



MESSAGE FROM THE CEO



The increased severity of the hydrological period experienced in Brazil in 2014 has imposed an even greater depletion to the reservoirs in the Brazilian hydroelectric network, requiring a broader and more costly base thermal generation. We closed 2014 with the Brazilian reservoirs with about 22% of their capacity, after registering yearly affluence equivalent to 81% of the long-term average.

By limiting the generation of hydroelectric power, given the water shortages, and raising energy costs generated throughout the system, this framework has imposed significant pressure on the purchased energy cost, far beyond the existing tariffs, with their respective effects on generators and power distributors' cash flow.

The impacts on electric power distributors were partially solved by CDE investments (Energy Development Contribution) and mainly by bank loans amounting to R\$ 17.8 billion to CCEE (Electric Energy Trading Chamber), for later transfer to electric power tariffs.

Within this environment and based on pre-defined business plans for AES Brazil companies on its Sustainable Strategic Planning for the 2014-2018 cycle, we sought adjustments aiming at further efficiency gains and necessary solutions to the challenges presented in 2014, in order to preserve the sustainability of our business and the interests of our customers, shareholders, employees and other business partners.

AES Brazil ended 2014 with net income of R\$16.7 billion, EBITDA of R\$1.8 billion and net income of R\$0.5 billion. Levels below those recorded in 2013, reflecting the impact of hydrology severity, especially in our power generator AES Tietê. Throughout 2014, we invested R\$ 1.0 billion in our distribution and electric power generation operations.

We allocated R\$186 million towards the modernization of our AES Tietê hydroelectric plants. This investment program remains continually contributing to greater reliability and efficiency of our generating units. In 2014, unplanned outages were reduced by 35%, also as a result of our asset management.

The storage level of AES Tietê's power plant reservoirs ended the year with 34.7% of average storage capacity, and its power generation was reduced by 39% as compared to 2013. Given the unfavorable hydrology and the need for power purchasing to meet their contracts, AES Tietê recorded impact of R\$816 million on its EBITDA.

Regarding sale of electricity, we closed 2014 with 1,034 MWm and 909 MWM sold (83% and 73% of the available energy) to delivery in 2016 and 2017, respectively. The agreements made in 2014 reflect higher prices due to the hydrological scenario. In the year 553 MWm were sold to be delivered from 2016 at an average price of R\$149/MWh.

Our thermoelectric plant, AES Uruguaiana, resumed operations in March 2014, on an emergency basis. We operated for about 70 days generating 224 MWm. On February 12, 2015, operations were resumed again, and should be extended for 60 days. Along with the Brazilian and Argentinian



governments, we continue seeking feasibility of a more sustainable and effective long-term operation system, given the needs of the national integrated system.

At our power distributors, we have invested R\$ 789.5 million, allocating R\$583 million to AES Eletropaulo and R\$206.5 million to AES Sul. These investments were designed to improve the quality of services provided to our customers, including modernization and automation programs for our power grids, increasing capacity to respond to the consumption growth and more efficient operating and management systems.

In 2014, both AES Eletropaulo and AES Sul faced extreme weather events. AES Sul was affected in a rather continuous manner with more significant magnitude and frequency throughout the year, had average frequency and duration of impacted interruptions. We ended 2014 with a DEC (equivalent duration of interruption) of 17.76 hours and FEC (equivalent frequency of interruption) of 8.88 times, compared to 14.08 hours and 7.42 times, respectively, over 2013. AES Eletropaulo, more precisely in December, was impacted by severe rainfalls and winds of up to 100 km/h in its concession area, mainly affecting the average duration of power outages. At AES Eletropaulo we have reduced the FEC to 3.81 times, compared to 4.37 times in 2013. However, the DEC stood at 8.86 hours compared to 7.99 hours in 2013. Recovery plans of these indicators have been structured and have been implemented for both AES Sul and for AES Eletropaulo.

The Group's distribution companies have invested in the continuous improvement of customer service. About 8,000 employees were trained in JAAT - Jeito AES de Atender, a program aimed at efficiency, discipline and courtesy in customer service. This program was recognized by Exame Sustainability Guide on its 2014 edition.

In Safety, our number 1 Value, 2014 ended without any fatal accident involving 20 thousand AES Brazil own employees and subcontractors. Our investment in safety totaled R\$ 29.2 million. After experiencing an increase in fatal accidents involving the population in 2013 and reinforcing our educational campaigns in 2014, we recorded a reduction of 22% (23 to 18) in fatal accidents involving the population in the areas served by the Group's power distribution companies. At AES Eletropaulo's concession area this reduction was 44% (from 18 to 10 fatal accidents). These results reflect the investments and the company's initiatives with the purpose of educating and disseminating knowledge about the risks involving electricity.

These first two months of 2015 indicate a potentially more severe hydrological context. On the other hand, important actions have been taken to restore the economic and financial balance of power distribution companies. Tariff flags, which came into force from January 1st, go through price increase process. Aneel (Brazilian Electricity Regulatory Agency) promotes public hearing to implement Extraordinary Tariff Review, in order to adjust the tariff coverage of the distributors to recent increases in energy from Itaipu (46%), new CDE quotas, hydrological risk of energy quotas, among several other non-manageable cost items, which have overtaxed the distributors without proper tariff correspondence.



If on one hand, these measures correctly seek to financially offset energy costs and all other non-manageable components, it is fundamentally important that the methodology for the 4th Periodical Tariff Review is completed in a consistent manner and with correct and adjusted incentives and economic signals. If the measures on energy costs will prevent future impacts on the investment capacity of the distributors, strengthening them and ensure their sustainability are directly linked to the quality of the 4th Tariff Cycle, to start next April.

