

AES Corporation

Navigating Rainfall and Regulators to the Goal Line

Upping the ante on power to combat hydro: long-term story intact

Despite lowering our '14 estimates on hydro, we still see the long-term growth profile as intact with UBSe EPS near the top-end of the range through 2018 thanks to the commodity uplift at DPL as well as new assets. We see a material pick-up in 2015/2016 at DPL which pushes our consolidated EPS ests. above the top-end of the range in 2016 (with further upside seeing current Brazilian prices closer to \$140Rs/MWh vs. modelled at \$120Rs/MWh); previously mgmt. stated it expects "flat to modest growth".

New generation builds adds to EPS growth, but understated Street reaction

Management disclosed new LatAm projects to offset and reduce the reliance on hydro including the conversion of a 236MW simple-cycle to a 358MW combined-cycle, adding in total ~\$100Mn of run-rate adjusted EBITDA (or \$0.09/sh). Another move includes utilizing a 72MW oil-fired power barge with a five-year PPA and ~\$35Mn of adjusted EBITDA (~\$0.05). In conjunction with other mitigation actions (conversion of a 175MW Panama PPA to physical to reduce exposure) we do not see any impairment to the long-term profile. That said, tax rates appear a material headwind.

Merchant improvement drives value to DP&L subsidiary (and EPS too)

Following recent commodity movements we now see an additional nickel of EPS in 2015+ for DP&L. We continue to expect that AES will pursue the sale of its fleets- at a price that could well mean DPL overall will not need to file Ch11, allowing AES to continue to continue recognizing EPS at DPL (albeit limited). Tempering the uplift in our earnings estimates are the proposed Chilean tax reforms (income and emissions) with the emissions piece sapping ~\$0.02-0.03 in 2017 (corporate impact in '14 guidance).

Valuation: Maintaining \$15 target, but see upside to top end of 4-6% range

Valuation is via a utility SOTP analysis. Despite its recent recovery, AES remains one of the main laggards in our universe and shares have underperformed the XLU by ~900bps. We believe Brazil and Bulgaria will remain overhangs on shares (particularly given the need for mgmt. to deliver on promises and the high degree of unknowns). Upside surprise could drive DPL to have value once again, retaining EPS contributions.

Equities

Americas
Electric Utilities

12-month rating **Neutral**

12m price target **US\$15.00**

Price **US\$15.53**

RIC: AES.N BBG: AES US

Trading data and key metrics

52-wk range	US\$15.53-11.81
Market cap.	US\$11.3bn
Shares o/s	725m (COM)
Free float	100%
Avg. daily volume ('000)	1,318
Avg. daily value (m)	US\$19.0
Common s/h equity (12/14E)	US\$4.66bn
P/BV (12/14E)	2.4x
Net debt / EBITDA (12/14E)	3.9x

EPS (UBS, diluted) (US\$)

	12/14E			
	From	To	% ch	Cons.
Q1	0.24	0.24	0.88	0.24
Q2E	0.13	0.12	-9.51	0.27
Q3E	0.47	0.47	-0.07	0.36
Q4E	0.50	0.48	-3.24	0.49
12/14E	1.37	1.33	-3.27	1.34
12/15E	1.43	1.40	-2.16	1.45
12/16E	1.54	1.52	-1.75	1.49

Julien Dumoulin-Smith

Analyst
julien.dumoulin-smith@ubs.com
+1-212-713 9848

Michael Weinstein

Associate Analyst
michael.weinstein@ubs.com
+1-212-713 3182

Paul Zimbardo

Associate Analyst
paul.zimbardo@ubs.com
+1-212-713 1033

Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	17,274	19,232	15,891	19,258	19,342	19,296	19,248	19,266
EBIT (UBS)	3,390	1,537	2,484	3,446	3,546	3,498	3,550	3,615
Net earnings (UBS)	818	946	958	941	968	1,024	1,037	1,116
EPS (UBS, diluted) (US\$)	1.04	1.24	1.29	1.33	1.40	1.52	1.58	1.74
DPS (US\$)	0.00	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Net (debt) / cash	(20,941)	(19,481)	(19,485)	(18,397)	(17,900)	(17,208)	(16,345)	(15,255)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	19.6	8.0	15.6	17.9	18.3	18.1	18.4	18.8
ROIC (EBIT) %	11.7	5.2	8.9	12.7	13.3	13.1	13.3	13.7
EV/EBITDA (core) x	6.3	11.0	7.8	6.6	6.3	6.3	6.4	6.3
P/E (UBS, diluted) x	11.5	9.6	10.0	11.7	11.1	10.2	9.9	8.9
Equity FCF (UBS) yield %	(2.4)	20.8	12.5	15.6	12.0	13.1	14.8	17.1
Net dividend yield %	0.0	1.3	1.2	1.0	1.0	1.0	1.0	1.0

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US\$15.53 on 27 Jun 2014 19:37 EDT

www.ubs.com/investmentresearch

This report has been prepared by UBS Securities LLC. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 25.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Investment Thesis

AES Corporation

Investment case

AES is the only global, publicly-traded IPP in the US. The company is pursuing a strategy of divesting foreign assets when accretive while strategically expanding in Chile and Southeast Asia. Management has focused on simplifying the investment case by focusing on just core countries in high-growth areas. Additionally, the case is shifting from a growth story to an income play as the company continues to return funds to shareholders. Our Price Target is derived via SOTP.

Upside scenario

We continue to believe the market will reward shares as management continues to execute on both its operations by strategically divesting assets and reducing costs in its core operations. Successful fulfilment of these initiatives could drive the stock to \$20.

Downside scenario

If the full degree of cost cuts is not realized in '14, this would put pressure on the company to delivery additional organic growth in 2015 and 2016. The worsening of the hydrology situation in Latin America and termination of the Bulgarian PPA would also be negatives. Failure to delivery on these longer-term EPS growth targets could drive downside to \$13.

Upcoming catalysts

August 8 Expected 2Q14 Earnings Announcement

12-month rating

Neutral

12m price target

US\$15.00

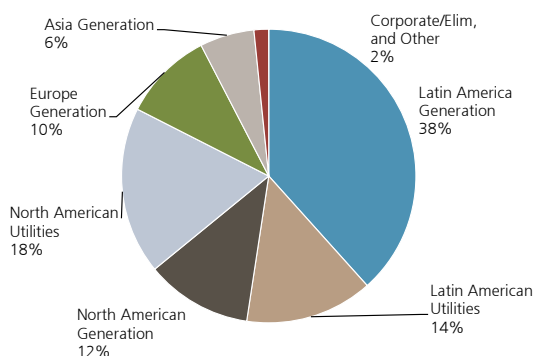
Business description

AES Corporation is a global power company operating in 21 countries across five continents. The company operates in two primary businesses, generation and utilities, with a total generation capacity of approximately 39 GW, and distribution networks serving over 12 million customers. Its total revenue is approximately split between the following geographic regions: United States (20%), Andes (16%), Brazil (35%), MCAC (9%), EMEC (7%), Asia (4%), and other (9%)

Industry outlook

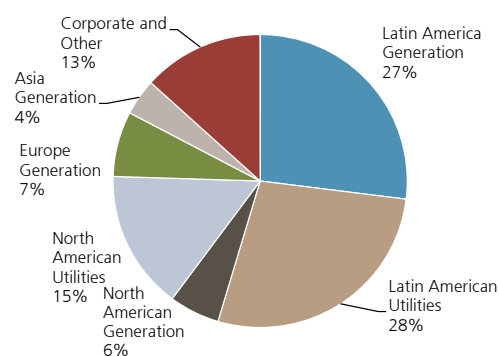
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slow mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

Adjusted Gross Margin by Segment 2016E (%)



Source: Company Filings and UBS Estimates

Operating Revenues by Segment 2016E (%)



Source: Company Filings and UBS Estimates

Putting The Pieces Together

Following a period of substantial under-performance vs. peers, we believe shares have already bottomed out. We attribute YTD weakness to fears of a return to past management, where future EPS growth proved ephemeral as current year EPS materialization was consistently lackluster. We think the analogy stops there. It is hard to ignore weather, nor do we, but the reality for future year earnings growth could not be farther from this analogy. In fact, since new management took over, we have rarely had such visibility (and confidence) in continued Cash Flow and EPS growth. While it is hard to call a bottom given the fluid political situation in Latin America, even AES' subsidiaries appear to have turned a corner in recent weeks. We think there is merit to think local investors are able to see 'past' ongoing turmoil in Brazil around hydrology. Memories of the last significant drought in Brazil are worth bearing in mind, with the drought not only driving wholesale societal displeasure with the utility compact, but underlying regime change (bringing the current ruling party to power under Lula da Silva). We think we have seen the shares bottom out – but caution against upgrading shares ahead of clarity around hydrology both in Brazil with rationing and Panama, as well as overall risk to the LatAm utility sector valuations amidst growing political fears. We think patience is a virtue and UBS/consensus now sit near the high-end of the range in 2016, with management unlikely to stoke expectations upwards amidst its latest guidance revision on weak hydrology (could it yet carry forward to next year?).

Nearer-term, we see uncertainty around DP&L as clouding the outlook. We suspect a successful sale of the DP&L Generation business on terms that approach a higher end range of \$700 Mn - \$1 Bn could yet drive positive, but limited equity value to business – allowing AES to maintain current EPS contributions from the segment.

Bottom line, we maintain our Neutral rating and \$15 target, derived via a Sum-of-the-parts approach. We see this as relatively conservative implying just a ~10x P/E multiple against our revised 2016e EPS. We suspect 2Q results will prove constructive with another buyback at hand following recent asset sale announcements (potentially up to ~\$500 Mn through '15).

1H14 has not been kind to AES but negatives looks largely priced in

Hydrology concerns and Bulgaria will remain the key concerns

Understanding '15 outlook, net of positives remains upside to our estimates

Long-term EPS outlook lends itself to eventual constructive revisions

We think shares have bottomed out

Bulgaria: Rears its head again; but we're hopeful still

Contracting issues appear pervasive in the country, following AES' completion of its coal plant in 2012. With the plant contributing \$0.11-0.12 we see any change in the PPA as potentially meaningful. That said, given the plant's 15-year offtake agreement (paid in Euros) with the national utility, NEK (*contract is not with the regulator*), we see a variety of win-win outcomes to ease pressure on consumer prices. We also emphasize given the substantial participation of the European Bank for Reconstruction and Development (EBRD) among other regional lenders, there is likely meaningful sovereign influence in limiting project offtake abandonment. The timing of the latest flare up is relatively surprising, seeing the winter heating season as typically the pinch-point on consumers.

