Presentation - JPM

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Uma Empresa AES Brasil

Recents events and in course in the energy sector

Energy Surplus
Tariff coverage up to 105%
Eletropaulo at 114%[1] in 2016

Third Tariff Reset Cycle
Squeeze Discos' EBITDA margin

MP 579 / Law 12,783
18% of tariff reduction encouraged consumption

Hydrological challenges
Discos' cash flow mismatch

Government funding mechanism
CDE and CCEE Loan

Tariff Flags
Assist with cash flow mismatch

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Tariff Flags 2.0
83% Red Flag increase

Extraordinary tariff reset
23.4% average increase

Fourth Tariff Reset Cycle
Financial sustainability

Tariff Flags 3.0
18% of red flag reduction

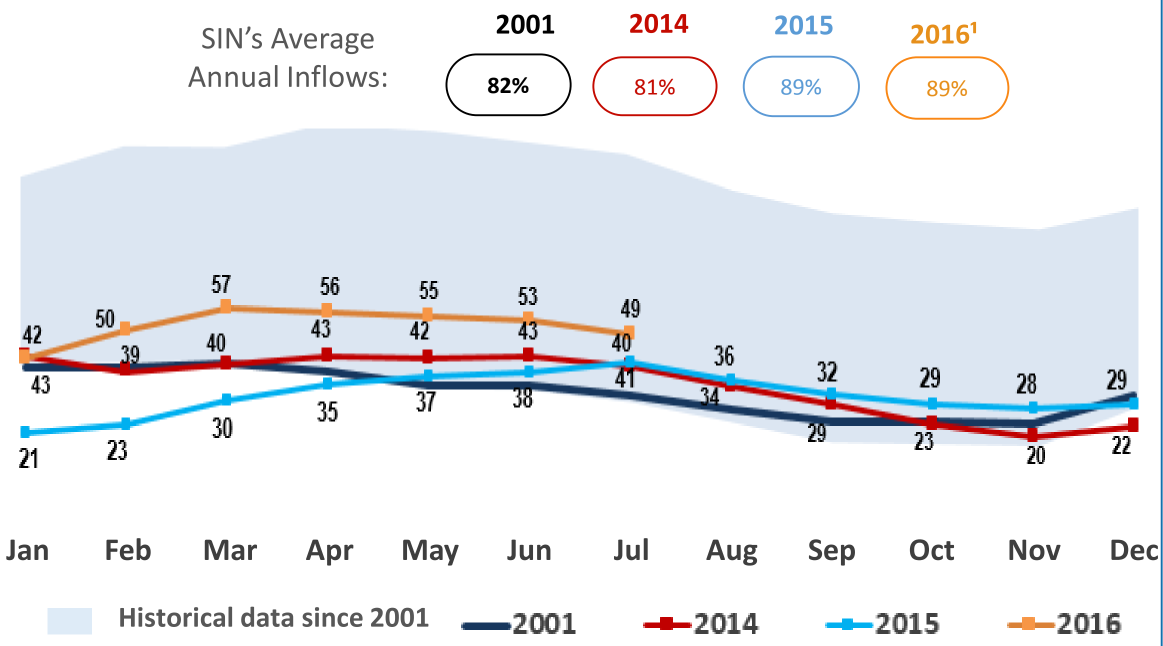
GSF
Generation Scaling Factor

1- Estimate as of jun31, 2016

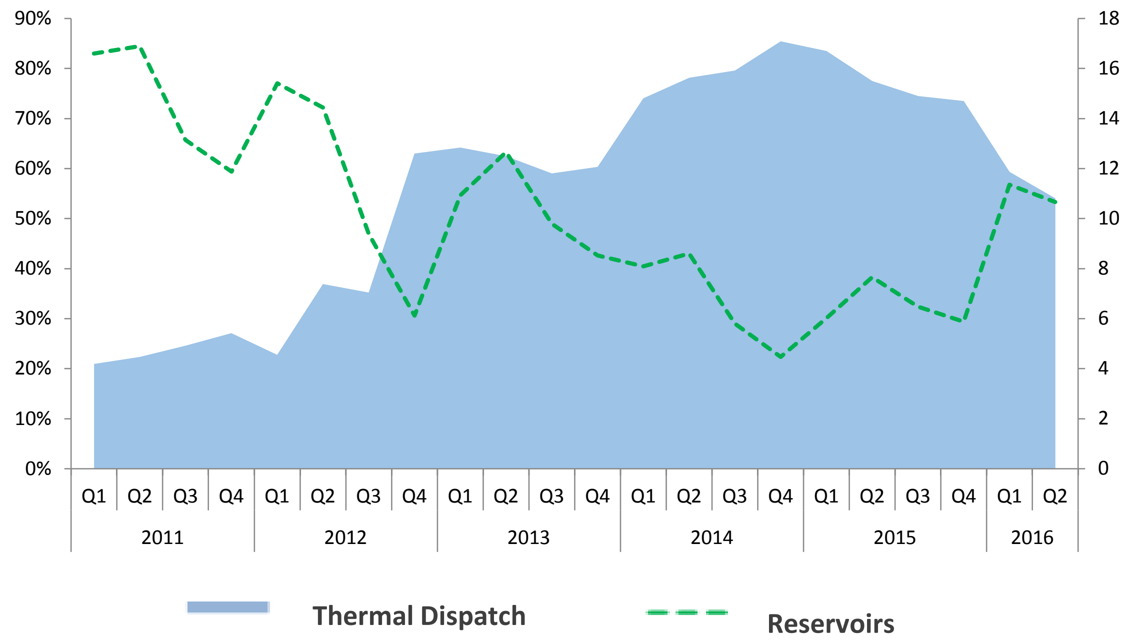
Inflows poor performance reflecting lower reservoir levels and higher spot prices