Another aspect that requires objective and priority treatment is the GSF - Generation Scaling Factor – impact, at the hydroelectric generators. The burden imposed to the generators in 2014 is estimated at about R\$23 billion. 2015 suggests comparable figures. Developments of the Brazilian generation matrix, current dispatch features, among many other variables, need to be re-evaluated and considered for a broader and more structured solution, which brings a better balanced equation and more appropriate to the MRE (Energy Allocation Mechanism).

The prospects for 2015 are quite challenging, but also bring the opportunity for a more coordinated and joint action between granting power, regulator, companies and investors in the sector, both to objectively treat short-term issues, such as to establish the necessary basis so the sector may solve their weaknesses and resume its role as potential inducer of development, competitiveness and growth of the country. For 2015, we plan to invest R\$1.035 billion, allocating R\$ 867 million for distribution, R\$ 155 million for the generation of electricity and R\$ 13.8 million for electricity services.

I thank our employees, customers, investors, shareholders, lenders, suppliers, communities, regulatory agencies and governments.

BRITALDO SOARES

AES Brasil's CEO

ABOUT THE GROUP



AES Brasil Group knows the important role it plays as a reliable, safe and sustainable energy provider for the wellbeing of millions of people and for the development of the Country. Its workforce dedicates itself to always work better and faster, listening to its customers and other stakeholders, while always being aware of the importance of the collective good and the environment.

AES BRASIL GROUP'S COMPANIES

GENERATION DISTRIBUTION **SERVICES**











2.5% of the installed capacity of generation in Brazil

14.3% of the power distributed in Brazil

AES BRASIL IN NUMBERS (2014)

- 8 million of consumer units
- 5.6 thousand GWh of energy distributed
- 3,298 MW of installed capacity
- 7.8 thousand GWh of energy generated
- 9 hydroelectric plants
- 3 small hydroelectric plants (SHP)
- 1 thermoelectric power plant
- 8.7 thousand own employees
- More than 23 million people served by the energy distributors
- R\$ 113.5 million invested in social projects
- Over 550 thousand people benefited by social projects
- R\$ 0.5 billion in net income
- R\$ 1.8 billion in EBITDA
- R\$ 1 billion in investments



AES ELETROPAULO

AES Eletropaulo is an electric power distribution company that serves 24 cities of the metropolitan region of São Paulo – including the state capital, one of the main financial and economic centers of Brazil and the world. Considered the largest distributor in Brazil in terms of energy distribution the Company operates in a concession area with high demographic density, which has the largest GDP (Gross Domestic Product) in Brazil. Each km2 concentrates more than 1.5 thousand consumer units, double the country's second largest distributor's density, and features an operating environment presenting the challenges associated with a large scale.

Learn more in the <u>AES Eletropaulo</u> Sustainability Report 2014.

AES SUL

AES Sul Distribuidora de Energia S.A. is a public electricity service concessionaire that serves 118 cities of the metropolitan region and the center-west of the State of Rio Grande do Sul, where it has operated for 17 years. The concession area served by the company covers 99,512 km² and accounts for over 3 million people.

Learn more in the AES Sul Sustainability Report 2014.

AES TIETÊ

Brazil's third largest private power generation company, AES Tietê has operated since 1999 in the generation and sale of electricity. Its generating network consists of hydroelectric plants and small power plants (SHP) in the State of São Paulo, totaling 2,658 MW of installed capacity and physical guarantee of 1,278 MWm. The company carries out the procurement and sale of energy processes for the development and the consolidation of a free and competitive energy market in the country, with high added-value solutions for its customers. It sells electricity throughout the country, with special attention to renewable sources.

Learn more in the AES Tietê Sustainability Report 2014.



AES URUGUAIANA

AES Uruguaiana is a natural gas thermoelectric power plant which began its operations in 2000 in the city of Uruguaiana, State of Rio Grande do Sul. With an installed capacity of 639.9MW, the plant has its activities frozen since April 2009 due to the interruption on the gas supply from Argentina. Operations were resumed on an emergency basis in 2013, 2014 and 2015, exceptionally and temporarily.

Learn more in the AES Uruguaiana Management Report 2014.

AES SERVIÇOS

Created in 2011, AES Serviços operates in the energy sector, providing integrated services with high added value for electric power agents, commercial and industrial segments, based on the skills and knowledge of the AES Brasil Group.

AES Serviços' core businesses:

- Technical-operational and commercial services;
- Massified services, such as insurance sales;
- Construction and maintenance of substations and transmission lines;
- Consultancy in energy efficiency;
- Photovoltaic generation projects in factories, businesses and homes.

AES IN THE WORLD

AES Corp. is a global company that operates through a diversified and growing portfolio in the generation and distribution businesses providing reliable and affordable electric power for customers in 18 countries, with a workforce of approximately 18,500 people.





AES BRASIL:

- Sustainability Exame Guide: best company in the energy sector and market leader in the Customer Relations area; The Group was also listed in the Guide in 2009, 2012 and 2013;
- ECO Award 2014 category ELIS (Strategy, Leadership and Innovation for Sustainability) –
 Amcham Brasil;
- IBEF Sustainability Award in the category Corporate Governance Brazilian Institute of Finance Executives (IBEF Instituto Brasileiro de Executivos de Finanças);
- Award for Companies that Best Communicate with Journalists Business Communication;
- 17th place among the most innovative companies in Brazil and second in the category Business Strategy and Innovation INFO Exame magazine;
- Sustainability TOP Prize ADVB (Associação dos Dirigentes de Vendas e Marketing do Brasil Association of Sales and Marketing Managers of Brazil).

