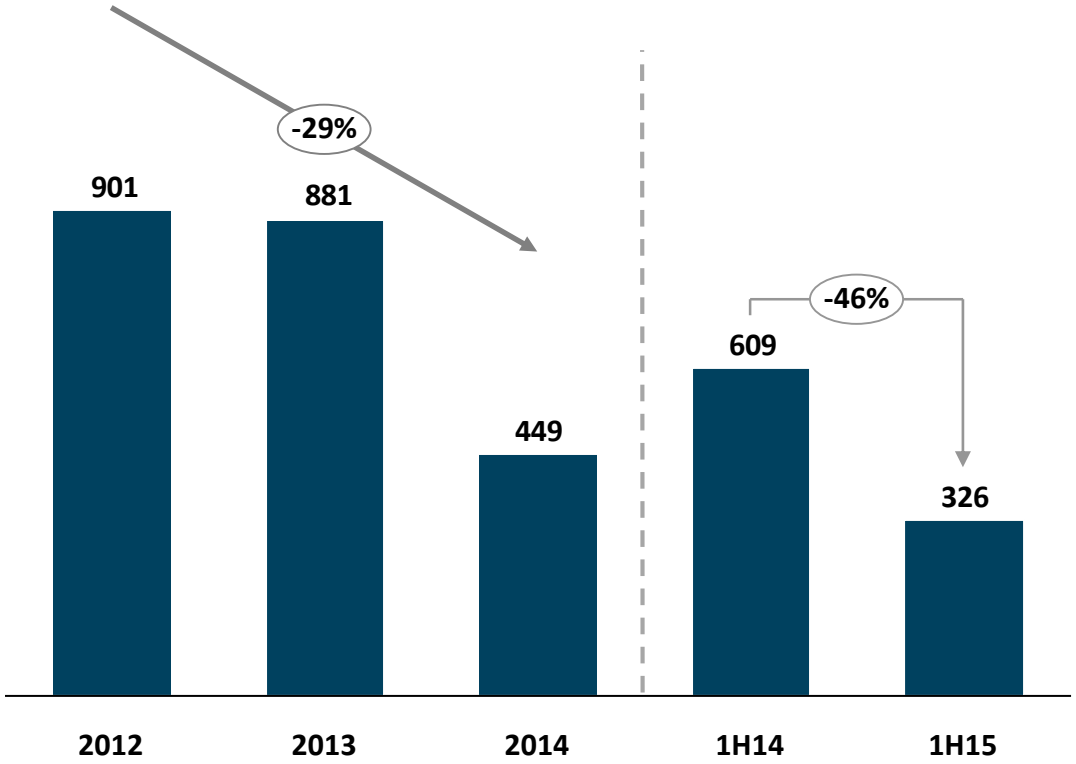


Ebitda (R$ million)



Attractive returns (2/2)

Net income (R$ millions)

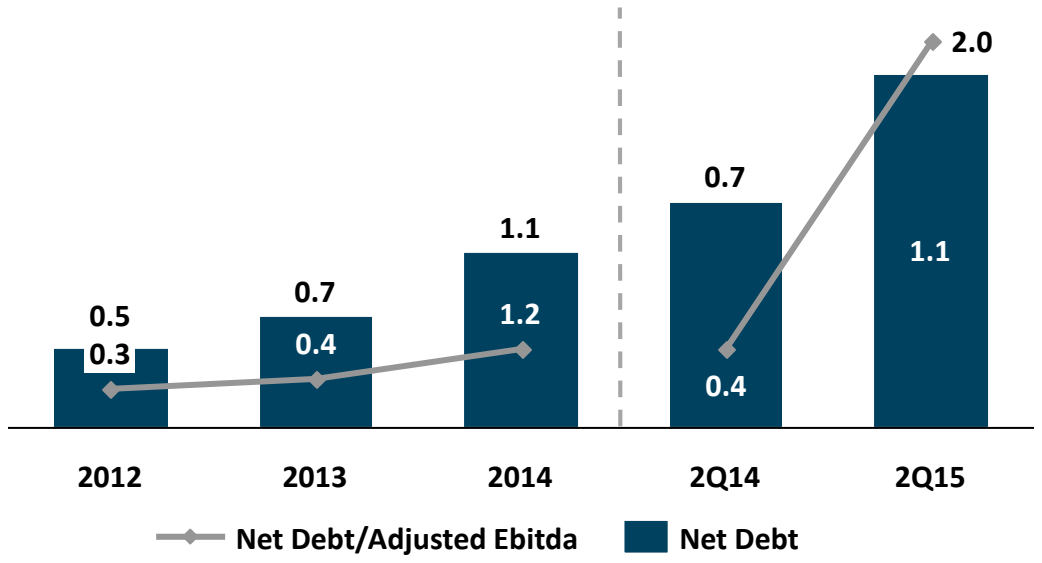


- **25%** of **minimum pay-out** according to bylaws
- Distribution practice: **quarterly basis**
- **Average payout** from 2008 to 2014: **112%**
- **Average dividends** since 2008: **R$ 836 million** per year[1]
- Dividends **approved in 2Q15: R$ 134.5 million**

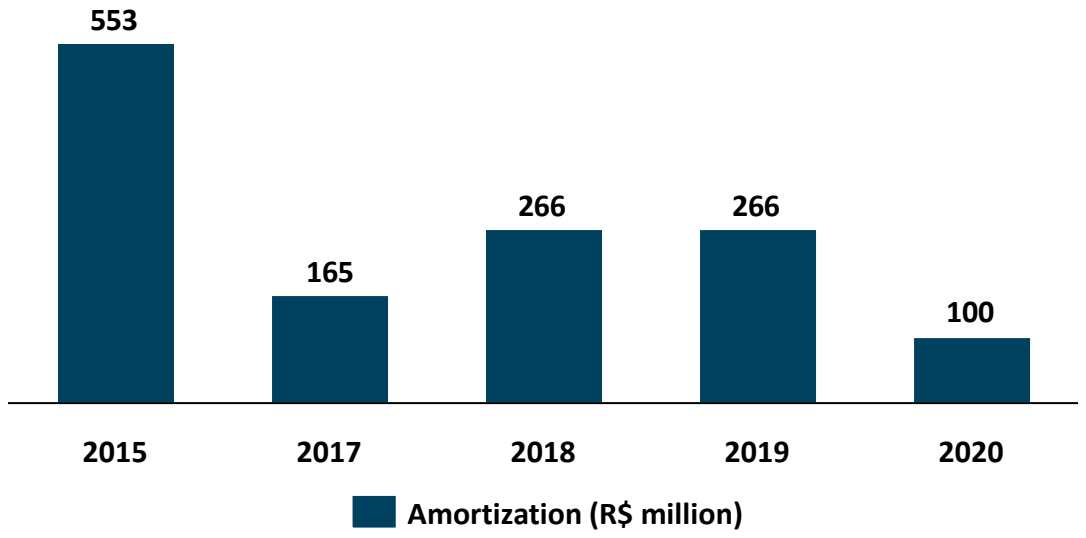
1 - from 2008 until 2014.

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

Debt Cost	2Q14	2Q15
Average cost (% CDI)[1]	108%	107%
Average term (years)	3.25	2.14
Effective rate	12.1%	15.0%

AES Tietê

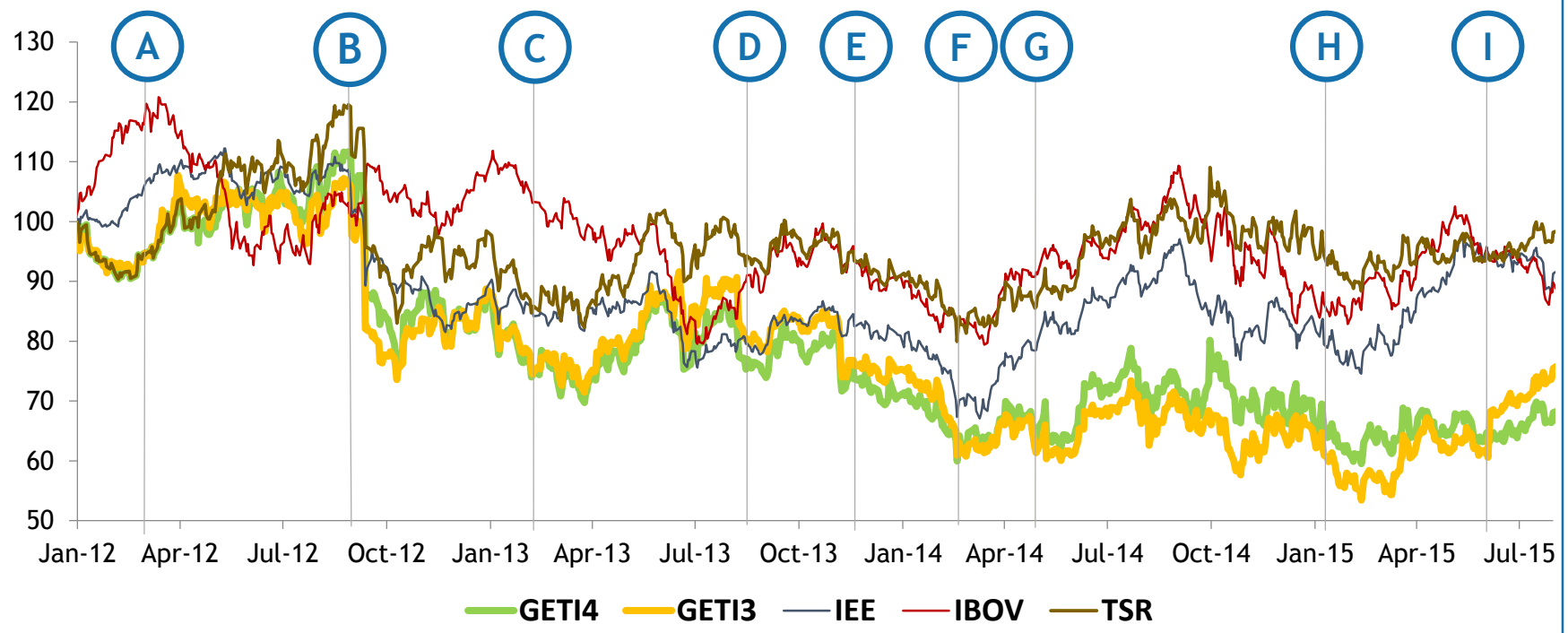
1 - Brazilian Interbank Interest Rate
2 - Adjusted Ebitda - (i) by the financial expenses/revenues and (ii) by the depreciation and amortization values to improve the reflection of the Company's operational cash generation

…and consistent cash flow

R$ Million	1H14	1H15	2013	2014
Initial Cash	456.7	501.4	397.0	457.0
Operating Cash Flow	1,056.3	441.5	1.5	1.2
Investments	(90.8)	(62.7)	(188.0)	(173.0)
Net Financial Expenses	(42.1)	(56.7)	(62.0)	(94.0)
Net Amortization	(1.0)	(300.1)	192.0	499.0
Income Tax	(425.0)	(173.5)	(457.0)	(483.0)
Free Cash Flow	497.4	(151.4)	971.0	936.0
Dividends and IoE	(502.3)	(122.5)	(912.0)	(892.0)
FINAL CASH CONSOLIDATED	451.8	227.5	457.0	501.0

