

# Corporate Presentation 2017



# AES Corporation

## A Global Company

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



Over 8 GW of  
Renewable sources<sup>1</sup>



Distributed energy  
+104 MW of solar PV<sup>2</sup>  
projects in operation



World leader in  
Energy Storage  
Total of 476 MW<sup>3</sup>

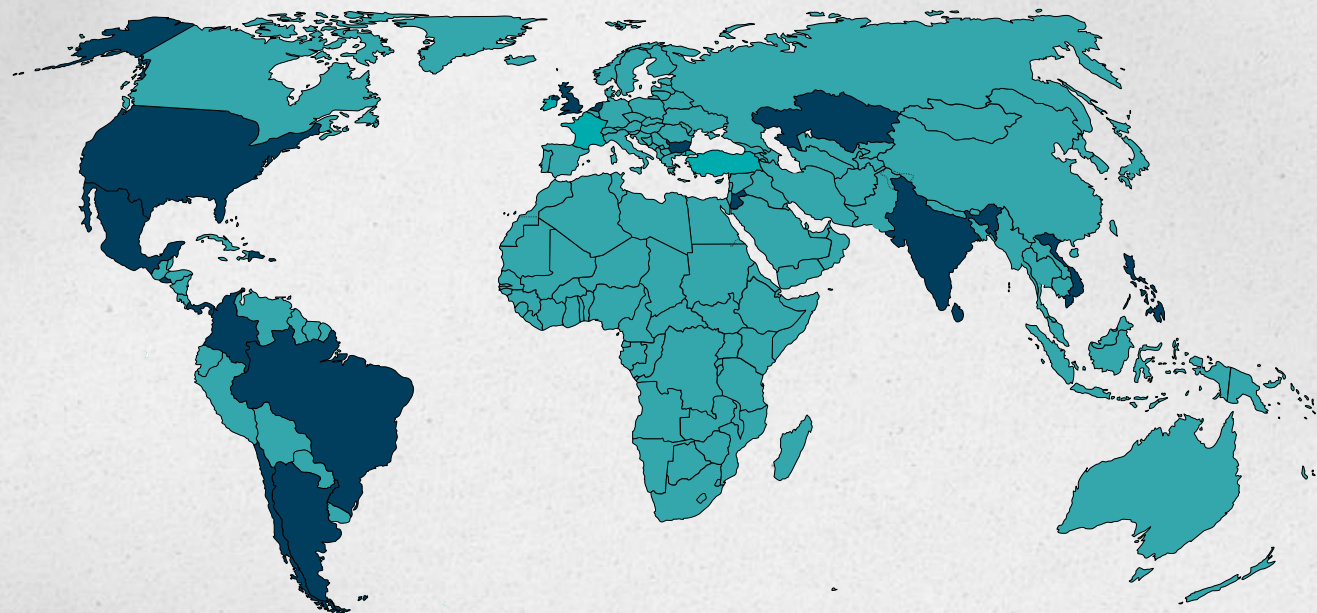


**35 GW**  
installed  
capacity

Providing  
services to over  
**9 million**  
customers

**19**  
thousand  
employees

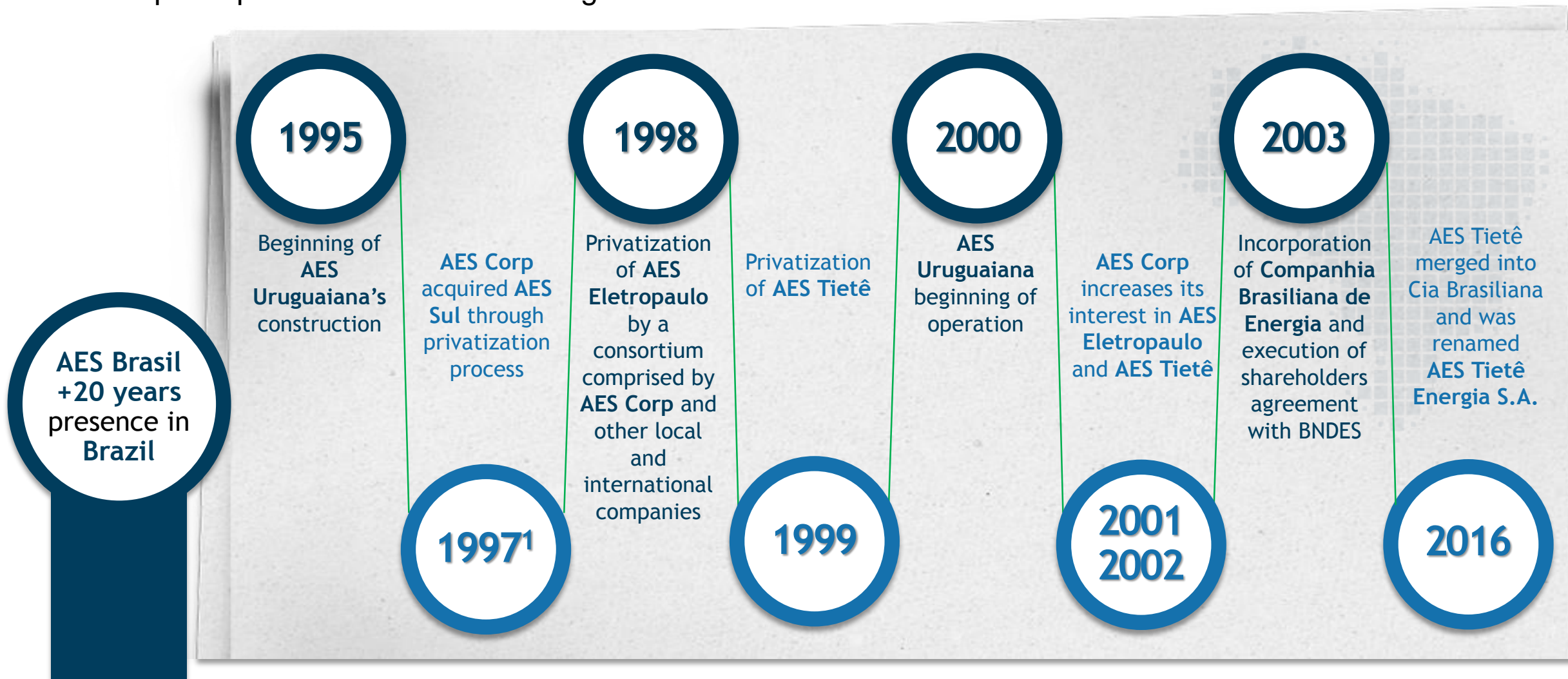
AES Corp is present in 17 countries and 4 continents





# History in Brazil

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



# AES Brasil Mission, Vision and Values

## Mission

*To promote the well being and development by providing secure, sustainable and reliable energy solutions*



## Vision

*To be recognized by our customers and shareholders as the preferred partner for safe, innovative, reliable and affordable energy solutions*



## Values

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



# Value Creation Model





# AES Brasil Environmental Responsibility



- Reservoirs repopulation
- Reforesting, borders and archeological management programs
- Water quality monitoring
- Recycling and waste disposal programs
- Programs aiming to reduce CO<sub>2</sub> emissions
- Risk Management and identification of opportunities related to climate change

# AES Brasil Social Responsibility



- Access to reliable energy through social development
- Recycling incentive program as a means to pay the electricity bill - mitigation of delinquency
- Education for efficient and safe use of electricity
- Sustainable partnership - commitment with sustainable development at AES Brasil's value chain
- AES Brasil Institute - Created in 2016 to promote social innovation and income generation initiatives impacting communities and people's life based on 4 pillars: (i) shaping citizens, (ii) innovation for social development, (iii) entrepreneurship and (iv) Volunteering.