As a reminder, there is still \$167Mn of receivables related to the asset with management stating that the "majority of the remaining amount is less than 90 days outstanding."

~\$0.10/sh of EPS from Bulgaria

Figure 1: Bulgaria Mini-Model

<u>Macro Economic Data:</u>	2012A	2013A	2014E	2015E	2016E
Avg. F/X Rate (USD/EUR)	1.26	1.23	1.23	1.23	1.23
Real GDP Growth	3.50	3.70	3.80	3.90	4.00
Inflation Rate	3.73	2.91	3.00	3.00	3.00
US Inflation rate	1.82	2.27	1.24	1.53	1.54
Electricity Consumption Growth Rate					
EBITDA EUR	221	221	221	221	221
EBITDA \$USD	279	271	271	271	271
Depreciation	70	70	70	70	70
EBIT (Equiv of Gross Margin?)	151	151	151	151	151
Interest	48	48	48	48	48
Debt Outstanding	804	827	827	827	827
EBT	103	103	103	103	103
Net Income in local currency	72	72	72	72	72
Net Income (\$USD)	91	59	59	59	59
Net Income Contribution (Guidance)	\$0.11-0.12				

Source: Company Filings and UBS Estimates

AES Bulgaria is a material part of our valuation (~10%) and we have left our estimates unchanged as we believe it is premature to assess evaluate the impact.

What about the Philippines Sale?

The sale of a 45% stake in its Masinloc plant for \$450Mn furthers management's efforts to sell down its international exposure and 'bring home' capital as part of its asset sale commitment of \$500-700 Mn in asset sales through 2015. Management stated that the asset was sold at a 14x P/E multiple, implying that it contributed ~0.05% of earnings and is accretive to the overall market valuation (currently trading at ~10x P/E). The valuation for the asset is actually in-line with our estimates, having placed a ~\$1.2 Bn value (@ 8x EBITDA multiple) in our SOTP for the asset. Affirming the more meaningful value for this asset, we note the use of proceeds (likely through a yet-to-be-announced share repurchase) are claimed to be EPS breakeven and credit neutral.

AES stated the approximately 1/3rd of the proceeds will be used to pay-down corporate debt with the remaining ~\$300Mn utilized for discretionary cash and is incremental to the \$204-304Mn disclosed in the 'to be allocated' discretionary cash use as disclosed with earnings. Total discretionary cash will be ~\$700 Mn, net of debt already using to pay down parent borrowings.

The question remains: how about the long-discussed Masinloc expansion?

We had previously thought management would use proceeds from any sell down of its interest in Masinloc to expand the site; however, management intends to bring back proceeds to the parent. We believe this is likely due in part to limited long-term off-take agreement opportunities with mgmt. loathe to add to its commodity price exposure (power prices in the country are tied to oil). We see this expansion as potentially less likely, but altogether, perhaps a good thing.

Monetizes its Philippines asset at a nice valuation (~7.5x EBITDA by our estimate)

Or ~14x P/E, hence mostly accretive

Appears less likely to happen

Figure 2: Masinloc Mini-Model (Reflects Sell-Down)

<u>Macro Economic Data:</u>	2013A	2014E	2015E	2016E
Avg. F/X Rate (\$/PHP)	41.85	41.85	41.85	41.85
Real GDP Growth	5.00	5.00	5.00	5.00
Inflation Rate	4.63	4.00	4.00	4.00
Electricity Consumption Growth Rate				
Revenue PHP mm				
Revenue \$mm				
Costs				
Gross Margin (\$ Mn)	200	200	200	200
EBITDA is in this range		2.50%	3.50%	3.50%
EBITDA in Local F/X	6,407	6,567	6,797	7,035
EBITDA in USD	153	157	162	168
AES' EBITDA	141	112	83	86

Source: Company Filings and UBS Estimates

When it rains, it pours: Lowering Latin Am expectations

With 1Q14 earnings management's refined guidance to the low-end of the range based upon poor hydrology which AES estimates having a FY14 impact of \$0.07-\$0.10. As a consequence of this we have reduced our 2014 earnings estimates for Latin America and now see consolidated adjusted EPS of \$1.33, at the low-end of the range (\$1.30-1.38). Despite the \$0.07-\$0.10 impact range, management only lowered guidance to the low-end of the range given the sites mitigation steps it has taken in Panama and the Dominican Republic.

Our Latin American colleague Lilyanna Yang expected demand growth in the region of ~3% in the second quarter versus tracking to 1% actual growth as well as rainfall at ~75% of normal versus ~96% of normal actual. Taken together, it appears that the risk of rationing has decreased. Additionally, we assume spot prices of 120/MWh (local) versus 140/MWh seen lately. For further details on Brazilian utilities please refer to our **recent Global I/O report**.

Lowering 2014E EPS to the low-end of the range to capture poor hydrology

We estimate at least \$0.04 of the projects were 'incremental' to mgmt's previously disclosed growth plant

Figure 3: Summary of AES' New Projects Contributions

<u>\$0.10-0.12 from 3 New Projects - PTC by Project:</u>
10 Fogging @ CCGTs
20 Panama Barge
10 Guacolda V Plant - 50% interest
65 DR CCGT
105 total incremental PTC
73.5 Net Income (@ 30% Tax Rate)
0.10 EPS

Source: Company Filings and UBS Estimates

In the Dominican Republic AES is converting its Dominican Power Partners (DPP) asset from a 236MW simple cycle to a 348MW combined cycle which should reach commercial operations in mid-2016. We estimate run-rate PTC and EBITDA of \$60Mn and \$110Mn, respectively by 2017. In a similar move at Panama the company is bringing in a 72MW oil-fired power barge operating under a five-year PPA with the government utility that offers “attractive returns beginning in 2015”, offering ~\$20Mn of PTC.

Latin American mitigation steps help stem the pain of hydrology weakness

Figure 4: AES 2014 Guidance Breakdown

AES 2014 Guidance				
\$Mn	2014 Guidance Range			
Region	Low	High	Midpoint	YoY Growth
US	390	440	415	-6%
Andes	370	415	393	11%
Brazil	250	290	270	27%
MCAC	390	450	420	24%
EMEA	360	400	380	10%
Asia	95	125	110	-23%
Total SBUs	1,855	2,120	1,988	9%
Parent	(630)	(600)	(615)	-1%
Pre-Tax	1,225	1,520	1,373	14%
Less: Taxes (30%)	(368)	(456)	(412)	62%
Adjusted Earnings	858	1,064	961	1%
Shares Out.	730	730	730	-2%
Adj EPS (as calculated)	1.17	1.46	1.32	2%
Adj EPS Guidance	1.30	1.38	1.34	
UBS _e	"Low-End of Range"		1.33	
Consensus			1.33	

Source: Company Filings, FactSet, and UBS Estimates

Turning to Chile we have incorporated the impact of pending tax reforms on both the corporate (increase from 20% to 25% by 2017) and emissions (carbon) fronts. The emissions tax is expected to impact earnings by \$0.02-0.03/sh beginning in 2017. We elaborate on overall corporate taxes below as this Chilean catalyst has caused us to revisit our overall effective tax rate assumptions. The collective impact of the positives in Latin America appear to outweigh the negatives of a second consecutive year of subpar hydrology and unfavorable tax reforms which ultimately drives higher valuation for our Latin American results.

DP&L moves into the green

We estimate ~\$50Mn higher EBITDA for DP&L from 2015+ which represents a ~\$0.05 increase in consolidated EPS. Previously we did not ascribe any value at DP&L given the parent debt burden (~\$2.3Bn) but the increase in EBITDA drives ~\$450Mn of additional value which pushes our DP&L equity value into positive territory by nearly \$0.30/sh.

Latest increase in power pushes DP&L into positive valuation in our SOTP

Any sale of DP&L would be above the \$500-700Mn of additional asset sale proceeds expected by next year indicating that management could accelerate its repurchase program. As of 1Q14 unallocated parent discretionary capital stood at \$204-304Mn and we look for greater clarity on how management opts to utilize that capital (repurchases, growth, and/or debt paydown).

We see the recent PPL Supply announced spin as only reiterating our confidence in potential deal for DYN to acquire portfolios from DUK and AES in Ohio, with meaningful synergies (we attribute little chance to private equity bids seeing more limited ability to extract synergies vs. corporate M&A).

Figure 5: DP&L Open Generation Projections (\$Mn)

DPL Inc. Mini-Model	2012A	2013	2014	2015	2016	2017
T&D	175	175	175	175	175	175
DPL-ER	32	32	24	24	24	24
Generation	(6)	(71)	1	97	65	44
ESP	75	75	110	110	110	0
Legacy Rates Benefit	116	72	45	18	-	-
Hedges (UBSe)	69	52	25			
Switched (avg)	55.00%	40.00%	25.00%	5.00%	0.00%	0.00%
Legacy Book	12	12	12	12	12	12
Above Market (\$/MWh)	35	30	30	30	30	30
Total EBITDA	460	335	355	424	374	243
Int. Exp	(123)	(119)	(121)	(119)	(118)	(121)
EPS	0.11	0.07	0.09	0.15	0.10	(0.04)
Project LT Debt	2,600	2,649	2,617	2,551	2,558	2,611
Debt/EBITDA	5.65	7.90	7.37	6.02	6.84	10.77
New Covenants under DPL Inc. notes	8.0					
GenCo Open EBITDA (w/ Retail)		(39)	25	121	89	68
GenCo D&A (est. on \$1.5 Bn book value)			(60)	(60)	(60)	(60)
EBT (Assume No Debt)			(35)	61	29	8
Open AES GenCo EPS Contribution			(0.03)	0.06	0.03	0.01
UBS Prior (March 2014)			(0.03)	0.01	(0.01)	(0.03)