Capital markets

AES Tietê x IEE x Ibovespa[1]

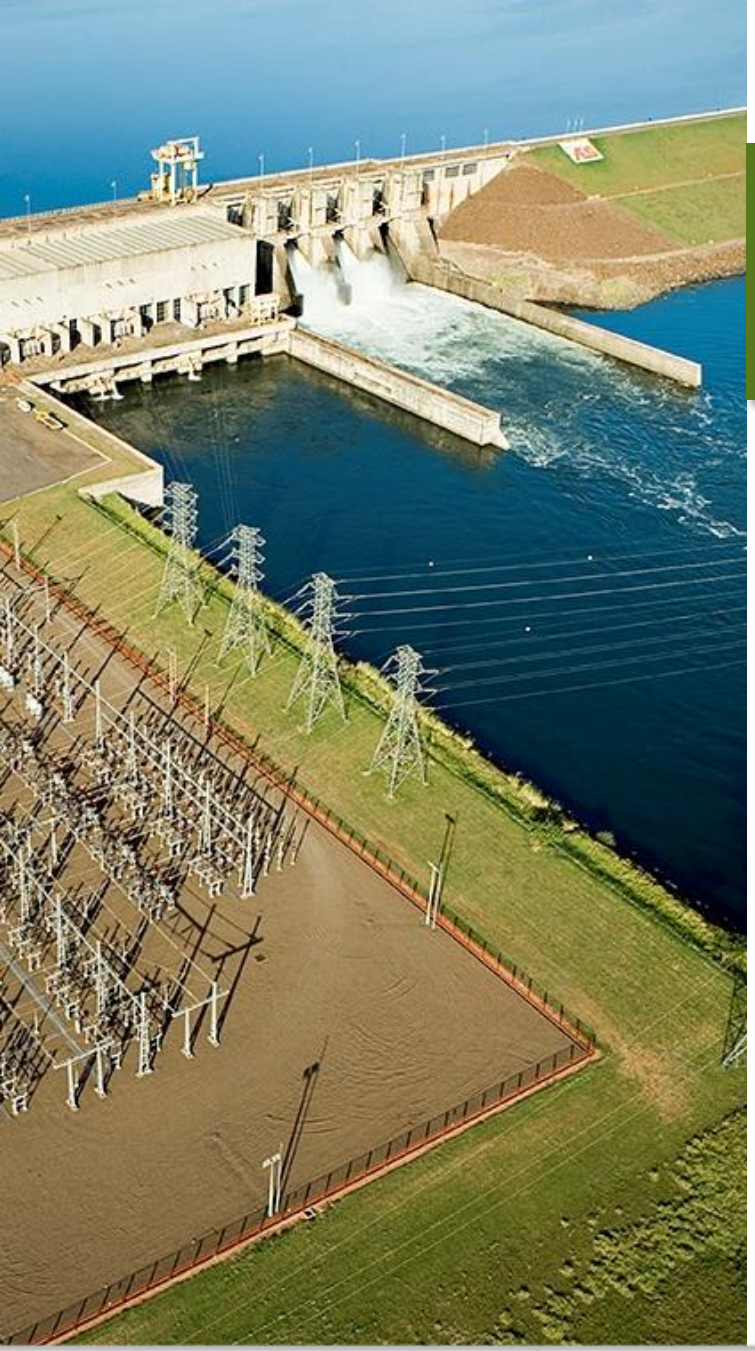


- **A** **Mar/2012:** 4Q11 results above market expectations
- **B** **Sept/2012**: announcement of the Energy Reduction Program, through the PM 579[4]
- **C** **Feb/2013:** High thermoelectric dispatch to conserve water in the reservoirs increase spot prices
- **D** **Aug/2013:** 2Q13 results above 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** **Jan/2015:** Hydrology for rainy season worse than expected
- **I** **Jun/2015:** Corporate Restructuring announced

- **Market cap[3]:** US$ 1.8 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)

Índice de Sustentabilidade Empresarial ISE

1 - Base 100: from 01/01/2012 to 08/21/2015; 2 - Total Shareholders' Return; 3 - Index: 08/21/2015; 4 - Government program to reduce energy tariffs.

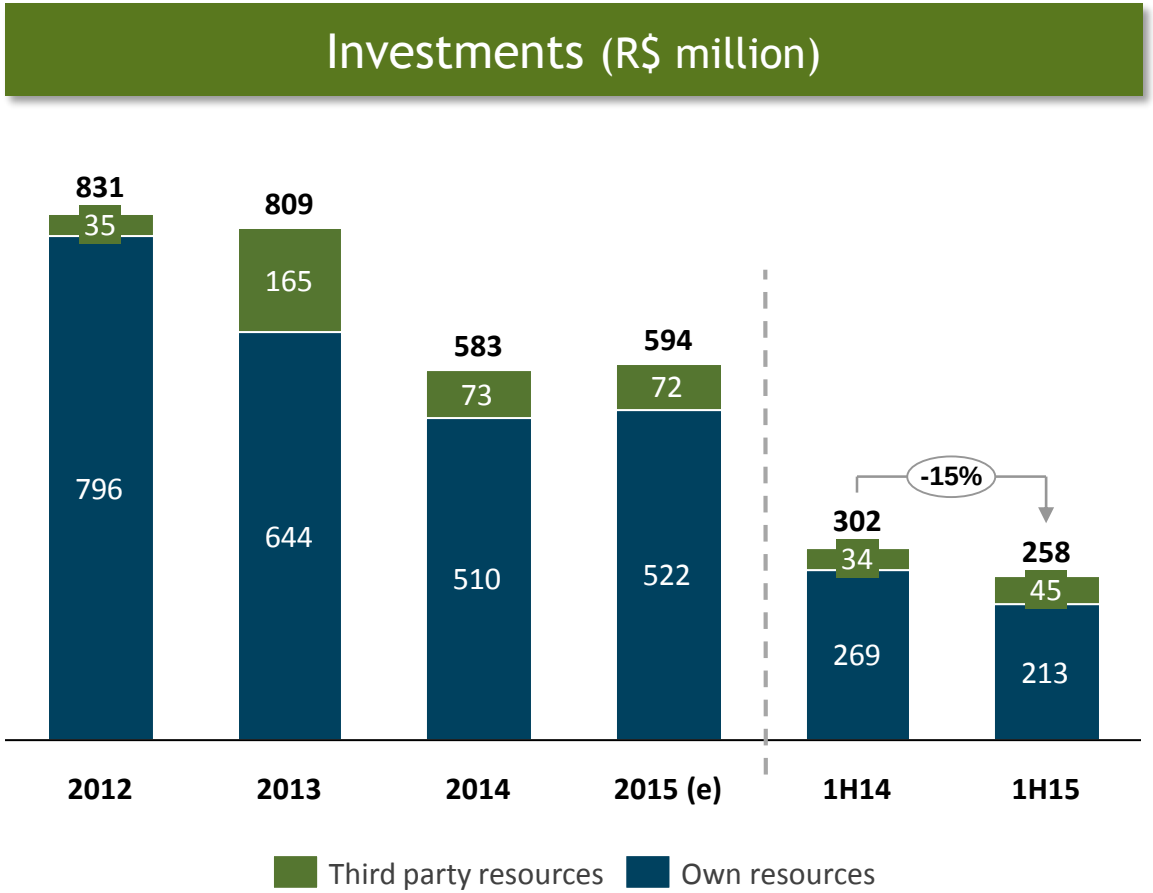


We have strong capabilities and business governance

- **ISO 55001** certification, **1st** Generation company in 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

2015 investments focused on
system expansion and customer service



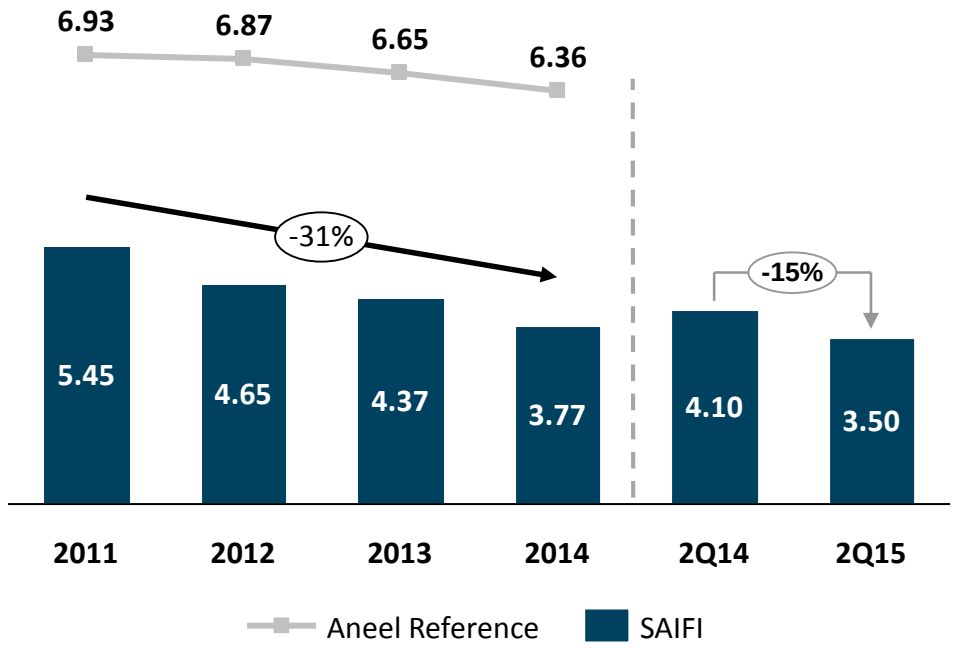
1H15 Investments **focused on**

- **R$ 112 million** in **system expansion** for the addition of new clients and focus on **customer satisfaction** through the reduction in interruptions
- **R$ 60 million** in **operational reliability** through the maintenance of **4,900 km** distribution and transmission lines

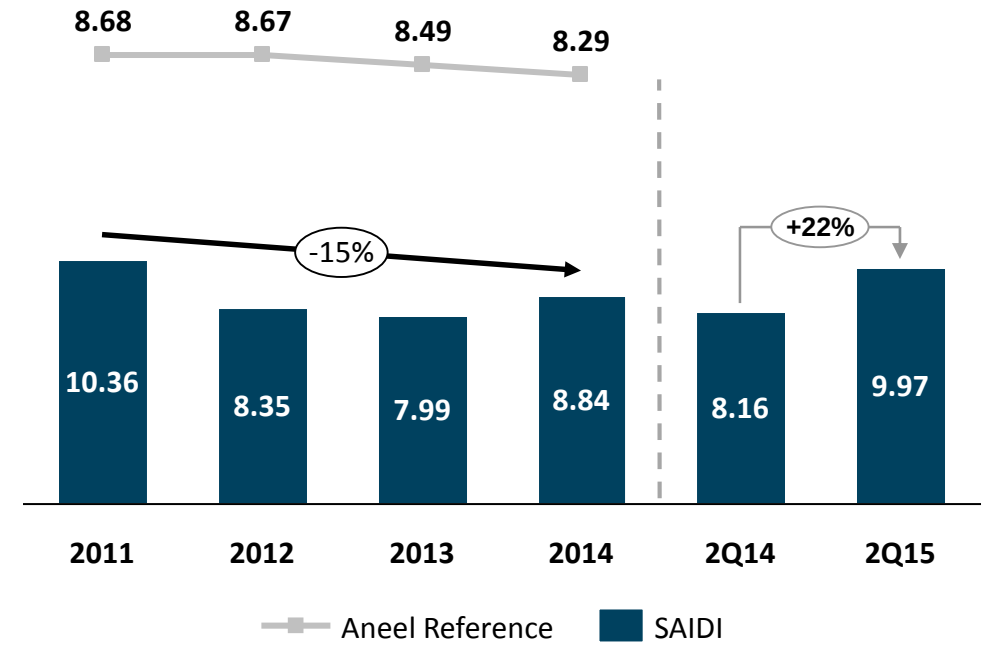
Improvement in the frequency of interruptions