- **Poor hydrology forecasted for August: 73% LTAvg (ONS)**
- **Reservoir levels for the end of August: 41%**
- **Spot prices increased to 117 R$/MWh**

Historical Level of Brazilian Reservoirs (%)

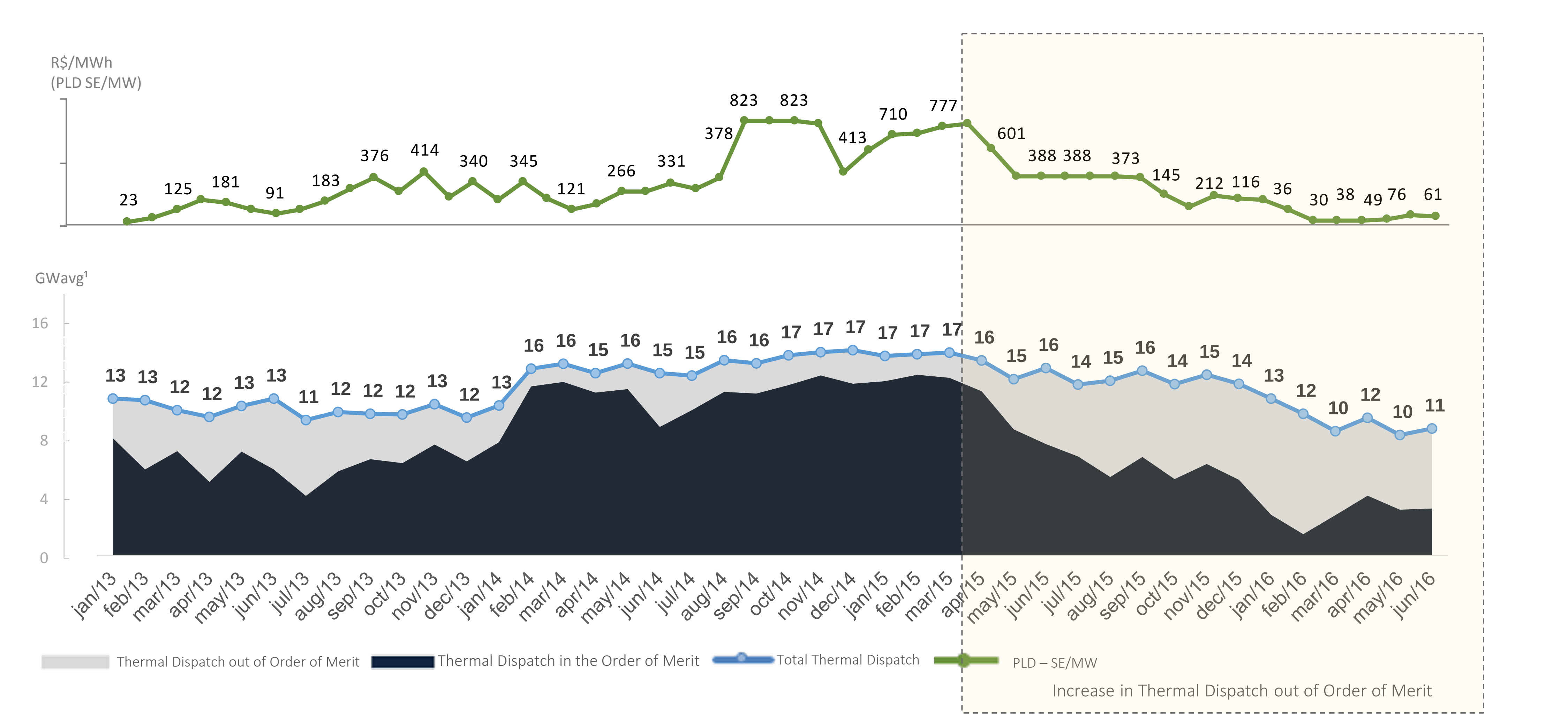


Reservoirs (%) vs. Thermal Dispatch (GW avg[2])