AES ELETROPAULO:

- Corporate Sustainability Index (ISE) BM&FBovespa 2015 Portfolio: included in the portfolio of the Index for the 10th consecutive year;
- Transparency Prize Associação Nacional dos Executivos de Finanças, Administração e Contabilidade (ANEFAC – National Association of Executives in Finance, Administration and Accounting);
- 1st place in the ranking of the energy sector "Most Admired Companies in Brazil" ("Empresas Mais Admiradas do Brasil"), Carta Capital;
- Eloy Chaves Medal 2014: 3rd best company in health and safety in the Distribution category with more than 2,000 employees - Brazilian Association of Electricity Companies (ABCE – Associação Brasileira de Companhias de Energia Elétrica);
- ABT Award in the Technical Support and Quality Management Brazilian Institute of Relationship Marketing (IBMR – Instituto Brasileiro de Marketing de Relacionamento);
- 13th most sustainable company according to the media PR Newswire.

AES TIETÊ:

- Corporate Sustainability Index (ISE) BM&FBovespa 2015 Portfolio: included in the portfolio of the Index for the 8th consecutive year;
- Eloy Chaves Medal 2014: for the second consecutive time, best company for health and safety in the Generators category – Brazilian Association of Electricity Companies (ABCE – Associação Brasileira de Companhias de Energia Elétrica);
- Honorable mention for the project with carbon credit from restored areas around the reservoirs – Environmental Merit Award from the Federation of Industries of the State of São Paulo (FIESP – Federação das Indústrias do Estado de São Paulo).



AES SUL:

- National Quality Award (PNQ Prêmio Nacional da Qualidade) National Quality Foundation (FNQ – Fundação Nacional da Qualidade);
- 150 Best Companies to Work For in Brazil, in Você S/A Magazine;
- 35 Best Companies to Start a Career In, in Você S/A Magazine: the only company in the electric sector to enter the ranking;
- 5th Best Company to Work for in Rio Grande do Sul, according to the global methodology Great Place to Work.





INCREASING DEMAND FOR ENERGY

According to the projection of a study by the Energy Research Company (EPE) in 2014, the demand for energy in Brazil will double by 2050, which reinforces the key role of the energy sector for the development of the country¹. Over the past decade, the electricity industry grew alongside the growth in demand, with an expansion of 35% in energy generation capacity.

¹Source: http://www.epe.gov.br/Estudos/Documents/DEA%2013-14%20Demanda%20de%20Energia%202050.pdf.

HYDROLOGICAL CRISIS AND CLIMATIC EVENTS

The Brazilian energy sector has faced major challenges as a result of unfavorable climatic and hydrological conditions. Similar to 2013, 2014 was characterized by reservoirs operating below capacity in different regions, which impacted Brazil's energy source, since about 65% of the energy generated in the Country comes from hydroelectric dams¹.

In the Southeast, the affluent natural energy (ENA) in 2014 – volume of energy that can be produced according to the volume of rainfall – was equivalent to 68% of the ENA in 2013. The reservoir levels in the Southeast and Midwest ended 2014 with about 19.4% of their total capacity, lower than the levels seen in late December 2013 (43%)².

AES Tiete's reservoirs in the State of São Paulo were impacted by the drought in the region. Click <u>here</u> to learn more about the impacts and the company's actions aimed at the management of its plants.

In addition, in the last days of 2014 and early 2015 the metropolitan region of São Paulo was hit by a series of storms, with strong winds and thousands of lightning strikes that brought down hundreds of trees and affected the urban infrastructure.

AES Eletropaulo's electricians and customer service teams worked hard to restore power. Learn more in the <u>Operational Excellence</u> chapter.

¹Source: http://www.aneel.gov.br/aplicacoes/capacidadebrasil/capacidadebrasil.cfm Figures verified on 12/31/2014.

²Source: Operador Nacional do Sistema (National System Operator)



During the last two years, there was an increase in the frequency and intensity of climatic events in the state of Rio Grande do Sul. In the summer between 2013 and 2014, storms exceeding historical averages caused major damage to the transmission lines, throwing objects on to the network and toppling thousands of posts and pillars, which impacted the power supply.

- Besides temperatures above 40°C, 14 storms were recorded in 28 days between January and February 2014, with winds of up to 150 km/h, in AES Sul's concession area. In all, 92 storms were recorded in the year. In the city of Novo Hamburgo, a weather phenomenon called "super cell" occurred, which can cause damage comparable to the force of a tornado⁴.
- The storms affected the company's operating indicators and infrastructure maintenance costs. Learn more in Operational Excellence chapter.
- Due to the large number of customers impacted by the effect of the frequent storms in January and February, AES Sul was called to answer two CPIs (Parliamentary Commission of Inquiry) and provided all requested information.
- Legislative Assembly of Rio Grande do Sul: AES Sul attended the assembly, along with two other electric energy concessionaires that serve the state, to provide information about the lack of energy in the period between December 2013 and February 2014.
- Novo Hamburgo: on the energy supply situation in the city, where there was serious damage to the grid due to the extreme weather event on 31 January.
- AES Sul has provided all the information requested by both committees. The CPI of the Legislative Assembly began in April and ended on July 10, 2014, upon submission of a report. The CPI of Novo Hamburgo, promoted by the Municipal Council, was closed in November 2014.

¹Source: MetSul Meteorologia

ENERGY SECURITY

Since 2009, the energy sector has been experiencing a significant development in sources of renewable energy generation, with an increase in installed capacity through wind and hydroelectric power plants, the latter with reduced water storage capacity. Furthermore, in 2014 the first specific auction for photovoltaic power took place. Solar energy was successful in its first auction with the sale of 160MW on average (~890MW of installed capacity). These intermittent sources of renewable generation have been largely responsible for Brazil's increased installed capacity in recent years.