Quality index recovery plan put in place **in 2015. 200k tree trimming, 3.3km of network maintenance,** and **installation of spacer cables** among the **additional measures**

SAIFI[1] (times)



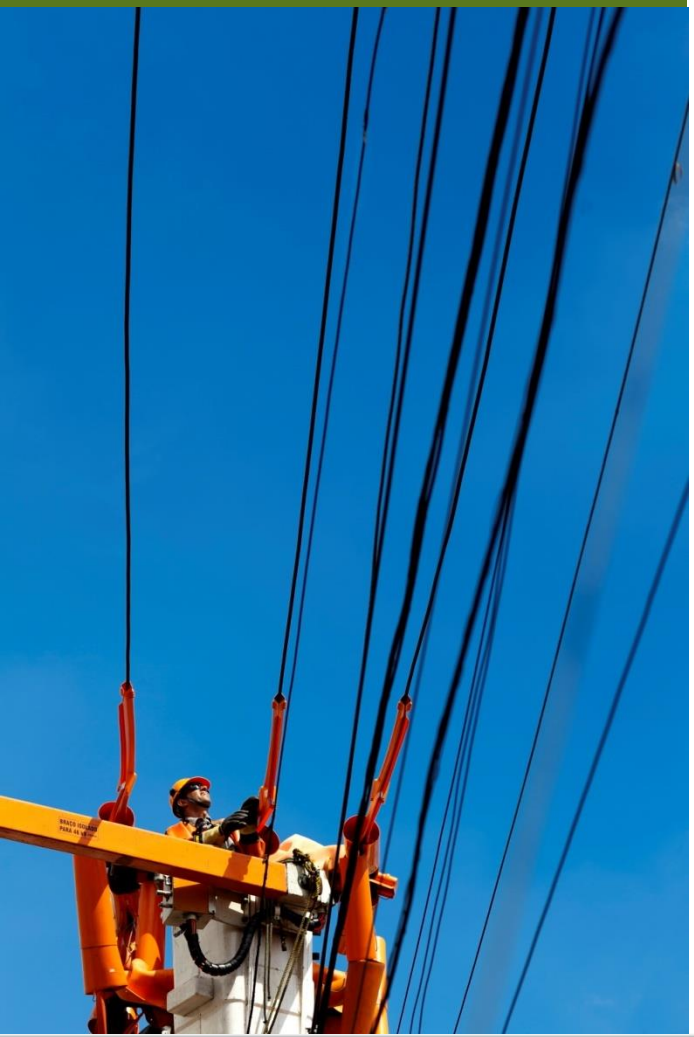
SAIDI[2] (hours)

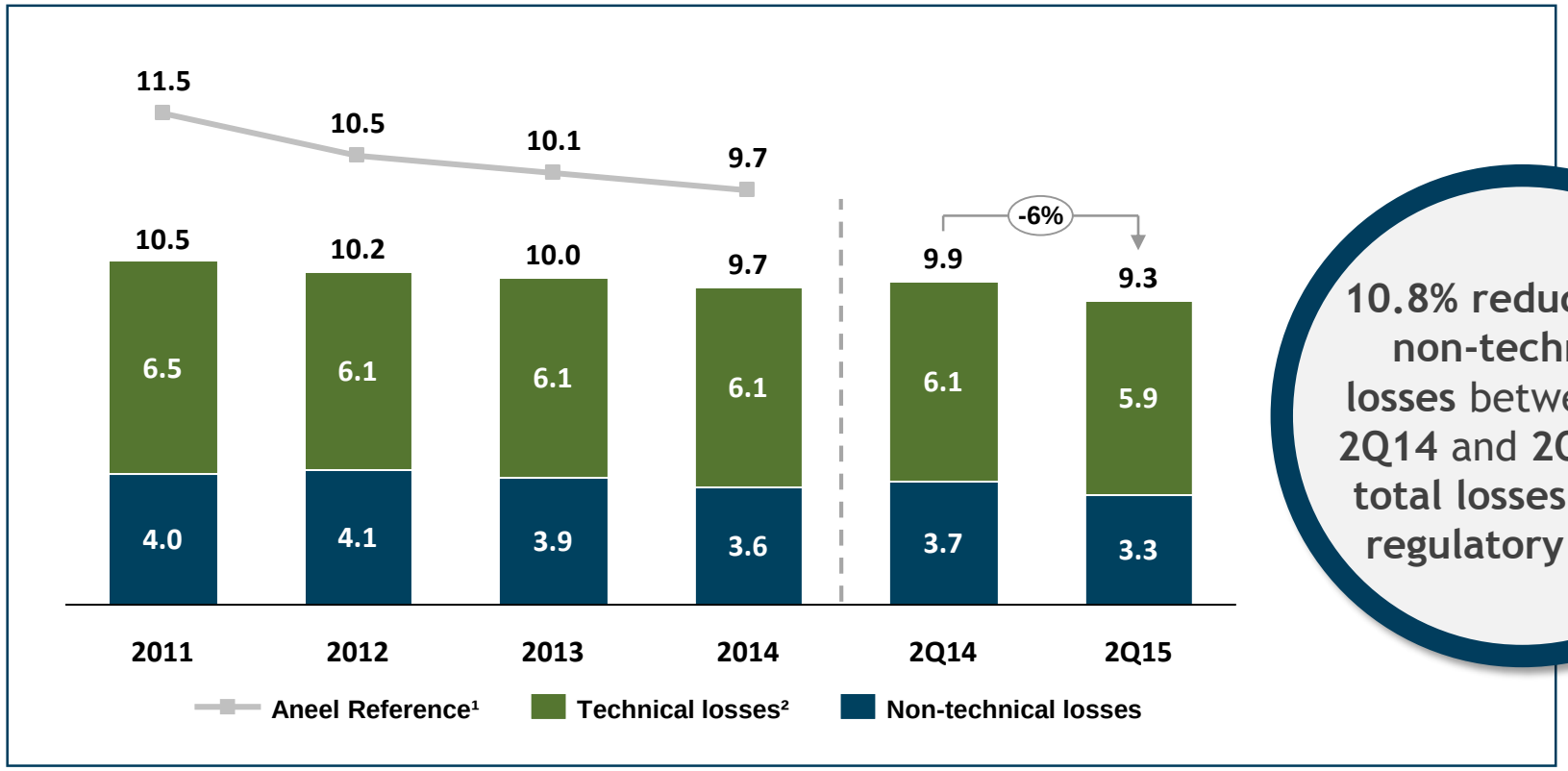


1 - System Average Interruption Frequency Index; 2 - System Average Interruption Duration Index

Efficiency in losses reduction

over the last four years



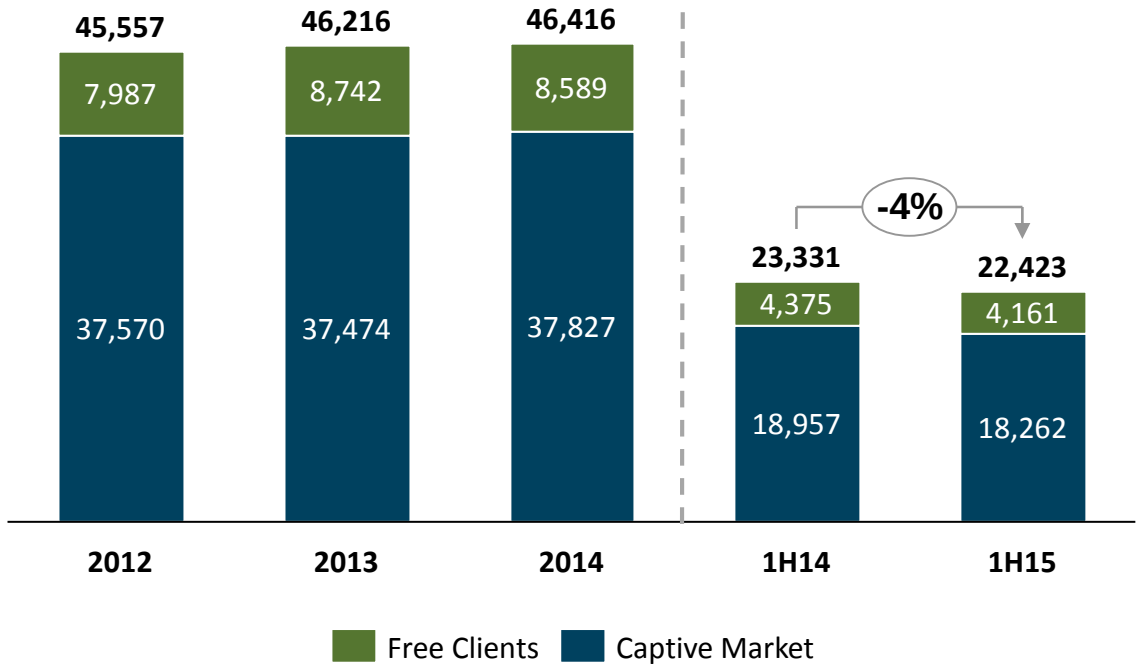


10.8% reduction in **non-technical losses** between the **2Q14** and **2Q15** and **total losses** within **regulatory limits**

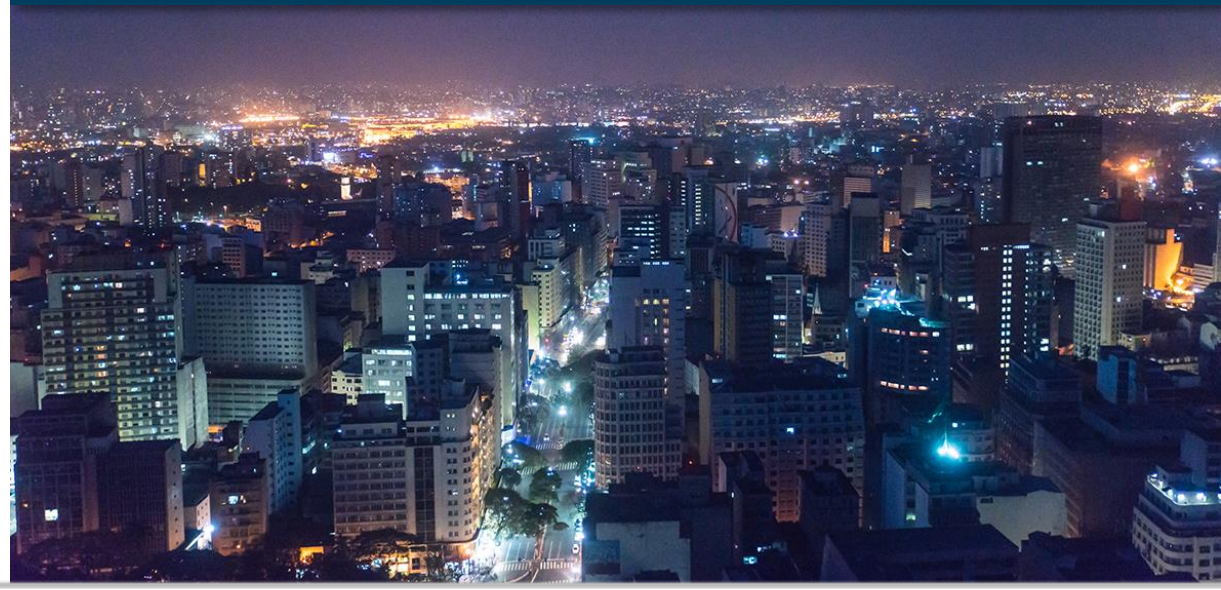
1 – Aneel benchmark with standardized values for the calendar year; 2 - Values estimated by the Company to Aneel reference for non-technical losses of the low voltage market

