

2016 Sustainability Report



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MESSAGE

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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.

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.

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.

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 TIETÊ G4-1

The energy sector, traditionally unidirectional and linear, is undergoing profound transformation in Brazil. Increasingly empowered to choose how to meet energy needs, the customer is at the center of decision-making. In this model, the complexity associated with managing consumption and technological changes offers new and more adaptable possibilities to a diverse array of energy-dependent organizations.

This new dynamics of energy inputs management creates opportunities for new business models. At AES Tietê, we revised our strategy to focus more on the growth of our businesses and on creating value to our stakeholders, based on this new context. With a platform of integrated and innovative solutions for energy, we adjust to the needs of each customer.

To this end, our portfolio has been extended in order to offer energy with prompt delivery and customized solutions, with new technologies for distributed generation, self-production, and energy storage. We also focus on the diversification of our energy mix, seeking to expand installed capacity through renewable sources, such as wind and solar energy, as well as thermal sources from natural gas. Our goal is to achieve, by 2020, 50% of our EBITDA¹ with businesses not related to hydroelectric power aiming at mitigating hydrological risk through long-term contracts.

In 2016, we began operating mainly in the free market of energy, with the end of the bilateral supply contract for AES Eletropaulo. We ended the year with 95% of the energy contracted at market prices, even in challenging times in terms of water supply. This performance demonstrates that we are on the right track with our risk management and business diversification.

In our business model, hydroelectric generation assets are fundamental, and require that we continue to manage them with excellence. This includes both maintenance and operation of the plants and locks, as well as investments in environmental programs and monitoring of the margins of the reservoirs. In 2016, one highlight was the reforestation of 409 hectares around our reservoirs, as a result of

our own initiatives and investments as well as strategic partnerships.

Safety continues to be our top priority. Accident prevention is one of our commitments, and must be continuously pursued by our employees and contractors. Therefore, we are reinforcing our Safety Program to ensure greater adherence of our operations to the procedures and protocols we establish for carrying out daily activities.

Finally, I would like to highlight the important external recognition we achieved in 2016: AES Tietê was included in the portfolio of the ISE – Corporate Sustainability Index – for the 10th consecutive year, and we ranked among the 150 Best Companies to Work For in Brazil. We also won the Transparency Trophy, in the Electricity Sector category, granted by ANEFAC (National Association of Executives in Finance, Administration and Accounting). This is the result of our best practices in management and stakeholder relations, based on our values, which we commit to practicing daily.

In 2017, we will continue to diversify and grow through new projects and innovative solutions for our customers. Therefore, we will consolidate the role of AES Tietê as a main player in the transformation of the energy sector in Brazil.

Ítalo Freitas
CEO of AES Tietê

¹Earnings Before Interest, Taxes, Depreciation and Amortization.

**We are
AES Tietê**



WE ARE AES TIETÊ

G4-3

We are an innovative and integrated energy platform adjustable to the demands of our customers. We offer off-the-shelf products and custom solutions that ensure autonomy in energy and allow customers to decide on the most sustainable means of energy supply in all senses: efficiency, availability, reliability, and innovation.

We are part of one of the leading energy industry groups in the country.



OUR SOLUTION PORTFOLIO

G4-4

- **Energy in the free market**, in conventional and incentivized modes
- **Distributed generation based on renewable sources**
- Self-production through **generation plants**
- Battery-based **energy storage**

In addition to AES Tietê, AES Brasil is composed of AES Uruguaiana (generation), AES Eletropaulo (distribution) 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**.

New commercial platform G4-8

In 2016, we restructured our commercial platform and began offering our customers a broad range of innovative solutions in energy. Its new organization allows

AES Tietê to adopt stronger market intelligence procedures, expand the range of products offered and work in partnership and much closer to customers to deliver custom and autonomous solutions. To this end, we engage the agents in the entire value chain, from the early phases of the project to the operation and asset management.

We are committed to maximizing the value of our services and assets and ensuring the excellence of the services provided to our customers. We conduct surveys with our customers to evaluate their level of satisfaction in four aspects: relationship, image, quality in services, and contract management. In 2016, the overall result was 66% of satisfaction among customers – our goal is to reach 90% by 2019.

AES TIETÊ IN NUMBERS*

G4-9 | G4-EU1 | G4-EU2

- **362** employees
- **895** contractors
- **13,108.9 GWh** of energy generated
- **2,658 MW** of installed capacity
- **15,669.5 GWh** of energy billed
- **95%** of energy contracted
- **409 hectares** of reforested areas
- **BRL 4 million** invested in social programs
- **BRL 1,726.6 million** in gross operating revenue
- **BR 101 million** invested in modernization and maintenance of hydroelectric plants

*In 2016.