On the other hand, the National System Operator (ONS) must – as one of its basic tasks – develop studies and activities in order to manage the stock of stored energy to ensure the security of continuous supply throughout the Country, which becomes more challenging with a larger number



of intermittent sources. Due to the low reservoir levels and to ensure the power supply in the country, there was an intensification of thermal generation. According to the ONS, thermal generation in 2014 was 28% higher than in 2013.

This trend emphasized the need for expansion of installed capacity through reliable and dispatchable sources such as thermal power plants, which has been seen in the last auction of new energy in 2014, the A-5¹. These sources should also be encouraged and have active participation in auctions in order to pave the way for the sustainable development of intermittent renewable energy and its continued increased participation in national energy production.

The conditions forecasted for 2015 require power generation projects with fast execution, such as solar, and projects with reliable dispatch, such as thermal, indicating that AES Tiete's project portfolio is in line with this scenario and able to participate in energy auctions in 2015. Click here to see AES Tiete's generation projects.

¹Auction where the distributors contract energy from generators five years before the day of delivery

FINANCIAL ASSISTANCE TO THE SECTOR

Besides the high cost of power purchase in the short term market, resulting from factors following the enactment of the Provisional Measure n.° 579/2012 (converted into Law n.° 12.783/2013), the costs of thermoelectric dispatch (Energy System Service Charge) and hydrological risk caused great financial instability to the distribution concessionaires. In 2013, resources were transferred from the National Treasury to the Energy Development Account (CDE) and to distributors to cover these additional costs. In 2014, funding was increased by the CCEE (Electric Power Trading Chamber) with financial institutions, and funds were transferred by the ACR Account in order to mitigate the financial impact of the distributors.

In 2014, the transfer of funds from CDE and ACR Account, recorded by AES Eletropaulo to mitigate the effects of involuntary exposure totaled R\$1,296.9 million. Learn more in the company's <u>4Q14</u> <u>Quarterly Release</u>. At AES Sul, this amount totaled R\$452.6 million in 2014.



TARIFF FLAGS

Besides the unpredictable cost of thermal energy, the MP 579 promoted the early end of concession contracts, maturing in 2017, in order to reduce energy prices. In 2014, the exposure of distributors to the increase in the cost of energy purchased in the short-term market was not passed on directly to the consumer. However, from January 2015 the effects of drought are already reflected in electricity bills. Through the tariff flags – a new billing system regulated by Aneel (National Electric Power Agency) – electricity bills indicate that the power will have a higher or lower rate, according to the conditions of electricity generation every month. Currently, the power purchase costs are included in the adjustment calculation of tariffs for power distributors and are passed on to consumers about a year after occurred, when the adjusted rate becomes effective. The introduction of tariff flags, theoretically, reduces the risk of mismatch between rising costs and revenues, which was a major factor contributing to the financial imbalance in the sector in 2013 and 2014.

The tariff flags will be the monthly indicator of the generation cost of the electricity that will be charged. Each tariff flag is set monthly by Aneel according to information provided by the National System Operator – ONS, due to the capacity of electric power generation in the country.

Over 2013 and 2014 (test-years), AES Eletropaulo and AES Sul have been publishing the flags on its electric bill that would be active in each area, as if the system was already in operation. In 2014, the companies held information campaigns and 100% of the customer service teams have been trained to inform and clarify customers about the change.

PERIODICAL TARIFF REVIEW

Carried out periodically by Aneel, as stipulated in the distributors' concession agreement, the periodical tariff review studies more comprehensively all the items that comprise electricity bills, keeping distributors economically and financially balanced, and considering all the investments made, operating costs, quality of services, productivity gain estimation, among others. The methodology to be applied in the 4th Tariff Review Cycle, which starts in January 2015, is still under review by the agency.

AES Eletropaulo's next periodic tariff revision will be held in 2015, when the company will forward to Aneel – among other documents and studies – the appraisal report of the asset base, a multidisciplinary study that engages all areas of the company, to back their investments. At AES Eletropaulo, the tariff revision is held every four years. At AES Sul, the reviews take place every five years and the next periodic tariff revision will be held in 2018.



ANNUAL TARIFF ADJUSTMENT

The adjustment in electricity tariffs is also stipulated in the concession contracts and is calculated annually by Aneel (except in years when the periodic tariff revision already happens). From rules set by the agency, both energy bill parcels are adjusted:

- 1. Parcel A to restore the purchasing power of the distributor's revenue in order to cope with variations in costs with industry burdens, transmission charges and energy purchases; and
- 2. Parcel B composed of compensation¹, depreciation and operating costs, and which annual adjustment considers the year's IGP-M deducted from what is called "X Factor" This consists of three components with the following objectives: (i) share productivity gains with consumers; (ii) encourage greater efficiency and (iii) encourage quality improvement.

AES Eletropaulo's average adjustment in 2014 was 18.06% for low voltage customers and 19.93% for high voltage customers. At AES Sul, the average adjustment in 2014 was 28.99% for low voltage customers and 30.29% for high voltage customers.

Among a total of 64 distributors, AES Eletropaulo closed the year with the 4th lowest electricity tariff in Brazil and AES Sul with the 16th lowest tariff in Brazil*.

Learn more about the tariff of AES Eletropaulo in the Ethics and Customer Respect Chapter.

¹Compensation is calculated by applying the WACC (Weighted Average Cost of Capital) defined by ANEEL for the sector in net Regulatory Compensation Basis, the latter formed from the evaluation of the concessionaire assets.