# AES Brasil Recognitions

## AES Eletropaulo

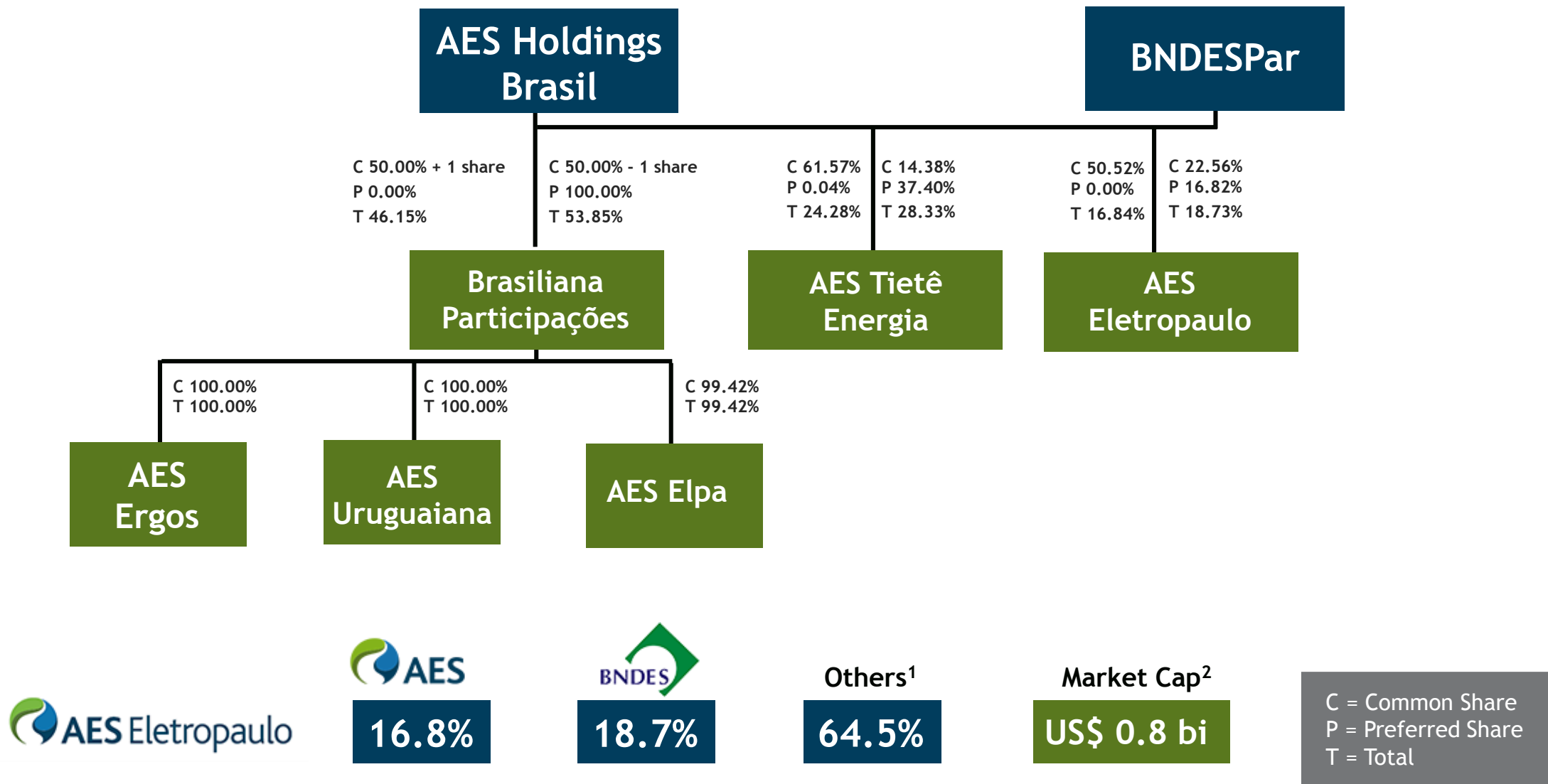


## AES Brasil

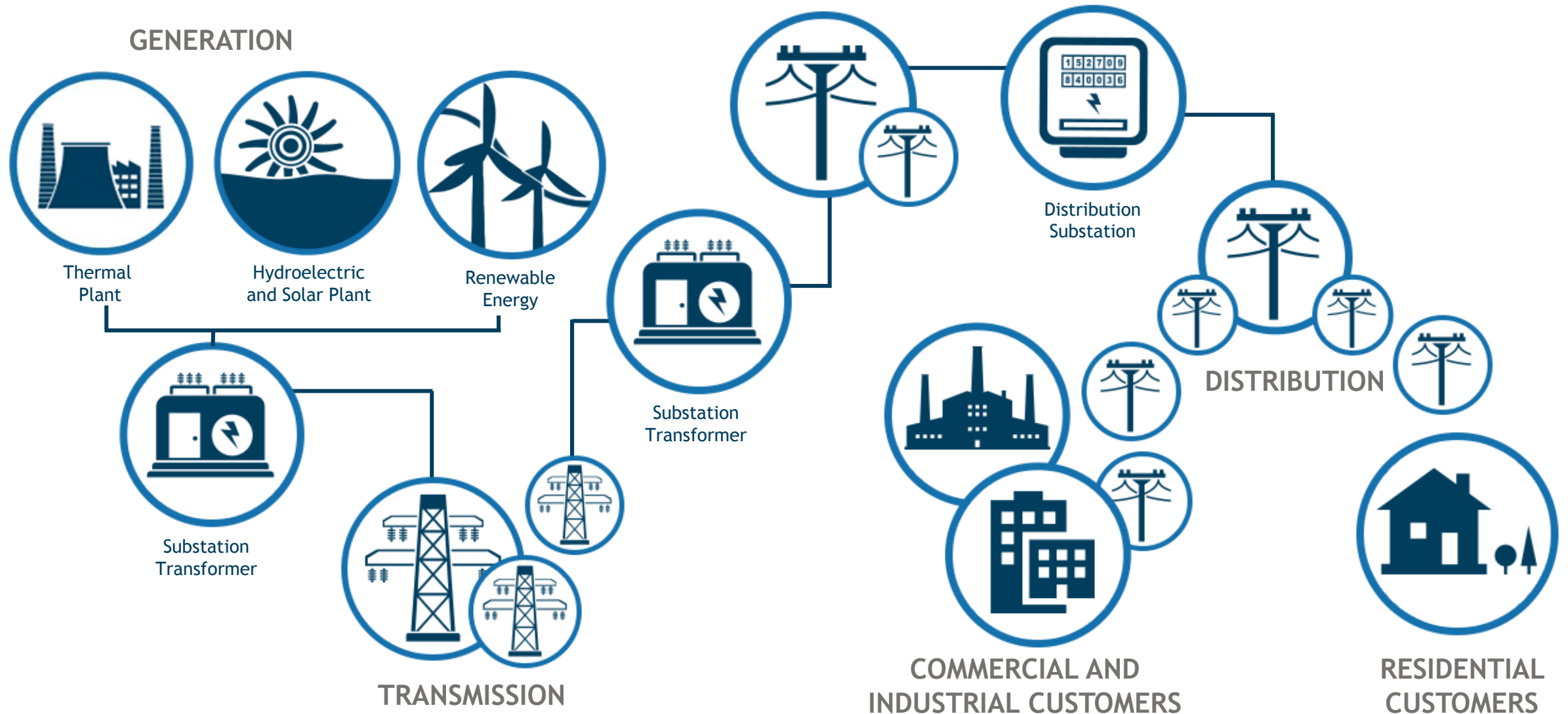




# Ownership Structure



# National Interconnected System





# Energy Sector in Brazil: Business Segments



## Generation<sup>1</sup>

- **4,660** power plants
- **160 GW** of installed capacity
- System **based** on **hydro plants** (1,264<sup>3</sup>)
- **Contracting environment: free** and **regulated markets**



## Transmission<sup>2</sup>

- **77** agents
- **High voltage transmission (>230 kV)**
- **+100,000 km** of lines (National Integrated System)
- **Regulated tariff** (annually adjusted by inflation)



## Distribution<sup>2</sup>

- **63** distribution companies
- **327 TWh** distributed energy
- **81 million** consumer units
- **Annual** tariff **adjustment**
- **Tariff reset** every **four** or **five** years
- **Regulated contracting** environment

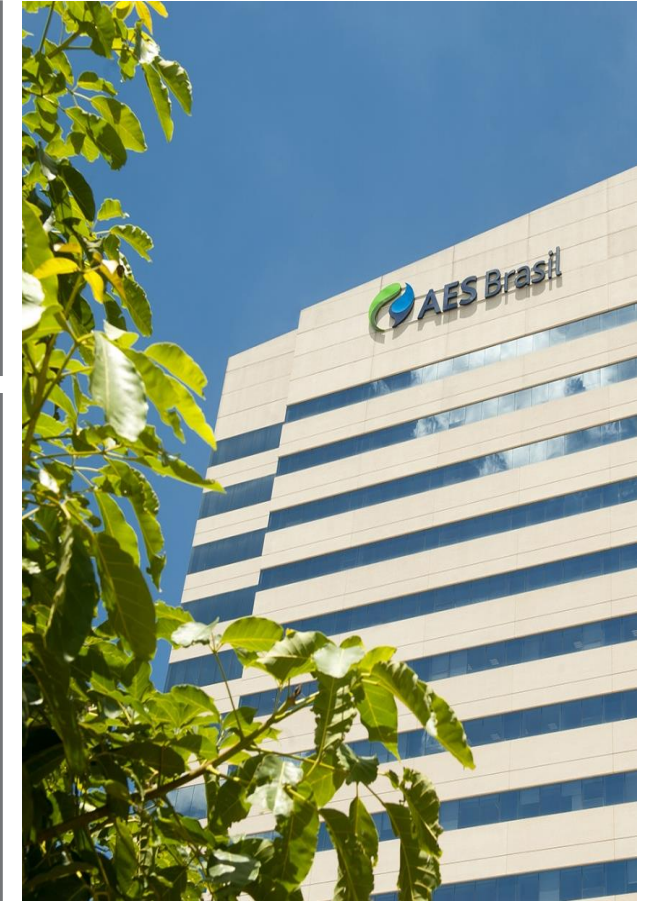
# Corporate Governance

## Key for Investment Decision

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

- High level of **commitment**, with **monthly Board of Directors meetings**

- Listed at BM&FBovespa:
  - **ELPL3: Level II**
  - **ELPL4: Proposal of Migration to the Novo Mercado**
- ISE Corporate Sustainability Index portfolio
- Tag along rights









- **24 cities** attended in São Paulo metropolitan area
- Concession contract **expires in 2028**
- **Market Cap:** US\$ 830 million<sup>1</sup>

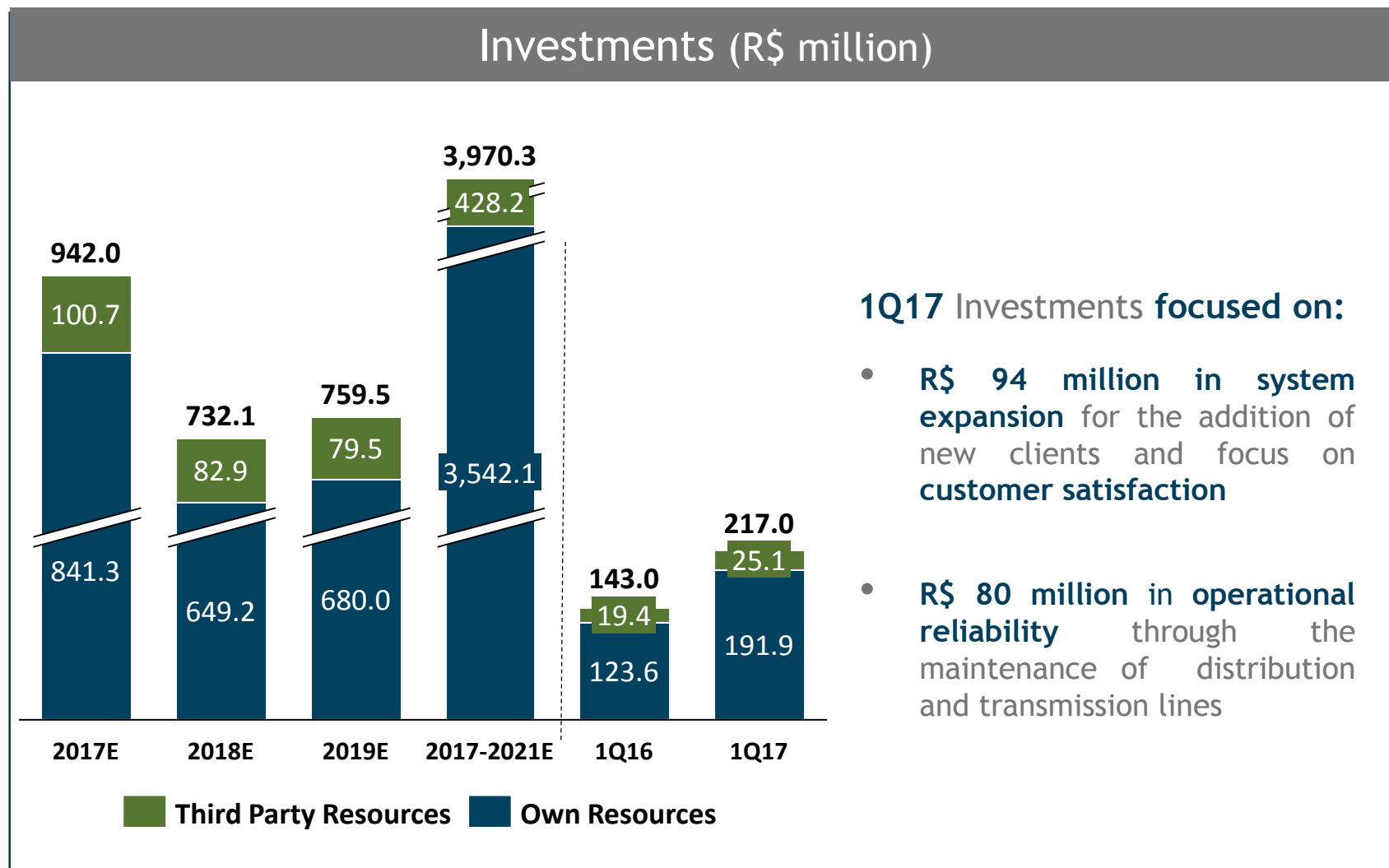
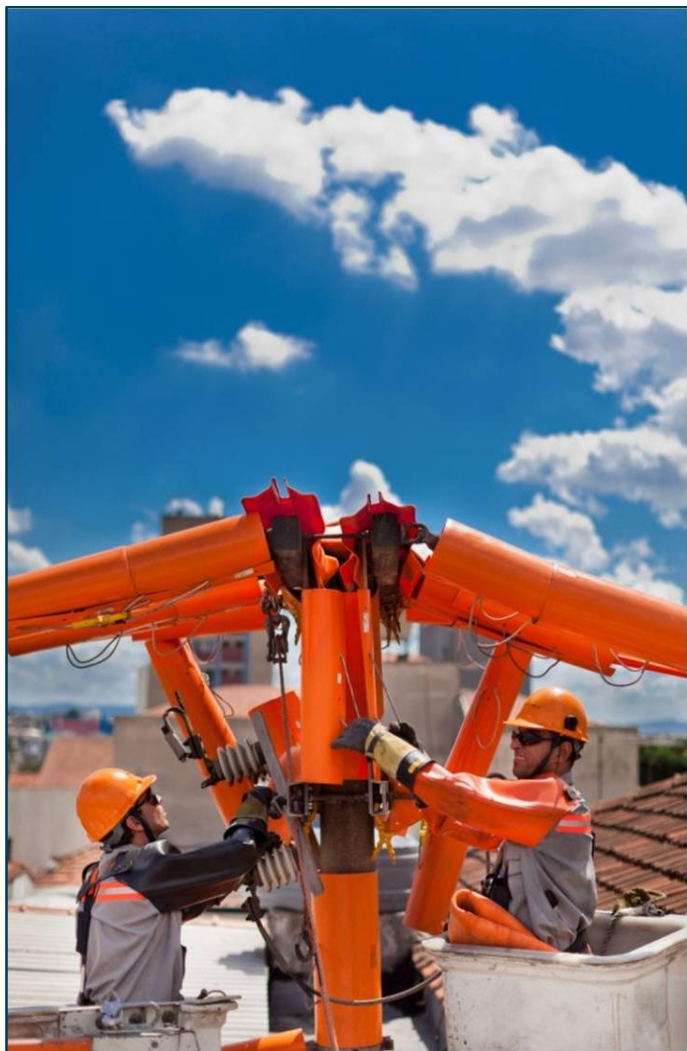
- **16% of Brazil's GDP<sup>2</sup>** in its concession area
- **4,526 km<sup>2</sup>** concession area
- **42 thousand km** of distribution and transmission lines
- **7 million** customers
- **18 million** people served
- **11 TWh** distributed in 1Q17
- **7,188 employees** as of March 2017