DP&L Summary	2014	2015	2016	2017
Utility EPS	0.09	0.09	0.10	0.10
HoldCo After-Tax Interest Drag Per Share	(0.08)	(0.08)	(0.08)	(0.08)
GenCo EPS	(0.03)	0.06	0.03	0.01
Total DP&L EPS	(0.02)	0.07	0.04	0.02

Source: Company Filings and UBS Estimates

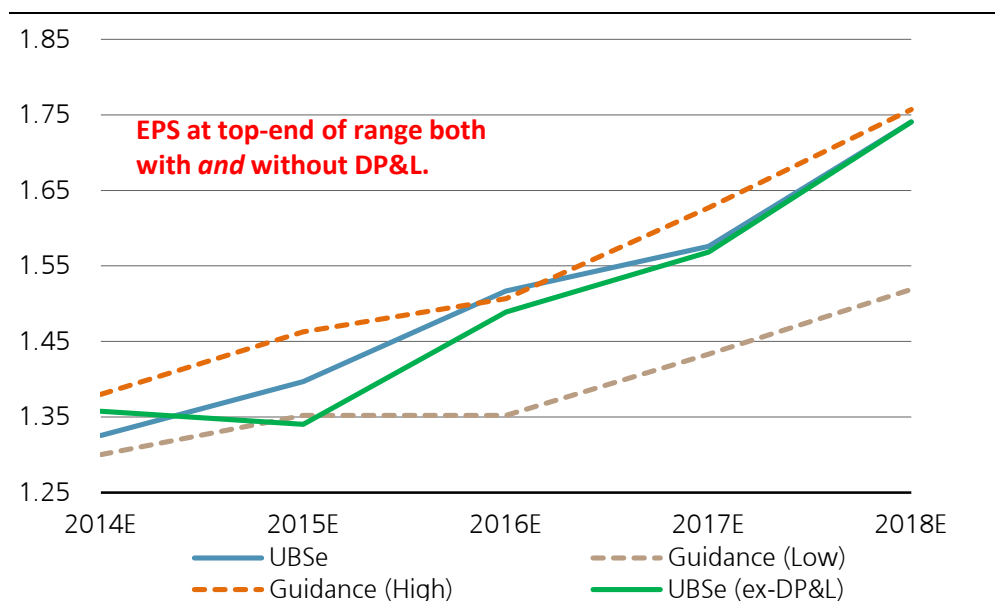
DP&L's ESP is finally resolved without drop in comp., a positive for AES

Putting to bed another issue for AES, the Public Utilities Commission of Ohio (PUCO) voted earlier in June NOT to change non-bypassable revenues to its DP&L utility despite its accelerated generation divestment initiative. Moreover, revenues would remain tied to the utility, irrespective of GenCo sale. Rather, the only change was a requirement to pursue corporate separation of the generation business by December 2016 (vs. December 2015 previously). We see this as positive for AES, enabling execution of planned sale of the business in months ahead. We flag a joint sales announcement between DP&L and DUK remains a real possibility, with divestment price expectations climbing in recent weeks on the back of continued improvement in market power prices. We look for DP&L to promptly file to formally divest its generation business into a separate subsidiary, a necessary step prior to divestment (Duke has already done so). We flag a reasonable sales range of up to \$700 Mn - \$1 Bn, off of more recent lows of ~\$500 Mn. (Case No. 12-426-EL-SSO). We look for a result in the medium term, with Dynegy remaining the clearest likely buyer of the assets.

Expectations for DP&L monetization continue to rise

For further details on the latest in Ohio please refer to our recent note, '[GenCo Commitment Issues](#)'.

Figure 6: Updated AES EPS Range vs UBS Estimates (w/ and w/o DPL-generation assets)



Source: Company Filings and UBS Estimates

Below we present our latest EPS estimates which reflect tax rate normalization within guidance as well as the latest commodity mark-to-market for DP&L and the announced divestiture of a portion of the Philippines generation (solar divestiture is essentially neutral to our EPS estimates).

While we see lower 2015E EPS, the key question remains tax rate

Figure 7: Consolidated AES EPS Estimates – we're below on 2015 given tax rate, but right back up in 2016

Consolidated EPS Projections	2012A	2013A	2014E	2015E	2016E	2017E	2018E
UBSe	1.24	1.29	1.33	1.40	1.52	1.58	1.74
Prior UBSe	1.24	1.29	1.37	1.43	1.54	1.57	1.67
Consensus		1.28	1.33	1.45	1.50	1.54	
Guidance		1.24-1.32	1.30-1.38	"Low-End"			
LT Implied Guidance - as of 4Q13 Call - LOW			1.30	1.35	1.35	1.43	1.52
LT Implied Guidance - as of 4Q13 Call - HIGH			1.38	1.46	1.51	1.63	1.76
Long-Term Growth Rate			4-6%	Flat-Modest	6-8% LT Growth		
DP&L Ex-Gen EPS			0.01	0.01	0.01	0.01	0.00
Consolidated Tax Rate Assumptions			31%	32%	33%	33%	33%

Source: Company Filings, FactSet, and UBS Estimates

A key variable into our tax rate for 2015 of ~32% is whether the TIPRA tax reforms are extended; while mgmt. has not been specific, it appears that a low-30% tax rate (30-31%) would be predicated upon its further extension later this year (AES anticipates this to be the case in latest tax extenders bill), whereas a mid-30% tax rate would be without an extension. While this has not received much investor attention again (yet) from investors, we suspect this could garner greater attention later this year. We see this as relative 'upside' to our long-dated EPS estimates.

Tax rates is dependent on TIPRA extension (again)

Mgmt has previously described this issue as worth ~\$0.10/sh, but with offsetting mitigants

Figure 8: AES Gross Margin Estimates

AES Gross Margin Estimates	2012A	2013A	2014E	2015E	2016E	2017E	2018E
Total Gross Margin	3,714	3,247	3,772	3,878	3,834	3,788	3,809
Gross Margin %	19.31%	20.43%	19.55%	19.99%	19.81%	19.62%	19.71%

Source: Company Filings and UBS Estimates

We see gross margins around ~20% from 2014-2018

Figure 9: Updated AES Cash Flow Metrics

Abbreviated Cash Flow Projections	2012A	2013A	2014E	2015E	2016E	2017E	2018E
Total Adj. Gross Margin (EBITDA)	4,568	4,759	4,599	4,723	4,748	4,755	4,815
Guidance (Gross)	4725-4925						
Proportional Interest	(1,182)	(1,287)	(1,199)	(1,221)	(1,002)	(1,051)	(1,085)
Proportional Adj. Gross Margin	3,386	3,472	3,399	3,502	3,746	3,705	3,730
(Net) Interest Expense	(1,223)	(1,207)	(1,288)	(1,302)	(1,299)	(1,262)	(1,246)
Other, incl. W/C Adjustments	738	450	(421)	(431)	(469)	(271)	(93)
Cash flow from Operating Activities	2,901	2,715	1,690	1,769	1,978	2,172	2,391
Guidance (Proportional)	1925-2125	1650-1950	1650-1950				
Capital Expenditures							
Maintenance Capex	(800)	(1,200)	(850)	(875)	(900)	(925)	(950)
Environmental Capex (All)	(88)	(90)	(90)	(30)	-	-	-
Proportional Reductions: Maintenance Capex	-	-	-	-	-	-	-
Total Operational Capex	(888)	(1,290)	(940)	(905)	(900)	(925)	(950)
Guidance (Proportional)	800-950	750-1050	500-800				
FCF	2,013	1,425	749	863	1,078	1,247	1,441
FCF per share	2.65	1.91	1.06	1.25	1.60	1.89	2.25
Growth			-44.79%	18.07%	28.00%	18.69%	18.73%
Guidance for Rate				10-15%			17.76%
Guidance	1050-1250	750-1050	1000-1300				
Debt Amortization	(1,379)	(500)	(500)	(532.50)	(533)	(556.88)	(557)
Cash retained at subsidiaries	(150)	(100)	(100)	(100)	(100)	(150)	(150)
FCF to Equity Remaining	484	825	149	231	445	540	735
Dividend	(30)	(119)	(112)	(109)	(107)	(104)	(101)
Asset Proceeds	(20)						
Growth Equity Capital	(277)	(100)	(114)	(52)	(52)	(52)	-
Share Repurchase Assumption	-	-	(500)	(250)	(250)	(250)	(250)
Remainder / Debt Paydown	157	606	(577)	(180)	37	134	383
EPS	1.24	1.29	1.33	1.33	1.48	1.54	1.74
EPS Growth %		3.29%	3.07%	0.51%	11.41%	3.85%	12.96%
Guidance	1.22-1.30	1.24-1.32	4-6% EPS Growth Target		5-yr CAGR:		6.2%

Source: Company Filings and UBS Estimates

We assume \$250Mn of share repurchases from 2015 throughout the investment horizon and the latest solar transaction presents an opportunity to accelerate some of the repurchase spending. We assume that the majority of the unallocated proceeds from the Masinloc will be used for share repurchases.

Continued improvement on the FCF front remains a driver and potential catalyst.

What about other growth projects?

Its other growth project in India, OPGC II, has likely been enabled by the latest election of new PM Modi in India. We flag the project recently saw construction kick off, although the actual time-line for in-service remains a clear risk.