Large and resilient concession area

Total Market[1] (GWh)



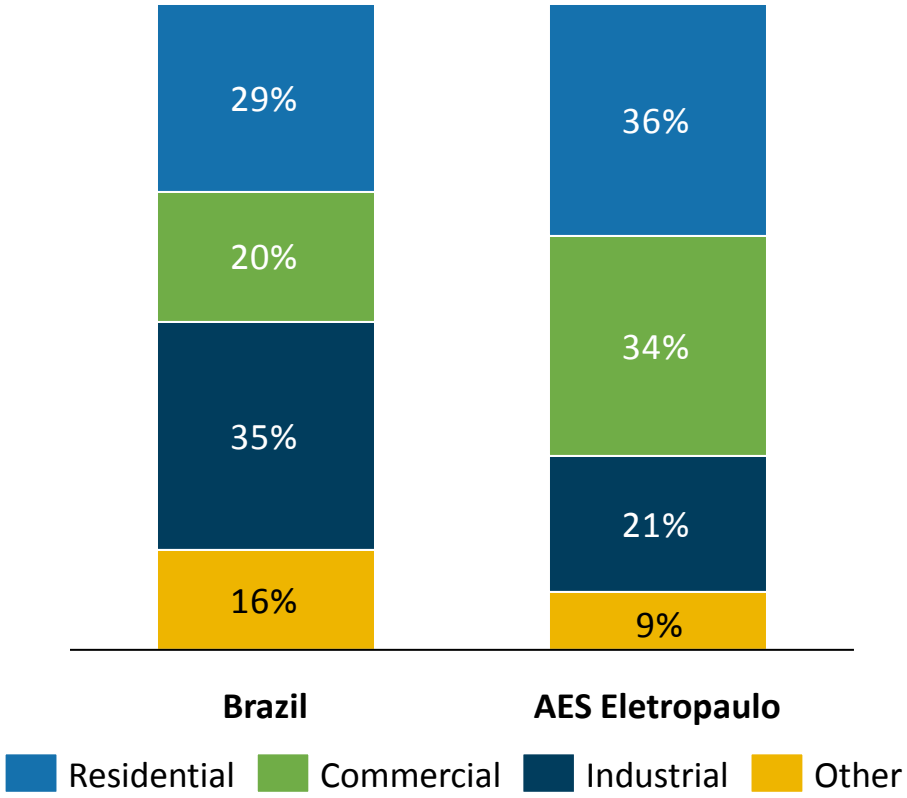
- AES Eletropaulo concession area consists of a mature market, representing approx. 16% of national GDP[2]
- State of São Paulo's GDP average growth of 2.0% p.a. for the last 5 years[3]



1 - Own consumption not included; 2 - Source: IBGE, 2012; 3 - base date: 2010-2014(e)

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

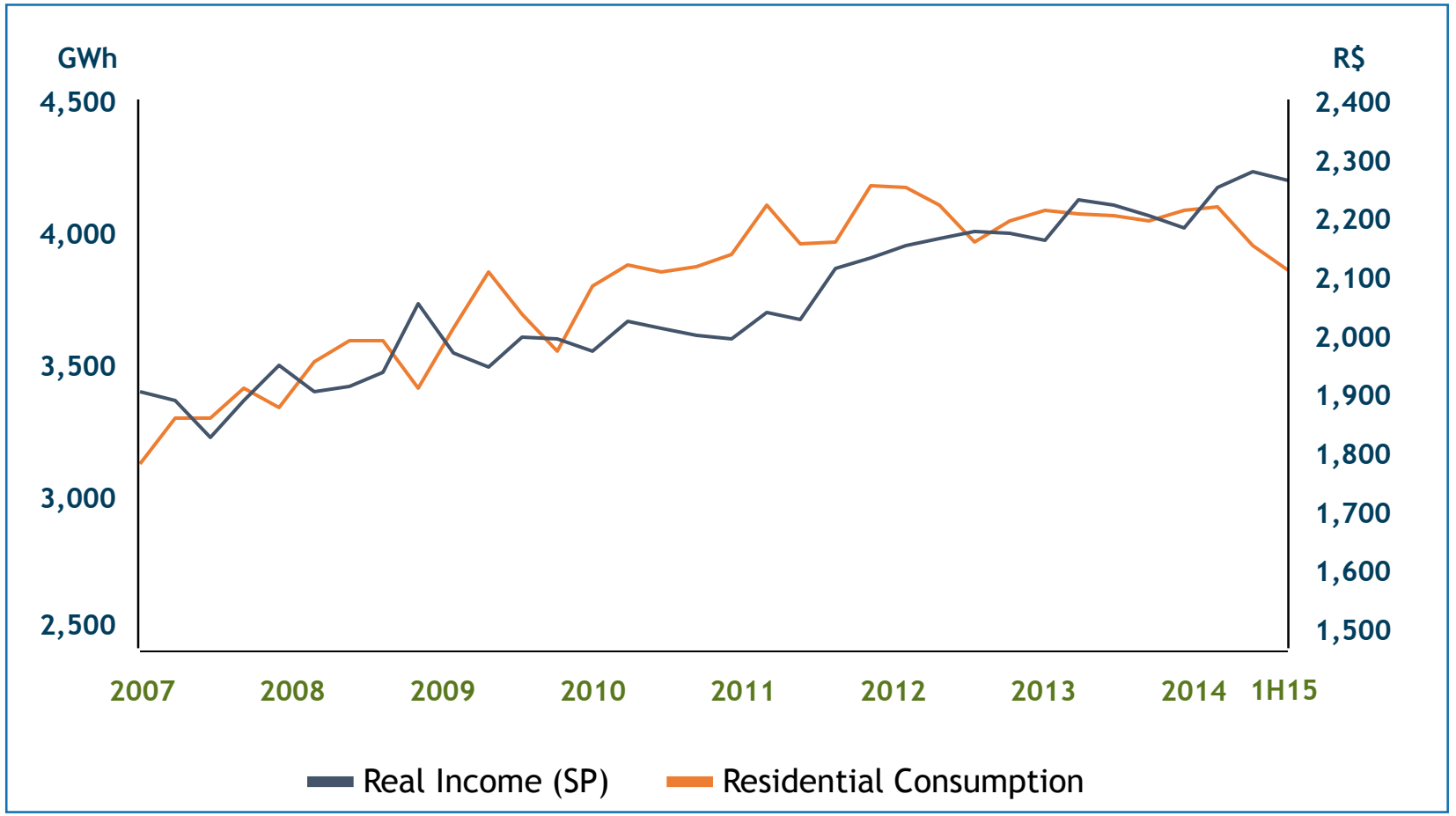
Consumption by class[1]



1 - 1H15 (Own consumption not included)
Source: EPE.

Residential Class

consumption in line with São Paulo state real income

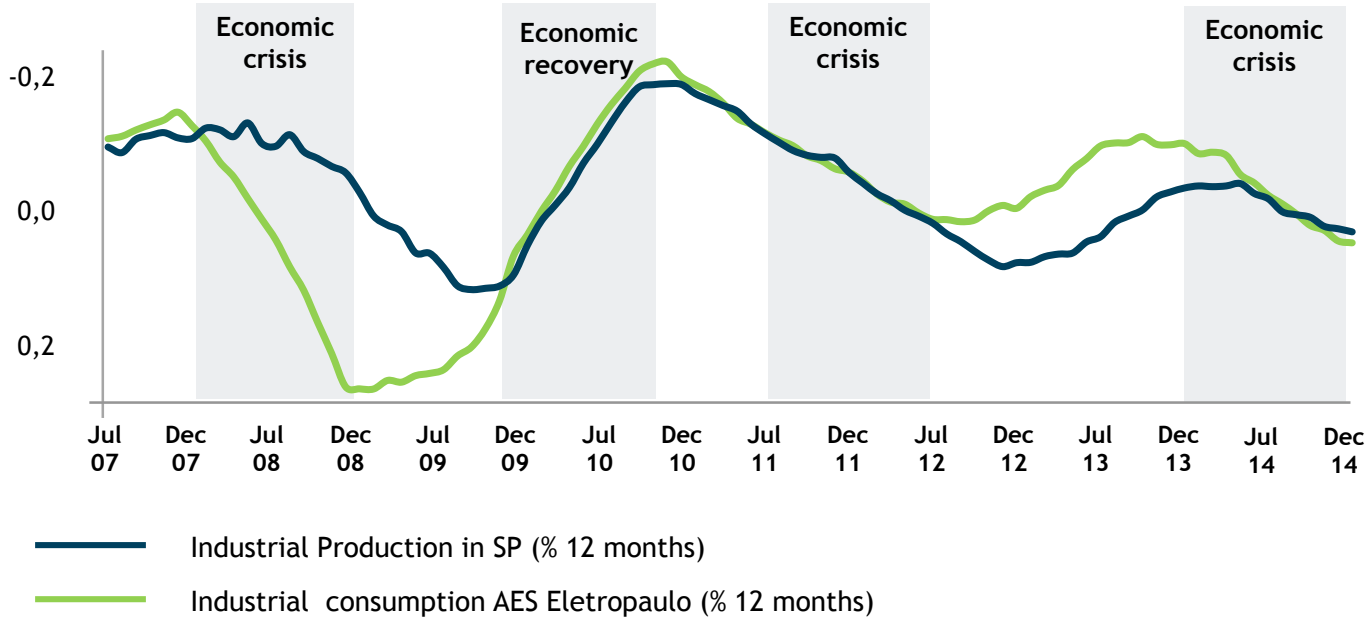


Residential consumption per client grew an average of 0.9% in the last 8 years[1]

1 – base date: 2007-2014

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

Industrial class X Industrial production in SP[1]