PUBLIC LIGHTING

Aneel's Normative Resolution 414/2010, 2010, determined that the distributors in Brazil should transfer the public lighting assets to municipality governments, within a maximum period of 24 months. The deadline has been extended twice and ended on 31 December 2014. From that date, the responsibility for the operation and maintenance of public lighting is no longer with distributors. Municipalities may establish the Public Lighting Contribution (CIP), which can be collected through electricity bills.

AES Eletropaulo was responsible for the lighting of 18 municipalities of a total of 24 in its concession area. By the end of the year, the company successfully completed the transfer of assets to five municipalities. The transfer is not yet concluded in the remaining municipalities, as 11 of them have

^{*} excluding tax / referring to customers of residential class. Source: Aneel website



not completed the necessary work to do so and two municipalities were granted an injunction contrary to the transfer. The maintenance of public lighting was already the responsibility of the 118 municipalities in AES Sul's concession area before the publication of the resolution.

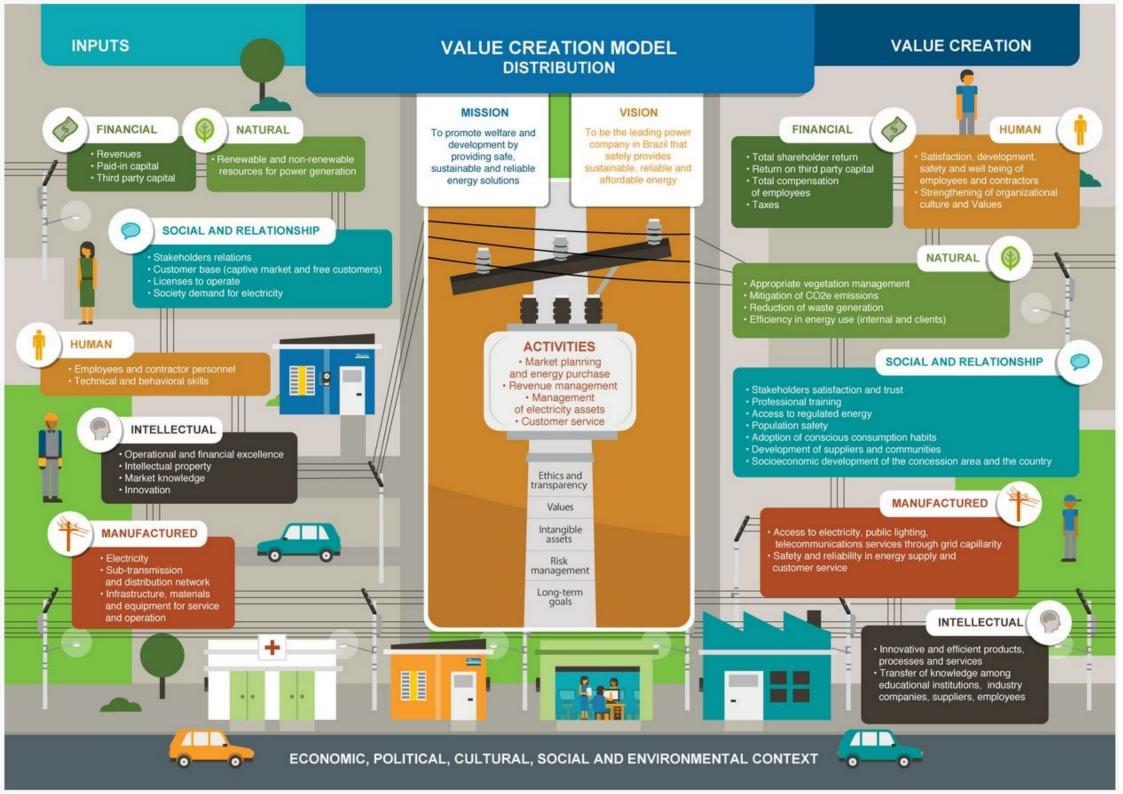
CUSTOMER SATISFACTION WITH THE DISTRIBUTION OF ENERGY

Despite all the challenges of the sector, the residential customer satisfaction surveys – conducted by the Associação Brasileira de Distribuidores de Energia Elétrica (Abradee – Brazilian Association of Electric Energy Distributors), in partnership with the Institute INNOVARE – show that, for 15 years, 66.2% of customers were satisfied or very satisfied with the quality of supply and services provided by the Brazilian distributors. This index has increased significantly on a sustained basis, reaching 78.9% in 2014, the best result since 2009.

The ISQP (Quality Satisfaction Index) of AES Eletropaulo was 78.6% in a survey released in March 2014, higher than the 78.3% registered in 2013. The intermediate ISQP, released in October 2014, reached 80.6%, the highest level since the March 2012 survey. Learn more in the Ethics and Customer Respect chapter.

The ISQP of AES Sul was 74.8% in a survey released in March 2014. The intermediate ISQP, released in October 2014, reached 88.3%.





INPUTS VALUE CREATION VALUE CREATION MODEL AES TIETÊ VISION MISSION FINANCIAL NATURAL FINANCIAL HUMAN To promote welfare and To be the leading power development by company in Brazil that · Revenues providing safe, safely provides Total shareholder return Satisfaction, development. · Paid-in capital sustainable and reliable sustainable, reliable and · Return on third party capital safety and well being of employees Biodiversity of reservoirs and · Third party capital energy solutions affordable energy · Total compensation its surroundings of employees Renewable and non-renewable Taxes culture and Values resources for power generation SOCIAL AND RELATIONSHIP NATURAL Stakeholders relations · Preservation and restoration of biodiversity reservoir · Licenses to operate **ACTIVITIES** · Customer base and its surroundings Mitigation of CO2e emissions Society demand for electricity. · Energy sale · Efficiency in water and energy use · Hydro plants and locks operation · Asset management HUMAN SOCIAL AND RELATIONSHIP · Technical and behavioral skills · Stakeholders satisfaction and trust · Professional training · Adoption of conscious consumption habits · Population safety INTELLECTUAL Intangible Risk Long-term Ethics and -· Development of suppliers and communities Values transparency Assets Management goals · Socioeconomic development of the surrounding of plants · Operational and financial excellence and the country · Intellectual property Market knowledge Innovation INTELLECTUAL MA · Innovative and efficient products, processes and services MANUFACTURED Transfer of knowledge among educational institutions, industry companies, suppliers, employees · Hydro plants (turbines, generators and reservoirs) Reservoir locks · Infrastructure, materials and equipment for service and operation MANUFACTURED · Safety and reliability in energy supply ECONOMIC, POLITICAL, CULTURAL, SOCIAL AND ENVIRONMENTAL CONTEXT