#### Investment Grade:

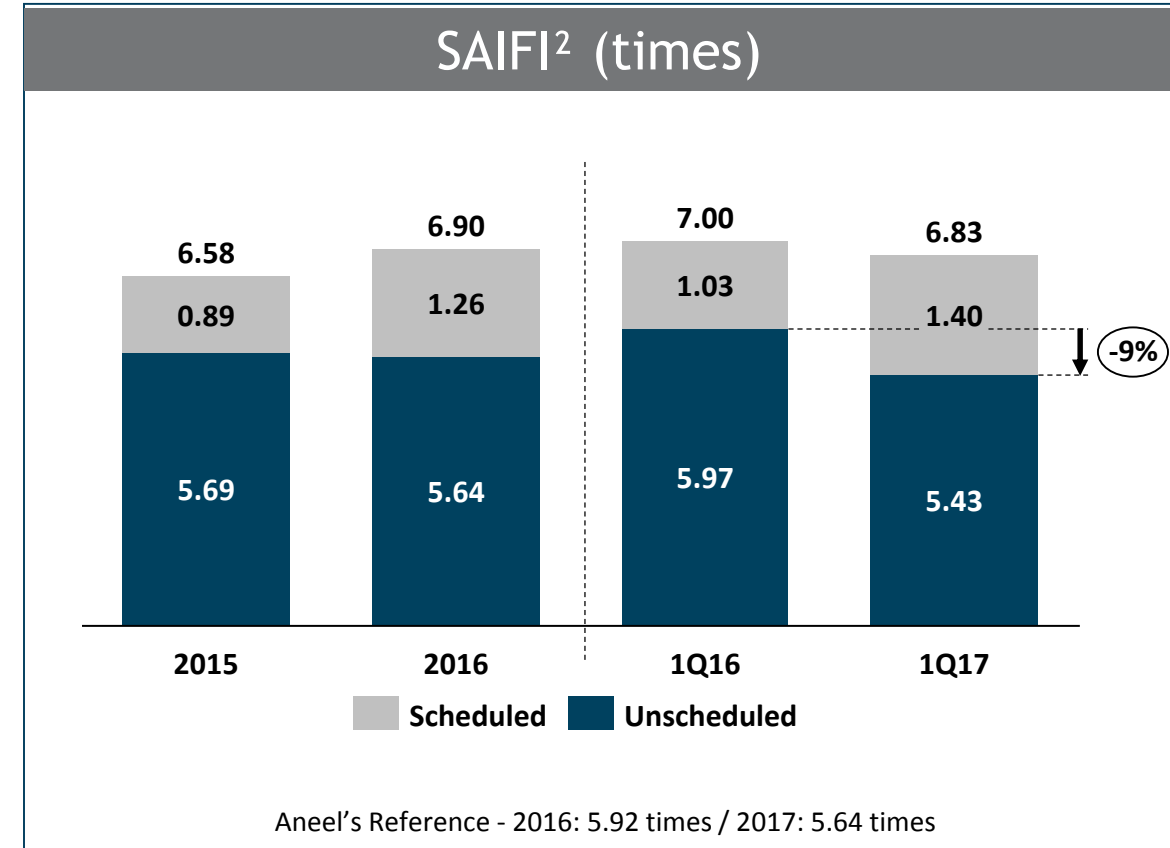
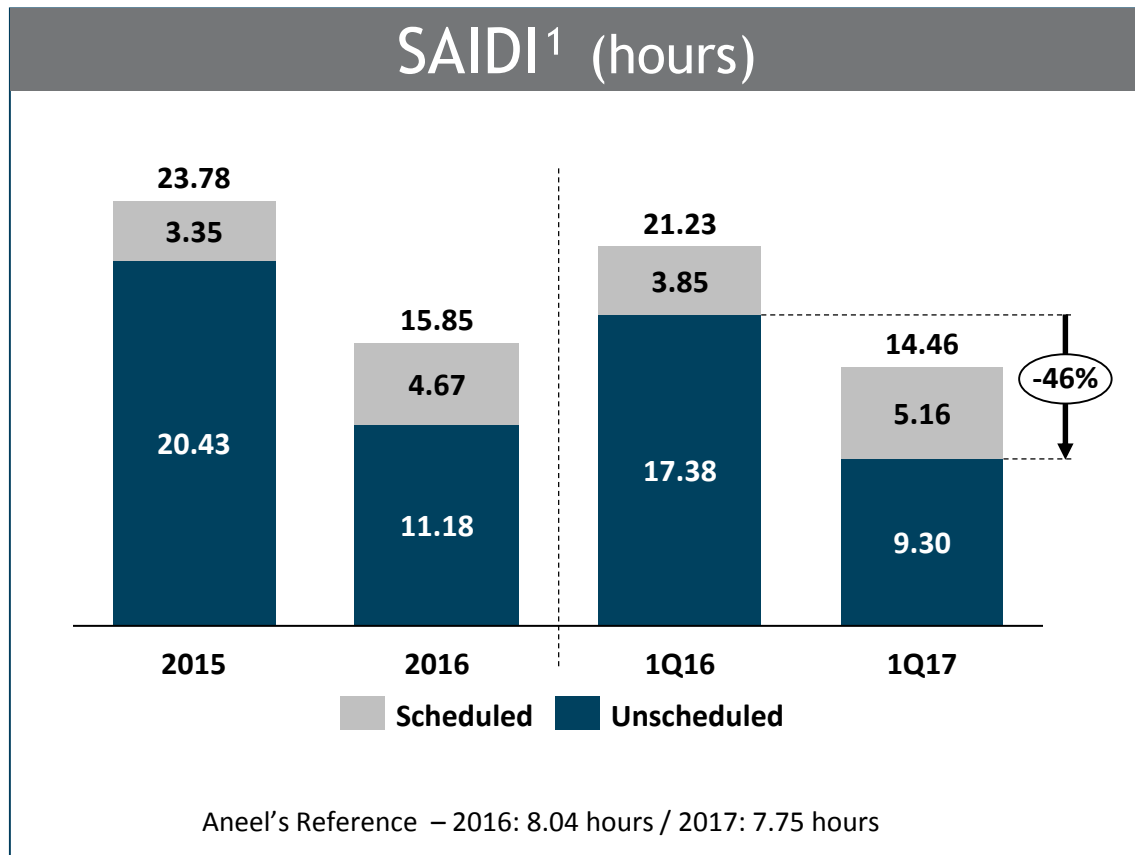
	Fitch	S&P	Moody's
National	AA-	A-	A3
International	BB	BB-	Ba3



# 1Q17 investments focused on system expansion and customer service



# Value Creation Strategy contributed to reductions of SAIDI and SAIFI and the reduction of fines





# Reduced SAIDI is a consequence of improved processes and increased productivity and the reduction of SAIFI from the Investment Plan

## Pillars for SAIDI Reduction

### Innovation in the Dispatch Process

New procedures to ensure process efficiency

### Productivity Management

Improvement of processes, technology and equipment

### Communication

New tools to improve team communication



- Tools to optimize emergency services
- Multitasking teams
- Greater flexibility in team communication

## Pillars for SAIFI Reduction

### Expansion and Maintenance

Intensification of preventive maintenance

### Automation and Innovation

Investment in the modernization of the distribution network

### Technology

Focus on digital transformation



750 km of Compact Network in 2017

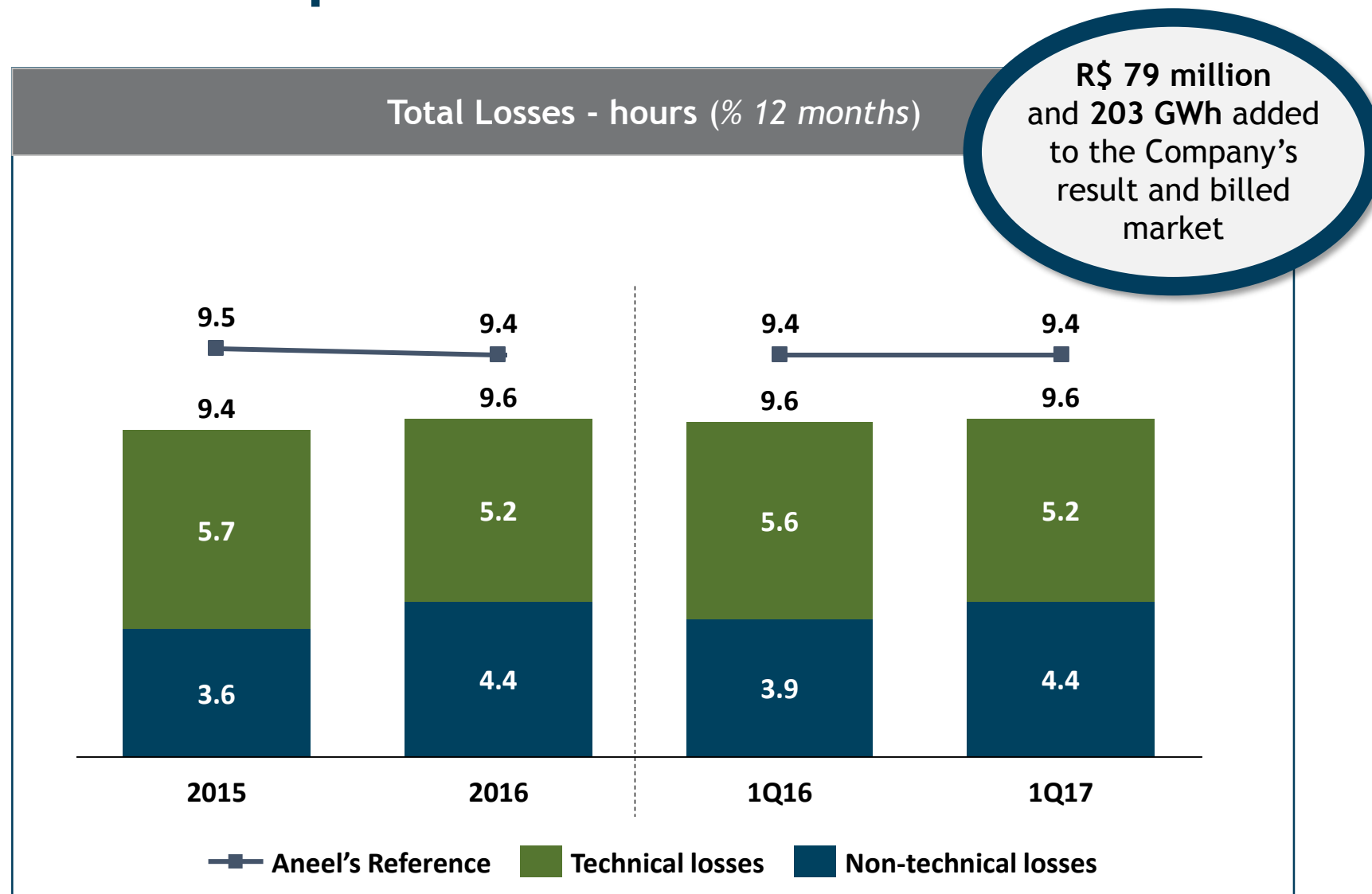
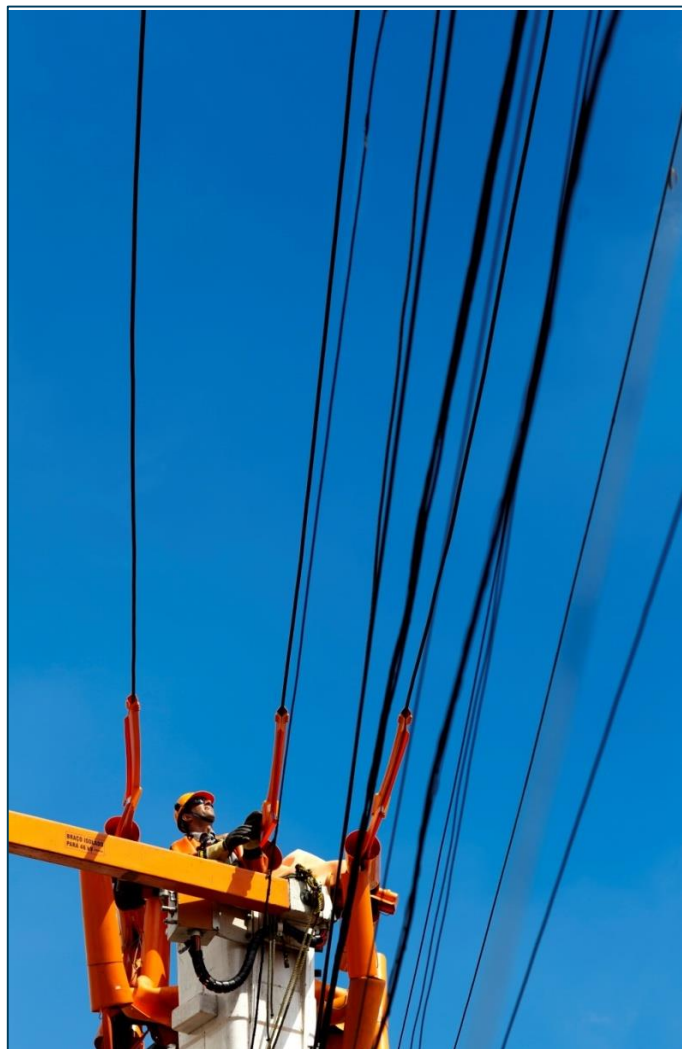