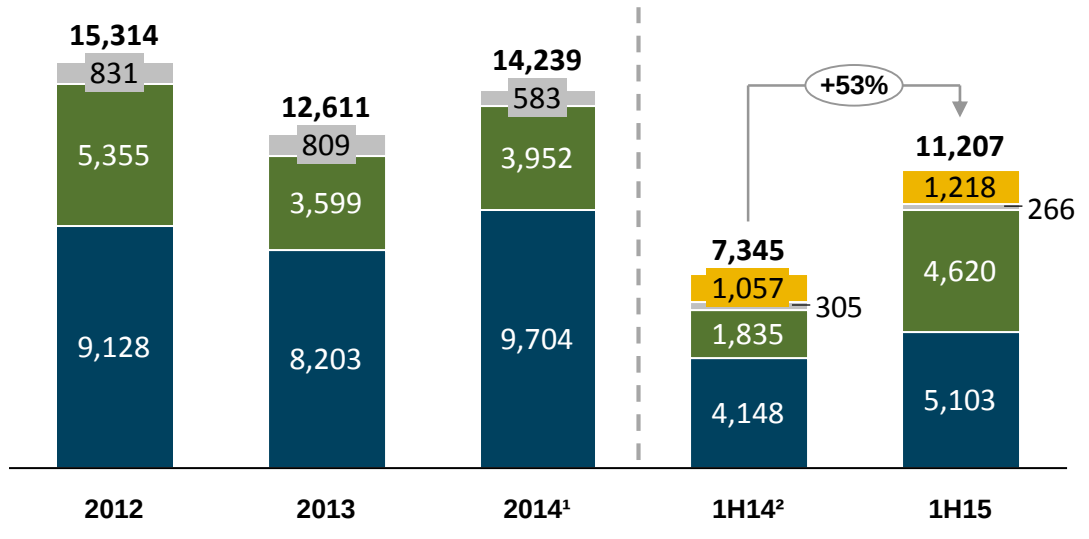


- Industrial consumption impacted by lower industrial production in Brazil
- Consumption focused on more resilient segment (residential and commercial classes)

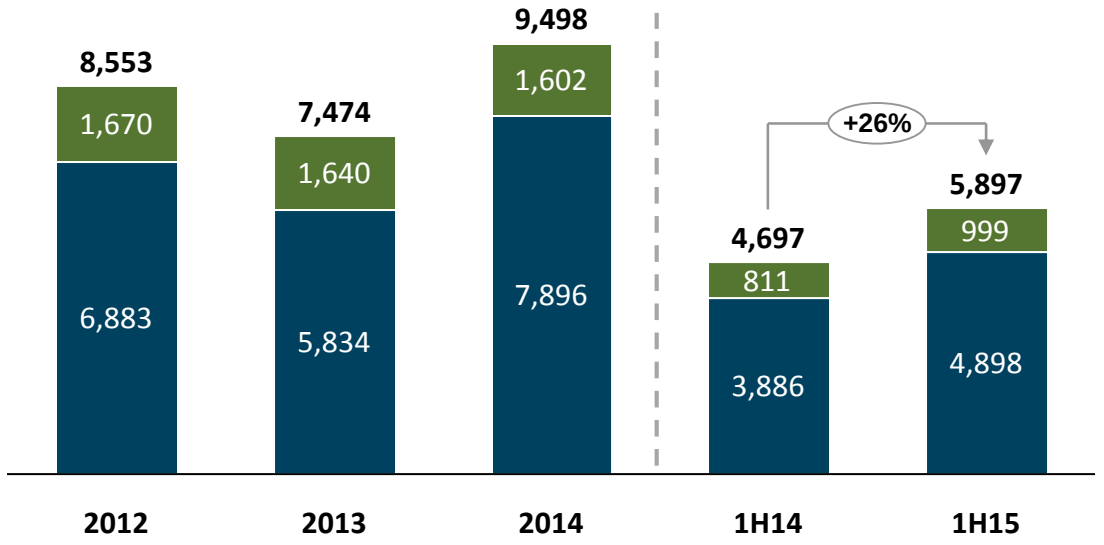
1- São Paulo metropolitan area. Information **until December 2014.**

Net revenue 53% greater in 1H15 mainly due to tariff readjustment and extraordinary tariff resets

Gross revenue (R$ million)



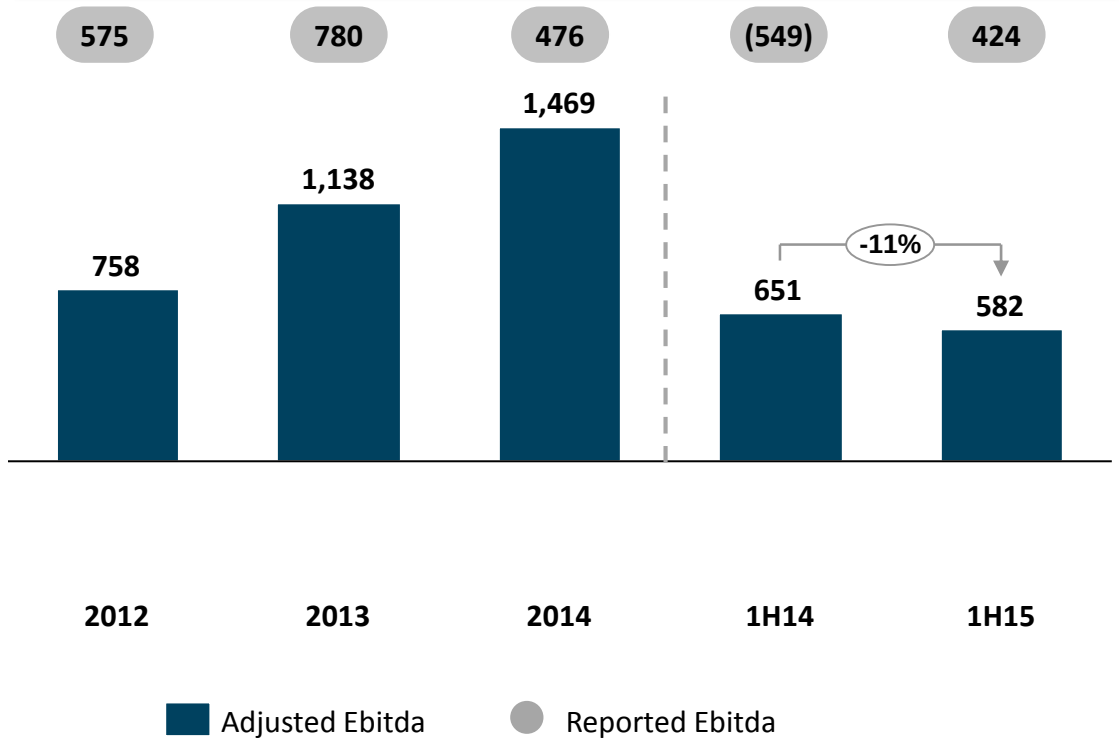
Costs (R$ million)



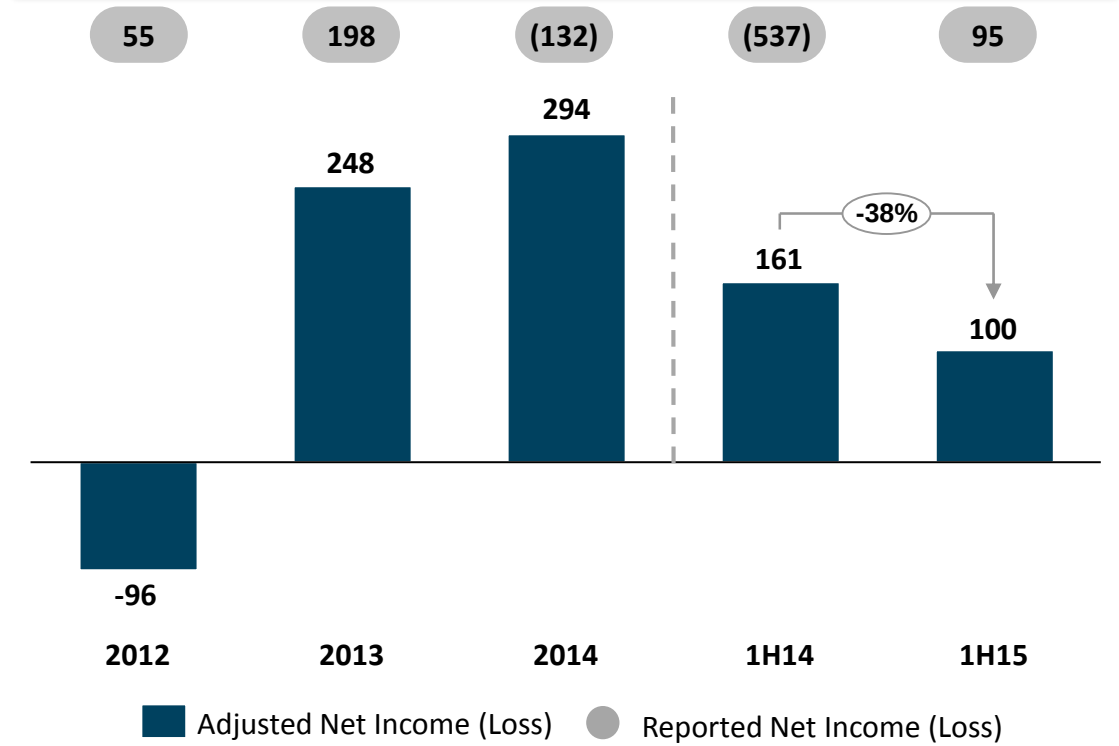
1- Does not include the recognition of regulatory assets and liabilities (OCPC-08), in the total amount of R$ 270,5 million. 2 - Adjusted by regulatory assets and liabilities

11% reduction of the Adjusted Ebitda mainly due to non recurrent expenses

Adjusted Ebitda[1] (R$ million)



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



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

Cost management projects generated R$ 1 billion[1] in savings until 2014

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)

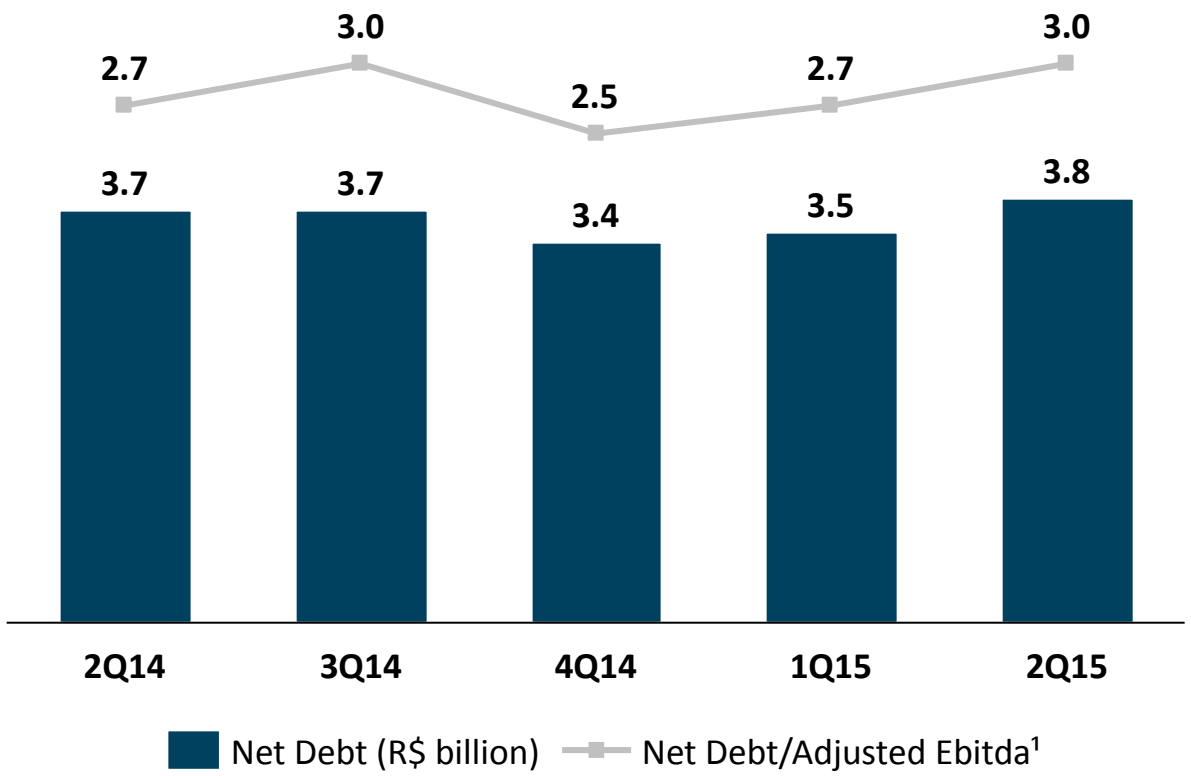
1 -Nominal total from 2007 until 2014 FY. Includes recurring and non-recurring reductions and the avoidance of cost increases