Figure 10: AES Free Cash Flow (FCF) Profile

CF From Operations Less Maintenance Capex	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E
Net Cash provided by Op. Activities	2,901	2,715	2,290	1,769	1,978	2,172	2,391	2,772
Less: Maintenance Capex	(800)	(1,200)	(850)	(875)	(900)	(925)	(950)	(975)
FCF (after Maintenance Capex)	2,101	1,515	1,440	894	1,078	1,247	1,441	1,797

EBITDA Less Maintenance Capex	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	675	2,632	3,449	3,649	3,584	3,858	3,879	4,400
Less: Maintenance Capex	(800)	(1,200)	(850)	(875)	(900)	(925)	(950)	(975)
EBITDA (after Maintenance Capex)	(125)	1,432	2,599	2,774	2,684	2,933	2,929	3,425

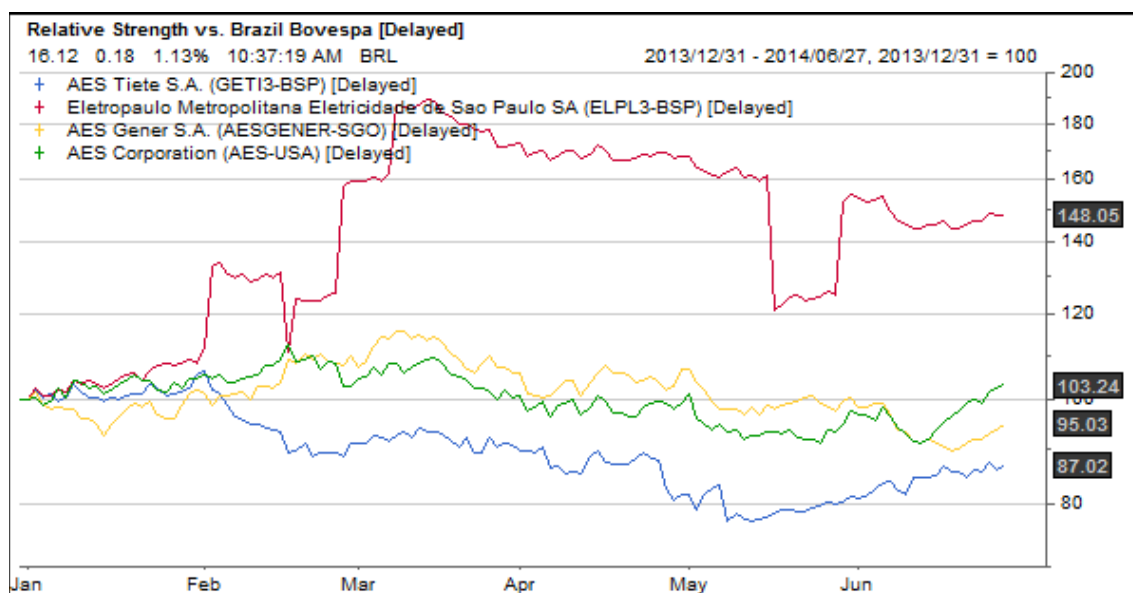
Source: Company Filings and UBS Estimates

But what about the subsidiaries? Doing somewhat better of late.

While the Brazilian utility equities are overall up in recent months, we note a broader cautious tone from our local analyst, Lilyana Yang with respect to the latest recovery. While Tiete appears somewhat insulated to the near term pricing – being short the market through its hedges – and with the latest rainfall abating the risk of mandatory rationing in 2015.

Elsewhere, we flag weather trends in Chile appear to be heading in the opposite direction, with added rainfall and new generation poised to add pressure to the power price outlook in this market. This remains an overall concern for us as we look towards the medium-term outlook for its largest publicly traded sub, Gener.

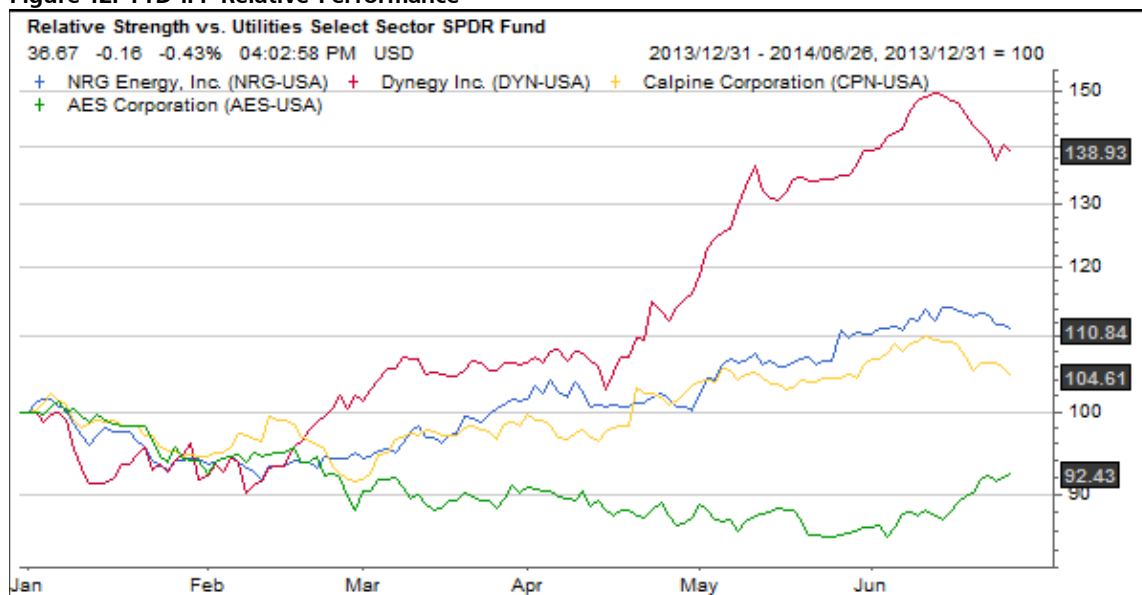
Figure 11: YTD AES and Subsidiary Relative Performance



Source: Company Filings and UBS Estimates

While AES reflects a mix of its subsidiaries' performance, it has substantially underwhelmed relative to US peers. While AES has relatively limited US power price exposure versus peers, the latest improvement in domestic commodities for AES has had a disproportionate uplift by adding once again putting some element of equity value on the board for its DPL subsidiary.

Figure 12: YTD IPP Relative Performance



Source: Company Filings and UBS Estimates

SunEdison moves to strengthen its YieldCo pipeline as AES further simplifies the business

On June 17th AES announced that it was selling its 50% interest in Silver Ridge Power (336MW) to SunEdison as SUNE looks to bolster its YieldCo, TerraForm Power. With the overall solar portfolio contributing a negligible amount to earning (\$0.02), we see the sale as meaningfully 'accretive' to P/E oriented investors Silver Ridge is jointly owned by AES and Riverstone and discloses 522 MW of capacity of international solar projects, primarily in Europe. AES is receiving \$165Mn for the 336MW of solar sold and SunEdison has an option to acquire AES' remaining 50% stake in 130MW of Italian solar for \$42Mn by 2015. The entire 521MW portfolio had a book value of \$280Mn and the latest deal was at a modest premium to book value. We have increased our estimate of solar value for AES but the uplift in our sum-of-the-parts valuation methodology is largely immaterial; however, does free-up capital for additional share repurchases. The deal is slightly accretive to 2015E+ (the transaction was already contemplated in 2014 guidance) as the business had a slightly negative EPS so this transaction would drive more value for investors utilizing a straight P/E multiple.

The largest project in Silver Ridge the 266MW Mount Signal Solar which reached COD in April and has a 25-year PPA with Sempra's SDG&E. (EC 14-74). As disclosed previously, AES is receiving \$50Mn from Google's tax equity investment in Mount Signal

Last year AES and Riverstone had planned to an IPO for the assets which was ultimately scuttled but it appears that these assets will finally reach the public via SunEdison's YieldCo later this year.

If you can't make a YieldCo, sell to one

AES opted to sell its renewable JV rather than making another go at SilverRidge IPO

Monetizing Solar:
Sale: 336MW for \$165Mn
Option: 55MW for \$42Mn
Tax Equity: \$50Mn for Mount Signal

Still at a \$15 Price Target: Here's What's Changed:

We present our summary sum-of-the-parts methodology below and we summarize the key changes. AES continues to see the benefits of free cash flow redeployment but our latest numbers see declines in listed Latin American results pressuring the improvements in North America as well as the novel investment opportunities discussed for Panama and the Dominican Republic.

(1) Listed Latin American Subsidiaries

We have performed a mark-to-market on these subsidiaries with AES Gener declining from 300 CLP to 281 CLP driving the decline.

(2) Unlisted Latin American Generation

AES Panama and DPP (CCGT conversion) new investment opportunities are catalysts for valuation increases but are mostly offset by reductions in listed shares.

(3) North American Utilities

Previously we ascribed no equity value to DP&L given the merchant drag outweighing the balance of the utility but now ascribe positive valuation here. This improvement is somewhat offset by our application of a half-turn discount to the regulated operations for the construct in the state. Currently we see DP&L as having ~\$0.30/sh of value, a significant gain from the latest power movement.

We believe a key positive to shareholders is the prospect of keeping DPL out of bankruptcy and refinancing its 2016 maturity. We estimate the standalone utility is able to produce \$0.06-0.07 pre-HoldCo debt drag (and ~break-even of ongoing EPS, net of parent interest expense and the generation component).

(4) Other refinements for parent, cash flow generation, tax, etc.

Specifically, we have once again applied 6x EV/EBITDA multiples to unlisted Latin American subsidiaries, in-line with regional peers. Following the disclosures about the Chilean tax reforms we have revisited our consolidated effective tax rate (ETR) assumptions. Management discloses ~30% ETR for 2014E, consistent with our prior expectations. We have previously assumed that AES' would be able to 'hold-the-line' at the 30% ETR throughout the forecasted period but given guidance of "low-to-mid 30%^s" from 2014E-2018E we have increased our ETR assumption to 33%, slightly above the midpoint based upon downward pressure on the guidance from 30% in 2014 and the ~100bp spike in 2017 for Chile. We have reflected both recent asset sales but have not changed our estimates for Bulgaria.

