VI Conferência do Setor Elétrico Brasil - Santander

Britaldo Soares - March 2015

AES Brasil

Brazilian electricity sector recent evolution

Third Tariff Reset Cycle
Squeeze Discos' EBITDA margin

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

Hydrological challenges
Cash flow mismatch

Government funding mechanism
CDE and CCEE Loan

Delays on Tariff Subsidies

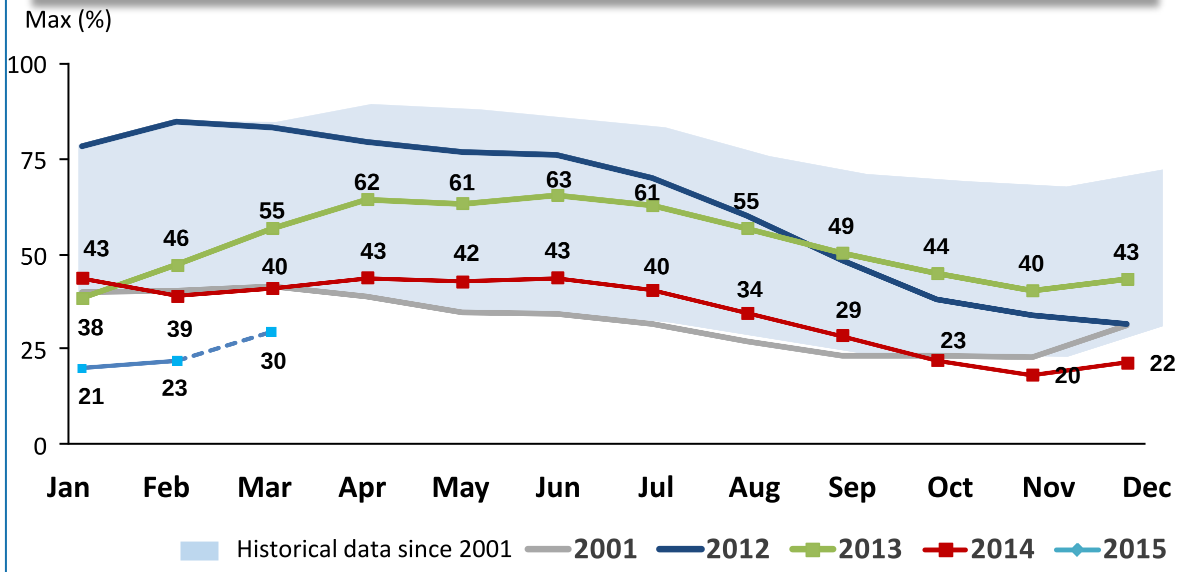
Tariff Flags
Assist with Cash Flow mismatch

Tariff Flags 2.0
83% Red Flag increase

Extraordinary Tariff Review
23.4% average increase

Challenges ahead
Hydrological scenario

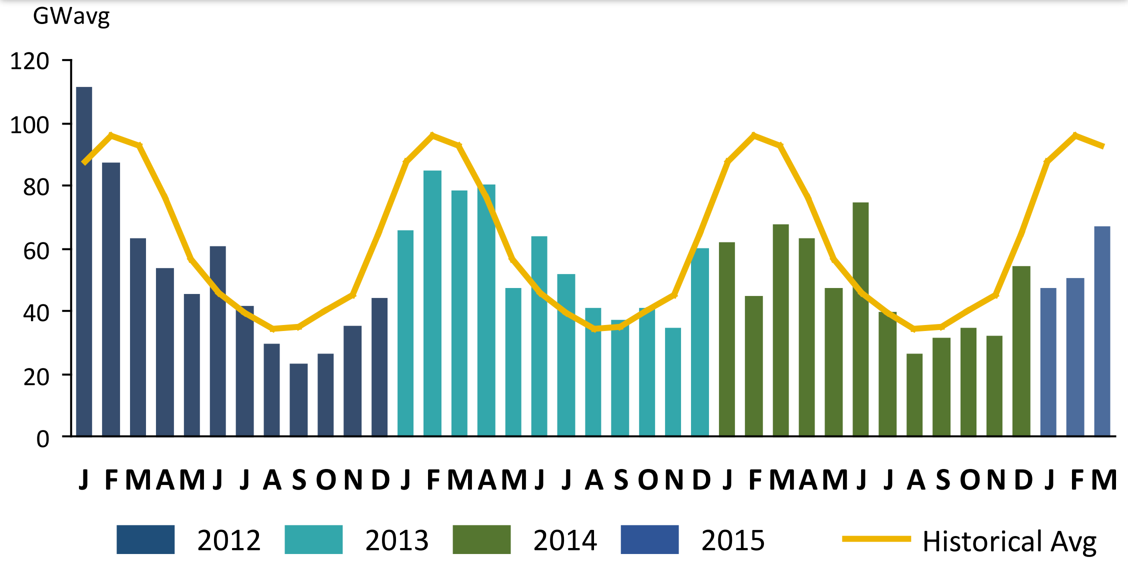
Historical Level of Brazilian Reservoirs (%)



Annual Inflow:

2001	2012	2013	2014	2015[1]
65%	87%	97%	81%	57%

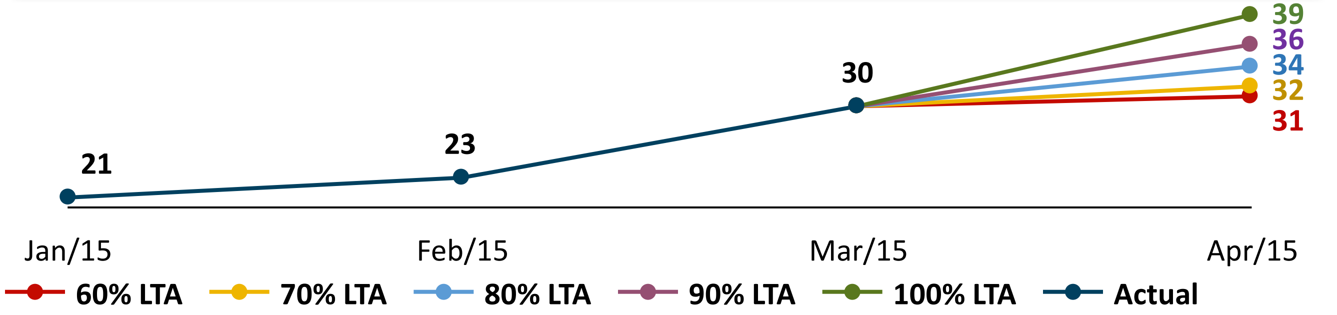
Historical SIN Inflow (GWavg)



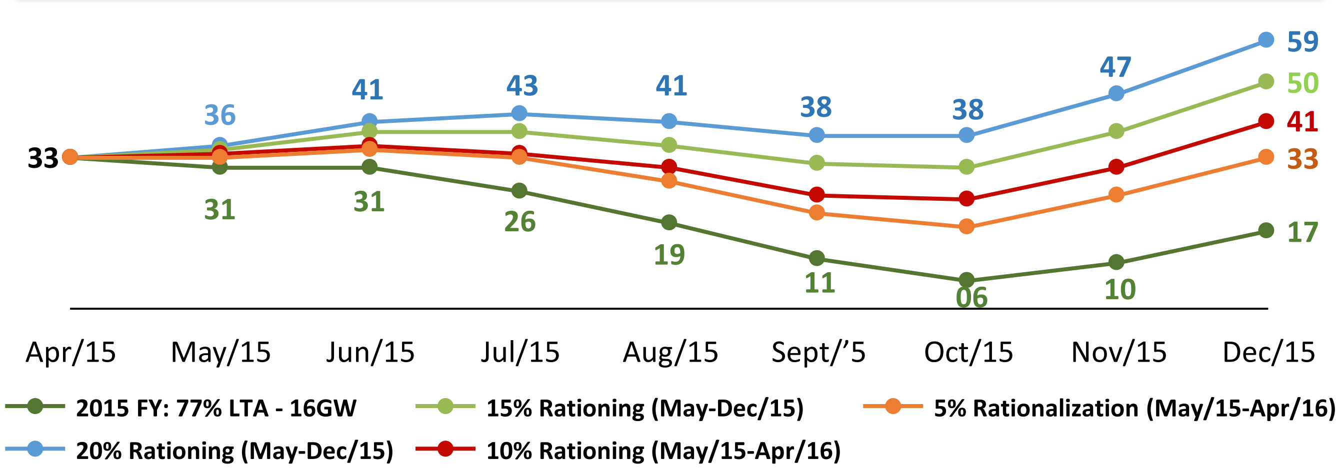
- Inflows lower than historical levels over the last 3 years

Rationing risk

SIN reservoir level (%) vs. Inflow



SIN reservoir level (%) vs. Inflow

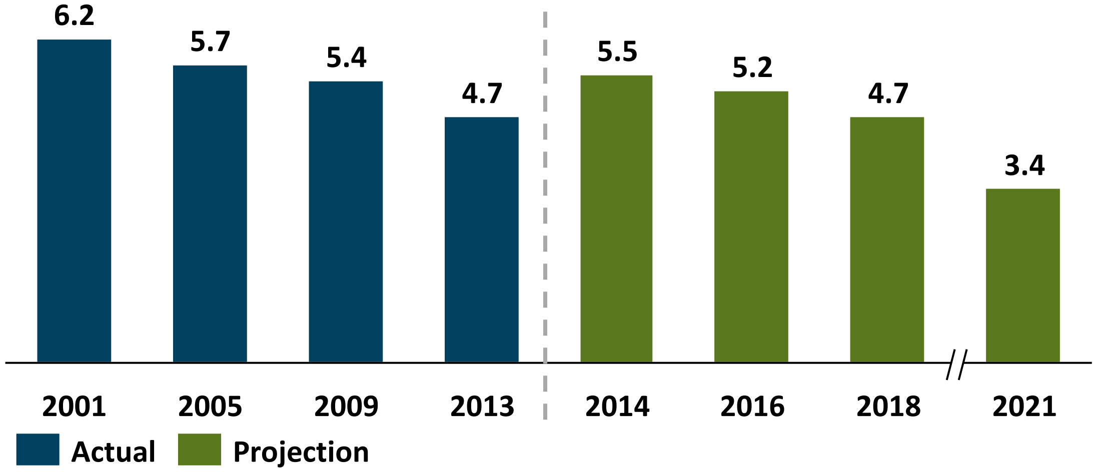


- **Reservoir level is currently at 23.6%[1] of its full capacity**
- **Weak hydrology in January and February has substantially increased rationing risk**
- **Spot prices to stay at cap price (R$ 388.48/MWh) in 2015**
- **Projected thermal dispatch of 16-17GWavg in 2015**
- **Estimated 2015[2] GSF of 0.83 to 0.85**