CORPORATE GOVERNANCE

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 Tietê 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. In 2016, our shares became listed as Level 2 at BM&FBOVESPA, one of the segments that list companies with the highest governance standards. **G4-7**

The corporate restructuring, completed at the end of the 2015 fiscal year, was aimed at increasing the liquidity of our shares, strengthening our ability to expand in energy generation – by means of diversification of renewable sources (solar and wind power) – and minimizing risk of water shortage. Our goal was also to have an appropriate structure to expand the number of long-term contracts with our customers, ensuring the predictability of revenue generation for our business.

The Board of Directors of AES Tietê, formed by 11 members and their respective alternates, is responsible for planning as well as handling the company's strategic issues. AES Tietê also has in place a Fiscal Council composed of five members. **G4-34**

The Board of Officers is composed of six members, including the CEO and Vice Presidents, who are responsible for strategic planning and managing our business – all directors began their two-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 Tietê, Ítalo Freitas, reports directly to Julian Nebreda, the new CEO for AES Brasil, which is the controlling company and part of The AES Corporation. To learn about the members of the Board of Directors and of the Board of Officers, as well as their professional experience, visit our **Investor Relations website**. **G4-34²**

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 N° 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.

²Until December 31, 2015, AES Tietê had in place a Sustainability Committee within its governance structure. This body remained effective until the completion of the corporate restructuring, and its internal regiment and structure remained in an updating process throughout 2016, so it can be reestablished.

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.

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.

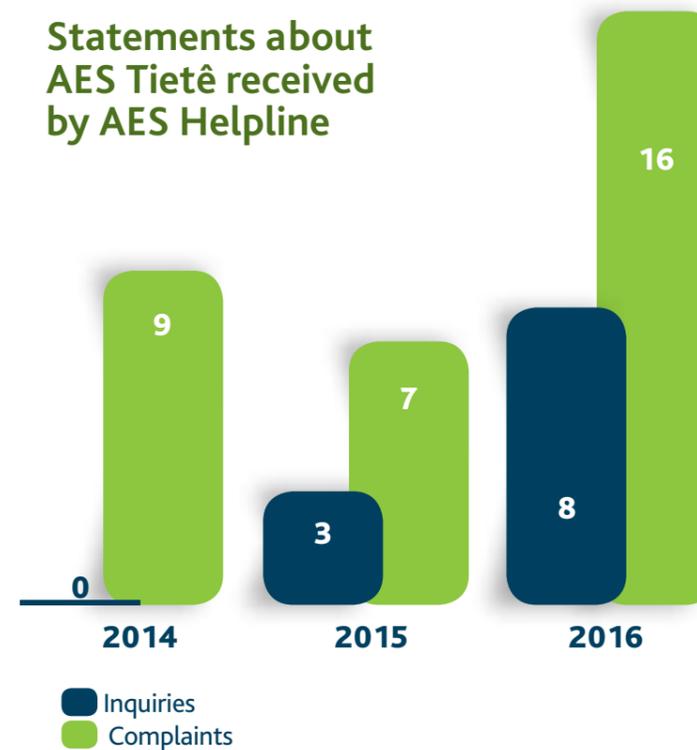
Each year, AES Brasil holds World Ethics Day, an awareness event for leaders that promotes activities and discussions about the values of AES Brasil. Every six months, through the Multipliers of Ethics initiative, company leaders address ethical dilemmas and reinforce corporate values with their teams. 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 registered an increase in the number of reports and queries received by the AES Helpline, a result of the improvements in training and campaigns carried out during the year, which reinforced the use of that channel.

Statements about AES Tietê received by AES Helpline



Our strategy



SUSTAINABLE STRATEGIC PLANNING

G4-2 | 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 Tietê was selected, for the 10th 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. The company was also 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.