Figure 13: Updated Summary AES Sum-of-the-Parts Valuation

Summary SOP Valuation for AES Corp		% Owned by AES	Low	Base	High
Listed Latin American Subsidiaries			\$6.22	\$6.22	\$6.22
Latin American Utilities (Unlisted)			\$0.18	\$0.58	\$0.87
Latin American Generation (Unlisted)			\$1.84	\$2.69	\$3.55
North American Utilities			\$4.09	\$2.26	\$4.54
DP&L Utility	100%	We now ascribe ~\$0.30/sh to DP&L vs \$0 previously.	\$2.25	\$2.35	\$2.44
DP&L Generation and Debt	100%		-\$2.17	-\$2.05	-\$1.92
IPALCO	100%		\$1.83	\$1.96	\$2.10
North American Generation			\$4.08	\$5.01	\$5.79
Asian Generation			\$1.49	\$1.65	\$1.81
Philippines (Masinloc)	51%	By the valuation date	\$0.31	\$0.43	\$0.55
Vietnam (Mong Duong), in-service in 2016	51%		\$0.87	\$0.87	\$0.87
Sri Lanka (Kelantissa)	90%		\$0.31	\$0.35	\$0.39
European Generation			\$1.69	\$2.32	\$2.96
Summary SOP Valuation for AES Corp			Low	Base	High
Total Subsidiaries Equity Value			\$19.59	\$20.75	\$25.73
Other Adjustments (Parent Debt, etc)					
Parent Adjustments, Debt, and Corp/Other				(4,179)	
Shares Outstanding				693	
Parent Debt Outstanding and Cost Drag per Share				(\$6.03)	
AES Corp Total Equity Value per Share			\$13.55	\$14.71	\$19.70
Parent Adjustments, Debt, Etc					
	2015 EBITDA	EV/EBITDA Multiple			
Corp/"Other" businesses (EBITDA)	77	6.0x	7.0x	8.0x	\$464 \$542 \$619
	2015 Net Income				
Equity Investments	15	8.0x	9.0x	10.0x	\$120 \$135 \$150
AES Solar Spin (Initial Est.)					\$375
NPV of NOLs					\$321
Other Non-Recourse Debt (Corp/Other)					
Other Wind Projects, Euro/African Utes, etc					-\$746
Recourse Debt					
Preferred Notes					(\$517)
Unsecured Notes					(\$4,353)
Secured Debt / Term Loans					(\$799)
Total Recourse Debt					(\$5,669)
Total Cash (incl. Subsidiaries), FY13					\$1,642
Exclude Subsidiary Cash, FY13					(\$1,510)
Net Debt (FY13)					(\$5,537)
Incremental Cash Generation FY13 to FY14					\$249
Incremental Debt Parent Paydown/(Issuance) FY13 to FY14 (ex-DPL)					\$482
Parent Adjustments, Debt, and Corp/Other					(4,179)
Shares Outstanding					693
Parent Debt Outstanding and Cost Drag					(\$6.03)
AES Corp Total Equity Value per Share			\$13.55	\$14.71	\$19.70

Source: Company Filings and UBS Estimates

What do we need to reflect further value?

With many investors continuing to suggest shares are cheap, we believe the chief lever to the upside remains whether mgmt. will be able to leverage improvements in DPL and organic investments to drive up longer-term EPS growth. While it has maintained its 4-6% EPS growth rate, the reality appears to suggest the 'real' number is close to the top end of this range with its 5-year FCF CAGR of 10-15% seemingly indicative of this higher trend already. We believe confirmation of this accelerating trend (particularly given previous concerns around the 2016 falloff), is not necessarily a near-term data point.

P/E vs. Netting out parent debt for SOTP Valuation:

Meanwhile, the broader question of netting parent debt against the value of the subsidiaries vs. using a P/E multiple against interest expense remains a pervasive focus of valuation discrepancy (where applying a 10x P/E against parent interest expense in 2014 of ~\$0.35/sh results in a drag of ~\$3.50/sh, vs. netting out the debt at ~\$8/sh, driving a ~\$4.50/sh valuation difference). This would imply a valuation of \$18-19/sh on a P/E basis. Alternatively, using a peer P/E multiple to net out interest expense would result in upside to \$17-18/sh.

Hydrology Update

AES is most concerned about hydrology risks in Brazil and Panama; management does not appear concerned about Chile and Columbia, where hydrology levels are similar to those in historical years. AES now expects a \$0.07-\$0.10 per share of non-GAAP EPS impact from poor hydrology conditions in Brazil and Panama.

Brazil:

Following the major drought in Brazil in 2013, reservoir levels have begun increasing. However, hydrology still remains poor, which is a serious concern in a country fueled largely by hydro generation. There could be supply shocks ahead.

QTD reservoir levels are at the 38-37% level, down from average 2Q13 reservoir levels of 63%. May reservoir levels are 41% lower than last year's 63% and 52% lower than the May historical average of 78%. After a poor rainfall in 1Q14, AES now expects dry conditions through next rainy season, which would start in November.

Climate experts at Somar Meteorologica believe there are strong chances of drier weather in 2014. So far rainfall in Brazil has been lower than the long term average. It forecasts rainfall from February through May to be c. 42-53-63-68% of the LTA.

Risk of forced outages ahead?

The key wild card according to AES is whether the government will impose forced outages to mitigate the supply shortages similar to their actions in 2000-2001. Power rationing will have a negative impact on GDP growth—a bad outcome for politicians seeking re-appointment in the next election in late Q3/ early Q4. (In 2002, the PSDB government lost elections to the leftist PT party partially because of rising power rationing). We believe the risk of electricity deficit is indeed high, likely higher than the 48% calculated by experts. Blackouts will have a negative impact on AES's distribution business, but AES believes the impact may not be experienced until 2015.

**Bearish on Brazilian power sector:
1) downside under energy
storage scenario, 2) limited upside
in positive scenario**

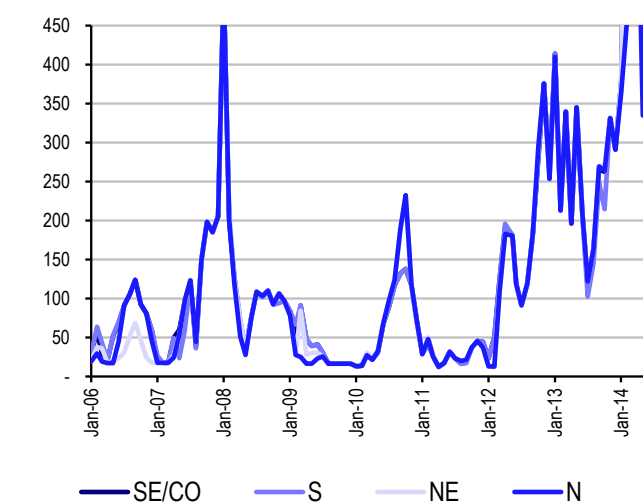
We believe GenCos that are fully contracted to sell their energy, such as AES Tiete, might suffer. We believe the risk of 'higher magnitude' rationing seems strong for 2014 and for following years. Rationing might be a better scenario than the poor hydrology/non-rationing scenario given that generators get hurt via lower selling volumes (at average prices of R\$80-200/MWh) as opposed to having to buy the same amount of foregone volumes at spot prices (currently at its regulatory cap of R\$823/MWh).

However, neither scenario is ideal. We remain cautious on the Brazilian power sector on: 1) downside to earnings/cash flow estimates and valuation under a scenario of energy shortage, and, 2) limited upside in the case of no-shortage and/or even under the positive scenario of a new, market-friendlier federal government post-elections.

Expectation for Spot Prices

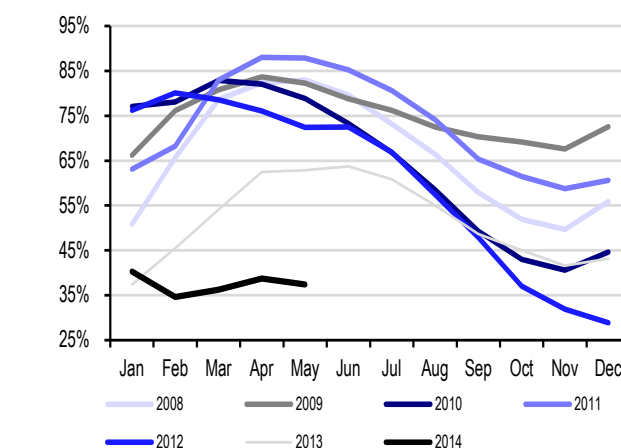
Spot prices came down to R\$807 in May from a high of R\$823 in April. We believe spot prices are likely to remain higher (recently were at a high R\$823/MWh – the regulatory cap). We estimate spot prices will be ~R\$500-250/MWh for 2014-2015. They will be higher for longer and we see upside risks to our Brazilian spot prices. AES confirms that spot prices are high, but much rests on government decisions on rationing. We expect the forecast of 17.5% chance of demand cut of 4% of Brazil's load for 2014 might prove an understatement.

Figure 14: Brazilian Spot Power Prices (\$Rs/MWh)



Source: ONS

Figure 15: Brazilian Hydrology – Reservoir Levels for Southeast



Source: ONS

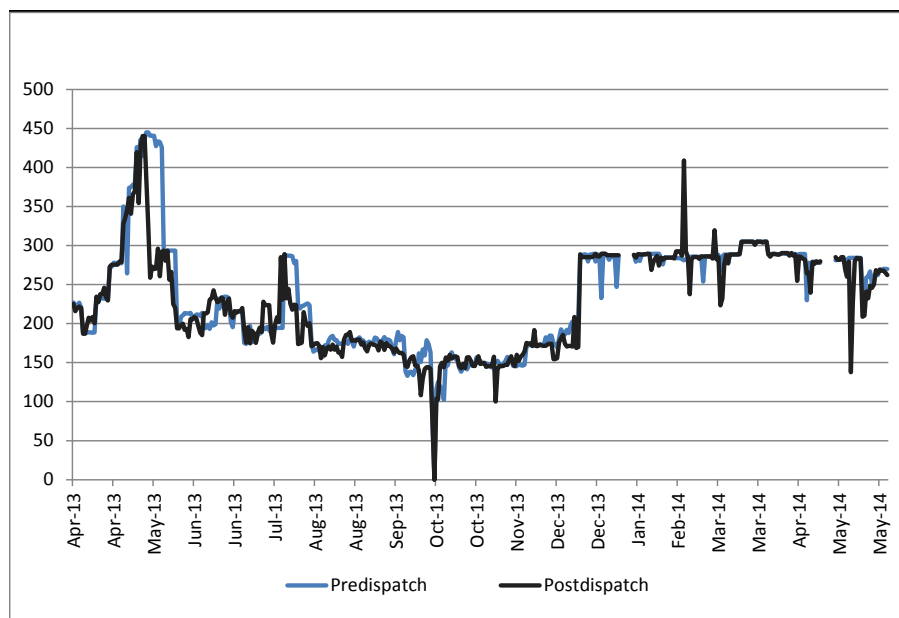
Panamanian Hydro Disclosures

Following significant scrutiny in 2013 of hydro levels across Central America, we include recent spot prices following the significant drought conditions experienced recently.