7,200 Fault Detectors in 2017



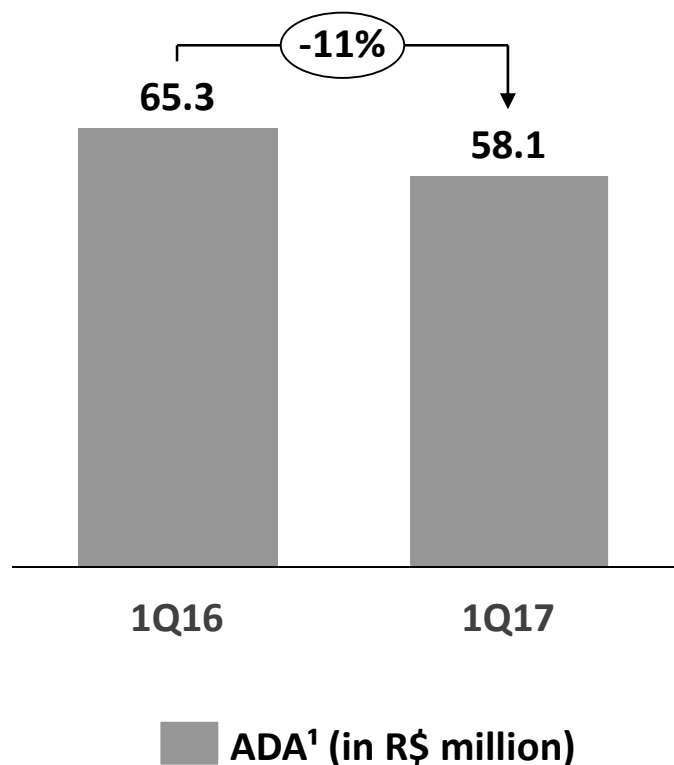
2,500 Reclosers in 2017

# Technical Losses is a consequence of economic scenario

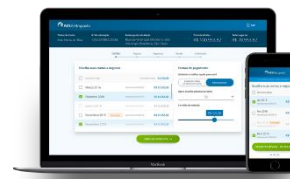


# Reduction of ADA reflects Revenue Management and Customer Satisfaction initiatives

ADA (1Q17 vs. 1Q16)



## Main initiatives



### Negotiation Portal

- New and modern negotiation channel
- Greater flexibility for costumers
- Responsive on all devices (tablets and mobile phones)

### Quick Wins Initiatives

- New collection activities
- Management of service quality control
- Cells for negotiation of large debts and low income
- Remodeling of the shut-down process, including payment on site



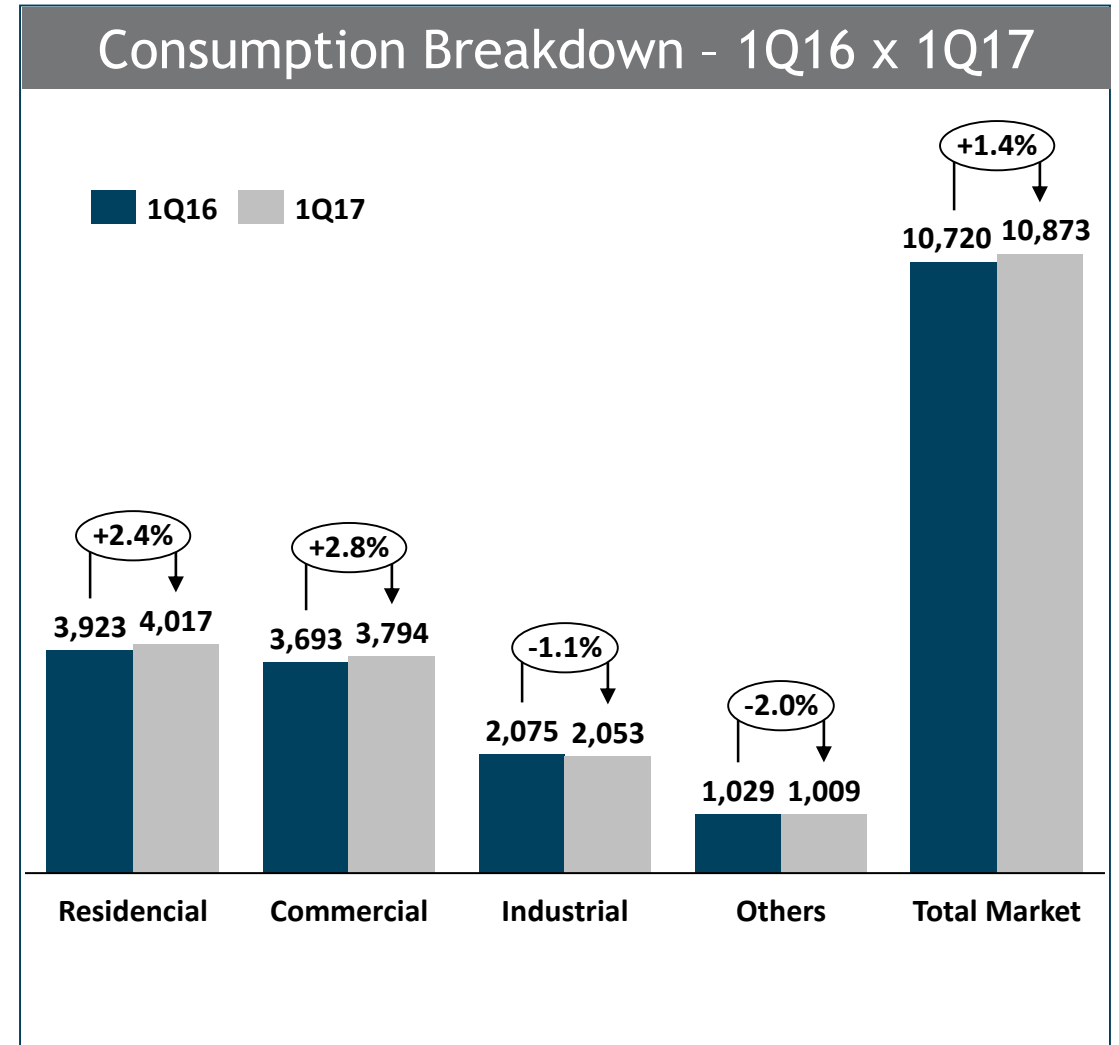
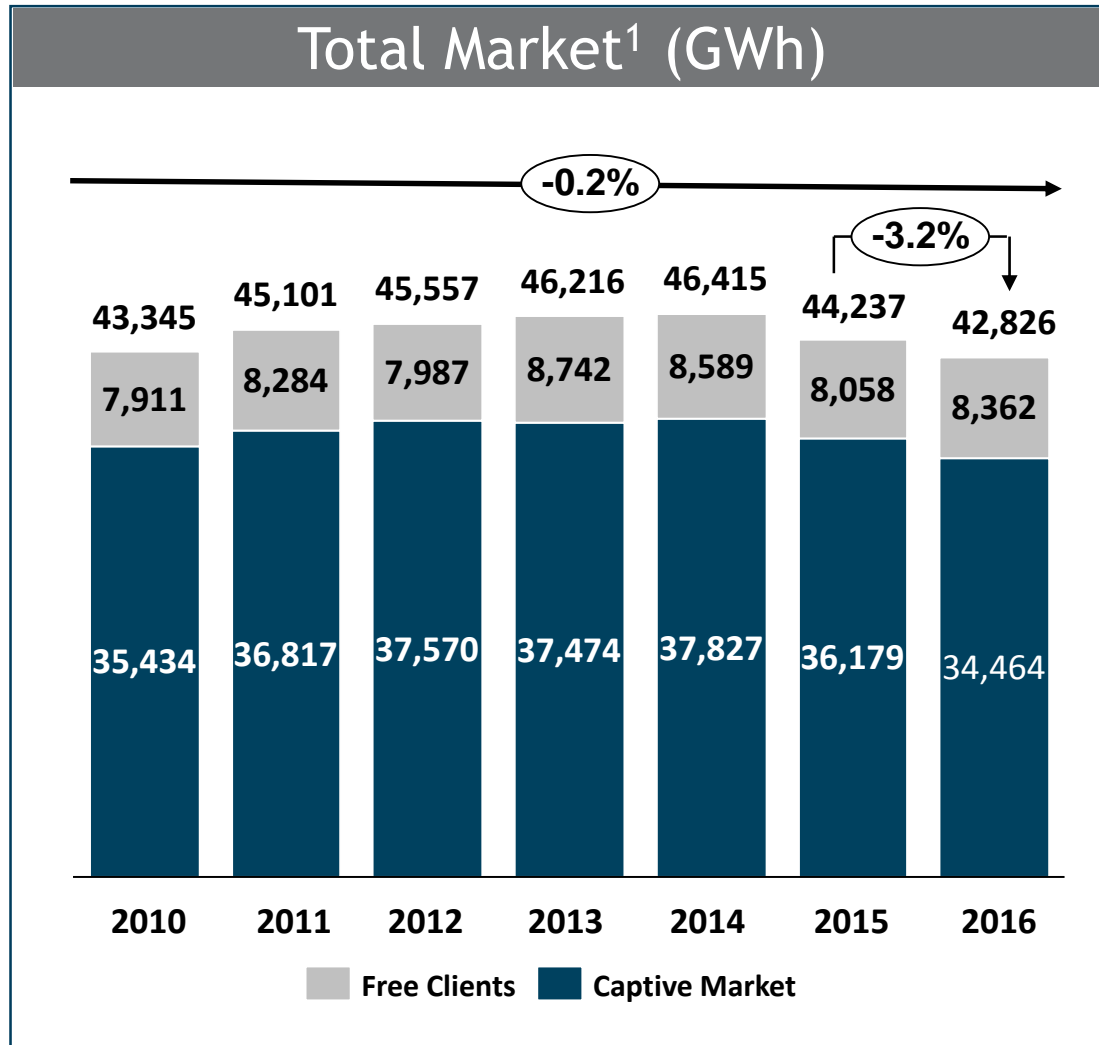
### Strengthening of the Meter Reader's Role