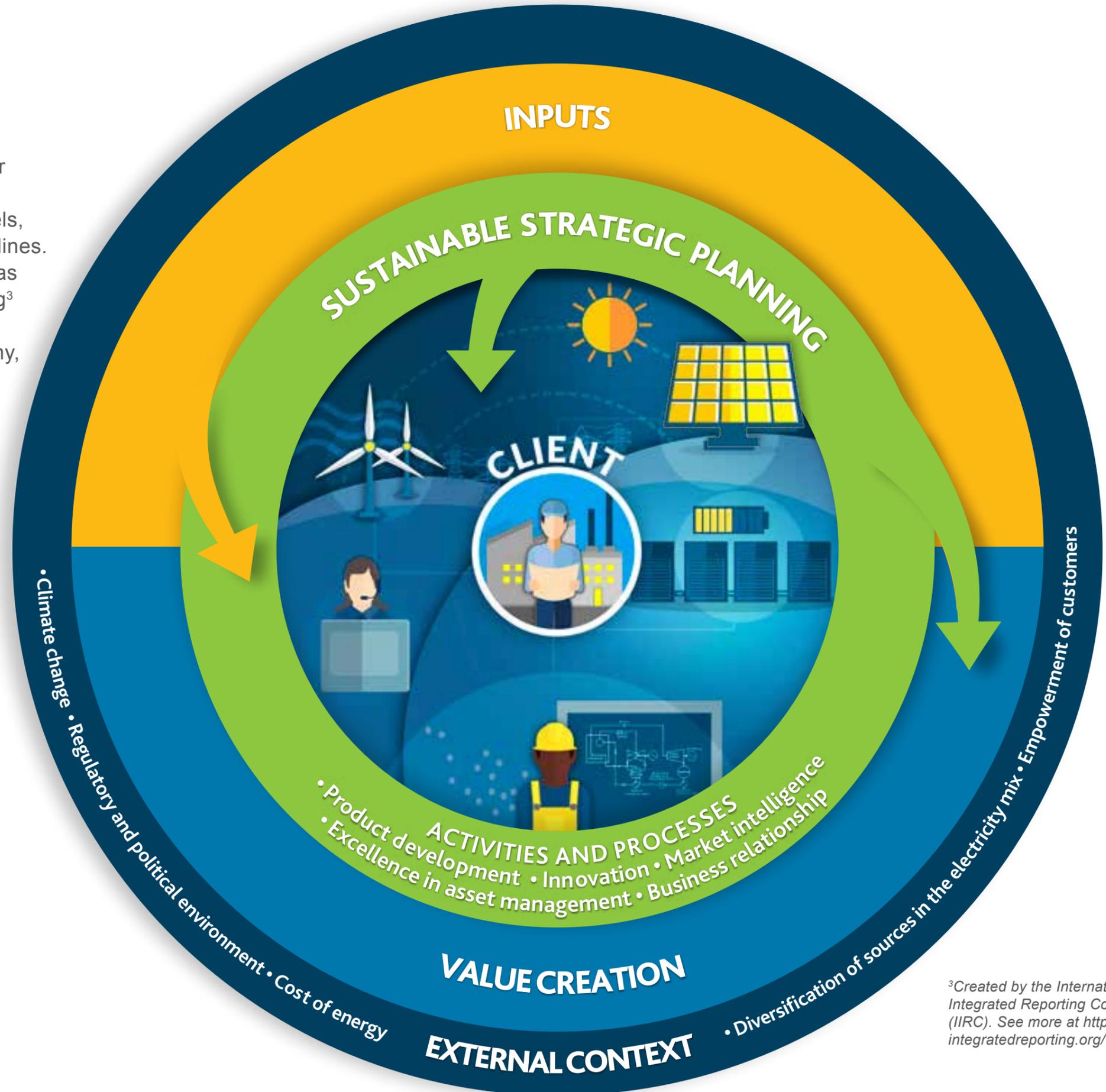
INTANGIBLE ASSETS

- **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 Tietê'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 Tietê for each capital

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

To prevent emissions of CO₂e by reducing **170 MWh** of electricity referring to internal consumption

See our management on this topic on page 25.

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

See our management on this topic on page 35.

To reforest **243 hectares**

See our management on this topic on page 26.

GOALS ESTABLISHED FOR 2017

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

To record injury rate⁴ **below 0.01** for lost time accidents (employees and contractors)

See our management on this topic on page 28.

To record injury rate⁴ **below 0.64** for recordable injuries (employees and contractors)

See our management on this topic on page 28.