Hydrology in Panama has also improved significantly following a severe drought in 2013 similar to others in South America. Spot prices have increased ~162% from \$100/MWh on November 7th to \$262/MWh on May 30th. AES Management expects continued poor hydrology in Panama, with water inflows 25% below average for rest of the year.

We are primarily concerned around hydrology headwinds in Panama, given the sizable negative headwind experienced in 2013—and the latest trend for spot prices back to the same levels as last year.

Figure 16: Panama Spot Prices- Pre/Post-Dispatch (Generation MWh per Unit System) – Slightly off the recent highs

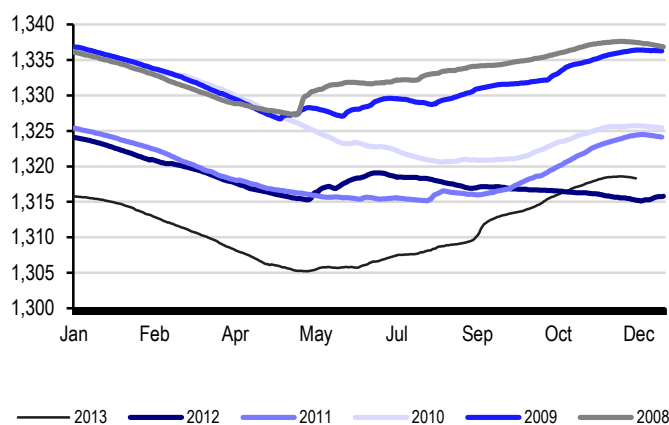


Source: Company Reports

Chile & Columbia— not much to worry about

Management is not concerned about hydrology in Chile as reservoir levels are at or above average. Management is also not concerned about hydrology risks in Columbia as hydrology levels are similar to those in Chile. We include a chart below for the Laja Reservoir, a primary source of electricity for the SIC market in Chile. Please note that 2014 data has not been reported yet. Last year, Laja Reservoir levels was higher than 2012 levels, after trending considerably lower than 2012 reservoir levels throughout the year. The low reservoir levels drove substantial peaker energy margin from AES Gener's assets in 2011.

Figure 17: Laja Reservoir in SIC (Central Chile) Region



Source: CCEE

F/X Rate Fluctuations

We include charts of currency affecting AES. The next table showcases the YoY percentage changes in the foreign exchange rates.

Figure 18: YoY Percentage changes in Currencies

YoY % changes					
USD/ EURO	USD/Brazilian Real	USD/Chilean Peso	USD/Argentinean Peso	USD/ Mexican Peso	USD/ Peruvian Sol
-1.4%	2.0%	11.4%	52.3%	0.7%	2.1%

Source: Factset

Figure 19: F/X Rate for USD / Brazilian Real



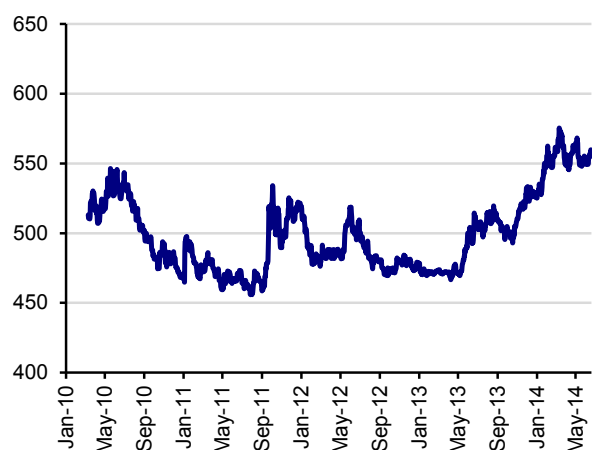
Source: FactSet

Figure 20: F/X Rate for USD / Euro



Source: FactSet

Figure 21: US Dollar per Chilean Peso



Source: Factset

Figure 22: US Dollar per Peruvian New Sol



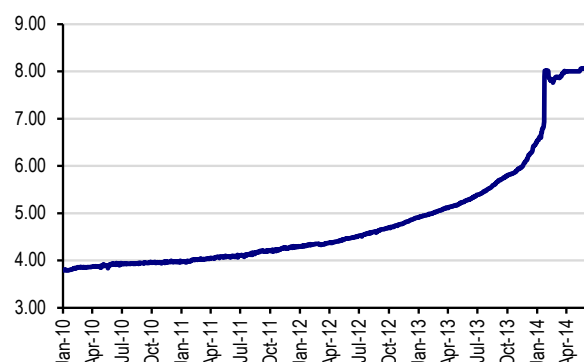
Source: Factset

Figure 23: US Dollar per Mexican Peso



Source: Factset

Figure 24: F/X Rate for USD / Argentine Peso



Source: Factset

We believe the two largest currency exposures for AES are the Brazilian Real through its Tiete, Eletropaulo, and Sul segments and the Euro through its European renewables and Eastern European generation footprint. AES on its 1Q14 call stated that its 2014-2018 Outlook is based on foreign currency exchange rates and commodity curves as of 3/31/2014. On the 1Q14 call, it estimated a 10% appreciation in the USD relative to the Brazilian Real and Euro translates to negative EPS impacts of \$0.01 and \$0.005 respectively.

We also include the USD / Argentine Peso exchange rate; on a full year basis every 10% appreciation in the USD is a negative \$0.005 EPS impact. The USD has appreciated in the last few months, continuing the nearly unbroken upward trend-line. It remains challenging to calculate a precise assumption for EPS headwind, but we estimate it to be a few pennies in negative FX to AES YoY. As a reminder, the company is limited from taking any distributions from the country at present, so the latest spike does not impact parent FCF.

On the next three pages we present our full sum-of-the-parts analysis:

Figure 25: Full AES Sum-of-the-Parts – Part 1

Sum of the Parts Analysis - Hedged Analysis - UBS							
Latin America Listed Subsidiaries					Low	Base	High
Listed Subsidiaries	AES Tiete (Common, GETI3)	AES Tiete (Pfd, GETI4)	Eletropaulo (Common, ELPL3)	AES Eletropaulo (Pfd, ELPL4)	AES Gener		
UBS Price Target	18.00	17.50	5.92	7.00			
Current Share Price	14.59	17.24	7.64	9.03	281.00		
% Upside	23%	2%	-22%	-22%			
Ownership %	32.96%	14.94%	35.95%	3.41%	70.67%		
Shares O/S	197	184	67	101	8,070		
F/X Rate	1.98	1.98	1.98	1.98	472.70		
Market Value Stake	480	239	92	16	3,390	4,217	
UBS-Implied Equity Stake	592	243	72	12	3,390	4,308	
Premium PN/ON	18%		18%				
Shares Outstanding					693	693	693
Implied Equity Value of Foreign Listed Subsidiaries (per Share)					6.22	6.22	6.22
AES Gener					\$4.89	\$4.89	\$4.89
AES Tiete					\$1.20	\$1.20	\$1.20
AES Eletropaulo					\$0.12	\$0.12	\$0.12
Latin American Utilities		2015 EBITDA	EV/EBITDA Multiple		Enterprise Value		
					Low	Base	High
Sul	124	5.0x	6.0x	7.0x	622	746	871
El Salvador	76	5.0x	6.0x	7.0x	378	453	529
Total LatAm Utilities (Non-Listed) EV	200	5.0x	6.0x	7.0x	999	1,199	1,399
Net Debt							
Sul						(497)	
El Salvador						(299)	
Total LatAm Utilities Equity Value					203	403	603
Shares Outstanding					693	693	693
Total LatAm Utility Value Per Share (Non-Listed)					\$0.29	\$0.58	\$0.87
Sul					\$0.18	\$0.36	\$0.54
El Salvador					\$0.00	\$0.22	\$0.33
Latin American Generation		2015 EBITDA	EV/EBITDA Multiple		Enterprise Value		
					Low	Base	High
Private Subsidiaries							
Uruguaiiana CCGT	10	5.0x	6.0x	7.0x	50	60	70
Argentina Generation Portfolio	176	5.0x	6.0x	7.0x	882	1,059	1,235
Panama Generation Portfolio (AES Interest)	245	5.0x	6.0x	7.0x	1,225	1,470	1,715
Dominican Republic Portfolio	170	5.0x	6.0x	7.0x	848	1,017	1,187
Total LatAm Generation (Non-Listed) EV	601	5.0x	6.0x	7.0x	3,005	3,606	4,207
Net Debt							
Argentina Generation Portfolio						(210)	
Panama Generation Portfolio						(1,037)	
Dominican Republic Portfolio						(434)	
Total LatAm Generation Equity Value					1,325	1,926	2,527
Shares Outstanding					693	693	693
Total LatAm Generation Value Per Share (Non-Listed)					\$1.91	\$2.78	\$3.65
Uruguaiiana CCGT					\$0.07	\$0.09	\$0.10
AES Argentina					\$0.97	\$1.23	\$1.48
AES Panama					\$0.27	\$0.63	\$0.98
AES Dominican Republic					\$0.60	\$0.84	\$1.09