- Shut-down Process
- Protests and Letters per Reading

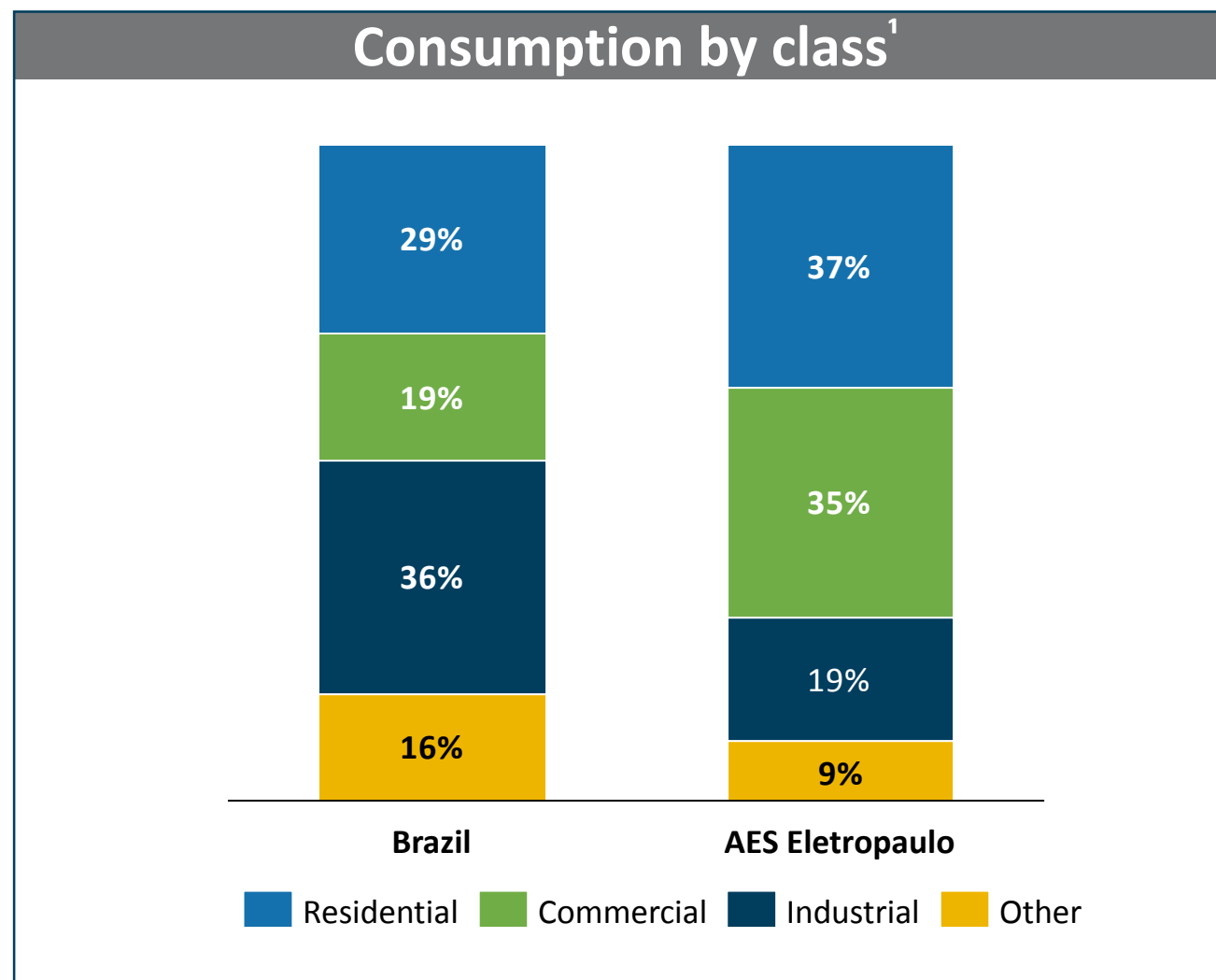


# Market performance

## Consumption show signs of recovery on QoQ comparision

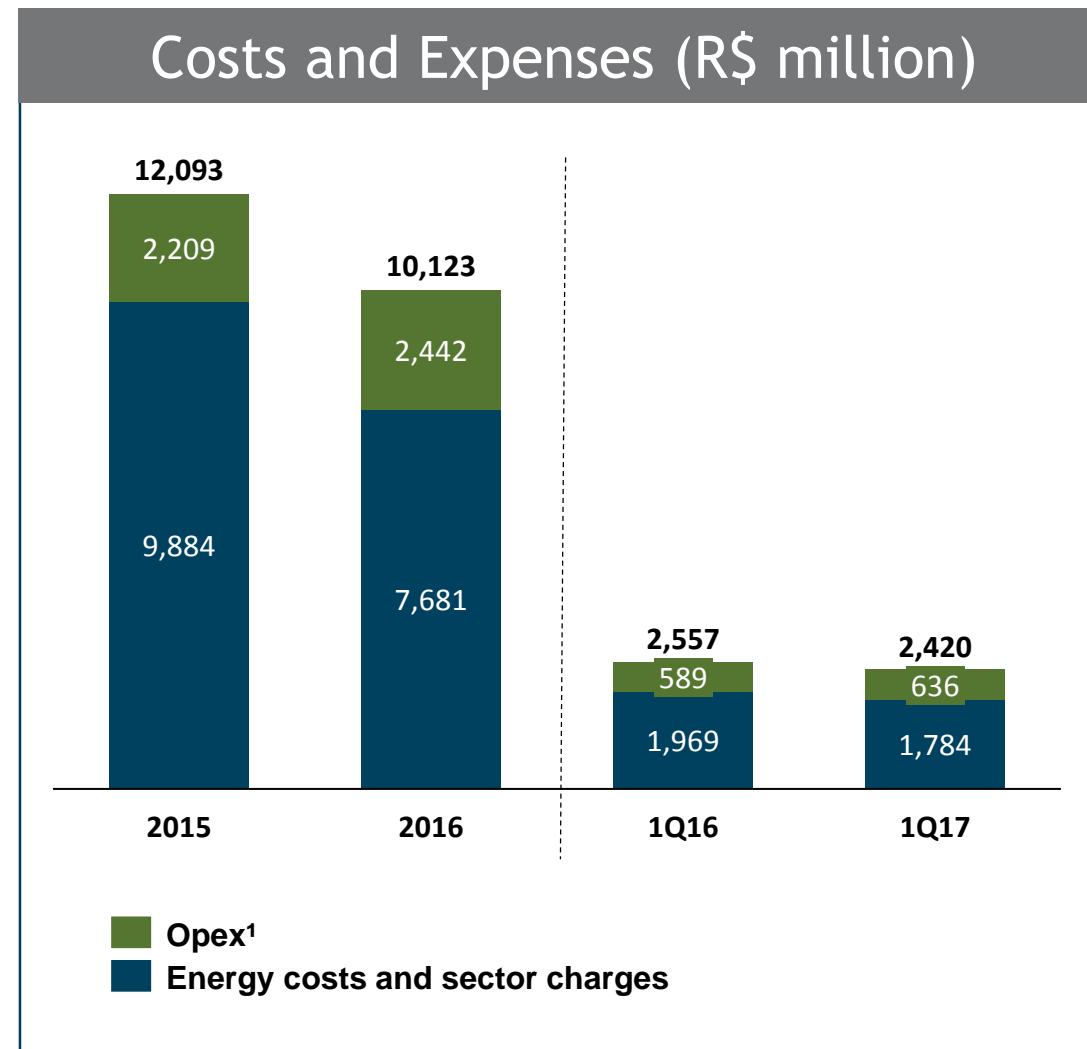
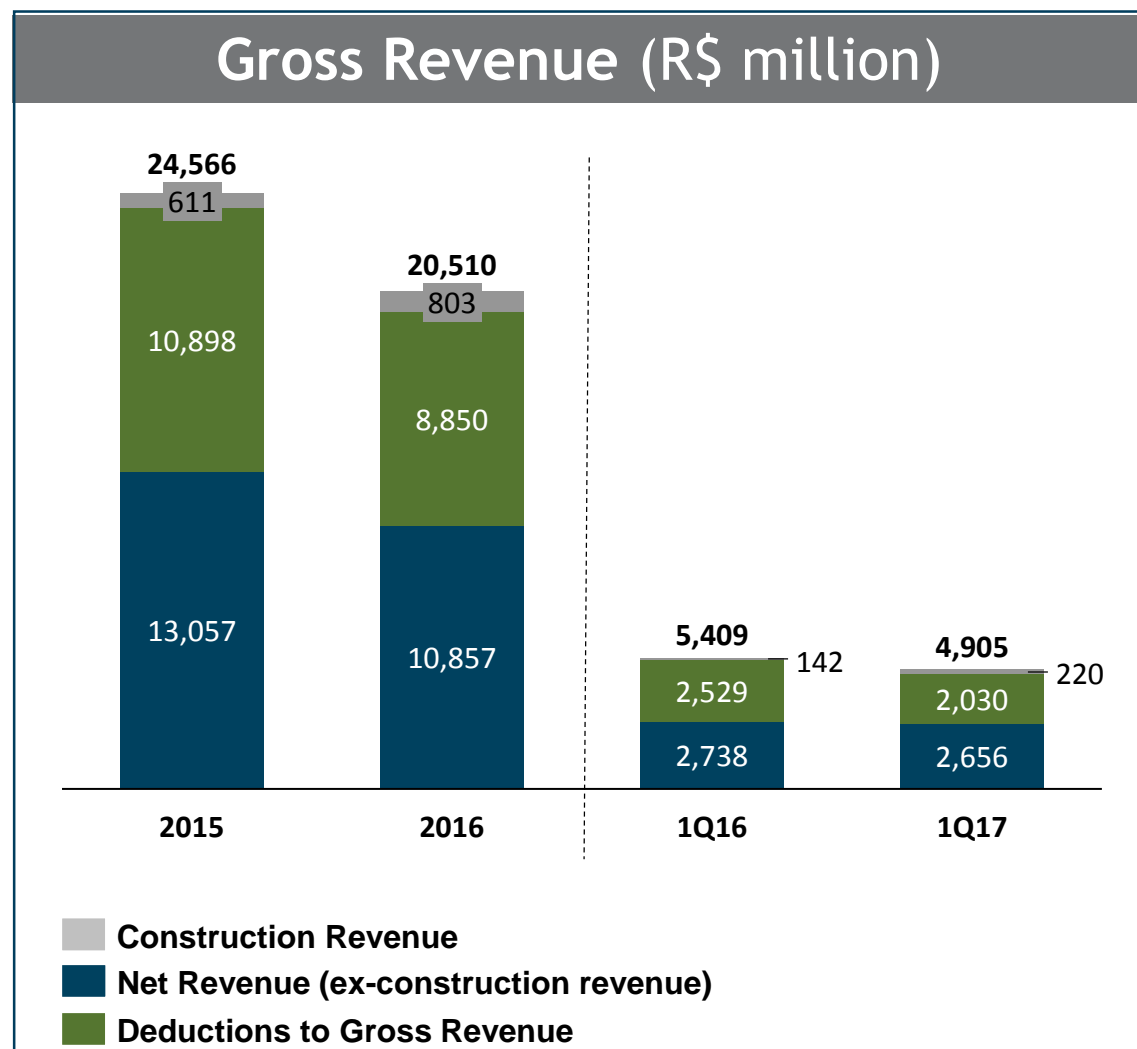


# Consumption is concentrated in residential and commercial classes



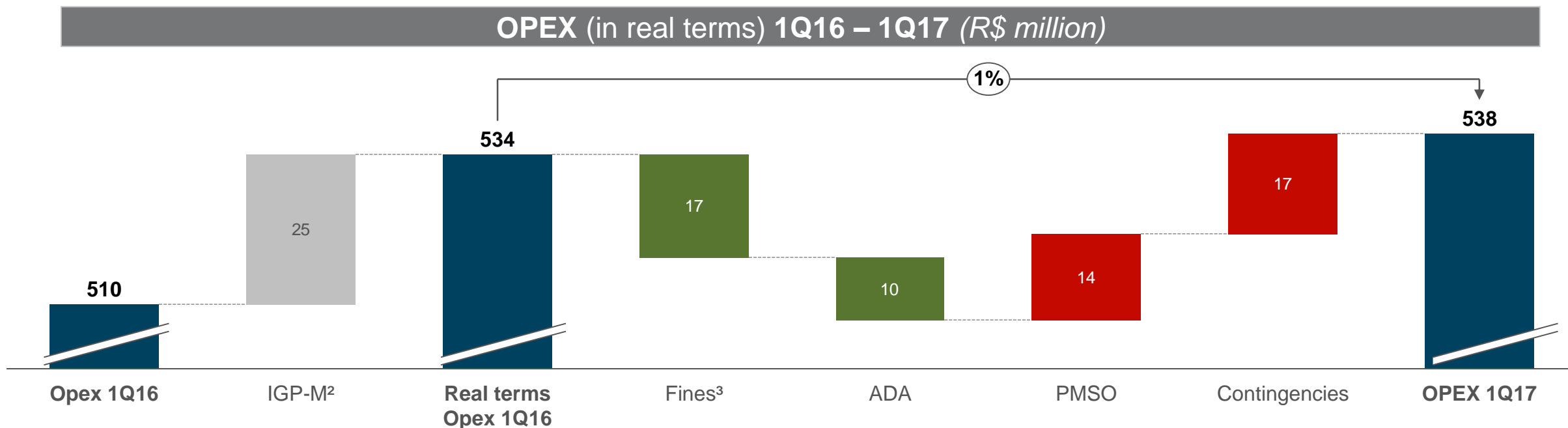


# Revenue follows the lower cost with Parcel A



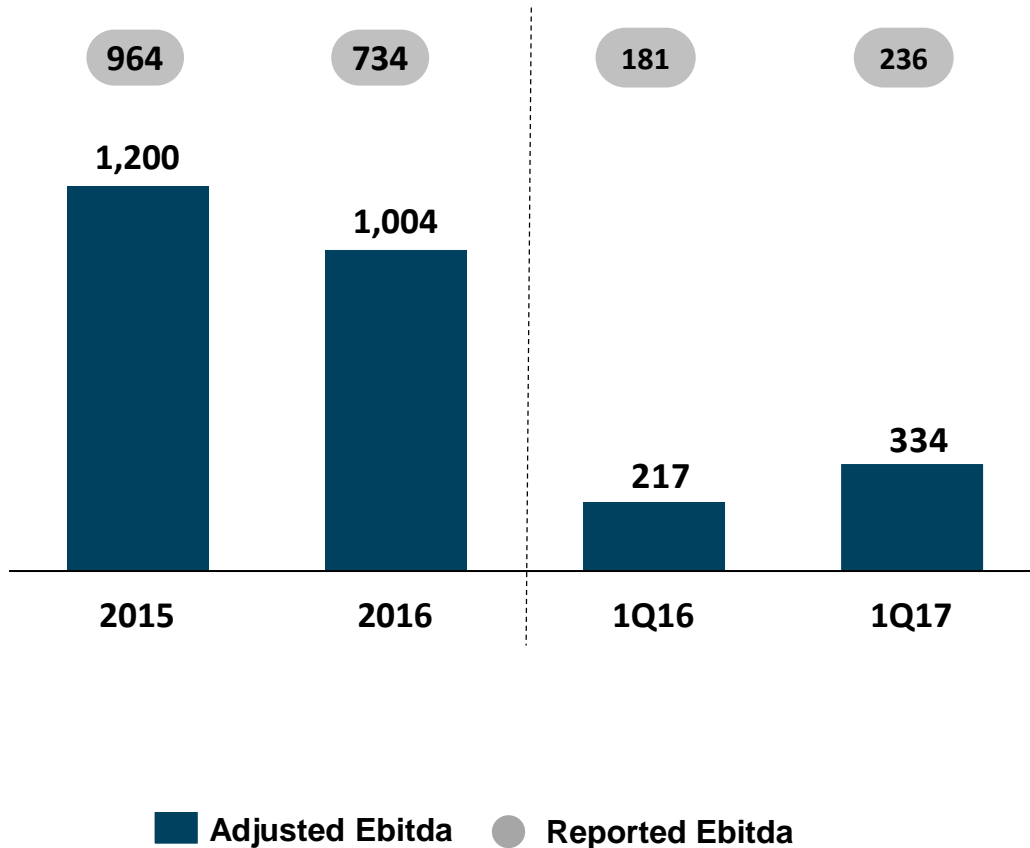
# 1Q17 OPEX<sup>1</sup> in line with 1Q16 OPEX in real terms

