



2016 Sustainability Report

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G4-.....

GRI
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Messages from the CEOs



MESSAGE FROM THE CEO OF AES BRASIL G4-1

The energy sector is undergoing transformation and, in the coming years, it should become radically different from the model defined more than one century ago. The new model will be shaped by new sources and new energy generation and storage technologies, in addition to more empowered and connected consumers who will also generate and offer energy. We believe we will continue to be relevant and competitive if we innovate in the way we serve our main customers and contribute to building a new industry model, with minimal environmental impact and greater benefits to society.

Aware of this context and in line with AES global guidelines, we revised our Sustainable Strategic Planning, containing long-term objectives and goals to be achieved by 2021. The new vision of AES in Brazil is to be recognized by our customers and shareholders as the preferred partner for safe, innovative, reliable and affordable energy solutions.

For the companies in the group, the year 2016 was highlighted by major investments and restructuring in our companies in order to increase customer satisfaction and create value for all our stakeholders.

At AES Eletropaulo, we are focused on quality supply of safe energy to one of the country's most economically important regions. In 2016, our investments totaled BRL 791.5 million – most of this total was geared toward the company's Quality Recovery Plan. In customer relations, we are challenged to keep improving and offer timely service in a more agile and digital way. We are also dedicated to restructuring the company's governance in order to enable better results for our operation.

Through AES Tietê, we are dedicated to developing new products by applying innovative technologies and prioritizing clean and renewable sources of energy – such as wind and solar. The year 2016 was highlighted by the expansion of our portfolio and the first distributed generation projects, battery-based energy storage, and other sustainable solutions that place our customers at the center of the planning of our activities. For the next few years, we will grow by expanding our installed capacity and marketing customized solutions.

In addition to responding to our customers' energy demands, we created AES Ergos, a company with a comprehensive portfolio of products and services for corporate and government customers, mainly in energy efficiency.

At AES Uruguaiana, we worked to make it a bi-national generating plant. We entered into an agreement to resume supply of gas, which enables the return of the trading operation and the exporting of energy to Argentina.

Innovation is one of the levers that will drive us to reach our strategic goals, and for this reason, last year we launched the AES Innovation platform. Through this platform, we can participate in the creation of a new business model for the electricity sector, developing solutions together with universities, research centers, and partner companies.

I would also like to highlight the AES Institute, created to strengthen sustainable development initiatives in the communities where we operate, based on social innovation and income generation. Operating as a network, we drive the positive transformation of society.

I would like to thank all the employees at AES Brasil companies who were involved in the various projects we conducted in 2016. We have major challenges on all fronts, from generation to distribution, but we are prepared to be leaders and main players in the transformation of the electricity sector, by expanding and becoming increasingly more efficient in our business.

Julian Nebreda
CEO of AES Brasil

MESSAGE FROM THE CEO OF AES ELETROPAULO G4-1

At AES Eletropaulo, we assume the responsibility and commitment to providing quality service and ensuring the satisfaction of our customers. By 2016, we exceeded the 7 million-customer mark: families, industries, schools, hospitals, public buildings, and companies that constantly depend on our energy.

We are committed to recovering company value by improving quality indicators and customer service. In 2016 alone, we invested BRL 791.5 million in customer services, in the expansion of the energy distribution system, in operational reliability, in recovery of nontechnical losses, in information technology, and in other initiatives that will yield greater efficiency and streamline our operations. With this, we seek to improve quality in energy distribution, reducing the number of outages, and ensuring that energy is restored as fast as possible.

Compared with 2015, we have already achieved a 33% reduction in the SAIDI (System Average Interruption Duration Index), an indicator that measures the outage time in a 12-month period. This reduction was possible thanks to the hiring of new teams and the investments we are making to modernize and automate the distribution network. Our objective is to obtain increasingly better indicators.

In 2016, we also operated with greater focus on customers, by improving our relationship channels and management systems. Our intent is to progressively become more agile so that the main demands of our customers can be addressed using digital tools. We are committed to increasing levels of satisfaction with the quality perceived by customers, and to this end, our investments to enhance services are essential.

The safety of our employees, contractors, and the population continues to be a top priority. We reinforced our safety programs with operating teams and developed several campaigns promoting safety among the communities where we operate, calling their attention to risks associated with accidental contact with the power grid.

Even in an adverse economic scenario, with the increase in unemployment and market downturn, which reflect the decline in the domestic economic activity, we managed to maintain the global loss index practically unaltered. We carried out 45,600 regularizations in low-income communities, benefiting over 180,000 people with safe and reliable electricity and contributing to the recovery of 127 GWh of energy billed by the company.

I would also like to highlight the important external recognition we achieved in 2016: AES Eletropaulo was included in the ISE portfolio, the Corporate Sustainability Index, for the 12th consecutive year; we ranked among the 150 Best Companies to Work For, and featured in Guia Exame de Sustentabilidade (Exame magazine's Sustainability Guide) as the best company in the energy sector. These are the results of our best practices in management and relations with various stakeholders based on our values, which we commit to putting into practice daily.

By 2017, we will move forward in our initiatives aimed toward recovering value, driven by innovation, risk reduction, and operational efficiency, ensuring customer satisfaction as our main goal.

Charles Lenzi
CEO of AES Eletropaulo

We are AES Eletropaulo



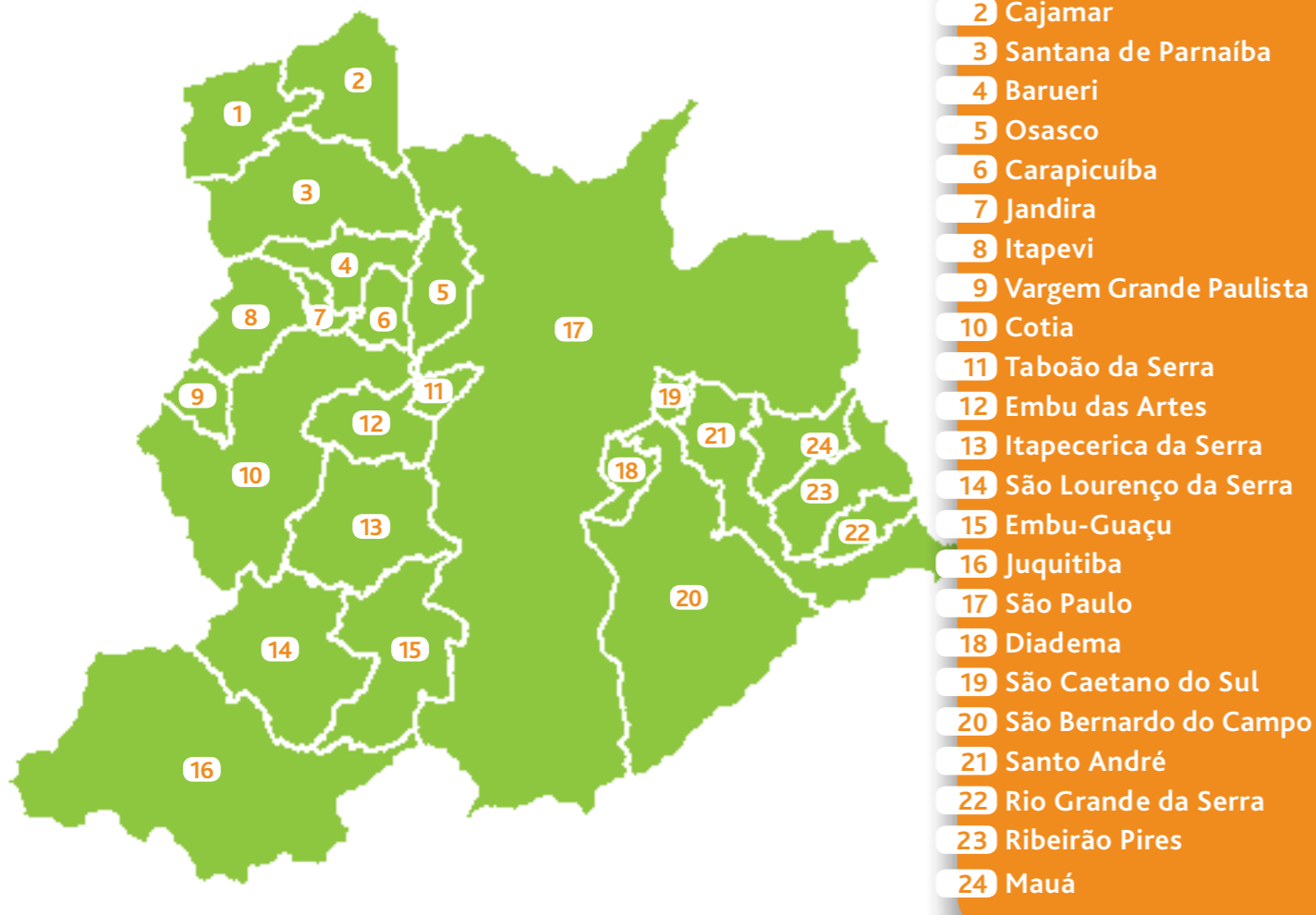
WE ARE AES ELETROPAULO

G4-3

We are the company that distributes the largest amount of energy in the country¹, driving the routine of the city of São Paulo and 23 other municipalities. We are part of the lives of approximately 20 million people. There are over 1,500 consumer units per square kilometer – the highest density among all Brazilian distributors. **G4-4**

Municipalities served

G4-6 | G4-8



G4-EU3

CONSUMER UNITS PER CLASS (BILLED IN 2016)*



*Includes free market customers, excludes own consumption.

Every day of the year, we work to guarantee our customers' satisfaction with the services we provide. Therefore, we invest in innovation, network improvement, improving our processes, and agility of our service channels.

We are part of one of the leading energy industry groups in the country. In addition to AES Eletropaulo, AES Brazil is composed of AES Uruguaiana and AES Tietê (generation), and AES Ergos (services).

Globally, we are part of the AES Corporation, a group of businesses operating in 17 countries in the Americas, Europe, and Asia, listed at the New York Stock Exchange and with a wide portfolio in energy distribution and generation from thermal or renewable sources, and energy storage. Learn more about **AES worldwide**.

AES ELETROPAULO IN NUMBERS*

G4-9 | G4-EU1 | G4-EU4

- **7,280** employees
- **4,526 km²** service territory
- **24** municipalities served
- Approximately **20 million** people served
- **14,372 MVA** of installed capacity
- **152** substations
- **1.8 thousand km** of subtransmission network
- **2.2 thousand km** of underground distribution network
- **39.6 thousand km** of overhead distribution network
- **34%** of the energy supplied in the state of São Paulo¹
- **BRL 20,510.3 million** in gross operating revenue
- **BRL 791.5 million** in investments

* In 2016.

¹Source: ABRADÉE – Brazilian Association of Electricity Distributors

CORPORATE GOVERNANCE

G4-34²

We believe that adopting best practices in corporate governance is essential for the strategic and efficient management of the business, and therefore, the basis for creating value in the company. To this end, AES Eletropaulo continually works to improve its governance practices, based on the guidelines and recommendations in the IBGC (Brazilian Corporate Governance Institute) Code of Best Practices in Governance. Our shares are listed on Level 2 of BM&FBOVESPA, one of the segments that groups companies with high governance standards. **G4-7**

On December 30, 2016, the corporate restructuring of AES Eletropaulo was completed through the execution of a new shareholders agreement between AES Brasil and BNDES, aiming to promote greater agility in the decision-making process at corporate level, in addition to improving liquidity in investments and future cash flow generation for AES Eletropaulo until the end of the term of the concession (learn more [here](#)). **G4-13**

Internally, AES Eletropaulo is managed by a Board of Directors and a Board of Officers. The Board of

Directors is responsible for planning and handling the strategic issues of the company. Currently, the Board of Directors is formed by eighteen members, ten of which are effective members and eight are alternates. The current term for board members will end on the date of the Shareholders General Meeting, which will examine the management accounts of the Company for the fiscal year ending on December 31, 2017. AES Eletropaulo also has in place an Fiscal Council composed of five members.

The Board of Officers is formed by five members, including the CEO. Members of the Board of Officers perform their duties pursuant to the company's corporate purpose, conducting business and operations in strict compliance with the provisions of its Bylaws, with the decisions of the Shareholders General Meeting, and the Board of Directors – all directors initiated their three-year terms in 2016. Organizational changes were implemented aiming to promote growth through solutions in energy, innovation, and new technologies. The CEO elected for AES Eletropaulo, Charles Lenzi, reports directly to

Julian Nebreda, the new CEO of AES Brasil, which is the controlling company and part of The AES Corporation.

To learn more about the members of the Board of Directors and the Board of Officers and their professional experience, visit our **Investor Relations website**.

²In its governance structure, AES Eletropaulo has in place a Sustainability Committee, a non-statutory body responsible for ensuring management and accountability associated with sustainability. In 2016, the company discussed improvements in its internal regiment and in the structure of the community in order to align its operations with the new Sustainable Strategic Planning.

Ethics and Compliance

G4-DMA | G4-57 | G4-58

Directors, executives and other employees conduct business according to corporate values (learn about them on page 12), as described in **AES's Values Guide**, the code of conduct that covers all AES companies, globally. **G4-56**

We seek to operate in strict compliance with the Brazilian and industry legislation applicable to our businesses and, in many cases, internally adopt even stricter standards, in line with international standards and best market practices. We have a specific policy and training focused on fighting corruption, aligned with references such as the Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, and Law No. 12,846/2013 (Clean Company Act). The actions to be taken if corruption cases are identified are described in AES's Values Guide and may lead to termination of the parties involved and of contracts with third parties.

To ensure the dissemination of values and ethics in relationships with all stakeholders, we have in place AES Brasil's Ethics and Compliance Program, composed of three pillars:

- **Education and training:** covers training and other initiatives, reaching employees at all hierarchical levels, in order to address issues related to aspects such as compliance and anticorruption practices.
- **Contractual compliance:** investigation and due diligence policies and practices of evaluating the business carried out with partners, contractors, and suppliers, in order to identify and mitigate reputational and compliance risks.
- **AES Helpline:** channel for receiving questions, inquiries, and reports of cases that do not conform to our values. Available in Portuguese and in six other languages, the helpline may be accessed by telephone or on the Internet, and is available 24X7. In addition to the AES Helpline, AES Eletropaulo has an Ombudsman's Office, which mainly deals with customer issues and complaints.

During the integration period, the Ethics and Compliance Program is presented to new employees, who also receive information about the AES Helpline. Every two years, professionals renew their knowledge of AES's Values Guide through online or classroom training.

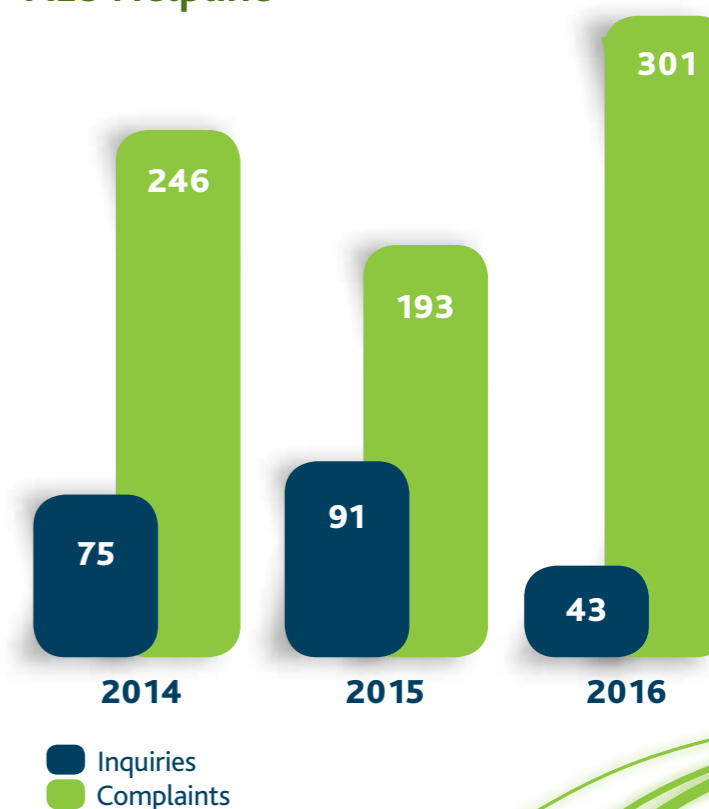
Each year, AES Brasil holds World Ethics Day, an awareness event for

leaders that promotes activities and discussions about the values of AES Brasil. Every six months, through the Multipliers of Ethics initiative, company leaders address ethical dilemmas and reinforce corporate values with their teams. In addition, aspects about conduct and channels for accessing the AES Helpline are addressed periodically through internal media outlets.