Source: Company Filings and UBS Estimates

Figure 26: Full AES Sum-of-the-Parts – Part 2

North American Utilities							
	2015 Net Income		P/E Multiple		Low	Base	High
T&D Utility	65	14.0x	15.0x	16.0x	910	975	1,040
		Peer Multiple =	15.5x				
		Premium/Discount =	-0.5x				
Add: Back Hypothetical Debt					650	650	650
T&D Utility EV					1,560	1,625	1,690
	2016 EBITDA (Gen)						
Generation	65	8.0x	9.0x	10.0x	519	583	648
DPL-ER	24	4.0x	5.0x	6.0x	96	120	144
Merchant EV					615	703	792
ESP Rates (Nonbypassable, NPV)					174	174	174
Total DPL Debt (DP&L and Inc.)					(2,294)	(2,294)	(2,294)
DPL Equity Value					54	208	362
	2015 Net Income		P/E Multiple				
IPL (Indianapolis Power & Light)	91	14.0x	15.0x	16.0x	1,270	1,360	1,451
Total US Utility Equity Value					\$1,324	\$1,568	\$1,813
Shares Outstanding					693	693	693
Total US Utility Value Per Share					\$1.91	\$2.26	\$2.62
DP&L (Dayton Power & Light)					\$0.08	\$0.30	\$0.52
IPL (Indianapolis Power & Light)					\$1.83	\$1.96	\$2.10
European Generation							
	2015 EBITDA		EV/EBITDA Multiple		Low	Base	High
Private Subsidiaries							
AES Bulgaria (Maritza Lignite Plant)	271	6.0x	7.0x	8.0x	1,627	1,898	2,169
Kazakhstan	61	6.0x	7.0x	8.0x	366	427	488
Spain (Cartagena CCGT)	5	6.0x	7.0x	8.0x	31	36	41
UK Generation (Ballylumford CCGT and Kilroo	51	4.0x	5.0x	6.0x	203	254	304
Jordan (CCGT)	55	6.0x	7.0x	8.0x	333	388	444
Total European Generation EV	443	5.8x	6.8x	7.8x	2,559	3,003	3,446
Net Debt							
AES Bulgaria (Maritza Lignite Plant)						(1,015)	
AES Hungary (Tisza II Plant)						-	
Kazakhstan						(22)	
Spain (Cartagena CCGT)						(160)	
UK Generation (Ballylumford CCGT and Kilroot Coal)						(49)	
Jordan (CCGT)						(271)	
Total Net Debt						(1,517)	
Total European Generation Equity Value					1,042	1,486	1,929
Shares Outstanding					693	693	693
Total European Generation Value Per Share (Non-Listed)					\$1.50	\$2.14	\$2.79
AES Bulgaria (Maritza Lignite Plant)					\$0.88	\$1.28	\$1.67
AES Hungary (Tisza II Plant)					\$0.00	\$0.00	\$0.00
Kazakhstan					\$0.50	\$0.58	\$0.67
Spain (Cartagena CCGT)					\$0.00	-\$0.18	-\$0.17
UK Generation (Ballylumford CCGT and Kilroot Coal)					\$0.22	\$0.30	\$0.37
Jordan (CCGT)					\$0.09	\$0.17	\$0.25

Source: Company Filings and UBS Estimates

Figure 27: Full AES Sum-of-the-Parts – Part 3 – Reflects remaining stake in Masinloc (slightly above implied ~\$550 Mn from recent sale)

Asian Generation	2015 EBITDA	EV/EBITDA Multiple			Low	Base	High
Private Subsidiaries							
Philippines (Masinloc)	83	7.0x	8.0x	9.0x	580	663	745
Vietnam (Mong Duong), in-service in 2016	300	2.0x	2.0x	2.0x	600	600	600
Sri Lanka (Kelantissa)	30	7.0x	8.0x	9.0x	212	242	272
Total European Generation EV	413	3.4x	3.6x	3.9x	1,392	1,505	1,618
Net Debt							
Philippines (Masinloc)						(363)	
Vietnam (Mong Duong), In-service in 2016 - \$809Mn 51% owned						-	
Sri Lanka (Kelantissa)						-	
Total Net Debt						(363)	
Total Asian Generation Equity Value					1,029	1,142	1,255
Shares Outstanding					693	693	693
Total Asian Generation Value Per Share (Non-Listed)					\$1.49	\$1.65	\$1.81
Philippines (Masinloc)					\$0.31	\$0.43	\$0.55
Vietnam (Mong Duong), in-service in 2016					\$0.87	\$0.87	\$0.87
Sri Lanka (Kelantissa)					\$0.31	\$0.35	\$0.39
North American Generation	2015 EBITDA	EV/EBITDA Multiple			Low	Base	High
Southland (Contracted Gas in CA)	119	8.0x	9.0x	10.0x	949	1,067	1,186
Warrior Run (Contracted Coal in MD)	65	8.0x	9.0x	10.0x	519	584	649
Shady Point (Contracted Coal in OK)	30	8.0x	9.0x	10.0x	238	268	297
Hawaii (Contracted Coal in HI)	47	8.0x	9.0x	10.0x	376	423	470
Puerto Rico (Contracted Coal in PR)	165	8.0x	9.0x	10.0x	1,322	1,487	1,652
Merida (Contracted CCGT in Mexico)	37	8.0x	9.0x	10.0x	296	333	370
TEG/TEP (Contracted Coal in Mexico)	77	8.0x	9.0x	10.0x	620	697	775
Total North American Generation EV	540	8.0x	9.0x	10.0x	4,319	4,859	5,399
Net Debt							
Southland						(124)	
Warrior Run						(85)	
Deepwater						-	
Red Oak						-	
Ironwood						-	
Shady Point						(49)	
Hawaii						(272)	
Beaver Valley						-	
Puerto Rico						(507)	
Merida						(8)	
TEG/TEP						(343)	
Total Net Debt						(1,387)	
Total North American Generation Equity Value					2,932	3,472	4,012
Shares Outstanding					693	693	693
Total North American Generation Value Per Share (Non-Listed)					\$4.23	\$5.01	\$5.79
Southland					\$1.19	\$1.36	\$1.53
Warrior Run					\$0.63	\$0.72	\$0.81
Deepwater					\$0.00	\$0.00	\$0.00
Red Oak					\$0.00	\$0.00	\$0.00
Ironwood					\$0.00	\$0.00	\$0.00
Shady Point					\$0.27	\$0.32	\$0.36
Hawaii					\$0.00	\$0.22	\$0.29
Beaver Valley					\$0.00	\$0.00	\$0.00
Puerto Rico					\$1.18	\$1.42	\$1.65
Merida					\$0.42	\$0.47	\$0.52
TEG/TEP					\$0.40	\$0.51	\$0.62

Source: Company Filings and UBS Estimates

AES Corporation (AES.N)

Income statement (US\$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Revenues	17,274	19,232	15,891	19,258	21.2	19,342	0.4	19,296	19,248	19,266
Gross profit	4,142	3,714	3,247	3,740	15.2	3,824	2.3	3,778	3,730	3,748
EBITDA (UBS)	4,652	2,858	3,814	4,735	24.1	4,848	2.4	4,806	4,860	4,930
Depreciation & amortization	(1,262)	(1,321)	(1,330)	(1,289)	-3.1	(1,302)	1.0	(1,308)	(1,310)	(1,314)
EBIT (UBS)	3,390	1,537	2,484	3,446	38.7	3,546	2.9	3,498	3,550	3,615
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(1,168)	(1,188)	(1,172)	(1,253)	-6.9	(1,267)	-1.1	(1,264)	(1,227)	(1,211)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	2,222	349	1,312	2,193	67.1	2,279	3.9	2,234	2,323	2,405
Tax	(636)	(708)	(343)	(647)	-88.7	(696)	-7.5	(704)	(755)	(782)
Profit after tax	1,586	(359)	969	1,545	59.5	1,583	2.4	1,530	1,568	1,623
Preference dividends	(35)	(35)	(35)	(35)	-	(35)	-	(35)	(35)	(35)
Minorities	(733)	1,340	24	(570)	-	(581)	-1.9	(471)	(495)	(472)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	818	946	958	941	-1.8	968	2.8	1,024	1,037	1,116
Net earnings (UBS)	818	946	958	941	-1.8	968	2.8	1,024	1,037	1,116
Tax rate (%)	28.6	202.9	26.1	29.5	12.9	30.5	3.4	31.5	32.5	32.5
Per share (US\$)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EPS (UBS, diluted)	1.04	1.24	1.29	1.33	3.1	1.40	5.4	1.52	1.58	1.74
EPS (local GAAP, diluted)	1.04	1.24	1.29	1.33	3.1	1.40	5.4	1.52	1.58	1.74
EPS (UBS, basic)	1.05	1.24	1.29	1.33	3.1	1.40	5.4	1.52	1.58	1.74
Net DPS (US\$)	0.00	0.16	0.16	0.16	0.0	0.16	0.0	0.16	0.16	0.16
Cash EPS (UBS, diluted) ¹	2.66	2.98	3.07	3.14	2.3	3.28	4.3	3.45	3.57	3.79
Book value per share	7.60	6.14	5.77	6.56	13.8	7.60	15.9	8.79	10.05	11.52
Average shares (diluted)	783.00	760.07	745.00	709.85	-4.7	692.65	-2.4	675.44	658.23	641.03
Balance sheet (US\$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Cash and equivalents	1,710	1,970	1,642	1,870	13.9	2,020	8.0	2,020	2,020	2,020
Other current assets	7,518	6,495	6,097	6,535	7.2	6,547	0.2	6,540	6,533	6,536
Total current assets	9,228	8,465	7,739	8,405	8.6	8,567	1.9	8,560	8,553	8,556
Net tangible fixed assets	25,731	25,913	25,112	25,362	1.0	25,473	0.4	25,515	25,600	25,688
Net intangible fixed assets	3,733	1,999	1,622	1,622	0.0	1,622	0.0	1,622	1,622	1,622
Investments / other assets	6,641	5,453	5,938	5,938	0.0	5,938	0.0	5,938	5,938	5,938
Total assets	45,333	41,830	40,411	41,327	2.3	41,600	0.7	41,635	41,713	41,804
Trade payables & other ST liabilities	5,989	5,465	5,473	5,856	7.0	5,867	0.2	5,861	5,854	5,857
Short term debt	2,457	2,854	2,180	2,198	0.84	2,161	-1.71	2,086	1,992	1,874
Total current liabilities	8,446	8,319	7,653	8,054	5.2	8,028	-0.3	7,947	7,846	7,730
Long term debt	20,116	18,519	18,869	17,990	-4.7	17,681	-1.7	17,065	16,295	15,323
Other long term liabilities	6,964	7,400	6,160	7,225	17.3	7,225	0.0	7,290	7,555	7,969
Preferred shares	78	78	78	78	0.00	78	0.00	78	78	78
Total liabilities (incl pref shares)	35,604	34,316	32,760	33,347	1.8	33,012	-1.0	32,379	31,774	31,100
Common s/h equity	5,946	4,569	4,330	4,659	7.6	5,267	13.1	5,935	6,618	7,383
Minority interests	3,783	2,945	3,321	3,321	0.0	3,321	0.0	3,321	3,321	3,321
Total liabilities & equity	45,333	41,830	40,411	41,327	2.3	41,600	0.7	41,635	41,713	41,804
Cash flow (US\$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Net income (before pref divs)	853	981	993	976	-1.7	1,002	2.7	1,059	1,072	1,151
Depreciation & amortization	1,262	1,321	1,330	1,289	-3.1	1,302	1.0	1,308	1,310	1,314
Net change in working capital	52	(68)	(76)	(55)	27.5	0	99.4	0	0	0
Other operating	40	1,932	946	600	-36.6	0	-	65	265	414
Operating cash flow	2,207	4,166	3,193	2,810	-12.0	2,304	-18.0	2,432	2,647	2,879
Tangible capital expenditure	(2,430)	(2,236)	(1,988)	(1,054)	47.0	(957)	9.2	(952)	(977)	(950)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(2,518)	665	225	615	173.3	0	-	0	0	0
Other investing	42	548	(11)	0	-	0	-	0	0	0
Investing cash flow	(4,906)	(1,023)	(1,774)	(439)	75.2	(957)	-117.9	(952)	(977)	(950)
Equity dividends paid	0	(30)	(118)	(112)	4.7	(109)	2.4	(107)	(104)	(101)
Share issues / (buybacks)	(279)	(301)	(322)	(500)	-55.3	(250)	50.0	(250)	(250)	(250)
Other financing	(1,356)	(953)	(1,135)	(35)	96.93	(35)	0.00	(35)	(35)	(35)
Change in debt & pref shares	3,012	(490)	405	(1,010)	-	(347)	65.66	(691)	(864)	(1,090)
Financing cash flow	1,377	(1,774)	(1,170)	(1,657)	-41.7	(741)	55.3	(1,083)	(1,252)	(1,476)
Cash flow inc/(dec) in cash	(1,322)	1,369	250	713	185.5	606	-15.0	398	418	453
FX / non cash items	507	(1,109)	(578)	(485)	16.0	(456)	6.0	(398)	(418)	(453)
Balance sheet inc/(dec) in cash	(815)	260	(328)	228	-	150	-34.2	0	0	0