- Reduction of R\$ 7 million in ADA and R\$ 14 million in Fines already reflects the Productivity Program:
  - ADA reflects a reduction of 16% in average ticket and of 5% in the defaulted customer base
  - Improvement of SAIDI and SAIFI indicators in 1Q17 contributed to lower expenses with Fines
- Personal Costs affected by bargaining and increase in expenses due to withdrawal and Retirement Incentive Program

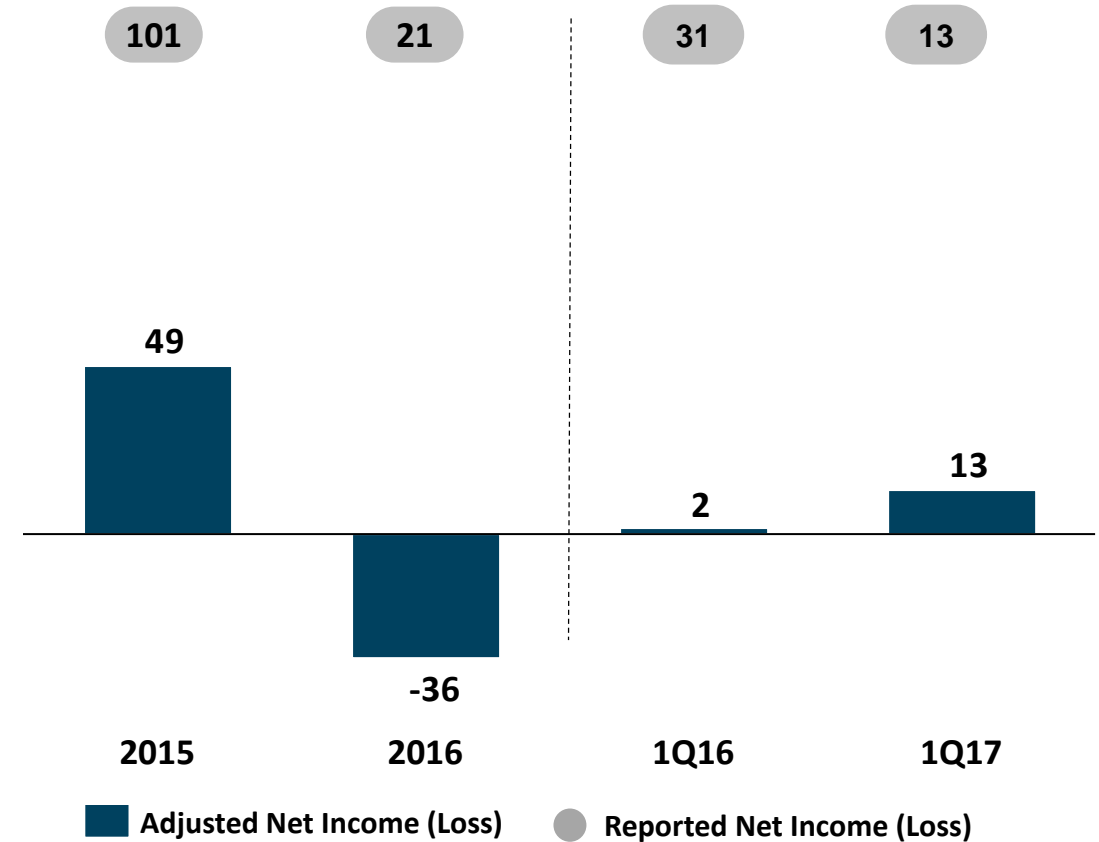


# Increase in residential class and Parcel B component in the tariff contributed to an increase of EBITDA in 1Q17

Adjusted Ebitda<sup>1</sup> (R\$ million)



Adjusted Net Income (Loss)<sup>2</sup> (R\$ million)

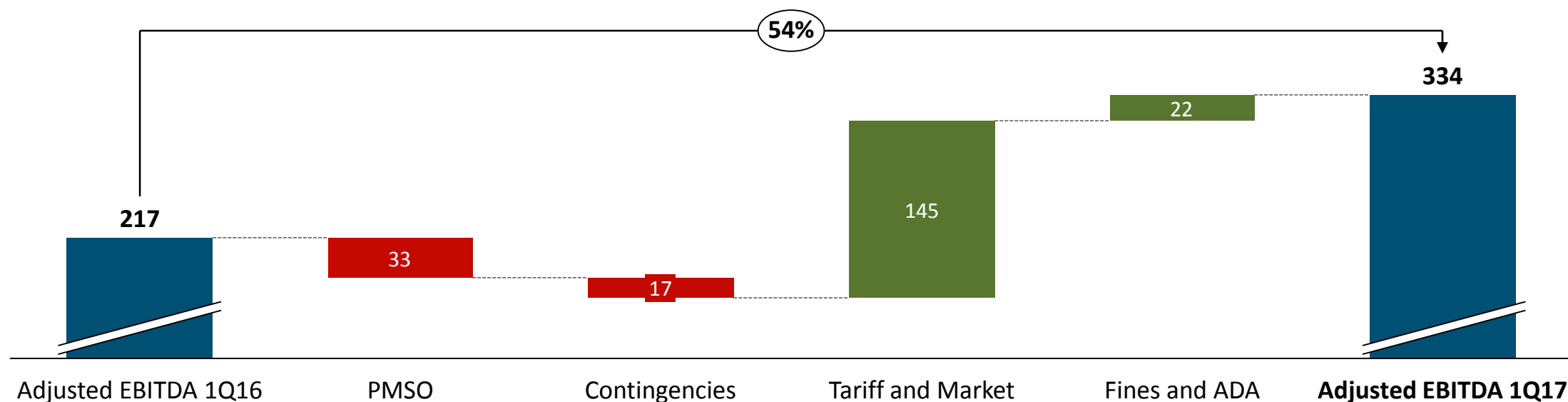




# Lower ADA levels and reduction of defaulted clients also influenced this quarter's Ebitda

- The increase in the Parcel B Component in the Tariff Adjustment of July/16 and the increase in the consumption of the Residential class contributed to a positive effect on the EBITDA Margin in 1Q17
- PMSO still impacted by the Recovery Plan of the Quality Indicators of R\$ 7 million in 1Q17

Adjusted EBITDA<sup>1</sup> 1Q16 – 1Q17 (R\$ million)

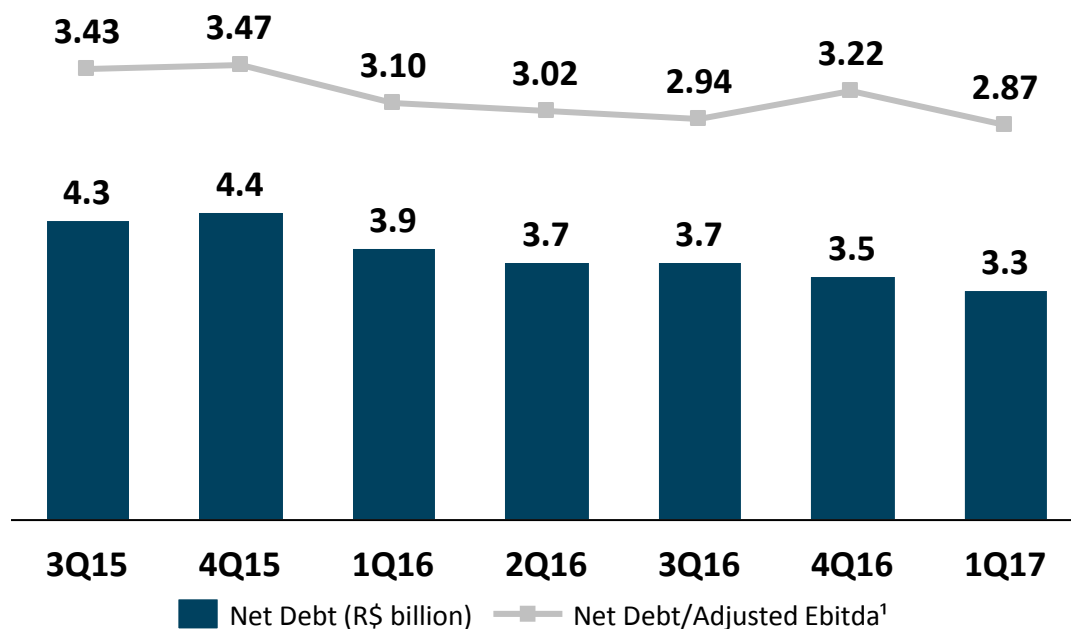


# Increase in cash position

R\$ millions	2015	2016	1Q17
Initial Cash	909	531	1,068
Operating Cash Flow	571	2,692	610
Investments	(634)	(7566)	(259)
Net Financial Expenses/ Net Amortization	(36)	(847)	(97)
Pension Fund Expenses	(195)	(409)	(113)
Income Tax	(106)	(1)	(0)
Cash Restricted and/or Locked	21	(100)	56
Free Cash Flow	(378)	(578)	197
Dividends and Interest on Capital	0.0	(42)	0.0
<b>FINAL CASH CONSOLIDATED</b>	<b>531</b>	<b>1,068</b>	<b>1,264</b>

# Leverage level within financial covenants

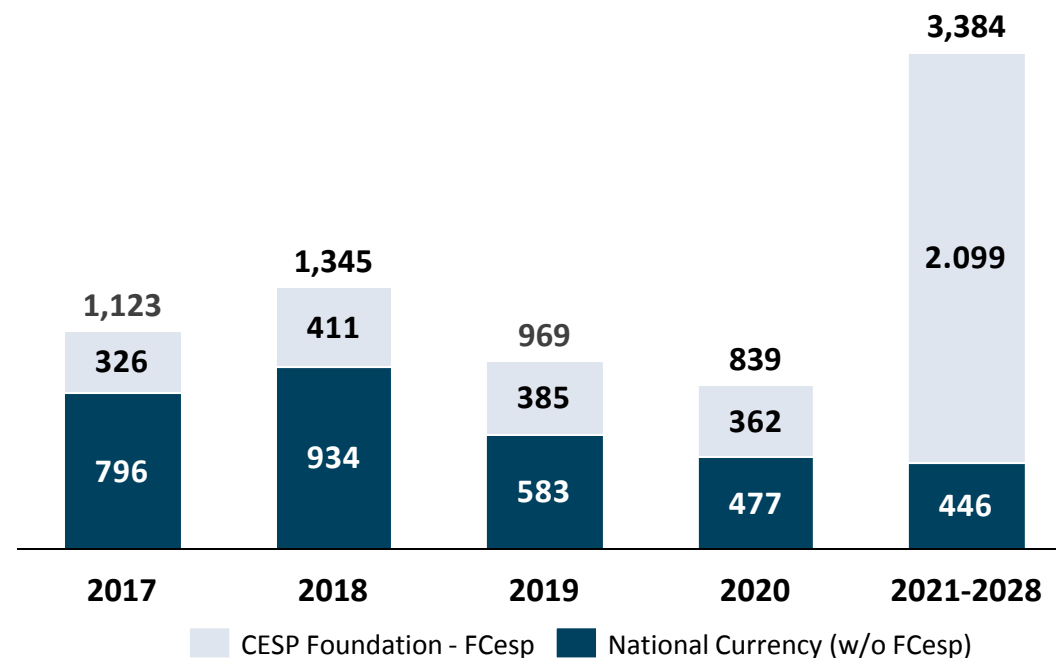
## Net debt (R\$ billion)