The Ethics and Compliance Program is evaluated every five years by an AES Corp. committee, through interviews and meetings with employees from the various departments. Every two years, a survey is conducted to evaluate the perception of our professionals regarding the Program and to guide actions toward improving our processes. None of these processes were carried out last year.

In 2016, we recorded an increase in the number of claims received via the AES Helpline. The higher number of complaints is a consequence of the improvement in training and campaigns carried out during the year, which reinforced the use of the channel. Regarding questions, the reduced number is related to our employees' better understanding of how to act in accordance with our policies and values.

Statements about AES Eletropaulo received by AES Helpline





Our strategy

SUSTAINABLE STRATEGIC PLANNING

G4-2 | G4-14 | G4-56

In order to advance towards AES Brasil's vision and be recognized by our customers and shareholders as the preferred partner for safe, innovative, reliable and affordable energy solutions, we operate in accordance with the Sustainable Strategic Planning, which describes long-term objectives and how they will be achieved.

These objectives were approved by our leadership in 2016, when we developed the planning cycle from 2017 to 2021, considering the changes and trends in the energy sector, as well as the risks and opportunities of creating value in the segments in which we operate. Our strategy also presents four new redesigned drivers to guide our journey,

focusing on growth, efficiency, and business innovation. For each driver, we define goals and indicators related to economic, social, and environmental aspects that have an impact on our activities and operations.

The goals, cascaded to projects led by different areas of the company, are monitored at board meetings and by the continuous improvement program. Our performance is systematically disclosed via various communication channels with our employees, highlighting the advances in business and opportunities for improvement.

In order to disclose the new Sustainable Strategic Planning to all employees, we translate our strategy

into a map that will lead us to achieve our objectives and realize our vision. We also conducted training sessions with our managers, who became multipliers of this information among their teams, and described the aspects of the strategy on our internal communication channels.

At the end of 2016, we carried out the program *Pé na Estrada*, the main tool for disseminating Sustainable Strategic Planning among the teams. During visits to the operating units and the companies' headquarters, the CEO of AES Brasil met with employees to explain how the strategy was developed and how teams may contribute to achieve the defined objectives.



When defining the strategic objectives and respective goals, we consider the economic, social, and environmental impacts of the activities we carry out, in order to:

- Identify opportunities to maximize the benefits we generate.
- Establish mechanisms to protect against risks that may affect our ability to create financial and non-financial value.

Sustainable Strategic Planning 2017-2021

VISION

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

MISSION

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

LONG-TERM OBJECTIVES

- To be a member of the ISE (Corporate Sustainability Index – BM&FBOVESPA)
- To be among the best companies to work for in the Great Place to Work ranking
- To ensure customer satisfaction
- To bring total return to shareholders above the Electric Utilities Index – BM&FBOVESPA

VALUES

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

STRATEGIC DRIVERS

- Promote innovation
- Assure operational efficiency
- Amplify optionality
- Reduce risks

ATTITUDES

- Safety
- Innovation
- Anticipating risks
- Agility
- Empowerment

RECOGNITION FOR OUR OPERATION

AES Eletropaulo was selected, for the 12th consecutive year, to be part of the ISE (Corporate Sustainability Index) portfolio, which brings together the companies listed on BM&FBOVESPA with the highest levels of corporate sustainability. For the first time, the company was included in the ranking of the 150 Best Companies to Work For, by Você S/A magazine.

AES Brasil was chosen as the most sustainable company of the year in the energy sector by the EXAME Sustainability Guide.

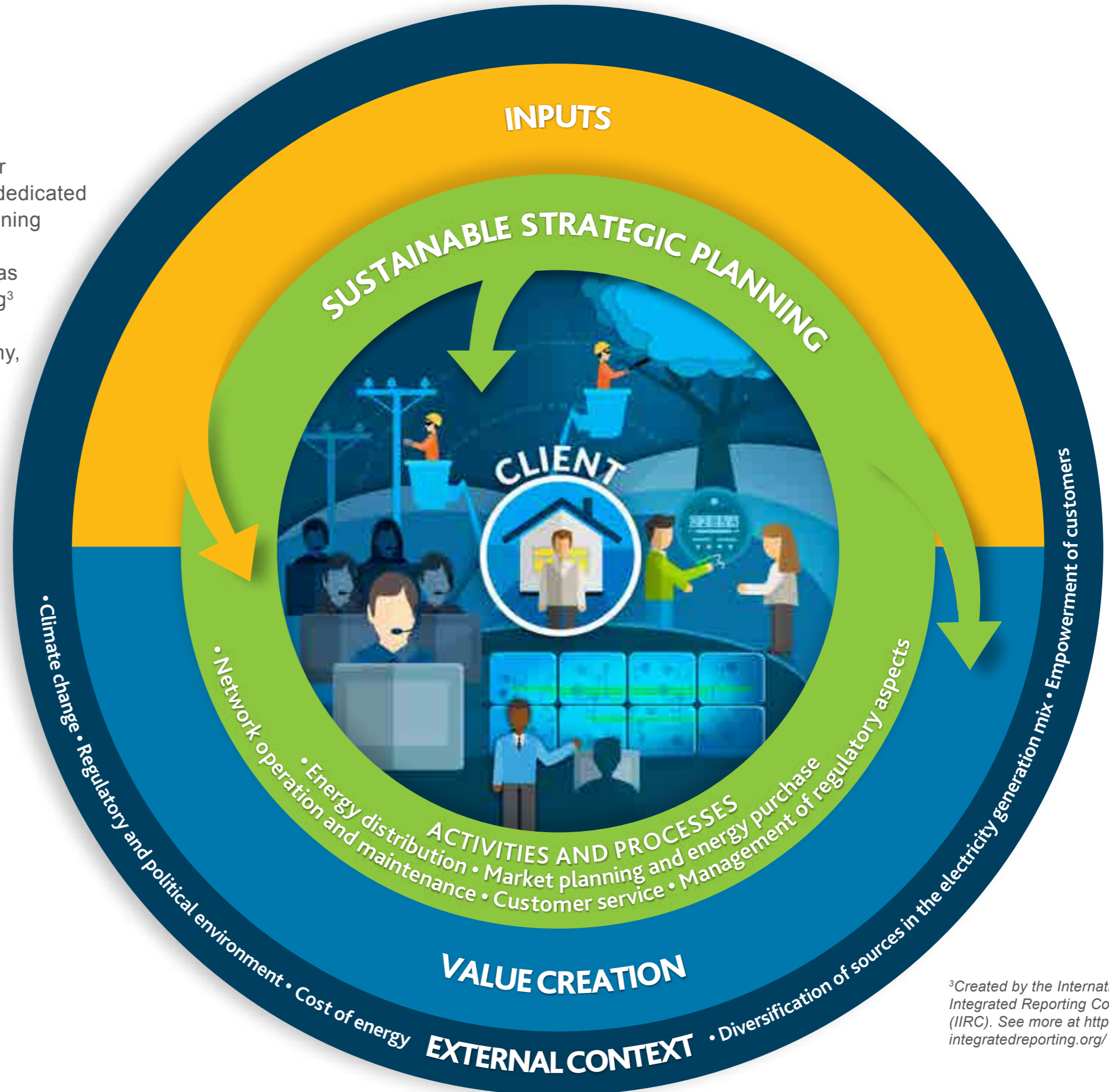
INTANGIBLE ASSETS

- **MARKET INTIMACY AND INTELLIGENCE:** understanding the complexity and changes in the context in which we operate leverages our ability to seek the best solutions for our customers. Training and expertise of our employees drive our performance.
- **AGILITY:** to be leaders in our industry, we innovate and quickly respond to the needs of our customers. We aim for agile processes and decision making in our businesses.
- **FINANCIAL EXCELLENCE:** our financial performance is the basis for the development of our activities. With excellence in resource management, we have been able to make investments and attract capital, talented people, and business partners.
- **STAKEHOLDER ENGAGEMENT:** in our business model, we establish long-term relationships and partnerships with various stakeholders.
- **PEOPLE:** we recognize that people are our greatest strength toward achieving the long-term goals we have established for our business. Leadership capabilities, diversity, and the skills of our employees lead us to success.

VALUE CREATION MODEL

In order to inform our stakeholders about our management and operations, we are always dedicated to evolving our accountability models, maintaining transparency as one of our guidelines.

One of the main advances in this process was applying the principles of Integrated Reporting³ and the collaborative design, involving employees from different areas of the company, of AES Eletropaulo's value creation model. Our objective is to demonstrate to all stakeholders how we transform inputs and create value for the various types of capital (financial, human, intellectual, social & relationship, manufactured, and natural).



Click the icons to see the inputs and value creation of AES Eletropaulo for each capital

³Created by the International Integrated Reporting Council (IIRC). See more at <http://integratedreporting.org/>

To achieve a workplace satisfaction rate of **85%**

See our management on this topic on page 38.

To achieve the regulatory threshold for the **ADA¹ (0.9%)**

See our management on this topic on page 18.

To achieve a rate⁵ of **79.6%** in customer satisfaction

See our management on this topic on page 21.

To record injury rate⁴ **below 0.14** for lost time accidents (employees and contractors)

See our management on this topic on page 33.

GOALS ESTABLISHED FOR 2017

In reviewing the Sustainable Strategic Planning, new objectives and goals were established for AES Eletropaulo.

To keep global losses **below 9.31%**

See our management on this topic on page 23.

Zero fatal accidents involving employees and contractors

See our management on this topic on page 33.

To expand regular access to electricity to **45,000 families** in low-income communities

See our management on this topic on page 23.

To record injury rate⁴ **below 0.81** for recordable injuries (employees and contractors)

See our management on this topic on page 33.

To achieve the regulatory threshold for SAIDI² **(7.75)** and SAIFI³ **(5.64)**

See our management on this topic on page 26.

To recycle, recover, or reuse at least **70%** of waste

See our management on this topic on page 29.

To prevent emissions of CO₂e by reducing **151 GWh** in global losses

See our management on this topic on page 29.

¹ADA – Allowance for Doubtful Accounts.

²SAIDI – System Average Interruption Duration Index.

³SAIFI – System Average Interruption Frequency Index.

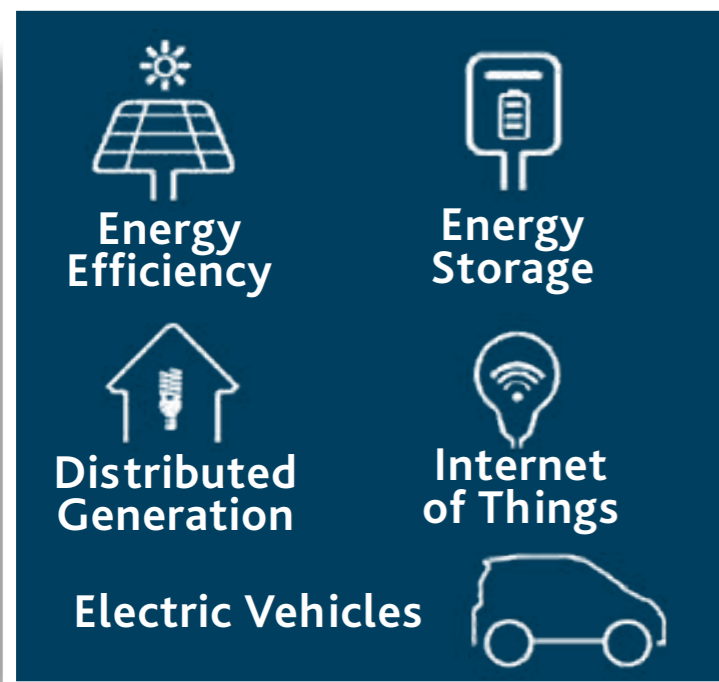
⁴Lost time injury rates (“LTI rate”) and Recordable injury rates (“Recordable rate”) are calculated based on criteria set out by the Occupational Safety and Health Administration (OSHA), a North American occupational health and safety agency.

⁵Average of the results of the official survey and intermediate survey.

INNOVATION

Promoting innovation is one of the drivers of AES Brasil's Sustainable Strategic Planning and boosts business growth through partnerships and investments that result in the collective creation of safe, reliable, sustainable, and affordable energy solutions. Through open innovation, AES Brasil positions itself as a facilitator for partnerships involving startups, universities and research centers, investors, and other corporations.

The AES Innovation platform, structured in 2016, permeates the companies in the Group, driving strategy, investments, and processes in this direction. Its operation is focused on seeking partnerships and projects that may result in products and solutions in five drivers:



Internally, we involve our employees in an innovation development program that includes tools such as workshops for leaders, prototyping labs, training on design thinking (collaborative approach to problem solving), and others. The program to train Innovation Multipliers lasts three months and prepares employees to disseminate the knowledge and tools for promoting innovation in their areas.

With external audiences, the AES Innovation platform connects players in the innovation ecosystem and fosters partnerships for developing new solutions. In 2016, there was noteworthy cooperation between AES Ergos, an AES Brasil company, and BYD (Build Your Dreams), developer of urban mobility solutions, involving Electric Vehicles – the goal is to enable the use of electric cars in AES Eletropaulo's fleet.

Another action initiated was the cooperation with PromonLogicalis, a technological solutions developer, within the pillars of Energy Efficiency and Internet of Things (IoT)⁴. The purpose of the partnership is to develop an energy management dashboard in an IoT Platform.

⁴On the "Internet of Things", devices and objects are connected through electronic sensors and the Internet.

AES Brasil was chosen as one of the **100 MOST INNOVATIVE COMPANIES** in the country, and the second in the energy sector, by the *Valor Econômico* journal

ACELERAÇÃO DE PROJETOS (PROJECT ACCELERATION) DRIVES INNOVATION IN THE ENERGY SECTOR

Created in 2016, the *Aceleração de Projetos* initiative seeks to develop products, services or new business models in partnership with startups and other companies under the topics Internet of Things, Energy Storage, Energy Efficiency, Distributed Generation, and Electric Vehicles.

Developed with the support of the accelerator Liga Ventures and SENAI, the initiative received 233 registrations and selected eight finalists in 2016. In 2017, after holding meetings and workshops with the selected finalists, the two projects will be defined and will go through the process of acceleration and implementation of the solutions presented. Each of the winners will have technical support, physical infrastructure, mentoring, and may receive a contribution of up to BRL 500,000*.

One of the main advantages of this initiative is that it is financed by R&D (Research and Development) resources, according to regulations, promoting innovation for the sector as a whole, based on the regulatory process defined by ANEEL. AES Brasil will participate as project co-developer, and not in the companies' equity.

*The company of the AES Brasil group that will invest in R&D will be determined based on the assessment of the strategic alignment of both projects selected and the corporate purpose of each business.