Operational cash flow generation

R$ Million	1H15	1H14	2014	2013
Initial Cash	909	974	974	814
Operating cash generation	319	(49)	724	1,480
Investments	(305)	(253)	(501)	(741)
Net Financial Expenses/Net Amortization	(84)	(190)	211	(312)
Pension fund expenses	(93)	(123)	(166)	(221)
Income Tax	(43)	(47)	(47)	(25)
Disposal of assets	-	-	24	49
Cash restricted and/or locked	34	(58)	(61)	26
Free cash	(173)	(719)	(33)	208
FINAL CASH CONSOLIDATED	737	255	909	974

Leverage level within financial covenants

Net debt (R$ billion)



- **Average maturity** of **debt** reaching **6.0 years**
- **Covenants within** the **limits** established by debt contracts

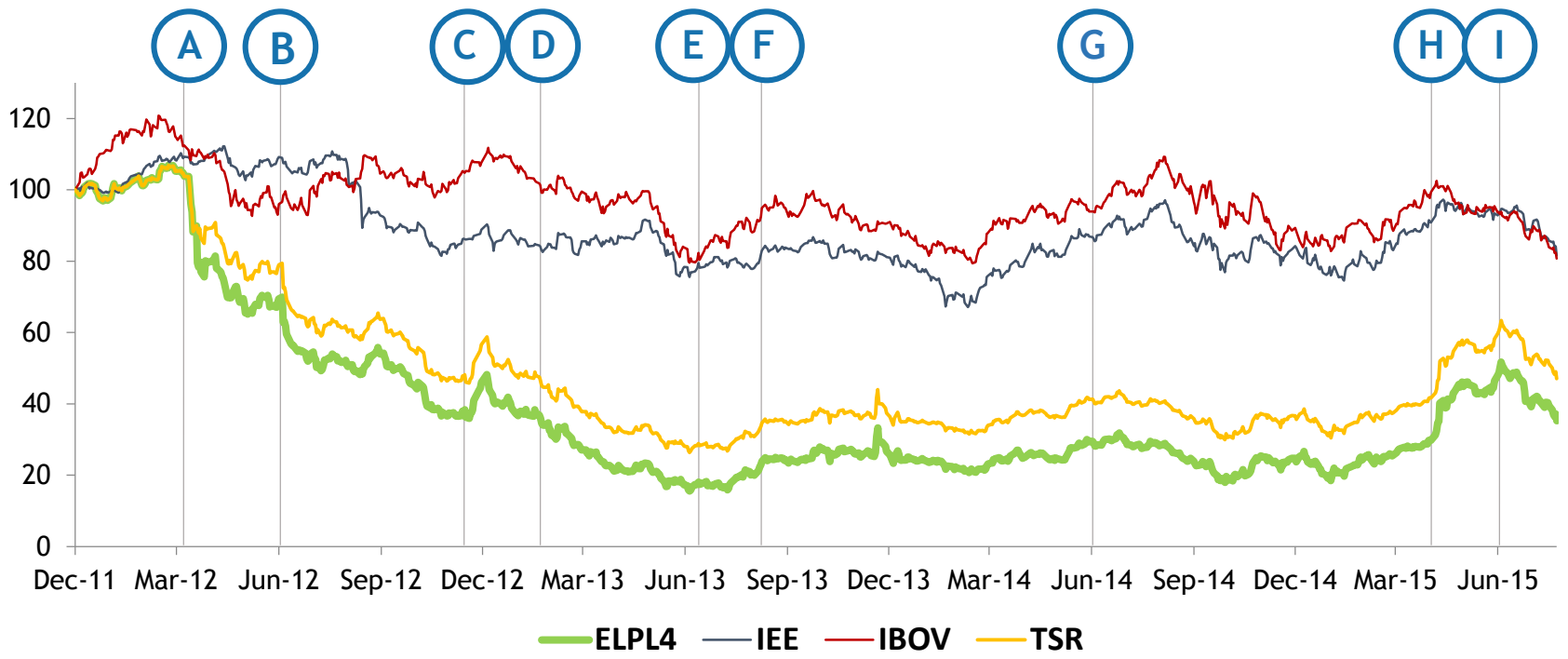
Debt Cost	2Q14	2Q15
Average cost (CDI + % per year)	1.41 %	1.49%
Average term (years)	5.99	4.97
Effective rate²	12.54%	13.89%

AES Eletropaulo

1 – EBITDA adjusted by expenses related to pension plan and regulatory assets and liabilities; 2 – Average rate during the period

Capital markets

AES Eletropaulo x IEE x Ibovespa[1]



- **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** **Jul/2014:** Tariff readjustment approved by ANEEL including 50% of "cable" restitution
- **H** **May/15:** 4th Tariff Reset Cycle preliminary numbers released
- **I** **July/15:** 4th Tariff Reset Cycle final numbers released

- **Market cap[3]:** US$ 0.6 billion/R$ 2.2 billion
- **BM&FBOVESPA:** ELPL3 (common shares) and ELPL4 (preferred shares)
- **ADRs at US OTC Market**: EPUMY (preferred shares)

Índice de Sustentabilidade Empresarial ISE

NÍVEL 2 BOVESPA BRASIL

Índice de Ações com Tag Along Diferenciado ITAG

1 – Base 100: from 01/01/2012 to 08/21/2015; 2 – Electric Power Index; 3 – Index: 08/21/2015

We have strong capabilities and corporate governance

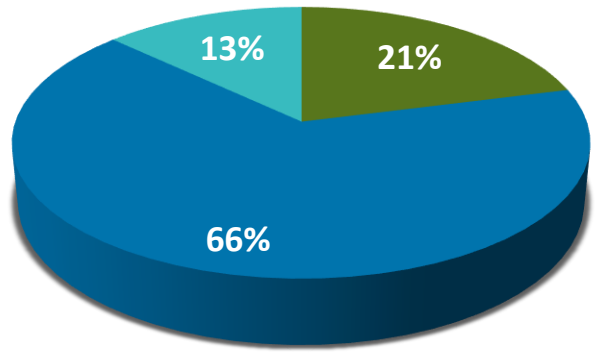
- **AES Corporation and BNDES as major shareholders:** long-standing reputation in the market
- Consumption focused on **more resilient segment** (residential /commercial market)

- **2015-2019 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

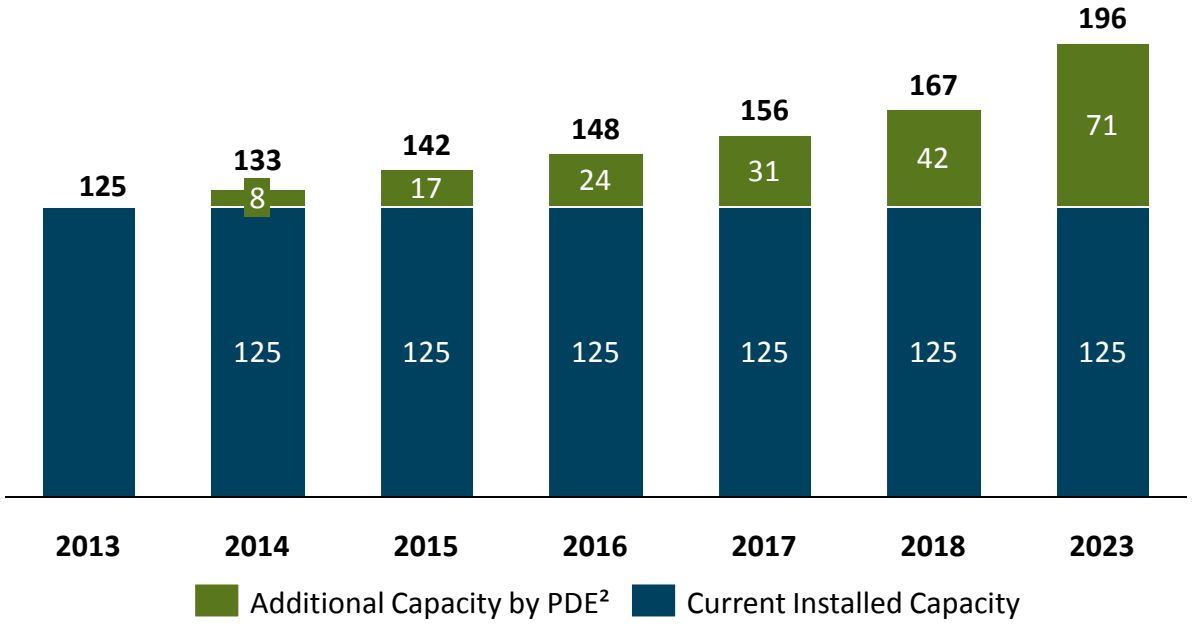
Brazilian Energy Matrix and perspectives

Brazilian Energy Matrix[1]