### Covenants within limits

- Net Debt/EBITDA < 3.50x
- Adjusted EBITDA/Financial Expenses > 1.75x

## Amortization Schedule (R\$ million)

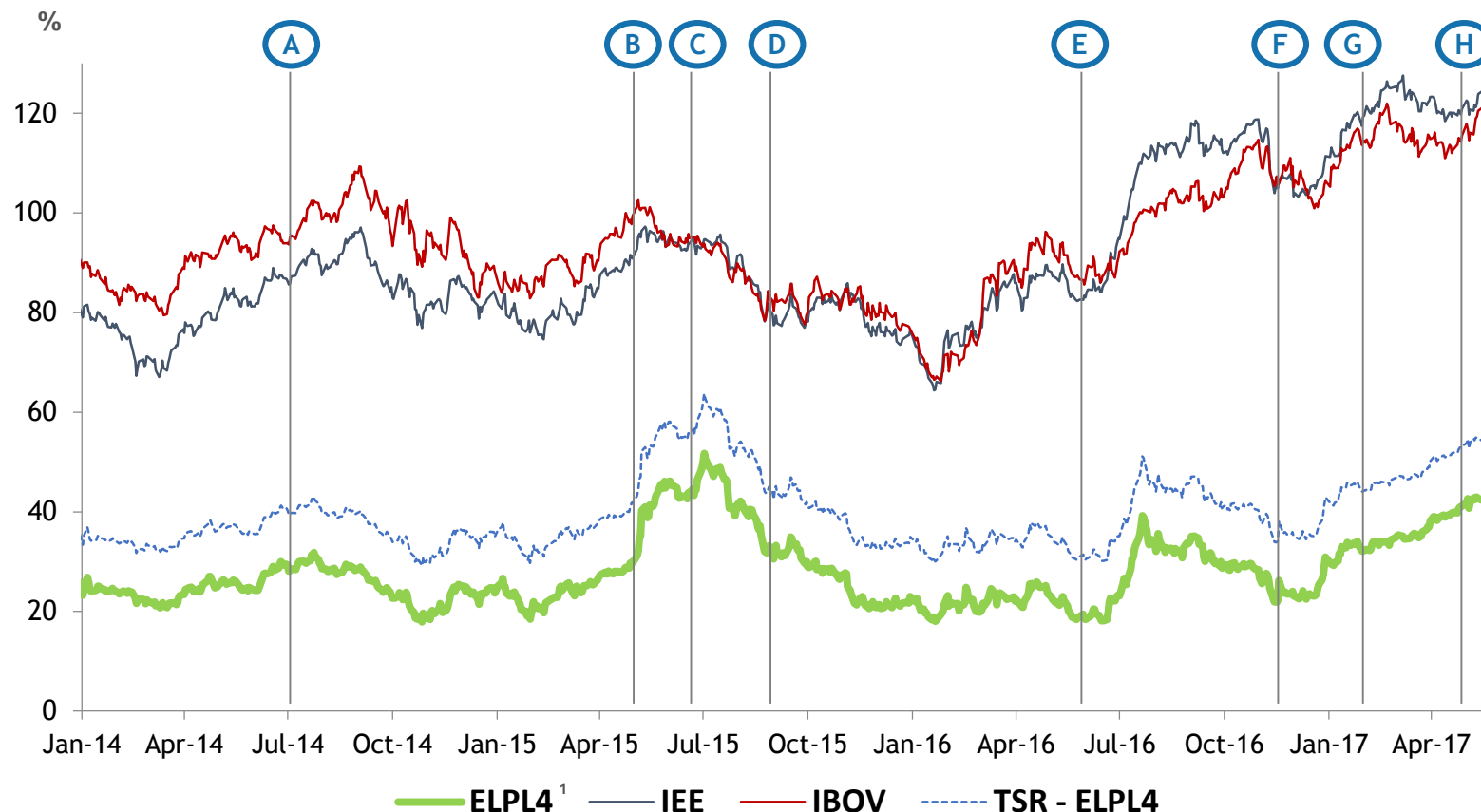


### Debt Cost

	2016	1Q17
• Average cost (CDI+)	1.85%	1.92%
• Average term (years)	4.5	4.4
• Effective rate <sup>2</sup>	14.00%	12.47%



# Capital Markets



- A Jul/2014:** Tariff readjustment approved by ANEEL including 50% of “cable” restitution
- B May/15:** 4<sup>th</sup> Tariff Reset Cycle preliminary numbers released
- C July/15:** 4<sup>th</sup> Tariff Reset Cycle final numbers released
- D Sep/15:** Market expectation on the Eletrobras Court Case outcome
- E Jun/16:** Utilities sector intense M&A activities followed by signal of economic recovery
- F Nov/16:** Corporate Restructuring announcement
- G Feb-Mar/17:** 2016 Results Release: Migration to Novo Mercado, Productivity Plan and Investment Plan
- H May/17:** 1Q17 Results Release

**Market cap<sup>2</sup>:** US\$ 0.8 billion / R\$ 2.6 billion

**BM&FBOVESPA:** ELPL3 (common shares) and ELPL4 (preferred shares)

**ADRs at US OTC Market:** EPUMY (preferred shares)



# Value Creation Strategy: R\$ 350 million in 2 years, based on Five Main Work Fronts

## Fronts of the Value Creation Strategy

### Quality Indicators

1

- ✓ Automation and Innovation of the Distribution Grid
- ✓ Integrated Management of Support Areas
- ✓ Continuation of the Indicator Recovery Plan

### Revenue Management

2

- ✓ Development of the Online Renegotiation Channel
- ✓ Creation of a Centre to Negotiate Large Debts
- ✓ Area Dedicated to the Low Income Public (50% of the ADA)

### Customer Satisfaction

3

- ✓ “Customer’s Journey” Management
- ✓ Quality Control Management and Service Efficiency
- ✓ Predictive Intelligence for Root Cause Analysis

### Risk and Contingency Management

4

- ✓ Creation of AES Eletropaulo’s Risk Management Department
- ✓ Anticipation of Corporate, Regulatory and Economic Risks

### Corporate Governance

5

- ✓ Proposed Migration to the Novo Mercado
- ✓ Creation of ‘People and Compensation Committee’

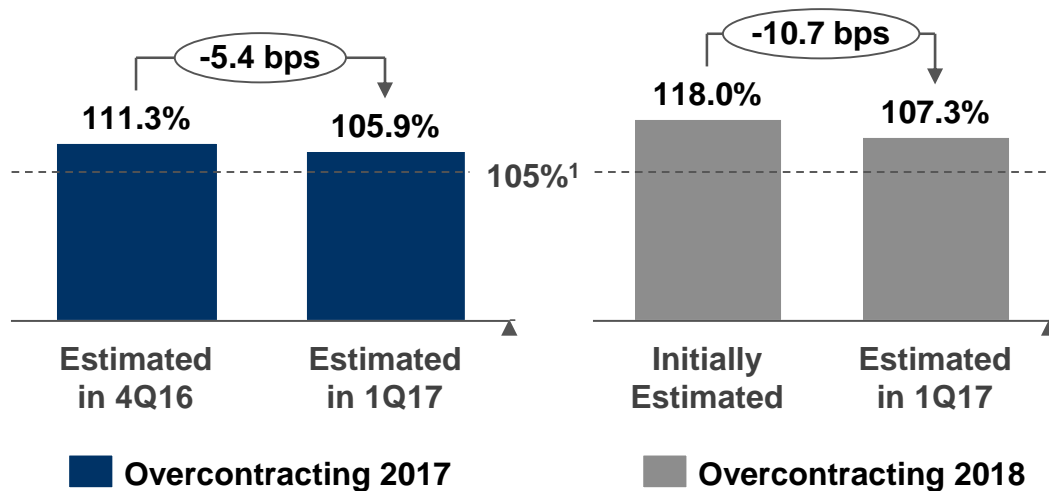
### Productivity Program

OPEX reduction in **R\$ 350 million<sup>1</sup>** until 2018, in relation to 2016:

- **R\$ 200 million** in 2017
- **R\$ 150 million** in 2018

# Risk Management: reduction of the level of overcontracting and new amendment to the concession agreement

## Reduction in Overcontracting



- Actions for reduction:
  - (i) participation in the auctions of the Mechanism of Offset and Deficit Compensation; and
  - (ii) bilateral negotiations with energy generators

## New Amendment to the Concession Agreement

- The Company disclosed in a Notice to the Market its intention to initiate negotiations with the regulator to conclude a new amendment to the concession agreement;
- The amendment will deal with specific issues in the concession area of AES Eletropaulo;
- The Company believes that the new amendment may generate value for customers, the community and shareholders.



# Migration to the Novo Mercado will allow greater flexibility

## The Novo Mercado Listing Segment

- Listing segment with the highest standards of corporate governance in Brazil
- Extension of voting rights - all shares are voting ("Common Shares")
- Flexibility to offer shares in Brazil

## Why list AES Eletropaulo in the Novo Mercado?

- Increase Governance Level
- Increase investment capacity to foster growth
- Potentialize stock liquidity

**Increase the Company's attractiveness to capital markets investors**

# Migration process to the Novo Mercado: expected completion throughout 2017

## BM&FBovespa

- Requirement to migrate to the Novo Mercado
- Approve the changes to the Company's bylaws, aiming at the adoption of the minimum provisions required in the Novo Mercado regulation

## ANEEL

- Approval of the new bylaws required by Novo Mercado

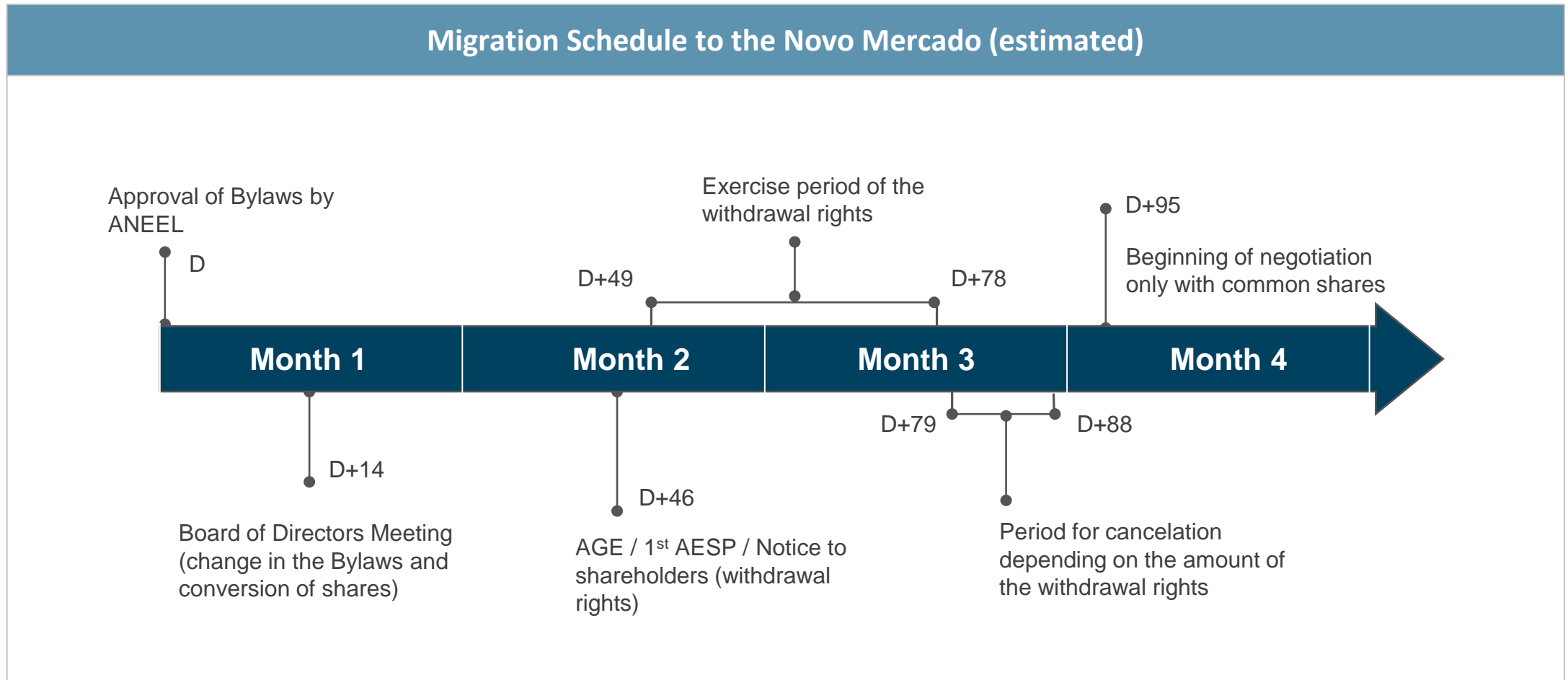
## Shareholders

- Extraordinary General Meeting and Special Preferred Shareholders' Meeting to approve the migration to the Novo Mercado, conversion of preferred shares into common shares and amendment of the Company's bylaws
  - Expected right of withdrawal on equity value (Company has right to withdraw in case of material disbursement)