RESEARCH AND DEVELOPMENT

G4-DMA | G4-EC2

In 2016, we reviewed our management mechanisms and processes for investing resources to research and development. Our goal is that our investments create value for both the company and our stakeholders through innovations that drive our business as well as the national electricity industry. The *Aceleração de Projetos* initiative exemplifies this new way of working (read more on page 15). Last year, we invested a total of BRL 8.3 million in R&D.

The main AES Eletropaulo project under development is the **Smart Grid** project, considered the largest smart grid initiative in Brazil. Launched in 2013, this project should be fully available and functional for approximately 62,000 customers in Barueri by 2019. The city was chosen because it best represents the customer profile diversity (residential, commercial, and industrial) in our service territory.

For customers, the smart grid will offer benefits and innovations. Among these benefits is the possibility of monitoring energy consumption daily and thus adopt new habits and behaviors for using energy more efficiently.

For our operations, gains are directly associated with the increase in efficiency and quality of our services. Through intelligent meters and advanced automation, we will be able to promptly



identify failures and interruptions in supply and take corrective action more quickly – including the possibility of acting remotely – more precisely communicating to customers the time needed to restore power.

The structure of the distribution network has already been finalized, with the installation of power outage detectors, automatic circuit reclosers, among other technologies. We also advanced with INMETRO's (National Institute of Metrology, Quality and Technology) approval of an intelligent meter capable of communicating with our operation center by means of radiofrequency or through the network itself. Our objective for 2017 is to begin installing smart meters and installing the new systems, as well as implementing the new portal about the project on the Internet and in a demo showroom.

With the new meters, our customers will be able to use distributed generation technologies (energy consumed and/or generated by the customer). In addition, the equipment will enable application of the white tariff, which will charge differentiated rates according to the time of consumption (read more on page 17).

SECTOR CONTEXT

Economic scenario

The current Brazilian economic scenario, with reduced economic growth, smaller industrial production in the state of São Paulo, and increased unemployment, has a direct impact on the energy sector. These facts, coupled with a reduction of 2.5 days in billing in 2016, resulted in a drop of 3.2% in 2016 for our total market, which includes the captive market and free market, compared with the previous year. Considering the captive market alone, the reduction was 4.7% for the same comparison baseline. The residential class, despite the drop in actual income

of 2.9%, as of October 2016, posted a reduction of only 0.6% for the year, due to lower minimum temperatures and higher maximum temperatures throughout the year, which positively affected energy consumption due to the use of HVAC equipment. The commercial and industrial classes had reductions of 3.8% and 6.6%, respectively. Migration of customers to the ACL (Free Contracting Environment) led to a reduction of 14.9% in consumption by the captive industrial class, and a growth of 3.8% in the free market.

Energy balance

The decrease in the total market, coupled with the migration of customers to the free market have led the electricity distribution sector to a temporary situation of involuntary overcontracting of energy. In addition, according to the rules of Decree No. 5,163/2014, we were obligated to contract energy in the A-1 auction held in 2015, regardless of the assessment that there would be a surplus in our energy balance for 2016.

The combination of these three factors resulted in a total overcontracting at the end of last year of 110.87%. Albeit 5.87 percentage points above the regulatory threshold for tariff adjustment, our understanding is that there will be full tariff refunding of this energy contracted given the non-voluntary nature of its origin. As a mitigating measure, we are searching

for solutions to reduce this amount of energy. In this sense, we have made reductions in contracts through bilateral renegotiation with energy generating and marketing companies and participation in MCSD (Surplus and Deficit Offsetting Mechanism) auctions held by CCEE (Electric Power Trading Chamber).

White Tariff

In 2016, ANEEL (National Electricity Agency) approved the adoption of the new tariff model, which indicates to consumers the variation in the cost of energy depending on the time of day it is consumed. The energy consumed outside peak hours will be less expensive, while the energy consumed during the period of higher demand will be more expensive.

This new tariff model will be available to consumers served by low voltage (127, 220, 380, or 440 Volts), called group B.

Adhering to this model will be possible as of 2018 for consumer units within average annual consumption above 500 kWh per month, and its scope will be gradually extended until 2020, when all customers of group B, irrespective of consumption, will be entitled to opt for this model.

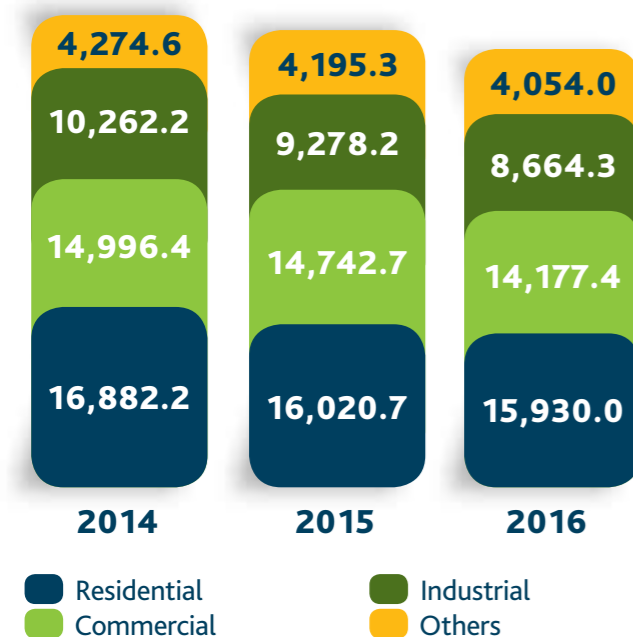
Political scenario

In 2017, the mayors and city councilors elected in the most recent municipal election take office for the next four years. In the cities in our service territory, our

goal is to align our investments with government strategies, with a focus on increasing the quality of energy supply and safety of the population.

In order to continue the company's projects, ensuring their alignment with public policies, our leaders held meetings with government representatives and presented AES Eletropaulo's investment plans. Our work is carried out through institutional and technical visits and the participation in public events and hearings. We also monitor the demands and needs of public agencies in our service territory using our *Radar de Prefeituras* (City Hall Radar), a tool for engaging this stakeholder.

Total consumption per class (GWh)



ECONOMICAL AND FINANCIAL PERFORMANCE

G4-DMA

Gross revenue

Gross operating revenue for AES Eletropaulo totaled BRL 20,510.3 million in 2016, a drop of 16.5% compared with 2015.

Operating expenses and EBITDA⁵

Operating expenses, less the company's pension fund, totaled BRL 2,086.4 million, 10.2% higher than the one recorded in 2015 (BRL 1,893.4 million). Also excluding the company's non-manageable expenses, such as ADA (Allowance for Doubtful Accounts), fines, contingencies, and other nonrecurring events, the manageable operating expenses totaled BRL 1,597.5 million, 20.2% higher than the one recorded in 2015, especially due to higher personnel costs.

In 2016, the reported EBITDA totaled BRL 734.3 million, compared with BRL 963.6 million in 2015.

Net results

In 2016, the company recorded a net profit of BRL 20.9 million compared with BRL 101.1 million net profit in 2015, representing a difference of BRL 80.2 million mainly as a result of increased operating expenses resulting from the Quality Recovery Plan, which was implemented throughout 2016, and greater expenses with the ADA, reflecting the macro economic scenario and tariff reviews of 2015.

Distribution of value added G4-EC1

The value added distributed in 2016 totaled BRL 10.0 billion, of which 82% was related to taxes, fees, and government charges.

⁵ Earnings Before Interest, Taxes, Depreciation and Amortization.

VALUE ADDED DISTRIBUTION PER STAKEHOLDER ('000 BRL)	2016	2015	2014
Employees	1,111,872	987,742	880,639
Government (taxes, fees and contributions, and sector charges)	8,221,280	10,082,508	3,366,492
Funding parties/third parties	691,044	807,440	540,697
Shareholders/retained	20,923	101,136	-131,747
Total	10,045,119	11,978,826	4,656,081

[Click here](#) for more information on our economic and financial performance.

RISK MANAGEMENT

G4-2

Management of risks that could have an impact on AES Eletropaulo's business follows the guidelines established by AES Brasil's **Risk Management Policy**. In 2016, this policy was revised, which included, among other aspects, a better definition of the roles and responsibilities in the company's risk management, approval of the document by the Board of Directors, and its publication on AES Eletropaulo's Investor Relations website.

Risks are classified into the following groups:

- **Market risk:** possibility of losses in financial and/or physical positions due to the behavior of market factors such as prices, interest rates, exchange rates, inflation rates, etc.
- **Credit and counterparty risk:** related to losses due to third-party defaults.
- **Liquidity risk:** may be related to funding or cash flow risk, difficulty meeting the obligations contracted on due dates, or the lack of liquidity of the asset in the market.
- **Regulatory and legal risk:** possibility of losses arising from

new enacted rules, penalties, or compensations resulting from the actions of supervisory and control bodies, as well as losses resulting from unfavorable decisions in judicial or administrative proceedings.

- **Operational risk:** due to the lack of consistency and adequacy of information systems, processes, and operations controls.
 - **Environmental risk:** related to the possibility of environmental damage due to human intervention in the environment.
 - **Risk to reputation and image:** possibility of losses due to tarnished image or reputation before society and/or the authorities, from negative publicity, true or otherwise.
 - **Other financial risks:** financial risks that may originate from accounting, actuarial, fiscal areas, etc.
- We developed a materiality scale in which all risks identified are assessed on the likelihood of occurrence and the impact on our ability to create value. After this assessment, risks are classified into five levels – very low, low, medium, high, and very high. Then, we develop action plans that aim to eliminate, reduce,



manage, or transfer the likelihood of risks occurring.

This process is the responsibility of the risk management department, which includes the Vice Presidency of finance and investor relations, and reports directly to the Risk Management Committee of AES Brasil. The internal controls area defines activities to ensure compliance with the guidelines determined by management to mitigate risks involved in achieving our objectives.

Risk Management reports as follows:

- **Monthly:** Risk Management Committee
- **Quarterly:** Board of Directors and Fiscal Council
- **On demand:** Committee on Market Risk, presented to AES Corp.

Focus on customers and innovation



FOCUS ON CUSTOMERS AND INNOVATION

G4-DMA

Ensuring customer satisfaction is one of the long-term goals of AES Brasil's Sustainable Strategic Planning, and enhances AES Eletropaulo's ability to recover and create value during a period of major transformation in the electricity sector. Our business will be increasingly impacted by the customers' demand for innovations, agility, and streamlined services through digital channels.

The main initiative toward continually improving customer relations is *JAAT – Jeito AES de Atender* (The AES Way to Serve). The program aims to guarantee the quality of company interactions with customers, always placing customers at the center of our operations.

One of our main innovations was the identification of five Customer Journeys, the most common situations that generate contact with AES Eletropaulo, in order to track all interaction and assess customer satisfaction with assistance and services. The Customer Journeys are:

- Communication due to power outage
- Billing inquiries
- Request for services
- Request for compensation for damages to electrical equipment (PID)
- Questions about standards and technical regulations

We conduct surveys with our customers to evaluate the satisfaction with the service time and level of quality of the information provided, among other services, after having requested one of these services. From this survey, we map which processes must be improved by implementing new systems, procedures, and employee and contractor training.

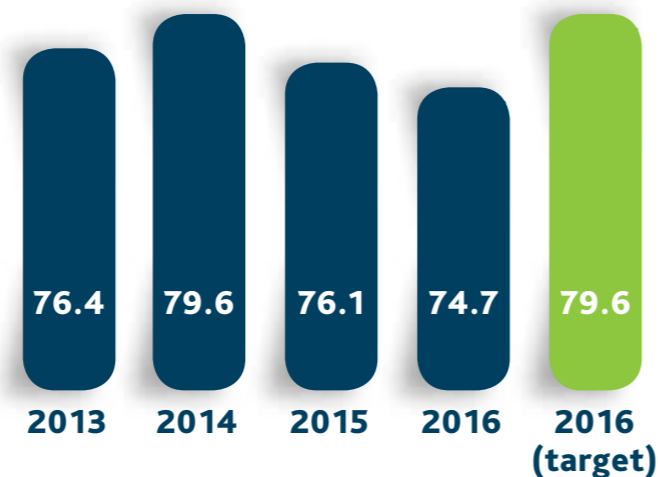
In 2016, we also invested BRL 50 million in improving the CRM system (Customer Relationship Management) to streamline service. The new platform, integrated with other company systems, works in an online environment and operates more intuitively.

The decrease in customer satisfaction observed in recent years is directly

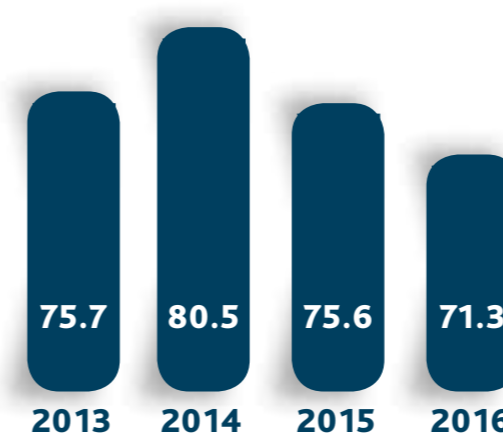
related to the perception of the quality of energy supply, which makes up most of the score of the survey conducted by ABRADÉE (Brazilian Association of Electricity Distributors). The increase in energy tariffs, driven by rising costs in the national electricity sector, also influence public perception. **G4-PR5**

In addition to the advances in our relationship channels, we focus on actions toward maintaining and expanding the network, in order to increase the quality of the services provided and, thus, positively influence our customer satisfaction index. In this sense, our greatest investment was in the Quality Recovery Plan (read more on page 26).

Evolution of Perceived Quality Satisfaction Rate by residential clients (%)
G4-PR5



Satisfaction index for medium voltage corporate clients (%)
G4-PR5



SMARTPHONE APP

Created to improve and streamline customer services, this free tool allows our customer to request services, such as issuing a second copy of a bill and requesting a consumption history.

Through the Virtual Agency, our residential customers, companies, and public bodies may request various services on the AES Eletropaulo website: www.aeseletropaulo.com.br.

Thus, we expand service options and advance our strategy of digitizing relationship interfaces, which increases customer satisfaction and contributes to reducing operating costs.





Customer service

Last year, we carried out approximately 41 million interactions with our customers through different service channels. Only 0.5% are considered customer complaints about commercial services⁶, recorded at first level. Approximately 10% of the interactions refer to emergency requests during non-programmed power outages.

A 21% reduction in first level complaints reflects the dedicated initiatives towards improving services, such as On Site Billing, investments in CRM, training, incentive campaigns to adopt bills via e-mail, and hiring of more people to read meters, among others.

⁶This percentage does not include complaints referring to brownouts and/or blackouts

INNOVATION IN CUSTOMER BILLING

In 2016, we completed the implementation of the On Site Billing project, which ensures delivery of the printed energy bill to customers at the time the meter is read. In the 24 municipalities we serve, bills are issued directly by the readers and delivered to the residents, reducing the risk of loss and non-payment due to failure to receive the bill.

To increase satisfaction with this new service, we train our employees and contractors so that they can answer any customer questions. In total, we

invested BRL 13.8 million in this project, which was a winner of the most recent edition of the ALTA (America Latina Telecom Award).

We have also advanced the scope of electronic billing, which allows customers to receive the bill by e-mail. With this initiative, we reduce the costs and impacts of paper printed bills. Over 500,000 customers have already chosen this option – compared with 2015, the increase was 124%.