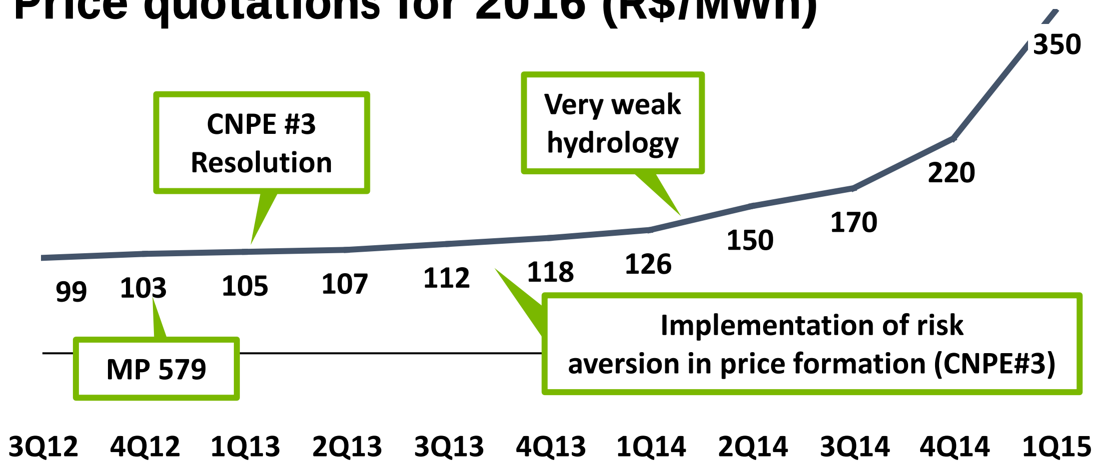
Risk analysis considers inflow in March and April. Thermal dispatch at 16GW. 1 – Base date: Mar 1st 2015; 2 – AES' projection

Tight hydrology, lower system storage capacity and regulatory framework increase energy prices

Storage capacity (months)



Price quotations for 2016 (R$/MWh)



Short term contract prices highly influenced by current low hydrology and regulatory interferences

Long term contract prices with an **increasing trend**: 150-180 R$/MWh from 2018 onwards

- **Increase** in the **regulated tariffs** – captive market reference
- **Increase** in the **Expansion Marginal Cost** (CME)
  - **More** realistic and **attractive returns** for **new projects**
  - **Reduced** available **capital for financing** and **higher interest rates** – even from BNDES

Latest Govt. Measures to shield Parcel A

	Tariff Flag	Tariff Flag 2.0	Extraordinary Tariff Review
Time	• In place since January, 1st 2015	• In place since March, 2nd 2015	• In place since March, 2nd 2015
Descriptions	• Reduce cash-flow mismatch • To partially cover higher energy costs (thermal costs)	• Broaden application: – hydrological risk – involuntary exposure – sector charges (ESS) – thermal costs	• Cover additional costs: – CDE – Itaipu (tariff increase and dollar variation) – A-1 and Adjustment Auctions
Risks	• Costs not fully covered • Higher bad debt and NTL[1]	• Costs fully covered • Higher bad debt and NTL	• Higher bad debt and NTL
Tariff increase	• ~11% at AES Eletropaulo residential tariff[2]	• ~8% at AES Eletropaulo residencial tariff[2]	• 32% AES Eletropaulo average increase: • 26% residential tariff[2] • 40% high voltage

AES Brasil

1 – Non-technical losses;
2 – Regular Residencial Tariff

4th TRC - improvements and opportunities

Improvements	WACC	• WACC of 8.09% already defined (vs. 7.5% of the 3rd cycle and 7.16% of first 4th TRC proposal)
	Special obligation assets	• Remuneration fee over Special Obligations
	X factor	• Sector's avg productivity of 1.64% (vs. 1.03% of the 3rd cycle and 1.91% of first 4th TRC proposal)
	O&M	• Methodology better values efficient companies by adding: - Quality and non technical losses standards - Aspects of metropolitan concessions: underground network, salaries adherence and labor liabilities
Opportunities	Assets 100% depreciated	• Recognition of the opportunity cost of equity capital over fully depreciated assets
	O&M	• Inclusion of RAB disallowance effects in the Regulatory OPEX • Regulatory treatment for the Pension Plan liability
	Bad debt	• Increase bad debt level considering current higher tariffs