## Debt Holders

- Creditors' approval of part of the Company's debt contracts

# Migration process to the Novo Mercado: expected timeline

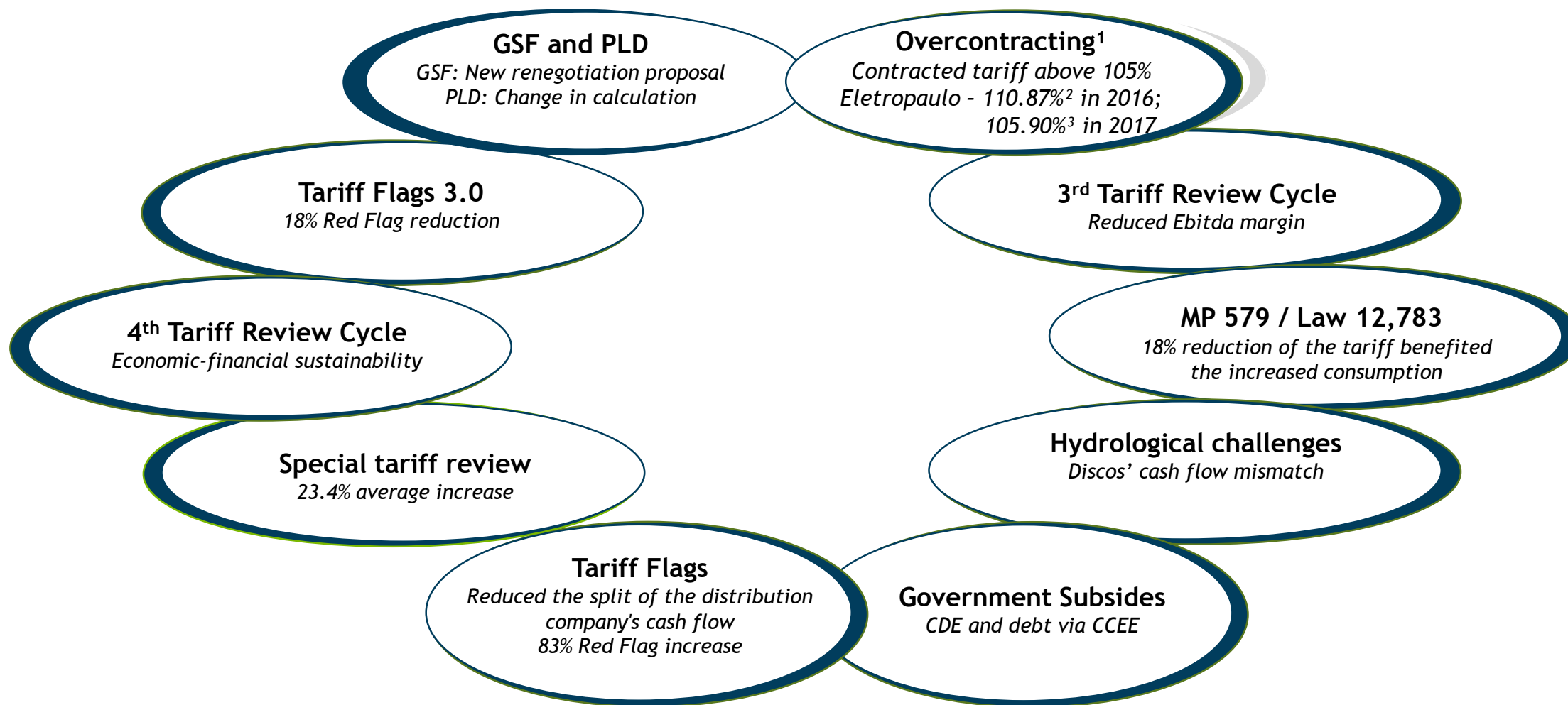






# Brazilian Opportunities and Recent Events

# Recent events in course in the energy sector



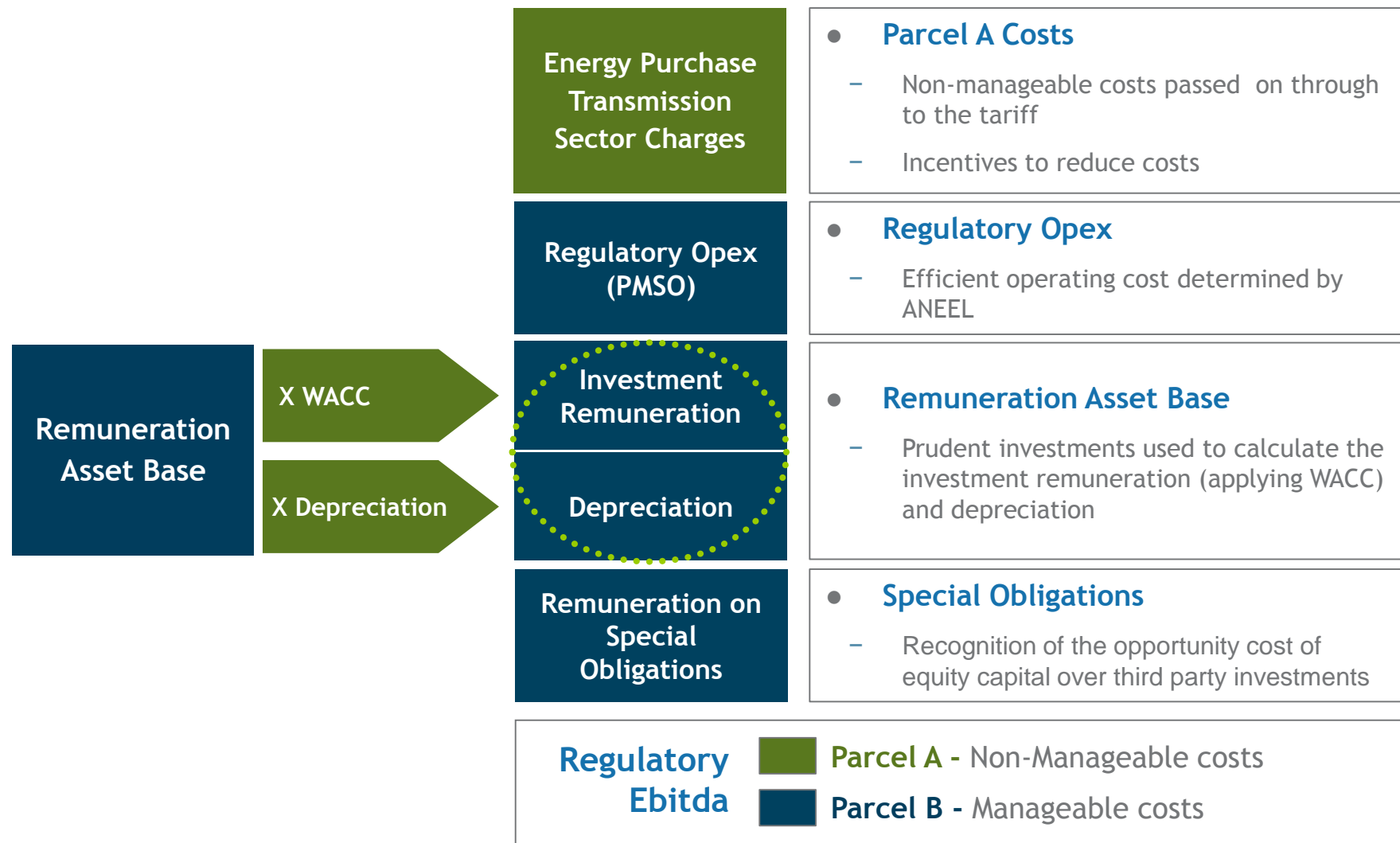
# Tariff methodology for distributors

- **Tariff Reset is applied each 4-5 years**

- AES Eletropaulo next Tariff Reset: Jul/2019;
- 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<sup>1</sup>





# X Factor methodology

	<b>X Factor</b>	=	<b>Pd</b>	+	<b>Q</b>	+	<b>T</b>
<b>Definition</b>			Distribution productivity		Quality of service		Operational expenses trajectory
<b>Objective</b>			Capture productivity gains		Stimulate improvement of service quality		Implement operational expenses trajectory
<b>Application</b>			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

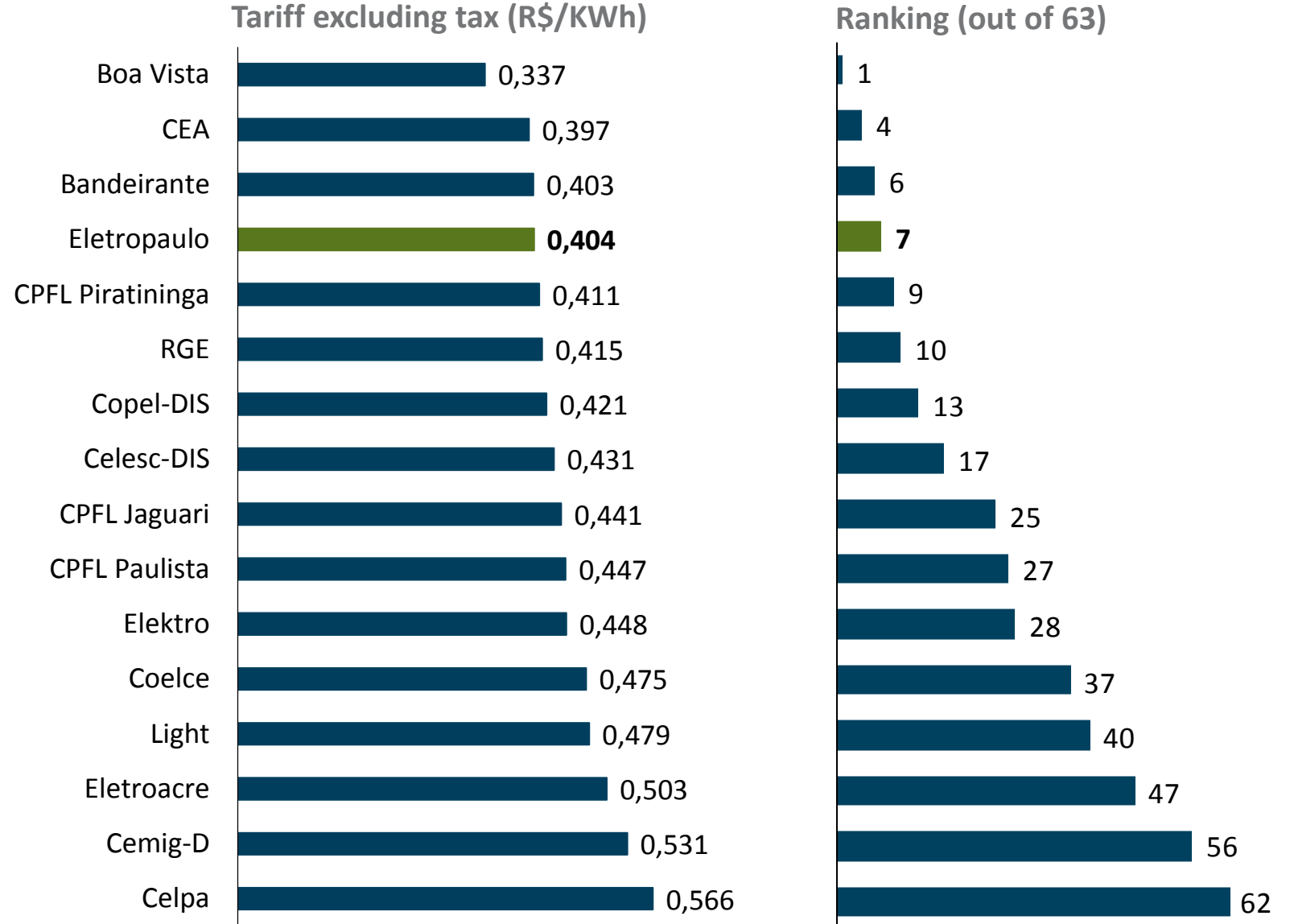
# 4th Tariff Reset Cycle

Parcel A + Financial Components	13.96%	R\$ 1,936m	<ul style="list-style-type: none"><li>▪ Energy CVA including FX rate variation associated with Itaipu</li><li>▪ CDE charge increase (loans and CDE share)</li><li>▪ Reduction of AES Tietê's energy participation due to end of contract in Dec/15</li><li>▪ Involuntary exposure in 2015</li></ul>
Parcel B	1.27%	R\$ 176m	<ul style="list-style-type: none"><li>▪ WACC of 8.09%</li><li>▪ Special Obligations remuneration</li><li>▪ Opex adjusted to match the concession area's reality</li></ul>
Tariff Reset Effect	15.23%	R\$ 2,112m	

# Breaking down Parcel B

Remuneration (RAB)	R\$ 732m	<ul style="list-style-type: none"> <li>Net RAB of R\$ 6.0 billion</li> <li>WACC of 8.09%</li> </ul>
Depreciation	R\$ 458m	<ul style="list-style-type: none"> <li>Gross RAB of R\$ 12.2 billion</li> <li>Depreciation Rate of 3.75%</li> </ul>
Special Obligations	R\$ 39m	<ul style="list-style-type: none"> <li>Remuneration of 3.34%</li> </ul>
Annuity (Other Assets)	R\$ 134m	<ul style="list-style-type: none"> <li>Remuneration and depreciation of IT, vehicles and administrative assets</li> </ul>
Operational Expenses	R\$ 1,373m	<ul style="list-style-type: none"> <li>Xt Factor of -2.37%;</li> <li>Inclusion of labor liabilities, São Paulo salaries and underground network</li> </ul>
Bad Debt	R\$ 198m	<ul style="list-style-type: none"> <li>0.85% of bad debt, considering Tariff Flag revenues</li> </ul>
Other Revenues	- R\$ 88m	<ul style="list-style-type: none"> <li>~60% of non-distribution revenues</li> </ul>
Productivity Gains	- R\$ 33m	<ul style="list-style-type: none"> <li>Xp Factor of 1.13%</li> </ul>
<b>Parcel B</b>	<b>R\$ 2,812m</b>	

# Ranking of distribution tariffs in Brazil





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