Zero fatal accidents involving employees and contractors

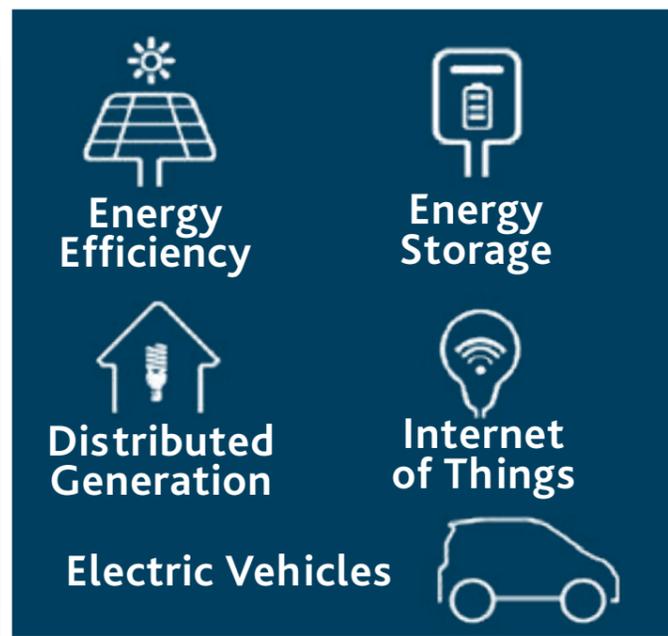
See our management on this topic on page 28.

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.

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.

We initiated 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 6.7 million in R&D.

We started the development of a microgrid⁵ system – a software that uses algorithms to determine the maximum efficiency in use of energy combining the different energy sources available. Through this solution, customers who have distributed generation systems, for example, are informed when it is more advantageous to use the energy sources available, whether solar energy, energy from cogeneration, or from the distribution network, thereby reducing the costs associated with energy and generating value to customers.

In Energy Storage, we have advanced with a project for the installation of batteries to strengthen the energy supply to the system.



With the solution coupled to an auxiliary power generator, previously used by the Hydroelectric Power Plant in Bariri, in the state of São Paulo, for its own generation, it will be possible to provide nearly 0.5 MW to the SIN (National Interconnected System) in peak periods. Its completion is scheduled for 2017. This amount of energy is sufficient to power 75 homes with 4 residents each, for 24 hours. The project will receive investments of nearly BRL 5.1 million.

We were also the first national company to carry out a project for the development of a new mathematical model called Smart-Sen, which will reduce the risks from the intermittence of renewable sources, such as solar and wind power, and improve the quality of energy supply. The aim of this initiative is to offer means to make the country's energy planning more accurate.

⁵Small-scale electric network that operates independently or concurrently with the main energy supply system.

SECTOR PERFORMANCE

Hydroelectric Generation

In the segment of hydroelectric generation, climate variations influence the accumulation of water in the reservoirs and the capacity to generate energy according to the levels of physical guarantee calculated by EPE (Energy Research Company). During drier periods, the generation from power plants might be lower than the physical guarantee, causing a deficit that is apportioned between all generators by means of the GSF (Generation Scaling Factor) – the division between the volume that is actually generated and the total physical guarantee –, which could result in involuntary exposure to the short-term market, where

energy is purchased and valued through the PLD (Differences Settlement Price).

The chart below shows the monthly recorded flow (ENA – Natural River Flow⁶) to the SIN (National Interconnected System) throughout 2014, 2015, and 2016. As shown, with the exception of a few months, the recorded flow was below the LTA (long-term average) for the corresponding periods, represented by the orange line in the chart. In 2016, river flow for the SIN totaled 86.8% of the LTA, a reduction of 2.6 percentage points compared with the previous year (89.4% of the LTA in 2015).

⁶ENA is a parameter used to represent the flows in terms of hydroelectric potential.



Natural River Flow from SIN (GWm)



*Currently, the sector uses the LTA values released in December 2016, referring to the average long since 1931, and which is subject to change. Source: ONS (National Operator of the Electric System).

New sources of generation

The expansion of intermittent renewable sources in the Brazilian power generation mix, such as wind farms and solar energy, demands new operating and technological solutions. At the same time, fiscal incentives, regulatory advancements (such as Normative Resolution 482/2012, from ANEEL, and amended by Normative Resolution 687/2015) and the increase in the regulated tariff have contributed to the adoption of micro and mini generation in Brazil, and consequently, to diversifying and decentralizing the electricity mix.

Investment in the expansion of clean and renewable energy sources, whether through centralized or distributed generation, combined with the use of solutions for storage in batteries, represents an opportunity for the country to minimize, in the short term, the impacts of lower flow in the dry period. The global drive for a low carbon economy, mainly expressed by the Paris Agreement, ratified by the Brazilian government in 2016, also levers our opportunities in new forms of energy generation. The growth of solar and wind power plants, along with mechanisms to increase reliability and safety of the system's supply, is one of the platforms to allow the country to decrease the use of thermal power plants based on fossil fuels and to reach the goals for reduction of greenhouse gas emissions undertaken in the Agreement.



