



Management Report 2013

 **AES Uruguaiana**
Uma Empresa AES Brasil

Profile

AES Uruguiana initiated its activities in the year 2000, in the city of Uruguiana, Rio Grande do Sul State, and is authorized to operate as an independent producer for the period of thirty years beginning on June 26th, 1997. The plant has an installed capacity of 639.9 MW (megawatts). It has two combustion turbines, each with a capacity of 187.5 MW, and a steam turbine with a capacity of 265 MW.

The plant has remained idle since April 2009 due to an interruption in the gas supply from its only supplier, the Argentine company Yacimientos Petrolíferos Fiscales S.A. ("YPF"), which happened in May 2008.

As a result of this interruption, the plant's operational activities have been suspended since April 2009. Necessary maintenance has been done since then so that the plant can resume operations normally.

In 2009 the Company filed a request for arbitration against YPF for the termination of the exportation agreement and requesting compensatory damages. A favorable award was issued in May 2013; however, the dispute remains unsettled at the arbitral tribunal and is expected to be settled in 2015.

At the end of the year of 2012, the Ministry of Mines and Energy ("MME"), along with AES Uruguiana, Petróleo Brasileiro S.A. ("Petrobrás"), Companhia de Gás do Estado do Rio Grande do Sul ("Sulgás"), TSB ("Transportadora Sulbrasileira de Gás") and ONS started negotiations so that the plant would resume operations. In December 2012, the Company was authorized to bring the plant back into operation for a period of 60 days.

Operations were partially resumed on February 6th, 2013. A total of 164 MW were generated in this first period and 244 MW was generated in the second period, with operations in a combined cycle configuration.

Operational Performance

Due to the interruption of natural gas supply, in April 2009, AES Uruguiana interrupted its operational activities and initiated a program of plant maintenance and conservation. This decision was made to reduce costs and prepare the plant to go back into operation eventually, once the gas supply returns to normal.

Investments were necessary to bring the plant back into operation since MME perceived the need to generate electricity in an exceptional and temporary manner in February and March 2013.

The Company was reimbursed for these investments through ESS (Encargos de Serviços do Sistema, or System Service Charges), in the amount of R\$22.5 million, booked in September in connection with the fixed costs needed to resume the plant's activities.

Commercial Performance

AES Uruguiana's activities are currently suspended because of the lack of gas.

Commercial operations were resumed in a temporary and exceptional manner in 2013. However, the Company's Management is considering alternatives to enable the plant to go back to its commercial and long term operations in a combined cycle configuration.

Economic and Financial Performance

The plant went back into commercial operation in February and March 2013, which resulted in a net generation of 96.7GWh and 142.3GWh in each month respectively. The Company recorded gross revenues of R\$188.9 million in 2013. The Company recorded no revenue in 2012 since the plant remained idle that year.

AES Urugaiana's operational expenses and costs, including depreciation, came to R\$49.5 million in 2013 against R\$23.1 million in 2012 mainly because the provision for payments to YPF (R\$122 million) was reversed in the first half of 2013. Without this effect, operational expenses and costs would have totaled R\$171 million, basically in connection with purchased gas to generate energy temporarily.

EBITDA amounted to R\$145.0 million in 2013 compared to R\$1.6 million in 2012 mainly explained by the effects previously described.

AES Urugaiana recorded a net financial income of R\$18.1 million in 2013 against a net financial income of R\$8.1 million in 2012. This result was mainly due to an income with monetary variation connected to the reversal of provisions for payments to YPF, totaling R\$10.3 million, partially compensated by a lower financial income (R\$12.9 million in 2013 versus R\$14.6 million in 2012.)

The Company recorded a net income of R\$138.4 million in 2013 against a net loss of R\$15.1 million in 2012 mainly due to the effects described above.

Capex

Investments were required to bring the plant back into operation on an exceptional and temporary basis in February and March 2013. However, these investments did not reach significant amounts in the year.

Social and Environmental Management

AES Urugaiana was the first thermoelectric power plant that operated fueled by natural gas in Brazil, in the year 2000. Among other commitments, the Company manages its environmental impact, thus contributing directly to the sustainable development of its surrounding communities.

The Company adopts the Integrated Management System ("IMS") guidelines, based on the ISO 14001:2004 (Environment) and BS OHSAS 18001:2007 (Occupational Health and Safety) standards of the AES Group in Brazil. In fact, the monitoring and management activities and systems were implemented while the plant was temporarily reactivated in February and March 2013.

IMS guidelines provide an ongoing improvement system by developing management goals, objectives and programs that standardize the Company's processes and activities, especially those that represent greater risks to the staff's health and safety and to the environment.

Independent Audit

AES Urugaiana hired KPMG Auditores Independentes ("KPMG") for other audit services, in addition to the audit of its financial statements and the special review of its semi-annual statements, during the year of 2013.

(i) Type of service: Audit of concluded Research and Development (R&D) projects and Energy Efficiency (EE) projects, designed according to the standards set by ANEEL Resolutions 300/2008 and 316/2008. Hiring date: April 26th, 2013

The service described above cost a total of R\$8,000.00 (eight thousand reais) and accounts for 16.39% of total audit fees regarding external audit services. All the services described above were hired for less than one year.

The Company's Management, as well as its independent auditors, understands that the services described above are all related to audits and, as a result, do not affect KPMG's independence and objectivity, required for the performance of audit services according to the rules in effect in Brazil.

The Company's policy for hiring other services from its external auditors is based on principles that guarantee the auditor's independence, and assume that: (a) the auditor must not audit its own work; (b) the auditor must not perform management functions at the Company and (c) the auditor must not promote the Company's interests.