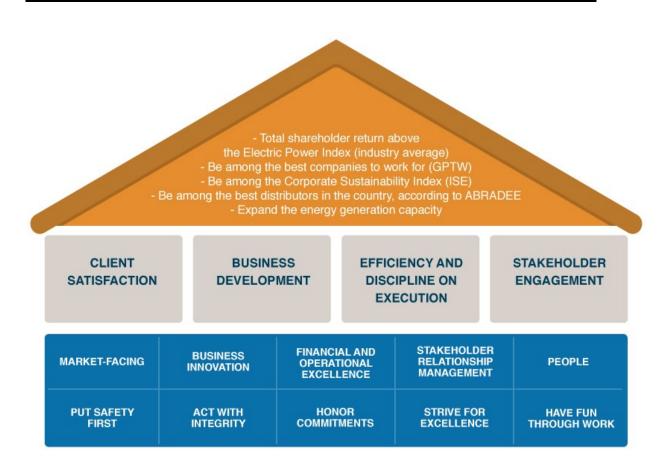
SUSTAINABLE STRATEGIC PLANNING

Since the Sustainable Strategic Planning 2012-2016 was released, the AES Brasil Group has undergone changes in its operating context, such as the distributor's tariff review, the adjustments in the growth prospects for the country, as well as a period of unfavorable hydrological conditions and the elections. Changes in the economic, political and industrial environments highlighted the need to revalidate Sustainable Strategic Planning for 2015-2019.

The main leaders of the company were engaged in this revalidation, and the process included talks with external experts about the sustainability, regulatory and external market scenarios.

Simplification and focus were the main drivers of the new strategy, consisting of long-term goals, strategic guidelines and business commitments. It is a strategy that is based on its main Intangible Assets and the Group's values.

STRATEGY TEMPLE:





Strategic guidelines:	Business commitments:
 Client satisfaction; Business development; Efficient use of resources and discipline in execution; Stakeholder engagement. 	 Ensure service excellence with ethics and respect for the clients; Grow with sustainable energy solutions; Maximize value by anticipating and reducing risks and economic, social and environmental impact; Encourage progress in the sector, educate the population for conscious consumption and develop employees, partners and communities.

The monitoring of strategic indicators is conducted periodically in performance forums and meetings with managers and leaders, in which decisions regarding the fulfillment of established goals are taken.

The company builds on the Management Excellence Model (MEG), of the National Quality Foundation (FNQ) as one of the pillars of the strategy. From the MEG, many of the Company's management processes are reviewed annually to evaluate the level of maturity of the company management and to define action plans for processes improvement.

As a base for this diagnosis, an assessment is made within the National Quality Award (PNQ) cycle, an initiative of the FNQ that recognizes world-class companies, considered as having the best management practices.

WITH THE NEW SUSTAINABLE STRATEGIC PLANNING, WHAT HAPPENS TO THE SUSTAINABILITY PLATFORM?

With advances made in terms of shared vision, understanding of the relationship between sustainability and business and in terms of the challenges brought by climate change and regulatory scenarios, the top management of AES Brasil decided to take a very important step.

In order to make the integration of social, environmental and governance issues more tangible, the main aspects of the Sustainability Platform were incorporated into the Sustainable Strategic Planning 2015-2019.

The new plan, therefore, offers all the company's stakeholders with a consistent and unified strategy so that AES Brasil can move toward its new vision from 2015 and create shared value for all.





Moreover, the strategic planning also reinforces the understanding of the AES Brasil Group in its role as a change agent and the impact that its business has on stakeholders, and is the result of intense work to integrate the logic of sustainable thinking to the decision-making to all hierarchical levels of the Group.

The Sustainability Platform, which launched in 2009, was an essential step for the subject to be gradually integrated into AES Brasil's strategy. Based on five themes of sustainability and three transversal themes within the strategy, the results were monitored to make sustainability increasingly tangible for all of AES Brasil's stakeholders.

This report presents AES Brasil's results ahead of the commitments made in the five themes of sustainability of the Sustainability Platform, during the last year of monitoring.



STAKEHOLDERS

For AES Brasil Group, stakeholders are people or a group of people that, in some way, are affected positively or negatively by the company's activities. They are people and organizations that depend, influence, sponsor or supervise the activities of the Group.

AES Brasil's ten stakeholder groups, shown in the chart below, were defined in 2011, in workshops involving various areas of business.





MANAGEMENT AND ENGAGEMENT OF STAKEHOLDERS

The new 2015-2019 strategic plan has, as one of its main guidelines, the engagement of stakeholders, representing an improvement compared to the previous strategy, which focused on the management of these groups. In line with the new strategy, AES Brasil's companies will aim to strengthen the relationship with its ten stakeholders.

In 2014, the Stakeholder Performance and Management Forum was created, which will operate from 2015 and will be responsible for measuring and monitoring – through key performance indicators – each of the stakeholders' requirements regarding the company's activity. Therefore, AES Brasil's companies will have to measure the status of the engagement process, as well as the service and management of these groups' expectations, considering the challenges presented in the implementation of the business strategy.