AES ELETROPAULO'S SERVICE CHANNELS	2016	2015
Total of interactions	41 million	41 million
1st level complaints	211,005	266,446
Emergency requests	4,197,423	5,203,694

COMPLAINTS TO THE OMBUDSMAN'S OFFICE, ANEEL/ARSESP AND PROCON	2016	2015
Ombudsman	46,132	43,431
ANEEL/Arseps*	5,734	8,286
Procon	7,724	7,794
Total	59,590	59,511
Complaints addressed within 15 days in relation to total number of complaints closed (%)	82.40%	90,10%
Complaints addressed after 15 days in relation to total number of complaints closed (%)	17.60%	9,81%
Valid complaints in relation to total number of complaints closed (%)**	47.47%	53,95%

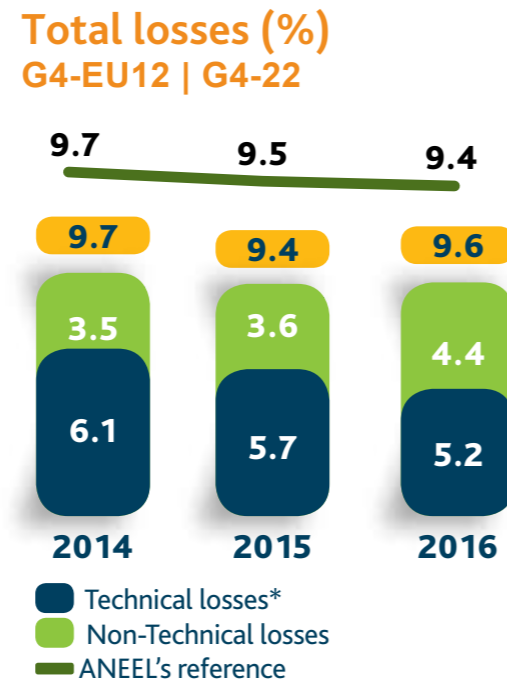
* National Electricity Agency/Regulatory Agency of Sanitation and Energy of the State of São Paulo.
 **The ratio of valid complaints is not calculated on the total number of complaints received, since at the closing of each month, a part of the complaints could be under analysis depending on when the call was opened.

ADDRESSING LOSSES

G4-DMA

Addressing technical and commercial losses in our service territory is important to increasing the efficiency and quality of our operations, ensuring customer safety, and optimizing the use of our energy distribution assets. In 2016, the total loss rate rose 0.2 percentage points over the previous year, above the limit defined by ANEEL. In relation to the goal established for 2016, the result referring to global losses was 0.7 percentage points higher given the load variation – total energy injected into the system – at 1.44% below plan. If the load had been in line with the goal, global losses would have reached 9.49%.

Our initiatives resulted in a revenue increase of BRL 275 million. In addition to the financial benefits, the reduction of losses contributes to guaranteeing



**Values calculated by the Company, in order to make them comparable to the reference for non-technical losses on low voltage market determined by ANEEL*



regular access to electricity in low-income communities, and to reducing our greenhouse gas emissions, among other positive impacts (read more on page 31).

G4-EU12

We intensified our actions toward preventing non-technical losses, mainly through the following mechanisms:

- Fraud Inspections:** identifies devices with measurement errors caused by defective equipment or fraud. We increased inspections by 16% and the identification of irregularities by 90% compared with 2015. The use of more current technologies with analytics intelligence, such as neural networks, has contributed to the efficiency of this process.
- Recovery of disconnections:** regularize connections for customers who had the supply interrupted due to delinquency and are connected irregularly. In 2016, we recovered 22% more connections than in 2015.
- Transforming Consumers into Customers:** aims to regularize informal connections, especially in low-income communities, guaranteeing citizenship, safety, and quality for customers. In 2016, we regularized 45.6 thousand connections. Since 2004, nearly 760,000 connections have already been regularized.

- Reduction of administrative losses:** the purpose of this initiative is to identify opportunities in commercial cycle processes that generate loss in revenue. In 2016, the company identified approximately 143,000 connections with this type of loss, generating 254 GWh of additional energy. The main causes are associated with connections with terminated agreements and impossibility of reading meters for billing purposes.

In 2016:

- **385 thousand** inspections carried out
- **91 thousand** irregular connections identified
- **80 thousand** disconnections recovered
- **46 thousand** connections regularized



Focused on the demands and challenges of low-income communities, the Transforming Consumers into Customers Program promotes the regularization of access to electricity in the regions we serve. Since its inception in 2014, we have already invested approximately BRL 600 million in actions to improve the network infrastructure, distribute efficient refrigerators and light bulbs in the communities, and raise public awareness about the efficient and safe use of energy.

In 2016, our investments and actions within the program were reorganized with the purpose of gaining the loyalty of low-income regularized customers, especially considering the challenge of the economic downturn and delinquency rates in this segment. The new approach considered, through surveys and consultations with these stakeholders, how the residents of the impacted communities recognize and value the services and benefits offered by AES Eletropaulo.

Two of the main accomplishments last year were the *AES Eletropaulo – Economizando Bem, o Prêmio Vem*, which provide information and services to low-income communities. On these occasions, we carried out debt negotiations, replaced inefficient appliances with new models, changed light bulbs, and performed other services. For children and youngsters, there were theater performances and other activities that, in a playful way,

In 2016:

- We invested **BRL 3.8 million** to hold 6 events in regularized communities, in 4 municipalities
- Approximately **3,000** customers served
- **622** agreements signed
- **7 tons** of electronic waste sent for recycling
- **2 thousand** refrigerators and **4 thousand** light bulbs replaced



educated and raised awareness about the risks of electricity and the importance of the rational use of this resource. Our goal for 2017 is to promote 35 additional events, improving the activities developed in partnership with the AES Institute (read more on page 41).

In addition, we intensified our efforts to map and re-register low-income customers

in the TSEE (Social Electricity Tariff), in compliance with the rules of legislation. As of May 2016, Normative Resolution No. 717/2016 of ANEEL came into force, which improved the procedure for proving compliance with the eligibility criteria for the concession of TSEE. Between May and December, 69,766 TSEE registrations were carried out and approximately 250,000 notifications were sent to customers through messages on their bills. In order to minimize the impact on customers, AES Eletropaulo has taken several measures, such as registering customers in the CadÚnico Program during the events in the communities, so that they become eligible to receive the benefit of the TSEE.

Recycle More, Pay Less is an initiative that promotes the recycling of materials in exchange for a discount on the energy bill. The project has 11 fixed collection points and raised, in 2016, over **1,100 tons**, granting discounts of approximately **BRL 202,000** to over **9,000 participating customers**. The project is one of the fronts contributing to reducing default by AES Eletropaulo's customers. [Learn more about the initiative on page 43.](#)

Social innovation laboratory

In 2016, AES Eletropaulo created the Social Lab, the first social innovation laboratory in the community working on a common challenge: How to improve the relationship and help our customers consume electricity more consciously, and in accordance with their financial realities? In this pilot project, the idea is to build, through a collaborative effort and dialogues with customers, collective solutions to promote consumer compliance and clarify doubts related to energy consumption.

The community chosen for the first edition of the Social Lab was Vila Nova Jaguaré, in the municipality of São Paulo, whose energy access regularization took place in 2012, and has about 3,500 customers. In 2016, three meetings were held, attended by 35 residents and community leaders, as well as representatives of AES Eletropaulo. Over 60 ideas were generated during this phase, mainly about consumption habits, the total due in energy bills, and other community needs related to electricity. In 2017, the suggestions will be prioritized and tested in Vila Nova Jaguaré. After assessing the results achieved in this first experience, the best model for application and expansion to other communities served by AES Eletropaulo will be studied.



**Operational
efficiency**

OPERATIONAL EFFICIENCY

G4-DMA

Last year, the company invested BRL 791.5 million in services to consumers, expansion of the system, operational reliability, recovery of losses, information technology, and others.

Our Quality Recovery Plan, initiated in 2015 and expanded in 2016, concentrates a significant portion of these investments and other expenses incurred to improve our assets and ensure the safe and efficient supply of energy to our customers.

The plan has the following objectives:

- To reduce the number of disconnections from the distribution network
- To reduce the number of customers affected by power outages
- To reduce the duration of power outages
- To reduce the number of accidents
- To reduce the number of customer complaints regarding services

To reduce interruptions in power supply, our investments are focused on

improving infrastructure, increasing automation, and improving operations and maintenance processes. We advanced with the modernization process of our assets using compact network technology (spacer cable), minimizing outage caused by contact with branches of trees.

Also focusing on reducing the number of customers affected by interruptions, we invested heavily in network automation. In 2016, for example, we installed 1,147

automatic circuit reclosers that enable the correction of transient failures – caused when tree branches momentarily touch the wiring. In addition, when automatic reconnection is not possible, these devices communicate with our Operations Center (COS/COD), located in the city of Barueri, and allow for remote maneuvers to re-establish supply to customers who are not in the affected area. At the end of 2016, there were over 4,000 reclosers that communicate with the COS/COD.



Another technology used refers to fault detectors, capable of indicating with greater precision the network locations where problems occurred, providing greater efficiency in pinpointing the fault and restoring supply. Driven by the knowledge acquired from the Smart Grid project (read more on page 16), around 2,000 self-healing systems will be installed, which will automatically reconfigure the distribution circuits and reduce the number of customers without power – by 2016 we already had 1,315.

In addition, in order to reduce outage time, we increased the number of emergency and incident response teams and implemented a productivity program. We invested in technology and innovation in our order-dispatching processes by implementing new support systems, automating operational processes, using real-time management support tools, and implementing Lean methodology principles at our Operations Center. We also increased the number of vehicles in our fleet and three new operational bases were inaugurated – another three will be completed by 2017, streamlining responses to emergencies and calls from customers.

In 2016:

- **220** new emergency teams
- **1,147** automatic reclosers installed (in addition to 1,069 already in operation)
- **90** fault detectors
- **1,315** self-healing systems installed
- **160 km** of network built
- **130 km** of network replaced with spacer cable technology
- Approximately **465,000** trees pruned, totaling 711 thousand since the beginning of the Quality Recovery Plan
- More than **200** new hires for our call center
- **3,324 km** of network under maintenance
- **6 new** operating bases; three of which will be completed in 2017
- **9 bases** renovated
- **323 vehicles** added to our fleet



In 2017, we will continue to expand our investments toward improving our quality indicators. Among the actions to be developed, the following stand out:

- Intensify the work in network infrastructure.
- Expand the automation equipment in the network. By the end of 2017, we plan to install another 1.5 thousand automatic circuit reclosers that communicate with the COS/COD, and 7.2 thousand fault detectors.
- Implementation of systems that prevent circuit overload after performing maneuvers to restore the supply. This innovation

automatically assesses the capacity of the network and suggests to operators the best maneuvers to be performed.

- Implementation of automatic work order dispatch, to avoid unnecessary movement of maintenance teams. Approximately 40% of complaints received from customers are due to transient failures in power supply, quickly solved through automation equipment and remediation maneuvers. With this solution, service order dispatch will be automatic, reducing costs and the effort required by the operational teams.

Quality indicators

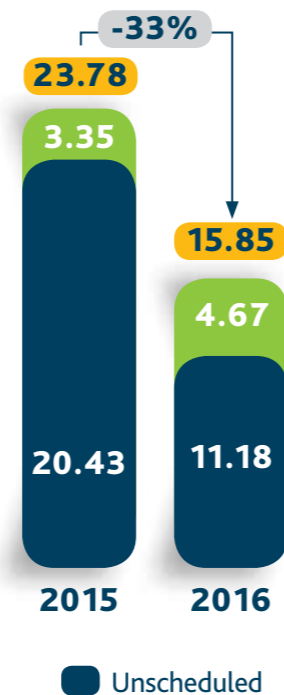
The main indicators to measure the quality of our operations, monitored by regulatory agencies, are the SAIFI (System Average Interruption Frequency Index) and the SAIDI (System Average Interruption Duration Index). Compared with 2015, we obtained a 33% reduction in the SAIDI, resulting from the investments we made in the Quality Recovery Plan and of more agile recovery actions. In the same period, SAIFI increased by 5%, influenced by the expansion of program network maintenance – preventive maintenance and pruning of trees – which increased the frequency of interruptions.

Of note is the improvement in the unscheduled portion of the duration of occurrences (unscheduled SAIDI), which decreased by 45% in 2016 compared with 2015. Improvement was also observed in the frequency of unscheduled interruptions (unscheduled SAIFI), with a 1% reduction in 2016 compared with the same period in 2015.

Performance indicators that measure operational efficiency are monitored daily through spot management and data analytics tools. Performance is assessed and improvement plans are defined dynamically and with agility, as is the real-time monitoring of the occurrences. **G4-EU28 | G4-EU29**



SAIDI – Hours (last 12 months) G4-EU29



ANEEL Reference – 2015: 8.06 hours / 2016: 8.01 hours

SAIFI – Times (last 12 months) G4-EU28



ANEEL Reference – 2015: 5.95 times / 2016: 5.91 times

UNDERGROUND NETWORKS

We have approximately 3,000 kilometers of underground distribution networks – approximately 7% of our total service territory. These circuits are located in the regions that have the highest load demand, such as shopping centers, financial centers, and locations with a high concentration of hospitals. They serve a number of customers responsible for 18% of the energy load consumed.

Given its technical and operating characteristics, the underground system has fewer fault occurrences; however this system requires more investment for its implementation.

In 2012, we carried out a research and development project to determine the economic and financial viability of this investment, analyzing different electric models throughout the world, with the least possible impact on customers. The study suggests that costs to implement underground networks should come from tax exemptions, improvement contributions from landowners who benefit from the underground network, and the municipality's contribution to the cost of civil works, which account for about 70% of the costs.

Our vision for this aspect is that the solution, despite its complexity, requires partnership between the various players involved in order to allow us to advance and respond to demands by society and our customers. We are proactively participating in discussions with the government, the industry, and other companies to find safe, efficient, and economically viable solutions to this issue. Among the identified challenges are the high-impact construction work required to implement the underground system and the complexity of the mapping of underground water and gas networks, among others, in the service territory.

ENVIRONMENTAL MANAGEMENT

G4-DMA

When managing our operations, we commit to minimizing environmental impacts and increasing the benefits to society from the investments we make toward environmental preservation. To this end, we operate according to the guidelines in our Environmental Management System, certified according to ISO 14001. Last year, our environmental expenses and investments totaled BRL 76.5 million.

G4-EN31

In 2016, one of our priorities was to guarantee the environmental licenses for the construction work and improvements described in the Quality Recovery Plan. Through innovations and improvements in our processes, and an intense dialogue with the licensing agencies, we obtained the necessary authorization for all our projects.

Managing vegetation in the large urban areas we serve is one of the main impacts of our business. The expansion of the network and the installation of new equipment, for example, require suppressing vegetation in certain areas and the due compensation for this action, which is planting new trees. Our reforestation activities are carried out around the reservoirs of AES Tietê and around the areas impacted by the work. In 2016, we planted

23 hectares in the Água Vermelha reservoir, 13 hectares of which were registered in the Nascentes Program, which has been carried out by the state government of São Paulo since 2014 with the purpose of protecting the state's water resources and biodiversity. Adherence to the program represents an opportunity to create value for society by supporting public policies aimed at reducing the risk of water shortage.

We also planted 1,361 trees in the city of São Paulo and 31 in the city of Barueri, as a form of environmental compensation for the various maintenance and expansion projects in the company's distribution infrastructure, and we also carried out the maintenance of other compensatory planting.