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. ¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

AES Corporation (AES.N)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	11.5	9.6	10.0	11.7	11.1	10.2	9.9	8.9
P/E (UBS, diluted)	11.5	9.6	10.0	11.7	11.1	10.2	9.9	8.9
P/CEPS	4.5	4.0	4.2	4.9	4.7	4.5	4.4	4.1
Equity FCF (UBS) yield %	(2.4)	20.8	12.5	15.6	12.0	13.1	14.8	17.1
Net dividend yield (%)	0.0	1.3	1.2	1.0	1.0	1.0	1.0	1.0
P/BV x	1.6	1.9	2.2	2.4	2.0	1.8	1.5	1.3
EV/revenues (core)	1.7	1.6	1.9	1.6	1.6	1.6	1.6	1.6
EV/EBITDA (core)	6.3	11.0	7.8	6.6	6.3	6.3	6.4	6.3
EV/EBIT (core)	8.7	20.4	12.0	9.0	8.6	8.6	8.8	8.6
EV/OpFCF (core)	7.6	18.9	10.1	8.1	7.7	7.8	8.0	7.9
EV/op. invested capital	1.0	1.1	1.1	1.1	1.1	1.1	1.2	1.2
Enterprise value (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	9,390	9,299	9,607	11,264	11,264	11,264	11,264	11,264
Net debt (cash)	18,632	20,211	19,483	18,941	18,148	18,148	18,148	18,148
Buy out of minorities	1,083	555	437	600	611	501	525	542
Pension provisions/other	1,729	2,456	1,310	1,310	1,310	1,310	1,310	1,310
Total enterprise value	30,834	32,521	30,837	32,114	31,333	31,223	31,247	31,264
Non core assets	(1,422)	(1,196)	(1,010)	(1,010)	(1,010)	(1,010)	0	0
Core enterprise value	29,412	31,325	29,827	31,104	30,323	30,213	31,247	31,264
Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	3.8	11.3	-17.4	21.2	0.4	-0.2	-0.3	0.1
EBITDA (UBS)	12.2	-38.6	33.5	24.1	2.4	-0.9	1.1	1.4
EBIT (UBS)	14.3	-54.7	61.6	38.7	2.9	-1.4	1.5	1.9
EPS (UBS, diluted)	11.3	19.2	3.3	3.1	5.4	8.6	3.9	10.5
Net DPS	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	24.0	19.3	20.4	19.4	19.8	19.6	19.4	19.5
EBITDA margin	26.9	14.9	24.0	24.6	25.1	24.9	25.2	25.6
EBIT margin	19.6	8.0	15.6	17.9	18.3	18.1	18.4	18.8
Net earnings (UBS) margin	4.7	4.9	6.0	4.9	5.0	5.3	5.4	5.8
ROIC (EBIT)	11.7	5.2	8.9	12.7	13.3	13.1	13.3	13.7
ROIC post tax	8.4	NM	6.6	9.0	9.2	8.9	9.0	9.2
ROE (UBS)	13.2	18.0	21.5	20.9	19.5	18.3	16.5	15.9
Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	4.5	6.8	5.1	3.9	3.7	3.6	3.4	3.1
Net debt / total equity %	215.2	259.3	254.7	230.5	208.4	185.9	164.4	142.5
Net debt / (net debt + total equity) %	68.3	72.2	71.8	69.7	67.6	65.0	62.2	58.8
Net debt/EV	71.2	62.2	65.3	59.1	59.0	57.0	52.3	48.8
Capex / depreciation %	192.6	169.3	149.4	81.8	73.5	72.8	74.6	72.3
Capex / revenue %	14.1	11.6	12.5	5.5	4.9	4.9	5.1	4.9
EBIT / net interest	2.9	1.3	2.1	2.7	2.8	2.8	2.9	3.0
Dividend cover (UBS)	-	7.9	8.1	8.4	8.8	9.6	10.0	11.0
Div. payout ratio (UBS) %	-	12.7	12.3	11.9	11.3	10.4	10.0	9.1
Revenues by division (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	17,274	19,232	15,891	19,258	19,342	19,296	19,248	19,266
Total	17,274	19,232	15,891	19,258	19,342	19,296	19,248	19,266
EBIT (UBS) by division (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	3,390	1,537	2,484	3,446	3,546	3,498	3,550	3,615
Total	3,390	1,537	2,484	3,446	3,546	3,498	3,550	3,615

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	-3.4%
Forecast dividend yield	1.0%
Forecast stock return	-2.4%
Market return assumption	5.5%
Forecast excess return	-7.9%

Statement of Risk

AES's stock could be negatively affected by weather; weak wholesale power prices; economic downturn in its regulated service territories; interest rate risks; negative regulatory decisions for both its regulated and merchant subsidiaries; and disruption of trading activity in power markets. The company is also exposed to risks from its international operations including adverse changes in foreign exchange rates; international regulations; and economic, social and political instability. Its United States Generation business is exposed to unfavorable regulatory developments from the FERC and state utility commissions. Further, AES is subject to stringent environmental laws and regulations by federal, regional, state and local authorities, international treaties and foreign government authorities. Its business remains exposed to commodity, power and capacity price volatility.

Required Disclosures

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission.

Analyst Certification: Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2014.

1: Percentage of companies under coverage globally within the 12-month rating category. 2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category. 4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES: **UK and European Investment Fund ratings and definitions are:** **Buy:** Positive on factors such as structure, management, performance record, discount; **Neutral:** Neutral on factors such as structure, management, performance record, discount; **Sell:** Negative on factors such as structure, management, performance record, discount. **Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Research analysts contributing to this report who are employed by any non-US affiliate of UBS Securities LLC are not registered/qualified as research analysts with the NASD and NYSE and therefore are not subject to the restrictions contained in the NASD and NYSE rules on communications with a subject company, public appearances, and trading securities held by a research analyst account. The name of each affiliate and analyst employed by that affiliate contributing to this report, if any, follows.

UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
AES Corporation ^{2, 4, 6, 16}	AES.N	Neutral	N/A	US\$15.53	27 Jun 2014

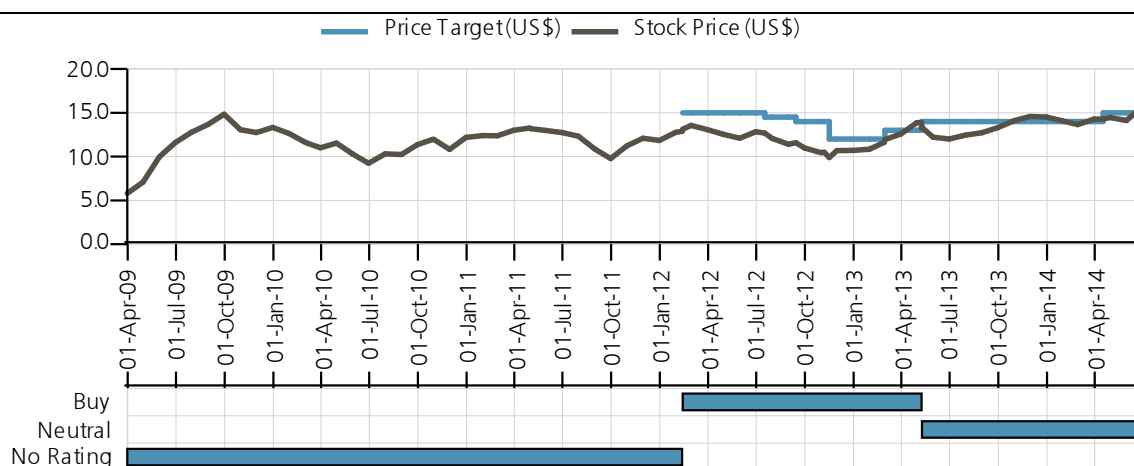
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months.
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
6. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and investment banking services are being, or have been, provided.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

AES Corporation (US\$)



Source: UBS; as of 27 Jun 2014

Global Disclaimer

This document has been prepared by UBS Securities LLC, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this document is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACP (Autorité de Contrôle Prudentiel) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Distributed by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Securities CJSC. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited, an authorised user of the JSE and an authorised Financial Services Provider. **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Qualified Investors within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi closed joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate') to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a document prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [mica (p) 107/09/2013 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to institutional investors only. Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services Licence No. 231127). This Document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the information, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If the information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. **New Zealand:** Distributed by UBS New Zealand Ltd. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Dubai:** The research distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (253825-x). **India:** Prepared by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

The disclosures contained in research documents produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this document in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2014. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