Advancion energy storage system (Laurel Mountain, USA)

The diversification of our portfolio, with increased capacity for generation from renewable sources (solar and wind), is also a strategy to lower our exposure to water shortage risks.

Remote self-consumption

ANEEL's Normative Resolution No. 482, published in 2015 as previously mentioned, establishes the terms to structure equipment for distributed microgeneration (output of up to 75 kW) and minigeneration (output between 75 kW and 3MW) and have access to the offsetting system – generation of credits to consumers who have generation plants and that can have their energy costs offset in the electricity bill. One of the main changes was the possibility to have remote self-consumption, which allowed for the installation of generation units far from the consumption site. This new scenario strengthens AES Tietê's position of acting as an innovative energy platform, with customized solutions to its customers, and of increasing generation from new renewable sources.

More information on the sector context can be found in the **4Q16 release from AES Tietê**.

ECONOMICAL AND FINANCIAL PERFORMANCE

G4-DMA

Gross and net revenue

In 2016, the gross operating revenue for AES Tietê totaled BRL 1,762.6 million, a 36.6% reduction when compared with BRL 2,779.2 million recorded in 2015. Net operating revenue totaled BRL 1,561.3 million, a 40.5% reduction compared with 2015 (BRL 2,625.8 million).

Operating costs and expenses

In the YoY comparison, operating costs and expenses, less depreciation and amortization, totaled BRL 758.7 million in 2016, a drop of 38.6% compared with the amount recorded in 2015 (BRL 1,236.6 million), resulting from a reduction in the cost to purchase energy for reselling of BRL 534.9 million (BRL 317.6 in 2016 vs. BRL 852.5 million in 2015). In 2016, expenses for PMSO (personnel, materials, services, and other expenses) increased by 12.8% compared with 2015.

EBITDA⁷

AES Tietê recorded an EBITDA of BRL 802.7 million in 2016, representing a 42.2% reduction compared with 2015 (BRL 1,389.2 million).

Financial results

The financial result for AES Tietê was minus BRL 135.8 million in 2016, compared with minus BRL 107.6 million in 2015.

Distribution of value added G4-EC1

Value added distributed in 2016 totaled BRL 1.1 billion, with the most significant amounts related to taxes, fees, and charges paid to the government, at 36.7%, and shareholders and total withheld at 34%.

⁷Earnings Before Interest, Taxes, Depreciation and Amortization.

VALUE ADDED DISTRIBUTION PER STAKEHOLDER ('000 BRL)	2016	2015	2014
Employees	83,861	71,335	65,536
Government (taxes, fees and contributions, and sector charges)	386,889	444,627	382,599
Funding parties/third parties	224,475	209,656	122,648
Shareholders/retained	358,533	803,316	449,344
Total	1,053,758	1,528,934	1,020,127

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

RISK MANAGEMENT

G4-2 | G4-14

Management of risks that could have an impact on AES Tietê'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 Tietê'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 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:

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



Growth strategy



GROWTH STRATEGY

AES Tietê is the main platform for the business growth of AES Brasil. The diversification of the installed capacity for generation of centralized or distributed energy is in line with the group's Sustainable Strategic Planning. The main goal is to have 50% of its EBITDA, by 2020, from non-hydroelectric energy sources with long-term contracts.

To drive growth, AES Tietê incorporates new technologies and energy sources, such as distributed generation and battery-based storage. Thus, we offer integrated solutions to our customers, supported by the experience shared with AES Corp., a company with a wide energy generation portfolio, including distributed generation, and a global leader in battery-based energy storage.

Distributed generation

We offer our customers an integrated platform of solutions and services with the development of projects in distributed generation. Our operating model concentrates all phases of development and operation of projects: economic feasibility, installation, maintenance, operations, and management of energy generated.

In Brazil, we have entered into three contracts of distributed generation and evaluated the construction of our first "solar farm" for generation in the remote self-consumption model.



Advancion energy storage system (Warrior Run, USA)

Energy storage

In the battery-based energy storage sector, AES Corp. is a leading company worldwide. The solutions are installed in countries such as the United States, Chile and England and meet the needs related to decreased risk of intermittence of wind sources, increased supply in peak hours, and increase of renewable sources in the energy mix. In Brazil, AES Tietê is a pioneer in offering this solution to customers.

In 2016, we held an international Energy Storage seminar in São Paulo, aimed at

promoting the continuous dialogue with organizations in the electric sector, presenting technology, their applications and benefits, as well as contributing for the improvement of the regulatory model, aiming to promote the growth of storage solutions.