The engagement results will be incorporated into the Sustainable Strategic Planning cycle in order to support business decisions.







The management structure of AES Brasil Group's companies is decentralized and relies on the relationship between shareholders, managers, independent auditors and fiscal council to align corporate policies and decisions. The practices and principles adopted, among others, are transparency, separation between the functions of the board's chairman and the CEO, reporting channels, and broad dissemination of ethics. The corporate governance is a fundamental element of the value creation model of AES Brasil's companies.

VISION

To be the leading power company in Brazil that safely provides sustainable, reliable and affordable energy.

MISSION

To promote welfare and development by providing safe, sustainable and reliable energy solutions.

VALUES

- Put Safety First
- Act with Integrity
- Honor Commitments
- Strive for Excellence
- Have Fun through Work



COMPLIANCE AND ETHICS

AES Brasil Group's Compliance and Ethics Program was created from the company's commitment to transparency and to ensure ethical conduct in all its business as well as to meet the applicable national and foreign laws. The initiatives developed within the program aim to protect the highest levels of integrity and ethical values among the Group's stakeholders.

The Compliance and Ethics Program consists of three pillars: Training and Education , AES Helpline and Contractual Compliance.

AES BRASIL EXPECTS ITS EMPLOYEES AND PARTNERS TO SHOW THE HIGHEST STANDARDS OF ETHICAL CONDUCT IN THEIR DECISIONS AND BUSINESS RELATIONSHIPS.







AES BRASIL'S VALUES GUIDE (CODE OF CONDUCT)

VALUES GUIDE

All activities performed by AES Brasil are founded by the document "Os Valores da AES – Das Palavras Às Ações", which is the code of ethics and conduct in the business based on the AES Corp. guidelines. This document is available to all the Group's stakeholders and can be accessed here.

TRAINING AND EDUCATION

The Group develops an education and training program that has several initiatives related to the themes of Ethics, Compliance, Corporate Values and Anti-Corruption, among others. In 2014, 27,134 training sessions were performed for employees of all hierarchical levels of AES Brasil's companies – from trainee electricians to the CEO – and contracted parties. The amount of training sessions was approximately 27% higher than in 2013. The growth is mainly due to the Values Guide Certification training, which is mandatory and demanded every two years. Among other actions, we highlight:



- Training on the process of Contractual Compliance;
- Global Ethics Day;
- Compliance Program in the integration session for new employees, interns and trainees;
- Ethics Multipliers;
- Diga Não à Caixinha strengthening the policy of employees not accepting customer money, or money from anyone else;
- Training with the CECO (Chief Ethics and Compliance Officer) of AES Corp., Peter Jaffe who, during his visit to Brazil, gathered about 150 people to discuss issues related to the themes
 Gifts & Entertainment and Conflict of Interest.

AES HELPLINE

AES Brasil relies on the AES Helpline, an open communication channel for all the Group's stakeholders and available 24 hours a day and 365 days a year to receive and handle claims or questions related to the company's values.

The complaints can be made anonymously and confidentiality is assured. All cases are handled by a third party company contracted by AES Corp., located in the United States. All events are analyzed and investigated by AES Brasil Group's investigation and training team and, when necessary, other areas are involved, such as Audit and Corporate Security. Special cases are taken to the Ethics Committee composed of representatives of senior leadership of AES Brasil.

The Committee meets monthly to analyze special complaints received through the AES Helpline to support the decision making of the leaders involved with the issues. It also promotes the exchange of information between different areas, in order to adjust and adopt procedures to prevent the recurrence of cases that are inconsistent with the values of AES Brasil.

In 2014, 414 complaints were made via AES Helpline, 23.5% more than in 2013, due to the increase in the number of inquiries sent in the year (183%), of which a significant portion was related to invitations and tickets for the matches of the World Cup in Brazil.

AES Corp., in turn, manages the outcome of these investigations, being the last instance of the process before each case is closed permanently.

Telephone: 0800 891 4167

Website: www.aeshelpline.com



CONTRACTUAL COMPLIANCE (DUE DILIGENCE FOR THIRD PARTIES)

AES Brasil is committed to conducting ethical business with its trading partners. As part of the Compliance and Ethics Program, before the company engages in any business transaction, the due diligence process is conducted to assess risks of new business with potential business partners, service providers or suppliers.

When performing due diligence, some tools are used to map reports in the national and/or international media that may involve the potential business partner, service providers or suppliers for possible violations to North American anti-corruption Law - Foreign Corrupt Practices Act (FCPA) the Brazilian Anti-Corruption Law, and other determinations and prohibitions in the Brazilian legislative framework.

In 2014, 2,074 transactions were reviewed by the Contractual Compliance department, with 100% of transactions eligible for compliance analysis submitted to be reviewed through the due diligence process. Significant risks that may be identified during the due diligence process may be related to the existence of alerts involving a potential business partner, service provider or supplier under review, or even be related to the interaction (whether directly or indirectly) that the service provider or supplier might have with government bodies and agents during the contract under review (cases in which scrutiny is differentiated and the approval of the transaction requires the compliance with a series of prerequisites that are also beyond the local analysis, reviewed by the headquarters in Arlington). Other possible significant risks assessed concern the verification of potential beneficiaries under donations or sponsorship contracts, which are also subjected to the due diligence process, in which potential conflict situations are analyzed, as well as the existence of warnings for the beneficiary.