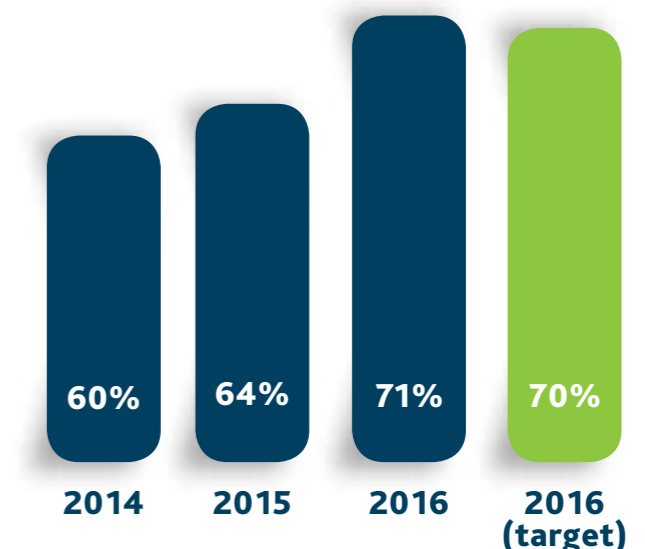


We reforested an area of **13 HECTARES** with the project enrolled in the Nascentes Program

The guidelines for waste management establish criteria and controls for the proper management of solid waste identified as significant environmental aspects of the activities, products, and services of the organization. Waste generation from work arising out of maintenance and expansion of the network is among our main environmental impacts. Additionally, the activities consume resources such as cables, poles, metallic parts, isolators, and transformers, among other items. Before disposal of this material, we verify the possibility of its reuse, recovery, or recycling.

We encourage companies providing services to adopt waste reuse techniques in civil construction, through disclosure of alternative technologies and their availability in the regional market, thereby contributing to increase the level of recycling, recovery, or reuse of waste from AES Eletropaulo. The company's goal is to recycle, recover, or reuse 70% of the waste generated. The main measures that contribute to this rate are the reuse and recycling of poles, demolition of concrete, pruning of trees, ferrous and nonferrous materials, which reduce disposal in sanitary landfills.

Percentage of waste recycled, recovered or reused G4-EN23



Another initiative we developed, based on the concept of circular economy, is the revitalization of materials such as insulators and hardware, as well as their reuse in the electrical network. Last year, the poles were included in the process, and 215 structures were reused. By 2017, it is estimated that over 2,500 units will be reused.

Through this initiative, AES Eletropaulo empowers a specialized company to carry out the sorting and revitalization of the material removed to be reincorporated into the network. The material is sold as scrap to that partner and repurchased at the end of the process.

The project has been in place since 2013 and has already revitalized over 45,000 units of material. In 2016, the initiative gained recognition as a winner in the Sustainability in Products and Services category of Amcham Brasil's ECO 2016 Award.

Electrical system equipment may also cause impacts through soil and water contamination from oil leakage. To mitigate this risk, we continually inspect facilities, invest in modernizing equipment, and engage employees and contractors in awareness campaigns and simulate environmental emergencies. We have a contract with a specialized company for the prompt response to incidents, and we have environmental emergency kits in the operating vehicles and at the bases, so that the first actions toward containing leaks are taken immediately, and we also have specific environmental insurance for this type

of emergency. Two events involving leakage were recorded in 2016, one at the Vila Prudente ETD – Distribution Transformer Substation (8 thousand liters of breaker oil), and another at the Hipódromo ETD – Distribution Transformer Substation (1.8 thousand liters of breaker oil). In both cases, the incidents were caused by acts of vandalism, reached the surface soil and required scraping and proper disposal of the contaminated material. **G4-EN24**

The reuse of materials in our network avoided:

- Spending **BRL 209,000** to acquired new materials
- The consumption of **6,912 m³** of water, through the reuse of hardware and insulators
- The emission of **52 tons** of CO₂
- The consumption of **26.5 thousand liters** of water per month, through the reuse of concrete poles



SUSTAINABILITY AT OUR OPERATIONAL BASES

The construction of new operational bases is one of the investments we are making to achieve the goals in the Quality Recovery Plan. In 2016, we inaugurated our first reading and delivery bases built with modern techniques and resources that reduce environmental impact, in the municipality of Santo André and in the district of Canindé, in the city of São Paulo.

The construction system used at the new base replaced masonry with steel, material that, in addition to being recyclable, results in construction work with reduced water savings of 80% compared with the traditional method. In addition, the site has rainwater harvesting and storage systems, used to wash the yard and outdoor areas.

The estimated reduction in water consumption at the new base in Santo André should generate an average annual savings of approximately BRL 3,500, guaranteeing return on the investment in three years and five months.

The bases are also designed to make better use of natural daylight and have LED bulbs to illuminate areas during periods of time with less light. Three other operational bases, with the same sustainable construction concept, will be inaugurated by the end of 2017.

At the existing bases, we carried out improvement works and adapted the storage locations of the equipment that uses oil – such as transformers. All 16 bases that have this type of installation now have covered areas and are environmentally safer.



Greenhouse gas emissions

G4-EN15 | G4-EN16 | G4-EN17

AES Brasil is committed to reducing greenhouse gas (GHG) emissions. Concerned with the issue of climate change in its management, the company published its operating guidelines on this topic in 2015. Since 2011, the specifications of the Brazilian GHG Protocol Program have been adopted to estimate GHG emissions – AES Eletropaulo has disclosed its inventory since 2012 in the Public Record of Emissions. In order to estimate greenhouse gas emissions avoided in the company’s operations, we compared the performance of our consumption of electricity and global losses. In 2016, it was not possible to avoid emission of greenhouse gases. The goal, previously defined with deadline for 2019, was revised and currently is to “avoid emissions of CO₂e by reducing 151 GWh of global losses in 2017”, compared with the performance in 2016.



AES ELETROPAULO GREENHOUSE GAS EMISSIONS INVENTORY (tCO ₂ e)	2016*	2015	2014
Direct emissions (Scope 1)	6,625	6,156	6,564
Indirect emissions (Scope 2)	374,320	569,420	670,818
Subtotal (Scopes 1 and 2)	380,945	575,576	677,382
Indirect emissions (Scope 3)	3,627,890	4,987,738	6,291,474
Total	4,008,835	5,563,314	6,968,856

*The amounts do not include emissions from changes in land use and are subject to modifications after the launch of the updated tool of the Brazilian GHG Protocol Program.

**Safety
first**



SAFETY FIRST

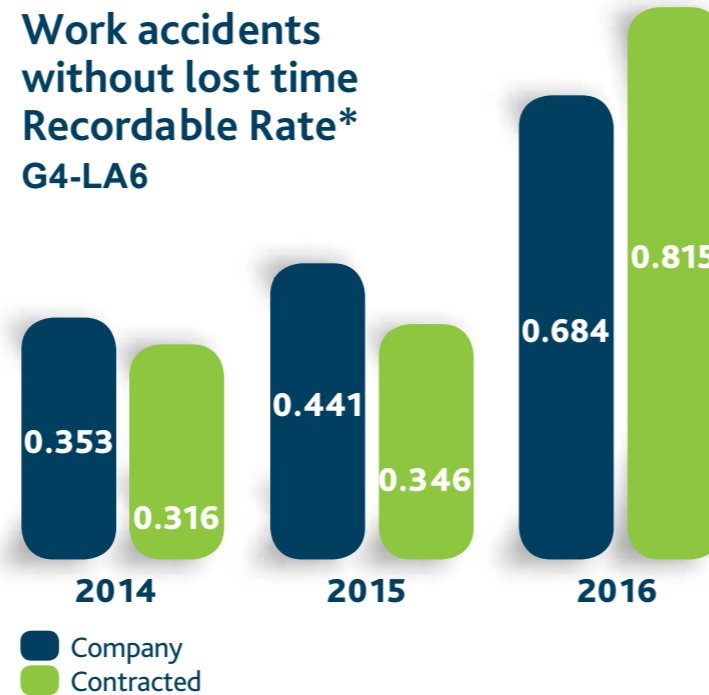
G4-DMA

The safety of our employees, services providers, and the community is our priority when we develop our activities. Our goal is zero accidents and we want to ensure that there are no fatal accidents among our professionals, contractors, or the population. In our Sustainable Strategic Planning, we set performance goals regarding this topic that are monitored periodically by the Board of Officers.

Managing our safety indicators is in line with the OSHA standard defined by the US Occupational Health and Safety Agency. Thus, we guarantee alignment with AES Corp.'s guidelines, and we can compare our performance with that of other companies in the group. On page 52, we present the health and safety indicators according to NBR 14280 of the ABNT (Brazilian Association of Technical Standards).

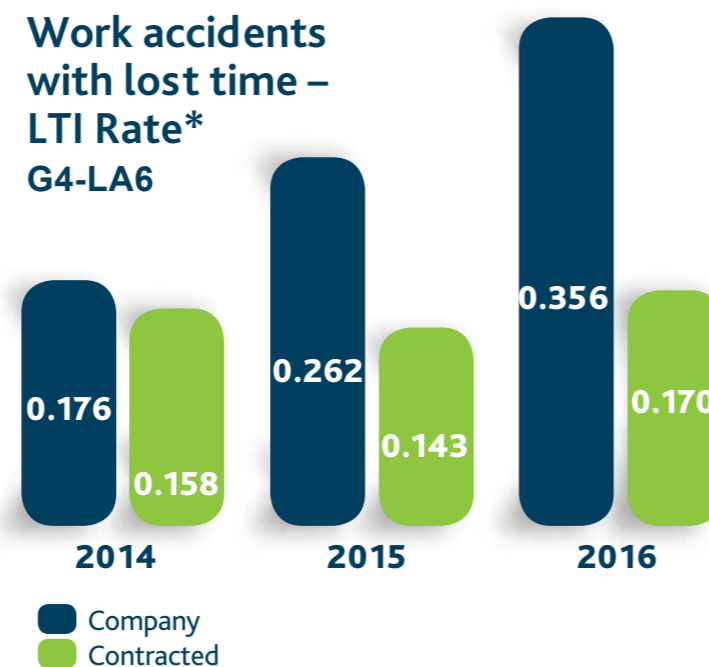
Last year, we recorded a lost time injury rate among our employees of 0.356 and among contractors of 0.17, both above the limit established for the period (0.14). The rate of recordable injuries was 0.684 for employees and 0.815 for contractors, below the limit of 0.81. In 2016, we recorded a fatal accident with a contractor (not recordable under OSHA criteria), as a result of a traffic accident. **G4-LA6**

Work accidents without lost time Recordable Rate* G4-LA6



*Recordable incident rate (typical incidents, without lost time).

Work accidents with lost time – LTI Rate* G4-LA6



*Lost time incident rate (typical incidents, with lost time).



Our Company Safety Program is focused on strengthening the safety culture, is based on AES Corp.'s global guidelines, on the requirements of our Occupational Health and Safety Management System, certified pursuant to international standard OHSAS 18001, and on the Sustainability Policy of AES Brasil. Among the main practices in the Program are the safety walks, the safety lectures, and the safety report.

For all the operational activities carried out, we have work instructions that describe the procedures to be followed by employees and contractors, the existing risks, and control measures. Before starting the activities, our teams carry out the Preliminary Risk Analysis, a tool that allows for the assessment of the work environment, maps safety risks, and adopts mechanisms to ensure operational safety and prevent accidents.

In addition to these tools, the activities and prevention measures adopted by our employees are monitored by the leadership through safety walks. During these visits to the field, occupational safety technicians and managers check adherence to safety procedures, correct use of protective equipment, and other aspects that allow us to monitor and improve our practices.

At the operational bases, we hold the *Momento Ligado* (Stay Alert Moment), a weekly meeting that involves employees and contractors to disseminate relevant information on health and safety aspects. At these meetings, we discuss the events that may have caused accidents, investigation procedures, and the causes found for the problems, with a focus on identifying improvements. At the headquarters, these meetings are held monthly. Thus, all professionals and contractors themselves are continuously trained on safety aspects. **G4-EU18**

To identify situations, processes and environments requiring improvement, in order to increase the safety of our teams, we use safety hazard reports. This tool allows risk situations in which there were no accidents to be investigated and corrective measures to be taken in advance, and information is shared with all units.

EDUCATION AND AWARENESS OF THE POPULATION

In order to raise awareness among our customers and avoid accidents in the electricity grid, we invest in educational campaigns through the main communication channels and hold lectures in local communities, schools, associations, and companies.

Safety blitzes also contribute to the awareness of the population. They are carried out with a special van that simulates the consequences of undue contact with cables in the electrical network, through a simulated electrical shock. Last year, 18 thousand people were impacted by this action.

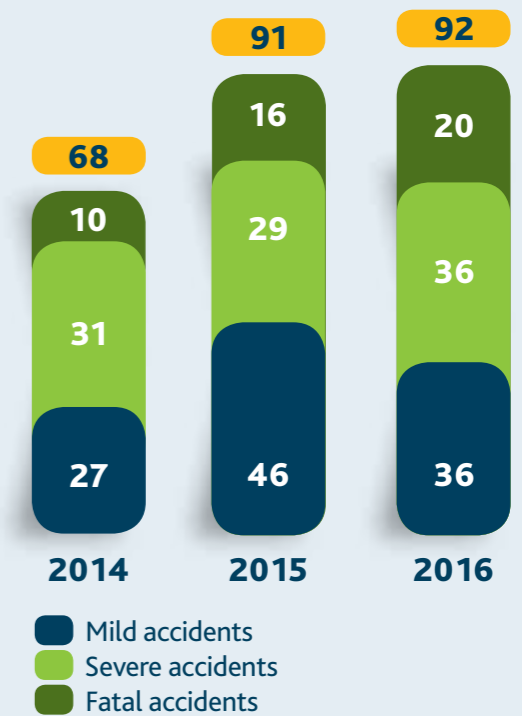
Despite our investments, we recorded 20 fatal accidents involving the population. Our goal is to have no fatal accidents involving our activities in our service territory. The total number of accidents, including those classified as severe and mild, remained stable

compared with the previous year – in this regard, our goal was to reduce the number of occurrences by 10%. **G4-EU25**

The greatest cause of accidents involving the population is contact with the cables when building informal structures, especially in low-income communities. To this end, the current economic downturn, with the increase of informal and unskilled labor, contributed to more people reforming and building without the proper caution and protection needed to avoid accidents with the electricity distribution network.

Our work with education and community awareness actions will be intensified this year. Campaigns on communication channels, such as radio spots and spots in movies on television, will increase almost 150% compared with 2016. We will also place ads at bus stops located near low-income communities.

Number of accidents involving the population* G4-EU25



*Information corrected on April, 2017.

Stakeholders relations



STAKEHOLDERS RELATIONS

G4-24 | G4-25 | G4-26

In AES Brasil's business growth and development strategy, managing stakeholder relations is fundamental to understanding their needs and developing strategies to enhance shared value through our activities and operations. In order to structure this process and define the best mechanisms of engagement, our stakeholders were grouped in a matrix.



The demands of the regulatory agencies and government representatives are received through the regulatory and institutional relations areas of AES Brasil, responsible for forwarding requests according to the subject and for participating in public hearings and industry forums, among other mechanisms.

In our business model, we have identified stakeholders that influence changes in the electricity sector – the press, agents in the electricity sector, civil society organizations, and local communities. With them, our relationship occurs directly through the departments with which there are points of contact. Identifying the demands and carrying out engagement processes are also done in a decentralized manner by the managers, according to our values and strategic guidelines.

To improve the flow of information to journalists, AES Brasil structured the Energy Press Room, recognized by the ABERJE Award (Brazilian Association of Corporate Communication) as the 2016 winning project in the category “communication and relationship with the press.” The **Energy Press Room** can be accessed through the Internet and is open to all stakeholders, with informative materials, videos, and audio recordings about the activities of all companies in the Group.

In 2016, AES Brasil was one of the companies that participated in discussions with the GVCes (Center for Sustainability Studies of the Getulio Vargas Foundation) for the design of a tool to **ASSESS SOCIAL AND ENVIRONMENTAL RISKS** and criticality in the **SUPPLY CHAIN**.

Our contribution is based on the matrix used in the Sustainable Partnerships program as a tool to evaluate and develop suppliers.



Focused on the relationship with our shareholders and investors, we have communication and disclosure channels that follow the best practices in the market, providing agile and clear information about our activities and our performance.