In 2017, the implementation of an Energy Storage system will be completed in our Bariri plant (read more on page 16), which will present to regulatory agencies and other audiences the practical benefits of this technology.



Capacity expansion

In 2015, we initiated the development of the Água Vermelha solar power plant project, with an installed capacity of 150 MW and located in the municipality of Ouroeste in the state of São Paulo, approximately 3 km from the Água Vermelha hydroelectric power plant of AES Tietê. The project already has a signed land rental option agreement, an established connection solution and environmental license issued by CETESB in 2016, and is able to take part in bids throughout 2016 and 2017.

Our expansion strategy also includes two natural gas thermoelectric projects in the state of São Paulo, which will have a net generation capacity of 500 MW and 579 MW, and will ensure emission rates below the guidelines established by the strictest world legislations due to technologies to treat effluent gases. One of our challenges in these projects is the coordination of supply sources to establish long-term contracts, with flexibility and competitive costs. In order to enable delivery, we evaluated the construction of a re-gasification terminal off the coast of the state of São Paulo, which would be built along with a thermal power plant to create synergy and optimize costs in the gas supply chain.

In 2016, in addition to the thermoelectric plants mentioned above, we started to study the feasibility of developing a third natural gas thermoelectric plant in the

municipality of Pedreira, in the state of São Paulo, where another thermal power plant that uses the fuel is located. Environmental pre-feasibility studies are being conducted to define the output allowed, before starting the environmental licensing process.

With these actions, coupled with the construction of the small hydroelectric plants (SHEPs) of São Joaquim and São José, and two more contracts to purchase biomass energy from sugarcane, we also aim to comply with the obligation to expand our installed capacity by approximately 400 MW, as established in the Privatization Notice. This obligation to expand could not yet be completely fulfilled due to modifications in the regulatory model that occurred after the effective date of the concession agreement and also to regional difficulties in the state of São Paulo such as the low volume of viable unexplored water resources and the wind and solar potential with lower load factors when compared with other regions in the country.

In January 2017, we negotiated with Renova Energia S.A. a proposal for the acquisition of wind farms in the Alto Sertão II complex, located in Bahia. The complex has installed capacity of 386.1 MW and the energy produced has a 20-year contract through new energy auctions held in 2010 and 2011. The proposed total for the acquisition was BRL 650 million and final definition on the proposal depends, among other factors, on negotiations and approvals associated with the project.

Operational efficiency



OPERATIONAL EFFICIENCY

G4-DMA

Our generation complex is comprised of 9 plants and 3 small hydroelectric plants (SHEPs) connected to the SIN (National Interconnected System). Five of them are located in the Tietê River and, besides generating energy, they allow for river navigation – through six locks that we control – and the development of fish farming, irrigation, recreation and flood control activities. Thus, we enable multiple uses of the waters. In Rio Grande, the Água Vermelha plant, with a generation capacity of 1,396 MW, is our largest energy production unit. In Rio Pardo, we operate three other hydroelectric plants – Limoeiro, Euclides da Cunha and Caconde.

Average plant availability factor (%) G4-EU30



Last year, our plants produced 13,108.9 GWh of energy, a volume 65.1% greater than in 2015, due to better water availability conditions in the period along with the higher power generation program coordinated by AES Tietê together with the ONS (National Operator of the Electric System). The storage level of our reservoirs was 38.74% in the end of the period, despite the good flow in the state of São Paulo in 2016.

In the last couple of years, we have invested approximately BRL 111 million in modernization and preventive maintenance at the Água Vermelha plant. Between 2017 and 2021, the company plans to invest approximately BRL 400 million, especially in the modernization of hydroelectric plants, aiming to continuously improve operating conditions and ensure the availability of energy generation for our plants.

In 2015, we were the first company in Latin America to receive ISO 55001 certification, which establishes a set of requirements for high performance in asset management and refers to our operation and maintenance of hydropower plants and SHEPs – the recertification took place last year. The operation according to this standard drives operating and management improvements,

with cost reduction and fewer forced shutdowns of our assets.

We invested BRL 21.4 million, in 2016, to build the new COGE (Generation and Locks Operations Center), located in the city of Bauru, in the state of São Paulo, which is responsible for the centralized management of our plants. The new COGE headquarters, whose operation starts in 2017, will be equipped with photovoltaic panels and a fuel cell that will contribute to the local energy supply.