Hydro | Renewable[3] | Thermal

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

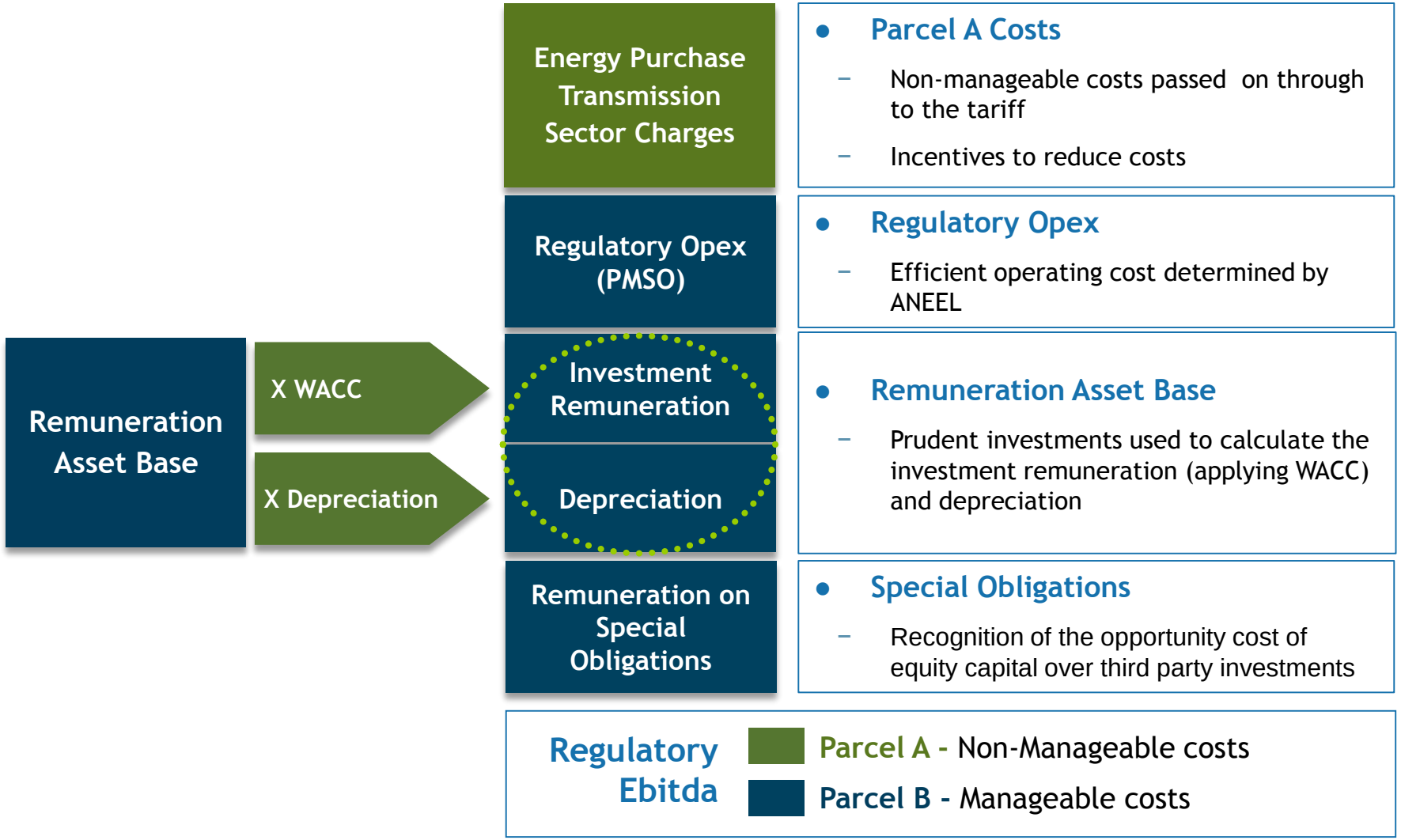
1 - ANEEL database (07/10/2015). 2 - Energy development plan (PDE 2013-2023); 3 - Includes Biomass, Wind and Solar sources

Appendix

Tariff methodology for distributors

- **Tariff Reset is applied each 4-5 years**
  - AES Eletropaulo next Tariff Reset: Jul/2019;
  - AES Sul next Tariff Reset: Apr/2018
  - Parcel A: costs are passed on through to the tariff
  - Parcel B: costs are set by ANEEL

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



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. Includes commercial indexes		Defined at Tariff Reset, makes the transitions to operational costs verified in the last 12 months to the one set in the benchmarking models

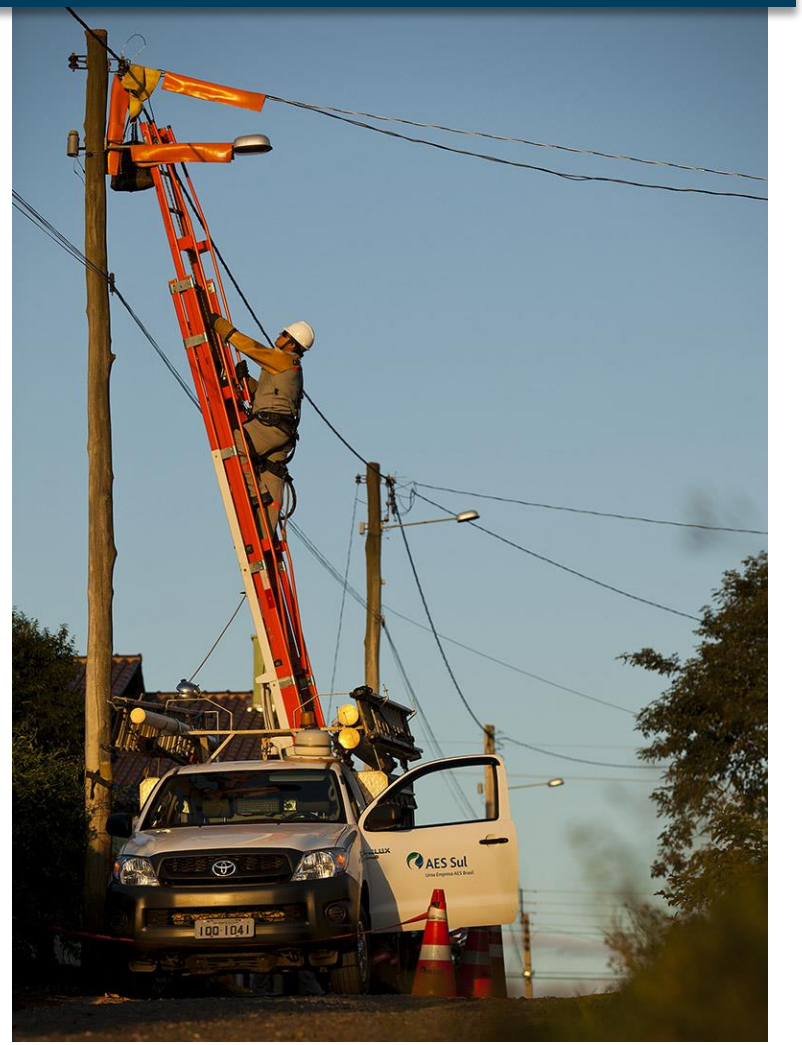
4th Tariff Reset Cycle

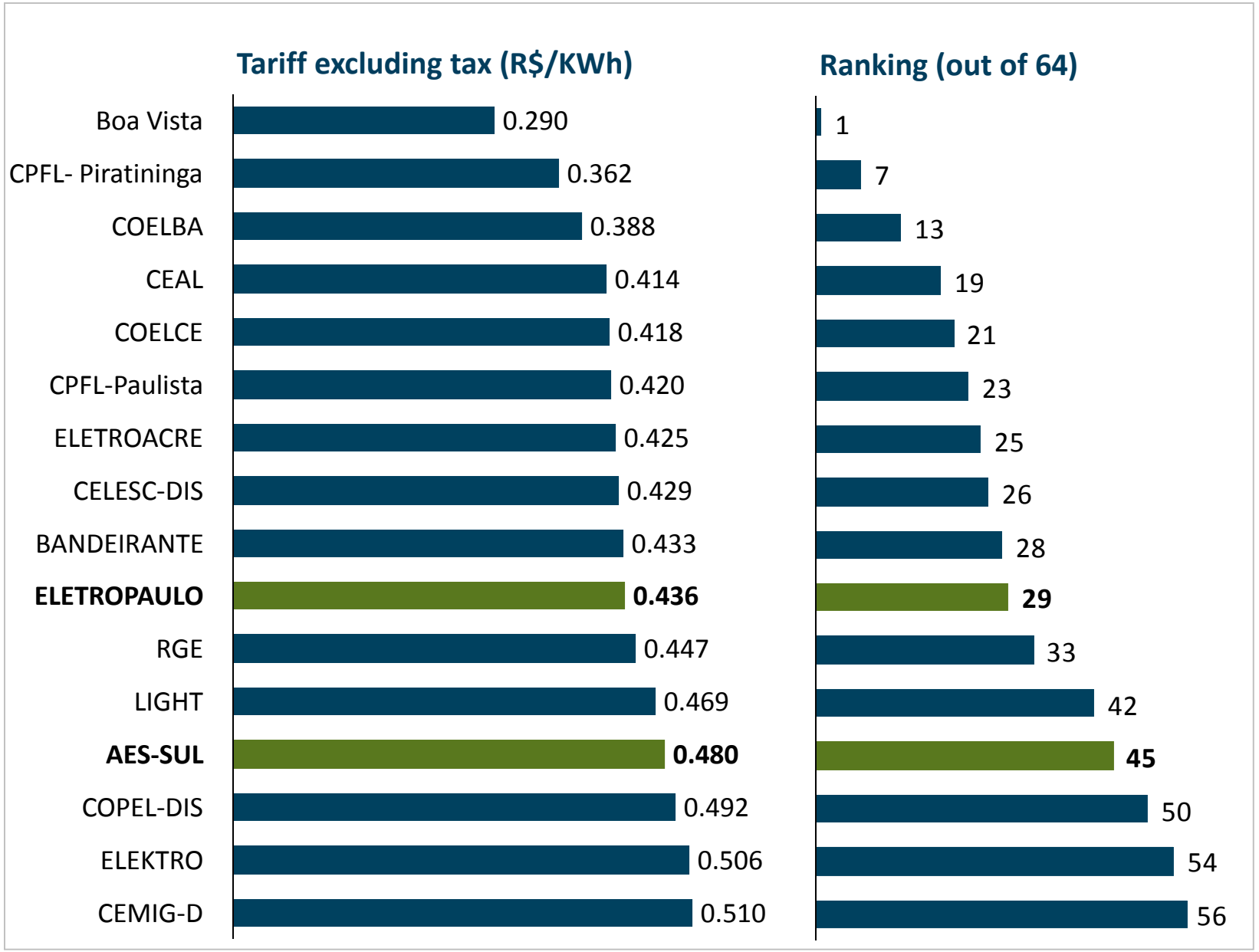
Parcel A + Financial Components	13.96%	R$ 1,936m	▪ Energy CVA including FX rate variation associated with Itaipu ▪ CDE charge increase (loans and CDE share) ▪ Reduction of AES Tietê's energy participation due to end of contract in Dec/15 ▪ Involuntary exposure in 2015
Parcel B	1.27%	R$ 176m	▪ WACC of 8.09% ▪ Special Obligations remuneration ▪ Opex adjusted to match the concession area's reality
Tariff Reset Effect	15.23%	R$ 2,112m	

Breaking down the Parcel B

Remuneration (RAB)	R$ 732m	▪ Net RAB of R$ 6.0 billion ▪ WACC of 8.09%
Depreciation	R$ 458m	▪ Gross RAB of R$ 12.2 billion ▪ Depreciation Rate of 3.75%
Special Obligations	R$ 39m	▪ Remuneration of 3.34%
Annuity (Other Assets)	R$ 134m	▪ Remuneration and depreciation of IT, vehicles and administrative assets
Operational Expenses	R$ 1,373m	▪ Xt Factor of -2.37%; ▪ Inclusion of labor liabilities, São Paulo salaries and underground network
Bad Debt	R$ 198m	▪ 0.85% of bad debt, considering Tariff Flag revenues
Other Revenues	- R$ 88m	▪ ~60% of non-distribution revenues
Productivity Gains	- R$ 33m	▪ Xp Factor of 1.13%
Parcel B	**R$ 2,812m**	