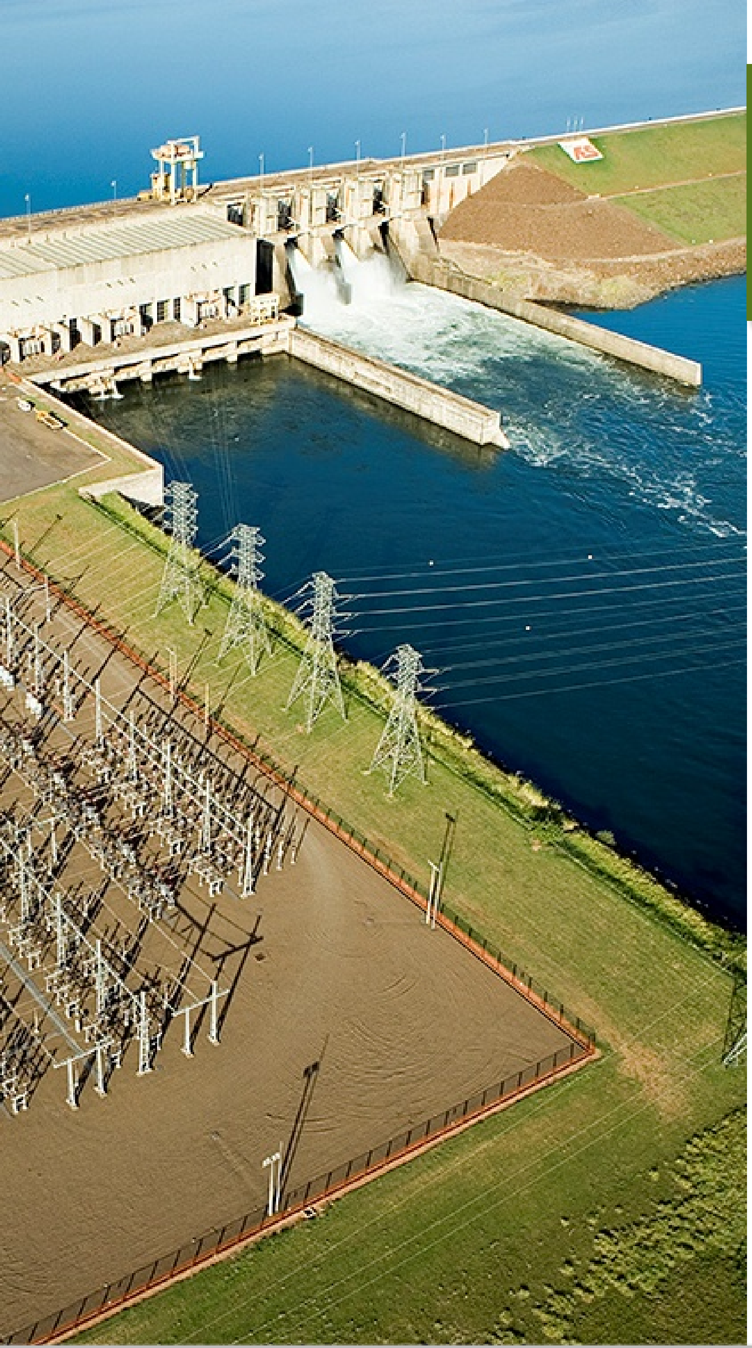


1 – Data base: Jul/16; 2 – Generated energy divided by the amount of hours.

High out of merit order dispatch, despite the reduction of the total thermal generation



1. Source: ONS (PEN 2016)



Different factors are pushing free market prices up

- 2nd Load Revision (ONS/EPE) - No change on economic perspective
  - However, approximately:
    - +3 GWavg in Oct-Dec16
    - +2 GWavg in 2017 and on
- Price methodology: risk aversion revision for 2017 and on
  - Divergence between merit order and actual thermal dispatch
- GSF will continue, reducing liquidity
  - Poor economic performance and gradual load recovery
  - Higher Physical Guarantee in MRE with new hydros
- Surplus locked in the regulated environment
- Poor hydrology persisting in 2014, 2015 and 2016

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