MAIN INITIATIVES IN 2014:

- Update of the Contractual Compliance Review Process by AES Corp., shared with all companies
 of AES globally;
- Evaluation on site by the global team of ethics and compliance of AES Corp. including from
 the CECO (Chief Ethics and Compliance Officer) of AES Corp. to the operations of the AES Brasil
 Group to conduct an audit on the development and effectiveness of the Compliance and
 Ethics Program, as well as to sign possible opportunities for improvement, meeting the
 national and international legal requirements and keeping the Group ahead of good market
 practices;
- New Anti-Corruption Law (12,846) in 2014, presentations were made to the Board and Audit Committee of the AES Brasil Group's companies about the new law and how businesses are ready to meet the contemplated obligations.



The AES Brasil Group does not make donations to campaigns or political parties, as provided by the Tribunal Superior Eleitoral, which prohibits this type of donation by public service concessionaires.

RISK MANAGEMENT

The current risk mapping, which may be amended according to new Sustainable Strategic Planning, considers the external and internal contexts in which the Group is inserted and provides input for leadership decision-making in order to protect and create value for the companies and its stakeholders.

The Integrated Risk Management Policy defines the governance of the subject and the direction of the actions. According to the COSO ERM methodologies and the Guideline for Corporate Risk Management of the Brazilian Institute of Corporate Governance, the probability of the risk and its impact on the Group's EBITDA are defined.

RISK CATEGORIES ANALYZED:

- Legal;
- Sectoral regulations;
- Information technology;
- Market.

PERIODIC REPORTING:

MONTHLY:

CEO and VPs and leadership of AES Corp.

QUARTERLY:

Fiscal Council and Board of Directors, and the Risk Oversight Committee of AES Corp.

Social, environmental and governance risks are included within the four categories, based on their business impact. A manager is assigned for each risk, being responsible for periodically update the information, as well as action plans and results achieved.

In 2014, AES Brasil incorporated a new tool into its strategy management. The 'Watch Tower' (the name refers to an observation tower) gathers external environment monitoring indicators, which are updated and submitted regularly to the Group's leadership, in order to anticipate events and take decision ahead the different scenarios that may arise.

HIGHLIGHTS OF THE COMPANIES IN 2014





SAFETY

- In 2014, AES Brasil ended the year with no fatal accidents with a total workforce of 20 thousand direct and subcontracted employees.
- A reduction of 22% was registered in fatal accidents involving the population in the areas served by the Group's power distributors.
- Click to learn more: AES Eletropaulo / AES Sul / AES Tietê

INNOVATION AND EXCELLENCE FOR CLIENT'S SATISFACTION

- At AES Eletropaulo, more than eight thousand employees were trained within the He Jeito AES de Atender Program (JAAT) program on the importance of areas integration in the customer service process. Click here to learn more.
- In 2014, AES Sul began to offer the SMS Ativo (Active SMS) service, informing clients without the need for them to contact the company. Click here to learn more.



AES Tietê expanded and intensified relationship initiatives with its clients in 2014, such as
events related to electricity sector and visits to the Group's operations. Click here to learn
more.

SUSTAINABLE ENERGY GENERATION

- In 2014, AES Tietê invested R\$ 186 million in modernization and preventive maintenance of its generating facilities and intensified the strategic management of its physical assets.
 Click here to learn more.
- Strengthened in 2014, the use of high technology for the monitoring and inspection of
 physical and environmental aspects of the entire area of the reservoirs has led AES Tietê to
 reach benchmark status in the industry. Click here to learn more.
- Click <u>here</u> to learn about the generation capacity expansion projects of AES Tietê in order to contribute to the energy security of the country.

EFFICIENT USE OF RESOURCES

- In the last three years, over 210 thousand MWh was saved through energy efficiency projects by AES Eletropaulo. Click here to learn more.
- The waste recycling, reclaiming and reuse rate of AES Tietê reached 98%. Click <u>here</u> to learn more.
- The proposal for a new system to prevent soil contamination by equipment with oil, developed by AES Sul, was recognized by SENDI (National Seminar on Electric Power Distribution) as the best project submitted in 2014. Click here to learn more.



DEVELOPMENT AND VALORIZATION

EMPLOYEES

 AES Sul was awarded with the main national acknowledgements in 2014 related to best companies to work for. Click <u>here</u> to learn more.

SUPPLIERS

- In 2014, AES Brasil furthered strengthened the relationship with its suppliers through the Sustainable Partnership Program, with development, relationship and communication initiatives with this stakeholder.
- Click to learn more: <u>AES Eletropaulo</u> / <u>AES Sul</u> / <u>AES Tietê</u>

COMMUNITIES

- The Recicle Mais, Pague Menos (Recycle More, Pay Less) project, carried out by AES
 Eletropaulo and AES Sul, promoted the exchange of more than 3 thousand tons of waste
 for discounts on electricity bills of over 5 thousand customers.
- Over 10 years, through the Transforming Consumers into Customers program, AES
 Eletropaulo has invested R\$ 535.7 million benefitting around 650 thousand families and
 approximately 2.6 million people by promoting regular access to electricity for low-income
 families. Click here to learn more.
- Click to learn more: <u>AES Eletropaulo / AES Sul / AES Tietê</u>





GENERAL COORDINATION

Paulo Camillo Vargas Penna

Vice-President of Institutional Relations, Communication and Sustainability

CONTENT ORIENTATION

Luciana Alvarez

Sustainability Manager

CONTENT COORDINATION

Patricia Byington

Sustainability Specialist

WRITING, EDITING

RICCA RI

TRANSLATION

RICCA RI

GRAPHIC PROJECT, LAYOUT DEVELOPMENT AND GRAPHIC PRODUCTION

RICCA RI

INTEGRATED REPORTING CONSULTING COMPANY

Rever Consulting

PHOTOGRAPHY

Rafael Koga