Periodically, we conduct research with our strategic stakeholders to assess the level of satisfaction and identify their main demands. In 2016, these surveys were made with our shareholders, employees (Climate Survey), customers, suppliers, and the press.

In 2017, as a way of evolving our relationship with our stakeholders, we will invest in structuring a platform that allows us to manage key business issues and their respective risks to our stakeholders, including the possibility of designing individualized action plans for each person who interacts with the company. The information will be documented and shared systemically, making the process even more efficient for managers.

EMPLOYEES

G4-DMA

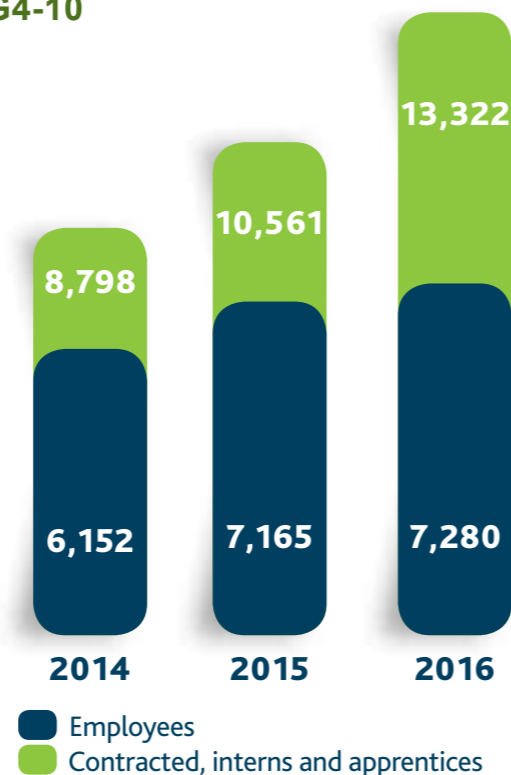
To be recognized as one of the best places to work is one of the goals set by AES Brasil's Sustainable Strategic Planning. Our focus is to ensure that our employees feel motivated and valued in the workplace, and take initiative to carry out their activities with excellence and satisfaction, resulting in gains in efficiency, productivity, and quality. In 2016, AES Eletropaulo was included for the first time as one of the 150 Best Companies to Work For, developed by *Você S/A* magazine.

This achievement is a result of the policies and practices we have in place in order to support the professional growth and development of our employees. Last year, for example, we invested BRL 4 million in training and qualifying programs, covering both technical and safety aspects for improving our operations and aspects that strengthen our corporate culture and leadership development. In total, there were 359 thousand training hours, equivalent to an average of 49.3 hours per employee, 2% lower than the 2015 result of 50.3 hours per employee. **G4-LA9**

Our hiring policy includes an internal selection process, based on our database and the dissemination of available positions on the corporate communication channels, for all positions available. We hire new

professionals in the market only if none of our employees are eligible for promotion. Annually, approximately 40% of our positions are filled through internal hiring.

Workforce G4-10



In order to evaluate the performance of our employees and the alignment with the corporate strategy, we have had in place the Performance Management Program since 2007, which includes an annual cycle of

assessing the work delivered and the potential of each professional. Especially for leadership, this process is more focused on the Management Contract, a tool that includes the individual goals of the employees to be reached according to the company's objectives, whose evolution is followed through semiannual meetings. **G4-LA11**

To empower our leadership, we have the Leaders Academy, which establishes knowledge trails to be taken by managers throughout the year through online training. We also have in place a Potential Management program that identifies employees who are aligned with our values and strategy and who may be eligible for leadership positions in the company. These professionals undergo training and thus enter into the succession plan we establish annually.

Human capital management at AES Brasil is centralized in the human resources area, focusing on talent management, organizational climate, remuneration, and the relationship with trade unions. Operation strategies are managed according to the specifics of each segment of operation. In 2016, workplace satisfaction reached 81%, which is below the goal of 85%.

QUALIFYING AND TRAINING NEW EMPLOYEES

To achieve the objectives of the Quality Recovery Plan (see more on page 26), we expanded our team of employees in 2016, especially the number of technicians and electricians. Before starting their activities, these employees underwent specific training, which was optimized and now lasts 83 days (before it lasted 120 days), without losing quality or safety standards.

The early structured planning of this process was fundamental to ensuring that we hired 611 new professional specialists. We expanded the training facilities and the number of professionals trained in the Electricians Pool that we have maintained in partnership with SENAI (National Service of Industrial Learning) since 2009. One of the main advantages of this program is preparing the labor force to work both within the company and with our partner service providers.

SUPPLIERS

G4-DMA

Developing and strengthening an ethical relationship with our suppliers is strategic for the growth of the business, as it ensures operational capability, promotes innovation, creates value and new opportunities, and ensures risk management in the supply chain. Management of this relationship is carried out through the Sustainable Partnerships program, which has existed since 2013 and guides the selection and development actions of our partners.

In order to direct our efforts and action plans in our relationship with our partners, we classify all our suppliers of products and services according to a criticality matrix that weights possible risks (economic, social, and environmental) to our business and the complexity of the market for contracting. In 2016, approximately 450 companies that serve AES Brasil, distributed over 12 categories of products and services, were assessed. Of this total, 287 were suppliers of AES Eletropaulo. **G4-12**

Partner contracts that are highly critical and complex, such as service providers for network maintenance and operation, are managed through the IDF (Supplier Performance Index). This tool enables the managers of the contracting areas to assess, during the term of the contract, the performance

of the contracted partners according to previously established indicators and guidelines. Thus, we have been able to quickly establish action plans to improve suppliers that are not meeting the minimum requirements for quality, efficiency, and social and environmental performance.

For each supply category, we established assessment questionnaires completed monthly by contract managers to evaluate social, safety, environmental, and operational criteria that have different weights according to the type of product purchased or service contracted. Among the assessed aspects are ethics and compliance, respect for labor rights, validity of environmental licenses, and accident investigation practices, among others. In order to streamline the contract management process, in 2016 we developed a tool for completing the assessment questionnaires via smartphones and tablets that will be used on a large scale beginning 2017.

Our Board of Officers also monitors the evolution in performance of partners through monthly reports, broken down by each area responsible for managing the contract.

Every month, our partners are informed of their performance on the IDF and receive the assessments

made by the managers, providing transparency to the process.

Suppliers with performance below the established target are invited to develop improvement plans, with deadlines and defined goals. Partners who exceed the targets are nominated for the AES Brasil Best Supplier Award, which has been held since 2011. In addition, the best practices of suppliers with a high level of performance are shared at specific workshops throughout the year.

Fronts to innovate and enhance the SUSTAINABLE PARTNERSHIPS

- Implementing supplier management policies, processes, and tools.
- Continuous assessment of partner performance and risk management in the supply chain.
- Supplier and employee development and engagement.
- Recognition of best practices and results.

RECOGNITION OF BEST PRACTICES

The AES Brasil Best Supplier Award aims to recognize partners with best practices and results and promote the exchange of experiences and the development of our entire supply chain, encouraging suppliers who were not nominated to improve their processes.

In the sixth edition, held in 2016, a total of 185 suppliers were eligible for the Award based on their performance on the IDF. The average score of participants increased from 76 (in 2011) to 81 (in 2016), demonstrating the effectiveness of the development plans we carry out in our supply chain.

Last year, in addition to the winners in the 11 categories, we recognized four cases of projects carried out by our suppliers related to innovation and sustainability. The winners were chosen for the alignment of their actions with AES Brasil's strategic objectives and the results and positive impacts generated.

The award is also geared toward our employees, in order to promote engagement of contract managers with the improvement of our processes. Six employees were awarded in 2016.



In order to provide more agility and transparency when interacting with our partners, in 2017 we will launch a new portal for suppliers, which will provide relevant information, reconcile the billing and payment process, and allow monitoring performance on the IDF. The new platform will also improve the partner communication process, enabling documents to be sent and information to be exchanged between the suppliers and contract managers.

Annually, we conduct a satisfaction survey with our suppliers to identify opportunities for improvement in the relationship and to improve

our processes and technologies. Based on these assessments, a pilot project to pre-qualify AES Tietê suppliers was initiated, in line with the guidelines of ISO 55001 (asset management) certification. Through this initiative, we aim to advance the supplier selection process and further emphasize quality and eco-efficiency aspects of decision-making, as well as the economic and financial criteria. Our objective is to implement this model at AES Eletropaulo in 2017, including the requirement that, for certain contracts, the supplier must have been approved during the prequalification phase.

LOCAL COMMUNITIES

G4-DMA | G4-SO1

In the municipalities in which we operate, we aim to promote sustainable development through social innovation. With corporate funds and incentive laws, in addition to the Energy Efficiency Program (PEE), we have the potential to bring about positive change in the lives of people and communities by supporting innovative energy solutions, income generation, and empowerment that provide gains to all stakeholders.

The **AES Institute**, created in 2016, was structured to increase our capacity to create value in this sense, increasing the reach of our operations and the positive impacts we have caused via our projects. The Institute is responsible for managing AES Brasil's volunteer social action in three pillars:

- **Citizenship training:** to awaken creativity and innovation in children and youngsters in order to engage them in the safe and efficient use of electricity and topics on sustainable development.

AES Eletropaulo in Schools, carried out with resources from the PEE⁷, is a project in this line of action, focused on education and awareness of students

and teachers, that encourages changes in consumption habits and the efficient and safe use of energy. It is conducted by the NAEE (Centers of Action for Energy Efficiency), formed by groups of 16 students led by a teacher-tutor of the school and an educator hired by the company



to assist in the activities. Over 454,000 students were impacted by the project in 2016. A total of 528 schools participated, which on average managed to reduce energy consumption by 12% and water consumption by 30% through educational initiatives of the project. To learn more about the activities and results achieved, click [here](#).

On this front, we also supported both units of the **Children's Educational Center Luz e Lápis**, located in São Paulo, which in 2016 served 234 children ages 1 to 6, of low-income families or living in socially vulnerable situations.

- **Innovation for social development:** supports social entrepreneurs in the quest for low-cost energy solutions for low-income populations.
- **Conscious entrepreneurship:** supports and encourages the communities where AES Brasil operates, to generate income and gain autonomy.

⁷According to Law No. 9,991 (by ANEEL), AES Eletropaulo allocates 0.5% of its Net Operating Revenue (NOR) to Energy Efficiency Projects (PEE).

In this line of action, we engage communities and foster income generation through community vegetable gardens in the areas occupied by our subtransmission lines. The installations encourage the sustainable production of food as well as the best use of urban space, with environmental gains. In 2017, we will begin production activities in the community vegetable garden program in 5 areas of the Eastern region of São Paulo.

The creation of the AES Institute has the potential of strengthening the capacity to form partnerships and network with the beneficiaries of social projects, entrepreneurs, volunteers, civil society players, and partners in the public sector. Collaboratively, we will be able to make better use of the available resources in project management, economic assessment, knowledge management, and structuring an environment where individuals and organizations supported are offered the opportunity to be in charge of their own development.

Learn about all projects supported by AES Brasil in 2016 on page 44.

HOUSE OF CULTURE AND CITIZENSHIP: REDIRECTING VOLUNTEER SOCIAL ACTIONS

House of Culture and Citizenship is a social and cultural project carried out by the Agires Institute that aims to transform the reality of children, adolescents, and adults through activities focused on art, culture, citizenship, and quality of life, especially for low-income communities. In 2016, a total of 760 children and young adults benefited directly, and 90,675 people received regular courses, lectures, and presentations at the Osasco and São Paulo units, sponsored by AES Eletropaulo.

Since 2008, AES Brasil's sponsorship of the seven units of the project was supported, mostly, through the application of the Culture Incentive Law, which grants exemption from income tax for investment in social actions. Between 2016 and 2017, the availability of resources applicable in this model was reduced by 70%, making it unfeasible to continue the partnership.

In the last three years, given the new economic reality of the country, AES Brasil signaled to the House of Culture and Citizenship the need to adjust the operation model, and contributed to strengthening the image of the project for possible new sponsors.

Even with the end of the sponsorship, AES Brasil will maintain the commitment to the sustainable development of the communities impacted by the project. A new activity plan for the regions will be formatted in 2017 according to the guidelines of the AES Institute, and presented to local representatives.



Volunteerism

Our employees are committed to contributing to the development of communities through *Energia do Bem* (Good Energy), our volunteer program that is now managed by the AES Institute. With this change, in 2017 the program will be restructured, with new opportunities for volunteerism and a better relationship with the proposed impact of the Institute.

In 2016, a total of 1,013 AES Brasil employees volunteered through *Energia*

do Bem, of which 887 were from AES Eletropaulo, with benefits to over 9,000 people.

Also last year, we launched the *Energia em Movimento* (Energy in Motion) project, which engages volunteers in making permanent improvements in communities focused on promoting energy efficiency, conscious consumption, and innovation. The projects approved were evaluated by a group of leaders from AES Brasil and will be implemented in 2017.



Recycle More, Pay Less

The Recycle More, Pay Less project is an AES Eletropaulo initiative that combines benefits for customers and the environment. Created in 2013, the action encourages our customers to exchange recyclable materials for bonuses on the energy bill. For the company, the project provides an increase in timely payment of bills.

In three years, the initiative has already benefited approximately 19,900 customers and granted nearly BRL 531 thousand in discounts. Approximately 4,900 tons of waste were collected, which prevented 11.9 thousands of CO₂ from being released into the atmosphere, and saved approximately 21,200 MWh of electricity. These gains were obtained because manufacturing new products from

HIGHLIGHTS FOR 2016

- **1,144.1 tons** of waste collected
- **BRL 202.1 thousand** in bonuses granted
- **9,019** participating customers
- **50,190** registered customers



recyclable materials requires less energy and, therefore, emits less carbon.

In 2016, the project expanded the number of service points with the Return Machines, a project led by the partner company Triciclo Soluções Sustentáveis. They are self-service machines where customers deposit PET bottles and aluminum cans and gain points that can be redeemed for benefits, such as bonuses in the energy bill. Fifteen new machines were installed, ending the year with 18 service points for this initiative.

Municipal Energy Management (GEM)

The GEM (Municipal Energy Management) projects, carried out with resources of the Energy Efficiency

Program, have the objective of advising municipal administrators on the efficient use of electric energy. GEM allows them to plan and organize the different activities of the use of electric power by the City Hall, identifying the areas with greater potential of efficiency in the consumption. The actions are aimed at technicians of city halls, who are responsible for the management and control of consumption, and the secretaries and mayors, decision makers and the dissemination of the culture of efficiency in their public agencies.

In 2016, we signed agreements with eight municipalities for the implementation of Municipal Energy Management, and the project was already started in Itapeceira da Serra, Embu-Guaçu, Jandira and Ribeirão Pires. By 2017, we are planning to sign new agreements. With the action, it is estimated a 7% saving on the electricity consumption of the municipality contemplated.

Private Social Investment

In 2016, AES Eletropaulo invested BRL 72.7 million in social projects in the areas of education, culture, sports and health; access to energy and energy efficiency; inclusive professional training, and social influence with corporate resources, incentive laws and ANEEL's Energy Efficiency Program. Starting in 2017, the volunteer social action of AES Eletropaulo will be managed by the AES Institute, with a focus on social innovation.