G4-6



In 2016, we innovated in the way we operate our locks on the Tietê River, São Paulo. The implementation of technological resources allowed the **OPERATION** to be made **REMOTELY**, directly from **COGE**. This is a pioneering solution in Brazil and is approved for the Bariri, Ibitinga, and Promissão plants, in São Paulo. The Barra Bonita and Nova Avanhandava locks (both in the state of São Paulo) also have the technology and have already initiated the process for remote operation.

CONTROL OF OCCUPATION ON THE MARGINS

G4-DMA

We continuously monitor and control the use and occupation on the margins of our reservoirs, focused on preservation of natural resources, safety of the population and on preventing environmental impacts such as erosion of margins and silting of dams.

To inspect the occupations, two drones are used – one of which purchased in 2016 –, that fly over the reservoirs and allow us to identify places where use does not comply with environmental legislation. Our field teams make regular inspections and, when they identify irregular situations, make measurements and inspections, and inform occupants about the necessary procedures to regularize their property and activities. In some cases, we may request ownership repossession of the areas to ensure compliance with environmental legislation.

Among the cutting-edge technologies we use, we also have a boat remotely operated by radiofrequency to measure the flow of the reservoirs' tributaries, perform bathymetry – measuring of depth in the reservoirs – and silting evaluation.

Reforestation in the reservoirs

In 2016, we reforested 409 hectares surrounding our reservoirs, as a result of our own initiatives and investments, and the partnerships with the SOS Mata Atlântica Foundation, universities, companies and municipalities. We are committed to reforesting at least 243 hectares per year until 2029.

AES Tietê itself produces the seedlings used in this project in a nursery located

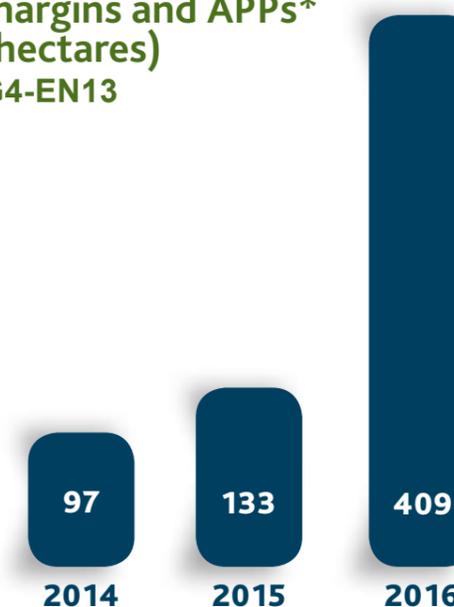
in the Promissão plant. Annually, we produce approximately 1 million seedlings of more than 120 tree species. Part of this production is donated to city halls, NGOs, and owners of land near the reservoirs in order to encourage reforestation.

Last year, we also launched the *Mãos na Mata* (Hands in the Forest) program, aimed at promoting the reforestation of 3,000 hectares around AES Tietê's 12 reservoirs.



Reforestation of margins and APPs* (hectares)

G4-EN13



*APP: Permanent Preservation Area.

**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 47, we present the health and safety indicators according to NBR 14280 of the ABNT (Brazilian Association of Technical Standards).

Last year, there were no fatal accidents in our operations and no incidents involving our employees. We achieved our goals for 2016, with the exception of those associated with accidents with contractors. **G4-LA6**

G4-LA6

WORK ACCIDENTS WITH LOST TIME IN 2016 – LTI RATE*		TARGET 2016 (limit)
Company	0.00	0.01
Contracted	0.37	0.01

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

WORK ACCIDENTS WITHOUT LOST TIME IN 2016 – RECORDABLE RATE*		TARGET 2016 (limit)
Company	0.00	0.64
Contracted	0.75	0.64

*Recordable incident rate (typical incidents, without 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.

In the power plants, we conduct a meeting called *Momento Ligado* (Stay Alert Moment), which 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 headquarters, these meetings are 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.

Focused on the awareness of the communities around our plants, we conduct educational campaigns about safety and the importance of respecting existing signs. These campaigns are broadcast through wide-reaching media outlets in the municipalities where our facilities are located. The plants also have open doors to receive students from local schools for visits, during which they are told how to perform leisure activities without compromising

security. In 2016, a total of 5,201 people participated in visits to the plants and events developed by AES Tietê.

Since January 2009, there have been no accidents involving the population in our plants. **G4-EU25**



SAFETY OF DAMS G4-14 | G4-DMA

To ensure safety of operations and of communities surrounding our hydropower plants and SHEPs, we continuously monitor the structure of the dams built. We also have a PAE (Emergency Action Plan) that is being implemented according to the time limits established by Resolution No. 696/2005 from ANEEL (National Electricity Agency).