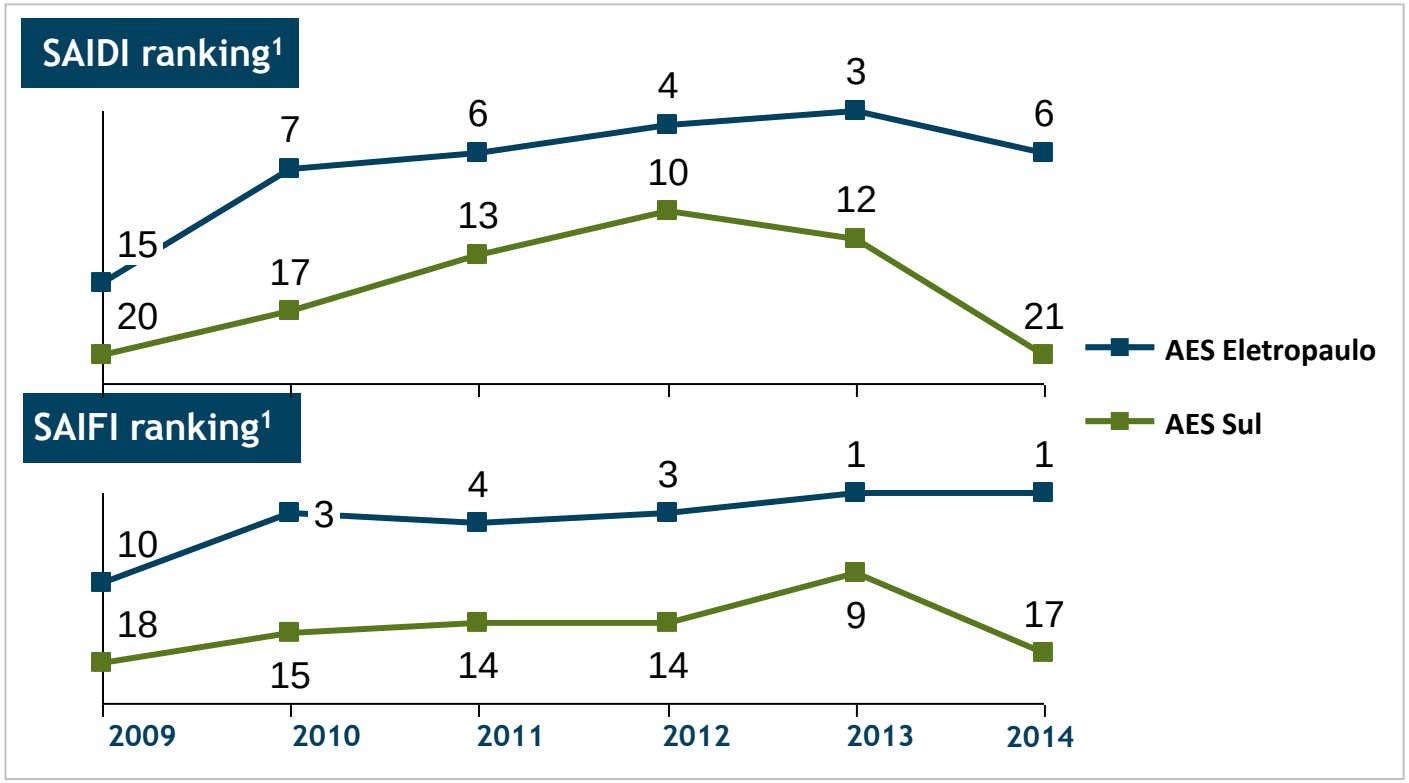
Ranking of distribution tariffs in Brazil

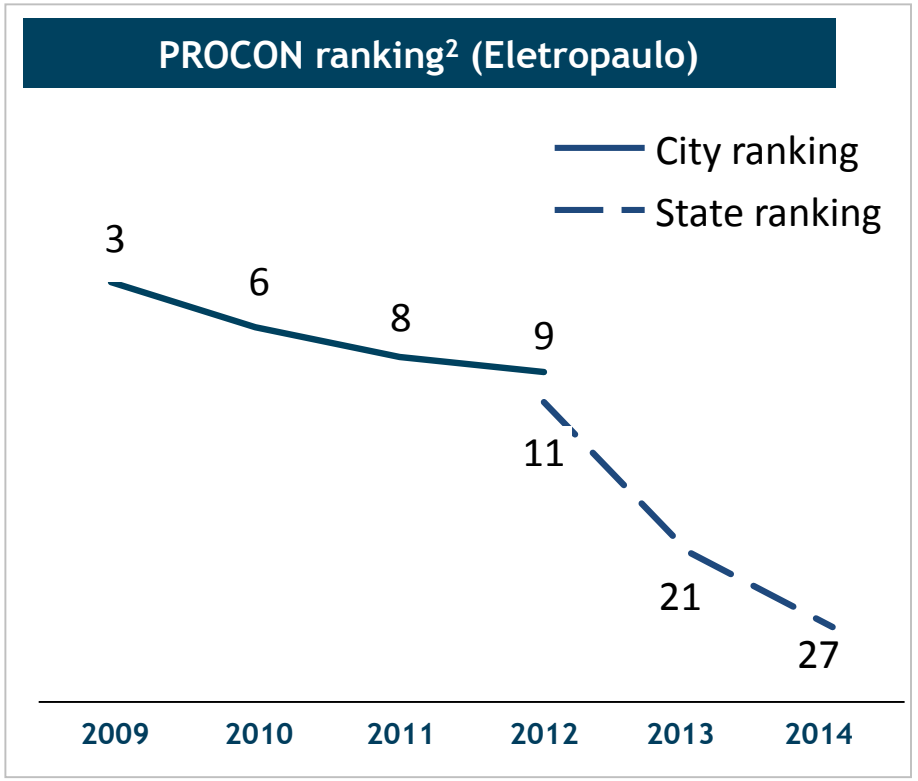




Source: Aneel website. Tariffs as of July/2015.

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

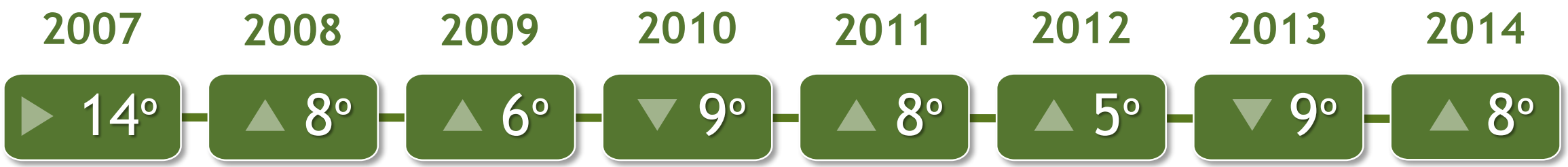




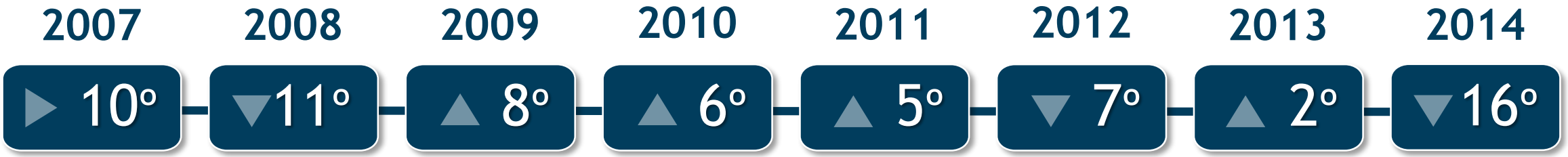
1- Considers distribution companies with more than 500k customers; 2- PROCON ranks companies most claimed by costumers

Abradee's[1] Ranking

AES Eletropaulo



AES Sul

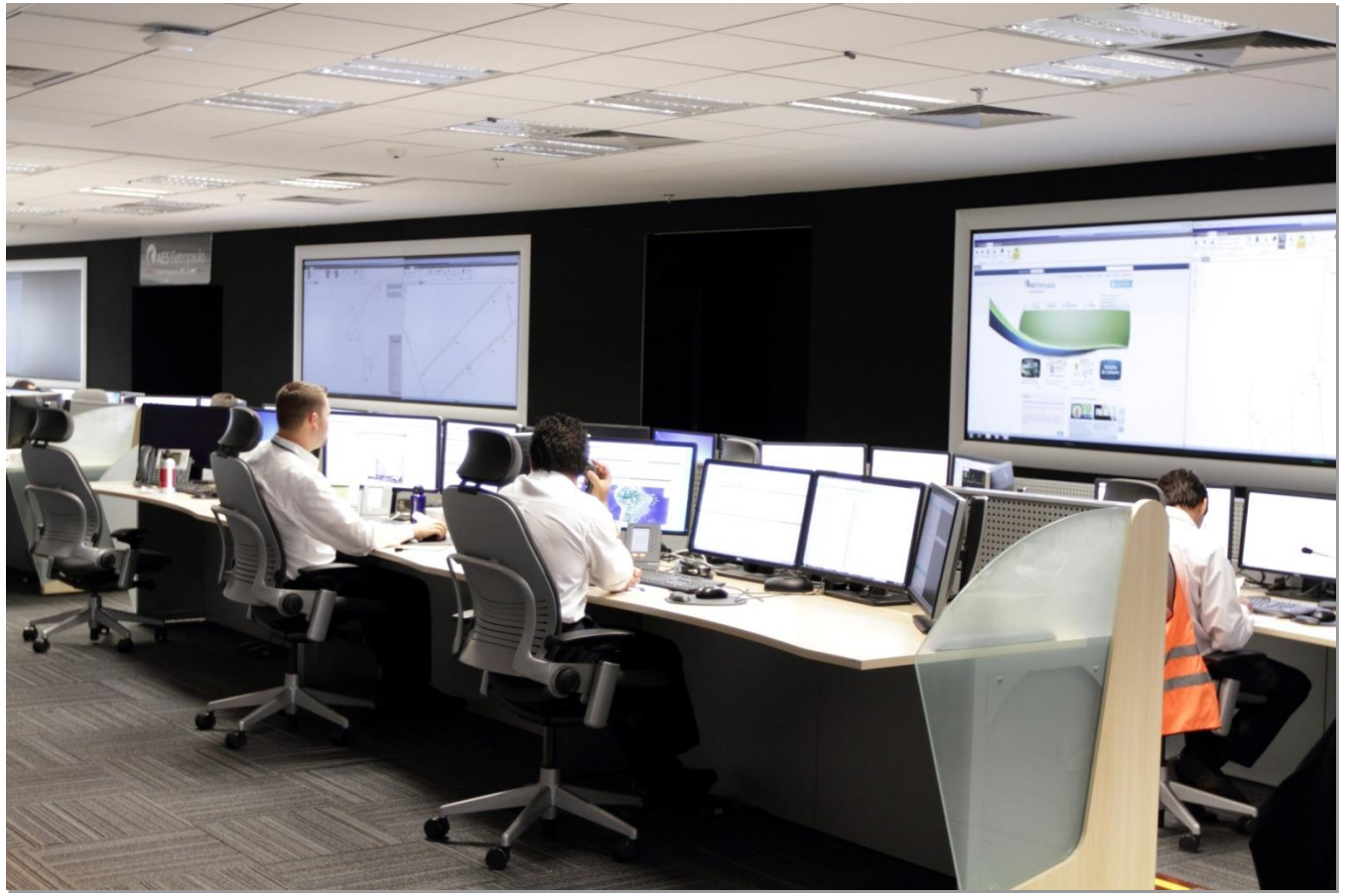


1 – Association of Brazilian electricity distributors

Latin America's most modern 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