Project	Description	Area of influence	Estimated number of beneficiaries	Resources invested (BRL)	Source of funds
Line of action: education, culture, sports, and health					
AES Eletropaulo in Schools	Mobilization of teachers and students in schools for power and water consumption awareness	The whole of AES Eletropaulo's service territory	454,522 students and 2,162 teachers	BRL 3,815,191.37	Incentivized resources – Energy Efficiency Program
Recycle More, Pay Less	Discount on the electricity bill for residential customers that deliver recyclable materials (paper, plastic, metal, and glass) in the collection spots	The whole of AES Eletropaulo's service territory	50,190 registered customers, of which 9,019 participants	BRL 1,323,041.42	Incentivized resources – Energy Efficiency Program
Live Without Accidents	Safety campaigns for the population, focusing on awareness about the risks of coming into contact with the electric network	The whole of AES Eletropaulo's service territory	Undetermined	BRL 5,705,700.00	BRL 1,205,700.00 in company funds and BRL 4.5 million in incentivized resources – Energy Efficiency Program
Consumption Awareness Campaigns	Awareness campaigns for the efficient use of electric power	The whole of AES Eletropaulo's service territory	Undetermined	BRL 2,500,000.00	Incentivized resources – Energy Efficiency Program
House of Culture and Citizenship	The goal of this project is to transform the reality of thousands of children, youngsters and adults through activities focusing on arts, culture, citizenship and quality of life, especially in low income communities	São Paulo (Vila Guacuri) and Osasco	760 children and youngsters directly benefited and 90,675 attendances in regular courses, lectures and presentations	BRL 659,999.97	Company funds
Children's Educational Center Luz e Lápis	Registered as a Public Interest Civil Society Organization (OSCIP), it caters to children, ages 1 to 6, from low income households or living at social risk	Two units, Santo Amaro and Guara-piranga, both located in the Southern region of the city of São Paulo	234 children	BRL 2,174,735.04	Company funds
Energia do Bem (Good Energy)	AES Brasil's volunteer program	Applicable to all AES Eletropaulo units	887 employees involved 9,747 beneficiaries	BRL 54,000.00	Company funds
Mario Covas Collection	Treatment and digitization of Mario Covas' photographic collection and its organization in a collection of 160 DVDs to be donated to the Public Archive of the State of São Paulo	São Paulo	10,000 people	BRL 200,000.00	Incentivized resources – Cultural Action Program
The Energy of the City	Book with photographic records of São Paulo in 3D with daytime and nighttime images	São Paulo	1,000 people	BRL 10,702.35	Incentivized resources – Cultural Action Program
The Energy of the City	Documentary that shows the evolution of São Paulo with recordings of aerial, nighttime, and daytime images	São Paulo	2,000 people	BRL 300,000.00	Incentivized resources – Cultural Action Program
Energizing	Musical shows with debates on conscious consumption and energy efficiency	São Paulo	3,000 people	BRL 342,134.10	Incentivized resources – Cultural Action Program
Urban art exchange	Promotion among artists who produce urban art focused on sustainability	São Paulo	1,000 people	BRL 150,000.00	Incentivized resources – Cultural Action Program
Happy Running	Three-heat circuit of street racing with entertainment actions focused on quality of life	São Paulo	3,000 people	BRL 350,000.00	Incentivized resources – Sports Incentive Program
Our Cities Circuit	Street running and walking	Barueri	1,200 people	BRL 225,080.18	Incentivized resources – Sports Incentive Program
Mountain Range Circuit	Four-heat racing course in the mountains	Franco da Rocha, Cajamar, São Bernardo do Campo and Cotia	3,200 people	BRL 247,683.00	Incentivized resources – Sports Incentive Program
Line of action: inclusive professional training					
Electricians Pool	Recruitment, selection, and training of people to be employed by us or by our contractors, meeting the demand for professionals in this field	The whole of AES Eletropaulo's service territory	1,017 people	BRL 2,957,058.00	Company funds
Line of action: access to energy and energy efficiency					
Transforming Consumers into Customers	Promotes regular access to electricity, focusing at the safe and reliable supply for all, contributing to the welfare of the people living in low income communities	The whole of AES Eletropaulo's service territory	45.6 thousand families and nearly 183,000 people	BRL 54,255,942.29	BRL 26.8 million in company funds and BRL 27.5 million in incentivized resources – Energy Efficiency Program
Energy efficiency initiatives	Projects to replace equipment with more efficient models and support energy consumption management for large consumers of energy (industries, commerce, and government)	The whole of AES Eletropaulo's service territory	Undetermined	BRL 3,777,954.84	Incentivized resources – Energy Efficiency Program
Linha de atuação: influência social					
Abrinq Foundation	Non-profit organization whose mission is to promote the defense of rights and the exercise of citizenship of children and adolescents	Brazil	Undetermined	BRL 13,491.00	Company funds
GVCes Business Initiatives – Getulio Vargas Foundation	Projects of the Center for Sustainability Studies in the field of economic supply that gather companies to discuss and design together tools, solutions, strategies, and policies for sustainable development	Brazil	Undetermined	BRL 25,000.00	Company funds
Bamboolab – “Empathy for the City” Event	Debate with architecture professionals about changes at 5 locations in São Paulo	São Paulo	400 people	BRL 15,000.00	Company funds
Sendi	XXII National Seminar on Electricity Distribution	Curitiba	2,000 people	BRL 75,000.00	Company funds
SindusCon-SP	Celebration of 20 years of activity of the Technology and Quality Committee of SindusCon-SP	São Paulo	400 people	BRL 12,500.00	Company funds

GRI Annex



ABOUT THE REPORT

For the 11th consecutive year, we have published our Sustainability Report, which presents how we manage the material aspects of our business, our results, lessons learned, and perspectives for our business in the short, medium, and long term. The information includes the period from January to December 2016 and was submitted to external assurance by KPMG Financial Risk & Actuarial Services Ltda., as in the previous year. The entities included in the scope of the Report are the same as those included in the Financial Statements, ensuring the alignment of the information among these documents.

G4-17 | G4-28 | G4-29 | G4-30 | G4-33

The document is in accordance with the Core option of the G4 version of the GRI (Global Reporting Initiative) guidelines, and also considers the principles of Integrated Reporting, highlighting the value creation model in financial, manufactured, natural, intellectual, human, and social & relationship capitals. In addition to this complete PDF publication in Portuguese and English, in this reporting cycle we have developed an online version with key highlights and key aspects. **G4-32**

Materiality Matrix

G4-18

Since 2014, the content of our Report has been defined based on the aspects of greatest interest to our stakeholders with the greatest impact on our strategy.

Annually, we review and update the list of material aspects, in order to continuously ensure the alignment of our accountability with the demands and expectations of our stakeholders.

In 2016, this process covered three complementary work fronts. At first, we assessed the results of the surveys conducted throughout the year with the stakeholders most critical to our business. In this context, we consider the expectations of our suppliers, shareholders, customers, and low-income communities.

The second stage, focused on the structuring of an active mechanism for listening to our employees, consisted of creating a panel that brought together 23 professionals from AES Eletropaulo. At the meeting, the participants prioritized sustainability aspects proposed for analysis according to the assessment of impact on their relationship with the company, and conducted qualitative discussions.

Finally, we conducted a broad process of analyzing the documents of other companies in the electricity sector, aspects of greater interest to civil society (through research of the main media outlets of the Brazilian press), and sustainability issues highlighted by overall reporting frameworks, multilateral agreements, and national and international initiatives toward sustainable development.

All of these external inputs were consolidated in line with AES Brasil's Sustainable Strategic Planning, ensuring integration of the topics addressed in the Sustainability Report and the most relevant aspects among the company's strategic goals. As a result, we identified eight material aspects: Ethics and Governance, Communication Channels, Financial Performance, Operational Efficiency and Integrity, Innovation and Risk Management, Impacts of Network



Operation, Customer Satisfaction, and Safety of Employees and the Population.

Our Sustainability Report also aims to present our main achievements under the Global Compact, of which we have been signatories since 2005. In the table on the side, we highlight the relationship between our material aspects and the principles of the Global Compact, in order to facilitate the identification of this content by our stakeholders. In this context, we also present a correlation between our material aspects and the SDG (Sustainable Development Goals), identifying those with which we can contribute in a more direct way. For those interested in obtaining more information on these subjects or who would like to share suggestions and comments about our Report, our team is available by e-mail at sustentabilidade@aes.com. **G4-31**

G4-19 | G4-27

Material aspects	GRI aspect/disclosure	Report chapter	Global Compact principle	SDG
Ethics and Governance	G4-57 G4-58 Anti-corruption	We are AES Eletropaulo	10	
Communication Channels	G4-24 G4-25 G4-26 G4-27 Supplier environmental assessment Supplier assessment for labor practices Local communities	Stakeholder relations	8	
Financial Performance	Economic performance	We are AES Eletropaulo and Our strategy	-	
Operational Efficiency and Integrity	System efficiency Access Energy	Operational efficiency	7 and 8	
Innovation and Risk Management	G4-2 Economic performance Research and development	We are AES Eletropaulo and Our strategy	7 and 8	
Impacts of Network Operation	Emissions Effluents and waste Overall	Operational efficiency	7, 8 and 9	
Customer Satisfaction	Training and education Product and service labeling	Focus on customers and innovation	6	
Safety of Employees and the Population	Employment Occupational health and safety Customer health and safety	Safety first	6	

COMPLEMENTATION OF GRI DISCLOSURES

G4-10 and G4-11 | The following table presents our workforce by gender. All of our employees are covered by collective bargaining agreements and are hired according to the CLT (Consolidation of Labor Laws), and work full time. Only apprentices are hired for a fixed term, in accordance with Law No. 10,097/2000 (Apprenticeship Law). The reduced number of trainees from 27 to 14 from 2015 to 2016 is justified by the change in the hiring period we made last year, when the applications were centralized in a single event – in the previous period, the process was carried out semiannually. In addition, we have seasonal periods for hiring employees and contractors, during the months of March and November, to reinforce the maintenance teams and services in the network during periods of more intense rain. We do not hire self-employed professionals for significant activities.

G4-12 | In 2016, AES Eletropaulo’s expenses with suppliers totaled approximately BRL 1.5 billion. At the end of the period, our base had 1,776 active partners, between companies that provide materials and services providers. All the company’s suppliers are classified according to a criticality matrix that considers the complexity of the market in which these suppliers operate, the impact of their activities on AES Eletropaulo’s business, and the amount of payments to be made.

Among the most critical suppliers are the companies that provide services for the construction and maintenance of the distribution network. In the materials segment, the companies that supply poles, transformers, electrical conducting materials and meters are those with highest criticality in terms of complexity (availability of suppliers in the market and specificities in hiring), operational impact, reputational risks, safety and environment, technical complexity, and value.

To monitor the performance of these partners

and minimize risk to our business, we have in place the Sustainable Partnerships program, in which suppliers considered critical are assessed and receive an assessment score – the IDF (Supplier Performance Index). Read more on page 39.

G4-15 | Adopting external commitments contributes to incorporating in our management key aspects of sustainability, anticipating the demands of civil society and joining efforts with other organizations on fundamental aspects to sustainable development. Since 1996, we have been among the Empresas Amigas da Criança (Child-Friendly Companies), an organization of the ABRINQ Foundation whose mission is to defend the rights and the exercise of citizenship of children and adolescents. In 2005, we became signatories of the Global Compact (UN), annually reporting our efforts aligned with the 10 principles of the initiative, and in 2008 we signed the Corporate Pact for Integrity and Against Corruption, a commitment also coordinated with the United Nations and the Ethos Institute. As part of the exchange of experiences and the development of studies on corporate sustainability, we have been gaining strength since 2010, and formally since 2013, by working with the GVCes Business Initiatives (EAESP-FGV Sustainability Studies Center). Last year, we once again sought to align ourselves with the most important initiatives for sustainable development by formally adhering to the SDGs (Sustainable Development Goals).

G4-16 | Participating in industry associations and civil society organizations is relevant so that we may contribute to the evolution of discussions on strategic aspects for our business. Among the associations from the electricity sector, we work with the governance and working groups of ABRADDEE (Brazilian Association of Electricity Distributors) and Sindienergia (Energy Utilities Union in the State of São Paulo). These entities defend the interests of the sector and share information among their associates, last year highlighting aspects related to union issues, installation of underground network, and distributed generation. We also actively participate in the committees and initiatives of Amcham (American Chamber of Commerce) and ABDIB (Brazilian Association of Infrastructure and Heavy Industries), where we can expand the sharing of experiences and debate on issues with other sectors, such as aspects in the economic, legal, and infrastructure context. In addition, we are present in specific forums such as ABERJE (Brazilian Association of Corporate Communication) and the Energy and Climate WG of the Global Compact in Brazil, and we contribute to the FNQ (National Quality Foundation) and the ABRADDEE Institute.

Workforce by gender and category	2016			2015		
	Female	Male	Total	Female	Male	Total
Effective members of the Board of Directors	0	9	9	1	10	11
Effective members of the Fiscal Council	1	4	5	0	5	5
Employees	1,100	6,180	7,280	1,106	6,059	7,165
Apprentices	93	78	171	91	40	131
Interns	6	8	14	13	14	27
Contracted	na*	na*	13,137	na*	na*	10,403
Total	na*	na*	20,616	na*	na*	17,742

*Not available.

G4-20 and G4-21 | From an internal boundary standpoint, aspects are material for the whole company, except for the aspects Efficiency and Operational Integrity, Impacts of Network Operations, and Safety of Employees and the Population, which are more relevant to operational management and maintenance of the electrical network. From an external boundary standpoint, the materiality of the aspects is geographically limited to the region where the company operates, and the stakeholders with a material interest in each topic are listed in the following table.

G4-23 | There were no significant changes regarding the boundary and scope of the Sustainability Report.

G4-27 | Through structured surveys with our stakeholders, we have identified the following demands and topics of interest:

- Customers: quality of energy supply, clarity in the energy bill, advance notice of disconnections, and agile return of power in the case of outages.
- Employees: ethical and pleasant work environment, professional development and growth, meritocracy, and improved organizational climate.
- Suppliers: transparency in relationships, development of long-term relationships, consideration of quality versus price, efficient management of contracts, and payments on schedule.

G4-34 | One of the nine members of the Board of Directors is independent, and is appointed by the employees of AES Eletropaulo. Throughout the year, the Board convened 23 times and among the topics of deliberation, related to corporate sustainability, the following were highlighted: approval of the Annual Social and Environmental Responsibility Report according to ANEEL (National Electricity Agency) guidelines; adjustments to the Sustainability Policy in accordance with the new guidelines of OHSAS 18001 and the Corporate Sustainability Index of BM&FBOVESPA; and alignment of the format, content, and schedule to prepare the 2016 Sustainability Report.

G4-57 and G4-58 | The reports received by the AES Helpline are investigated by the ethics and compliance area, with the support of other teams such as human resources, safety, and internal audit. Confidentiality of information and secrecy of the identity of whistle-blowers are guaranteed, as well as the possibility of making anonymous statements and non-retaliation policy. A first response is sent within 48 hours; however the time to complete the investigation will vary from case to case. The aspects most frequently addressed by the channel relate to HR issues and concerns about internal policies and procedures. Click [here](#) to learn more about the AES Helpline.

G4-EC2 | Climate change can affect the rainfall regime, intensifying storm events, which in turn impact the availability of our energy supply. We develop technologies to mitigate risk exposure, such as the smart grid (learn more on page 16), and continually improve management of operations to reduce the frequency and duration of outages.

G4-DMA Research and development |

The specific regulation of the electricity sector establishes that 0.2% of the net operating revenue of energy distributors should be geared toward research and development activities. All management of research contracts in partnership with universities and institutes, as well as reporting the progress of each project, is conducted in accordance with the requirements of Laws No. 9,991/2000 and 10,848/08 and the Manual of the Technological Research and Development Program in the Electricity Sector (ANEEL).

In order to maximize value creation for the company, we aligned the search for R&D projects with the AES Innovation platform (learn more on page 15), focusing on initiatives related to improving operational efficiency and the quality of consumer service. The approval of the proposals also goes through an internal AES committee at the Board of Officers level, before being duly registered with ANEEL. Among other benefits,

Material aspect	Stakeholders with a material interest
Ethics and Governance	All stakeholders
Communication Channels	All stakeholders
Financial Performance	Investors, government, employees and suppliers
Operational Efficiency and Integrity	Customers, employees, suppliers and regulatory agencies
Innovation and Risk Management	Investors, regulatory agencies and non-governmental organizations
Impacts of Network Operation	Customers, employees, suppliers, regulatory agencies and non-governmental organizations
Customer Satisfaction	Customers, employees and regulatory agencies
Safety of Employees and the Population	Employees, communities and non-governmental organizations

investments in research promote innovation and sharing of knowledge within the company, contributing for the adoption of new practices and technologies in operational management, worker safety, and sustainable development of communities.

Investments in R&D totaled BRL 8.3 million in 2016, an amount 54% lower than in 2015. This reduction is due to the changes in the selection criteria for the projects, in line with the AES Innovation platform, and does not affect the fulfillment of legal requirements concerning the stable regulatory goal of minimum balance in R&D.

Investments in R&D (BRL)	2016	2015	2014
Alternative sources of electric power generation	137,464	27,556	943,955
Planning of electric power systems	0	5	320,188
Operation of electric power systems	203,518	2,723,539	830,761
Supervision, control and protection of electrical energy systems	3,660,644	8,839,944	12,686,440
Quality and reliability of electric power services	696,379	971,359	2,497,580
Measurement, billing and combating of commercial losses	2,658,910	4,581,241	3,463,722
R&D management	959,214	1,264,214	2,537,119
Total	8,316,130	18,407,858	23,279,765

G4-EN3 | The company's energy consumption for the year was 41.1 GWh, which was 2% above the 40.2 GWh consumed in 2015. This total includes only the consumption of electricity in the units, excluding the energy losses in the distribution network, and fossil fuels.

G4-EN23 | The waste generated by our operations is disposed of according to the parameters in the National Solid Waste Policy. We rely on receiving companies contracted to guarantee the adequate treatment of these materials, which may be classified as:

- **Non-hazardous:** metal scrap, debris, pruning waste, and common waste.
- **Hazardous:** oil, waste impregnated with oil, batteries, light bulbs, and waste impregnated with paint.

Due to the environmental risk that receiving waste represents for our businesses, we have in place a process to approve these suppliers through regular audits and monitoring of activities in the field. We also encourage companies that provide construction services to adopt waste recycling practices and technologies in order to mitigate environmental impacts.

In 2016, the destination of 100% of waste from pruning of trees sent for recycling or energy reuse, in addition to several initiatives to recycle waste from the electrical network, contributed to a significant reduction in the disposal in landfills. In total, there was a reduction of 32 percentage points of non-hazardous waste sent to landfills, compared with 2015, reflecting the efforts for separating waste and the demand for works conducted throughout this period.

Since 1997, we have conducted the environmentally appropriate treatment and disposal of old equipment contaminated by PCB (polychlorinated biphenyl). We rely on a laboratory to conduct PCB analysis, ensuring the necessary monitoring to comply with legislation.

Disposal of non-hazardous waste (t)	2016	2015
Reuse	2,563	1,296
Recycling	18,333	20,693
Recovery	0	4
Incineration (or use as fuel)	5,657	3,770
Landfill	10,142	28,357
Total	36,696	54,120

Disposal of hazardous waste (t)	2016	2015
Recycling	1,061	807
Recovery	581	785
Incineration	15	185
Landfill	3	755
Co-processing	95	456
PCB decontamination	0	0
Total	1,755	2,988

G4-EN31 | The amount of our environmental expenditures and investments remained stable compared with 2015. Among our priorities last year, we highlight the replacement of cables insulated with oil with dry cables and the initiatives under the Quality Recovery Plan. The amount for energy efficiency projects was 23% lower compared with the previous year, since one of the most representative projects (approximately 60% of the total budget) was restructured, and the investments were postponed until 2017.

G4-EN33 | Supplier assessment is conducted in two fronts. During the registration phase, potential suppliers must submit all required environmental compliance documents (licenses, permits, etc.). Pre-qualified companies then undergo inspections for approval and become eligible to be contracted by AES Eletropaulo in any bidding processes. After the contract is executed, its operations and performance are monitored and assessed by the IDF within the scope of the Sustainable Partnerships program (learn more on page 39).

Specifically regarding environmental criteria, 61 suppliers considered critical in this area were assessed, of which 41 are approved and active in our database and the other 20 operated throughout the year in the services for operation, maintenance and work on the networks. Among these suppliers, only 16 obtained scores below the goal, mainly for lack of Municipal Permit and of the Inspection Report by the Fire Department, and deficiencies in emergency preparedness

Investments and expenses in environmental protection ('000 BRL)	2016	2015
Direct costs – Environment Management	7,241	6,755
Environmental Management System (SGA) and others	2,138	2,093
Licensing and environmental compensation	4,812	3,771
Recovery of soil and groundwater quality	6,700	8,615
Environmental adequacy and pollution prevention	18,845	6,917
Operational training	0	41
Communication	0	0
Research and development projects	0	0
Energy efficiency projects	36,807	47,511
Total	76,543	75,702

and waste management. Based on these assessments, action plans were requested for the main problems identified, and we have monitored the progress of corrective measures through bimonthly meetings between AES Eletropaulo's leaders and contractors.

G4-EU25 | Most cases of accidents with the population involved accidents in irregular construction work and attempted recovery of kites. The other cases are broken down between the various causes. The number of lawsuits against the company is confidential information.

G4-LA6 | All accidents are investigated to identify the root cause and the key health and safety indicators are shared with employees monthly through

communication channels. Most of the occurrences are related to injuries from falls and minor cuts from handling material. We also monitor cases of occupational illness and, in 2016, the company recorded one case. In order to enable comparison with other Brazilian companies, we present below the main safety indicators according to NBR 14280 of the ABNT (Brazilian Association of Technical Standards).

Occupational health and safety indicators*	2016	2015	2014
Number of accidents with and without leave (employees)	79	68	57
Number of accidents with and without leave (contracted)	79	46	28
Days lost/debited (employees)	1,465	634	866
Days lost/debited (contracted)	6,877	12,879	351
HHT** (employees)	14,058,702	12,265,781	12,175,803
HHT** (contracted)	11,857,752	9,518,409	11,421,801
TF*** (employees)	5.62	5.54	4.68
TF*** (contracted)	6.75	5.04	2.45
TG**** (employees)	104	52	71
TG**** (contracted)	579	1,353	30
Fatal accidents (employees)	0	0	0
Fatal accidents (contracted)	1	2	0

*Data reported according to NBR NBR 14280. We do not have a breakdown by gender, given the unavailability of man-hours worked in this format.

**HHT = man-hours worked

***TF (frequency rate) = number of accidents per 1 million man-hours worked

****TG (severity rate) = number of days lost (due to accidents resulting from accidents at work) for every 1 million man-hours worked

G4-LA9 | Training our employees contributes to the quality, productivity, and improvement of the company's performance indicators. Our priority is to comply with the legal requirements for qualification, with regular training for the professionals who work in the Electric Power System. We also identified, with the managers, the training needs of the teams and developed annual training plans, with the support of specialized training analysts by area. The definition of training programs may consider the demands of employee career planning, but these processes are not formally integrated into AES Eletropaulo. Through an online platform, employees may enroll in the courses available and also consult the key training indicators. Most are classroom courses and may be taken by both external partners and internal multipliers, depending on the availability of financial and human resources. The effectiveness of training is measured by indicators such as participation and cancellation rates and the reaction evaluation applied at the end of each course.

G4-LA15 | Supplier assessment is made according to the Sustainable Partnerships program (learn more on page 39). Specifically regarding labor practice criteria, 36 suppliers were considered critical in this area, who work in network construction, the call center, logistics activities, and cleaning, surveillance, and reception services. In contracts with suppliers of this type, we only make the payments due after presentation of the respective labor tax collection forms, as per the standard clause in our contracts with these partners. Only eight of them had scores below 75 on the IDF, and this performance is related to the various aspects that are assessed in this process. Thus, no significant impacts were identified regarding labor practices among our suppliers.

G4-SO5 | In the last three years, we have not recorded confirmed cases of corruption involving our employees. In the scope of this type of report, we consider AES Corp.'s definition of corruption: payments or other benefits received, promised, or offered to government

officials in order to influence the decision of such officers, violate corporate policies and legal requirements, or for objectionable purposes.

G4-SO8 | We monitor legal cases filed against the company through a specific system and with the support of specialized firms. Classification of the cases is done according to CPC 25 of the Accounting Statements Committee (Provisions, Contingent Liabilities and Contingent Assets). The most relevant cases are communicated in our Reference Form (item 4.3), according to guidelines of the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM). For more information on cases recorded in the period, refer to this document or Release 4Q16 on the **IR website**.

G4-PR5 | To measure the satisfaction of our customers, we use structured surveys conducted by specialized research institutes as well as internal surveys. We annually participate in the survey prepared by ANEEL that measures the IASC (ANEEL Consumer Satisfaction Index). In 2016, we obtained a 58.03% score in the IASC, a result 3.6 percentage points above that achieved in 2015. This improvement may be explained by investments in the Quality Recovery Plan (see more on page 26). The main index monitored is the ISQP (Satisfaction Index for Perceived Quality), by ABRADÉE (learn more on page 21).

G4-PR9 | ANEEL (National Electricity Agency) defines goals for performance of each energy distributor in Brazil using the SAIFI (System Average Interruption Frequency Index) and SAIDI (System Average Interruption Duration Index) indicators. Failure to achieve these goals are determined by indicators correlating with the SAIDI and SAIFI and reimbursed directly to customers. The parameters for calculating these fines are individual and consider both the customer's installation characteristic (high, medium, or low voltage) and the geographic location of the installation.

The amount of total discounts in customer bills referring to the indicators DIC/FIC/DMIC/DICRI⁸, as well as related additional information, are published in the **Release 4Q16**⁹.

In addition, ANEEL, through Normative Resolution No. 414/2010, also regulates maximum deadlines for some activities, such as reconnections, new connections, and response to complaints. Regarding this type of occurrence, and in compliance with this resolution, we reimbursed a total of BRL 3.3 million to our customers last year.

⁸DIC: Individual Interruption Duration per Consumer Unit. FIC: Individual Interruption Frequency. DMIC: Maximum Interruption Duration. DICRI: Individual Interruption Duration occurred in a critical day.

⁹This information was not audited by KPMG during the external assurance of the report.

Average number of training hours per employee by employee level in 2016*	Female	Male	Overall**
Board of Officers	6.40	6.93	6.80
Management	15.00	17.36	16.67
Coordination	20.44	29.87	28.57
Administration	45.31	76.46	58.95
Operational	14.40	49.45	48.35
Total	38.85	51.21	49.34

*History broken down by employee level not available

**Overall average calculated as the total number of training hours divided by the total number of employees in each employee level.

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ADDRESS OF HEADQUARTERS

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Limited assurance report issued by independent auditors

To the Board of Directors, Shareholders and Stakeholders
Eletropaulo Metropolitana Eletricidade de São Paulo S.A.
Barueri - SP

Introduction

We have been engaged by Eletropaulo Metropolitana Eletricidade de São Paulo S.A. (AES Eletropaulo or “Company”) to apply limited assurance procedures on the sustainability information disclosed in AES Eletropaulo’s 2016 Sustainability Report, related to the year ended December 31st, 2016.

Responsibilities of AES Eletropaulo’s Management

The Management of AES Eletropaulo is responsible for adequately preparing and presenting the sustainability information in the 2016 Sustainability Report in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (GRI-G4), and the “Electric Utilities Sector Supplement”, as well as the internal controls determined necessary to ensure this information is free from material misstatement, resulting from fraud or error.

Independent auditors’ responsibility

Our responsibility is to express a conclusion about the information in the 2016 Sustainability Report based on a limited assurance engagement conducted in accordance with Technical Communication (TC) 07/2012, which was prepared based on NBC TO 3000 (Assurance Engagements Other Than Audits and Reviews), both issued by the Brazilian Federal Accounting Council - CFC and equivalent to international standard ISAE 3000, issued by the International Federation of Accountants and applicable to Non-Financial Historical Information. These standards require compliance with ethical requirements, including independence ones, and the engagement is also conducted to provide limited assurance that the information disclosed in the AES Eletropaulo’s 2016 Sustainability Report, taken as a whole, is free from material misstatement.

A limited assurance engagement conducted in accordance with NBC TO 3000 (ISAE 3000) consists mainly of questions and interviews with the Management of AES Eletropaulo and other professionals of the Company involved in the preparation of the information disclosed in the 2016 Sustainability Report and use of analytical procedures to obtain evidence that enables us to reach a limited assurance conclusion about the sustainability information taken as a whole. A limited assurance engagement also requires additional procedures when the independent auditor acknowledges issues which may lead them to believe that the information disclosed in the 2016 Sustainability Report taken as a whole could present material misstatement.

The selected procedures were based on our understanding of the issues related to the compilation, materiality and presentation of the information disclosed in the 2016 Sustainability Report, on other engagement circumstances and also on our considerations regarding areas and processes associated with material sustainability information disclosed where relevant misstatement could exist. The procedures consisted of:

- (a) Engagement planning: considering the material aspects for AES Eletropaulo’s activities, the relevance of the information disclosed, the amount of quantitative and qualitative information and the operational systems and internal controls that served as a basis for preparation of the information in the AES Eletropaulo’s 2016 Sustainability Report. This analysis defined the indicators to be checked in details;
- (b) Understanding and analysis of disclosed information related to material aspects management;
- (c) Analysis of preparation processes of the 2016 Sustainability Report and its structure and content, based on the Principles for Defining Report Content and Quality of the Global Reporting Initiative - GRI (GRI-G4);
- (d) Evaluation of non financial indicators selected:
 - Understanding of the calculation methodology and procedures for the compilation of indicators through interviews with management responsible for data preparation;
 - Application of analytical procedures regarding data and interviews for qualitative information and their correlation with indicators disclosed in the 2016 Sustainability Report;
 - Analysis of evidence supporting the disclosed information;
 - Visits to AES Eletropaulo’s offices for application of these procedures, and items (b) and (c);

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- (e) Analysis of whether the performance indicators omission and justification are reasonable to be accepted associated to aspects and topics defined as material in the materiality analysis of the Company;
- (f) Comparison of financial indicators with the financial statements and/or accounting records.

We believe that the information, evidence and results we have obtained are sufficient and appropriate to provide a basis for our limited assurance conclusion.

Scope and limitations

The procedures applied to a limited assurance engagement are substantially less extensive than those applied to a reasonable assurance engagement. Therefore, we cannot provide assurance that we are aware of all the issues that would have been identified in a reasonable assurance engagement, which aims to issue an opinion. If we had conducted a reasonable assurance engagement, we may have identified other issues and possible misstatements within the information presented in the 2016 Sustainability Report.

Nonfinancial data is subject to more inherent limitations than financial data, due to the nature and diversity of the methods used to determine, calculate or estimate these data. Qualitative interpretation of the data’s materiality, relevance and accuracy are subject to individual assumptions and judgments. Additionally, we have not examined data related to prior periods, evaluated the adequacy of the company’s policies, practices and sustainability performance, nor future projections.

Conclusion

Based on the procedures carried out, described earlier in this report, we have not identified any relevant information that leads us to believe that the information in AES Eletropaulo’s 2016 Sustainability Report is not fairly stated in all material aspects in accordance with the Global Reporting Initiative Guidelines - GRI (GRI- G4), and the “Electric Utilities Sector Supplement”, as well as its source records and files.

São Paulo, February 24th, 2017

KPMG Assessores Ltda.
CRC 2SP034262/O-4 F-SP

Eduardo V. Cipullo
Contador CRC 1SP135597/O-6

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