Using instruments installed in the structures, we continuously monitor the structural conditions of the dams. We also conduct frequent inspections with technicians, in addition to the detailed regular annual inspection by specialized engineers, which complements the diagnosis and assessment of the structures.

Every two months, we produce consistent reports of measurements through instruments. Annually, a complete report presents the result of the analysis of physical structures, risks, and action plans to ensure availability of operations.

In monitoring of reservoirs, we have audible alerts that are always triggered before the floodgates are opened in order to warn the communities in the vicinity about the operation. This way, we avoid accidents with people who may have eventually crossed the safety limits to use the reservoir for leisure activities or fishing, for example.

Protection of biodiversity



PROTECTION OF BIODIVERSITY

G4-DMA | G4-EN12

The investments and programs that we conduct to promote the conservation of biodiversity in the areas surrounding our reservoirs contribute to the sustainable development of the region, in addition to complying with legal demands related to concession of assets and permitting processes. The results achieved help us subsidize public policies to protect the country's natural resources, creating value for society and, especially, for the communities where our assets are located.

Part of the Wildlife Monitoring and Conservation Program, the management project for the species *onça pintada* (puma) in the Tietê River Basin, conducted since 2013, is one of the projects that allow for evaluation of the impacts of human activity on animal conditions and habitat. The initiative is carried out in partnership with the Pro-Carnivores Institute and, by means of "camera traps" and use of radio-collars, the species and its adaptation to the environment are monitored.

We also invest in preservation of aquatic fauna in the places where our reservoirs are located. These actions are aimed at keeping fish stocks and benefiting the communities that develop economic activities associated with fishing in the rivers and reservoirs.

Our Fishing Management Program promotes restocking of rivers with fingerlings of fish species such as *piracanjuba*, which is an endangered

species. Fingerlings are bred in tanks at the Promissão and Barra Bonita plants, where they simulate the piracema phenomenon to stimulate breeding. When they reach the appropriate size to protect themselves from predators, they are released in the rivers.

In 2016, scientific studies demonstrated the efficacy of the Management Program. Researchers from the Maringá State University and the Londrina State University identified that adult fish captured last year have the same genetic composition of the fingerlings released in 2013, proving that the fish bred in tanks were able to develop in river basins.

In partnership with two universities in São Paulo (USP and UNESP), we started a new project that aims to preserve the gulper catfish, a fish species that is also endangered. Called "Barriga de Aluguel" (Surrogate Womb), the idea behind this initiative is to create biotechnology techniques to generate offspring with preserved genetic features from a fertilized egg from another non-endangered species – the *mandi-guaçu*. With this pioneering initiative in Brazil, we seek to restock the Tietê and Pardo river basins.

These projects for the recovery of aquatic species are developed with Research and Development (R&D) resources in compliance with the guidelines established by ANEEL. In 2016, we invested a total of BRL 1.44 million in environmental

protection actions. In field surveys conducted in the same year in the reservoir areas, we identified eight endangered species classified by IBAMA (Brazilian Institute for the Environment and Renewable Natural Resources) as vulnerable. **G4-EN14**



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. In 2016, we were awarded the Transparency Trophy, in the company category of the energy sector, granted by ANEFAC (National Association of Executives of Finance, Administration and Accounting).

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 Tietê was included 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 694 thousand 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 16 thousand training hours, equivalent to an average of 46.3 hours per employee, 12% lower than the 2015 result of 52.8 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

NEW COMPETENCIES FOR GROWTH

In order to achieve the goals of portfolio growth and expansion, we restructured our technical and commercial departments and reinforced the team of employees with professionals with different profiles. Our structure includes specialists for the development of new technologies and for the implementation of new businesses in energy generation. We also have a multidisciplinary team to market the solutions in our portfolio; they are prepared to meet the customer's demands and propose the most appropriate project for each need.

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%.

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, 97 were suppliers of AES Tietê. **G4-12**

Partner contracts that are highly critical and complex, such as service providers for plants maintenance, 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.

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, 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.
- **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.



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 1,500 children and young adults benefited directly, and 90,675 people received regular courses, lectures, and presentations at the Lins, Barra Bonita, São José do Rio Pardo and Caconde units, sponsored by AES Tietê.

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.

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 40.

Support to Municipal Council for the Rights of Children and Adolescents (CMDCA) and Senior Citizen Funds

In 2016, nine municipalities in the state of São Paulo benefited from AES Tietê's donations for the implementation of projects that contribute to the development of children and adolescents, and senior citizen care. In the end of 2015, approximately BRL 2 million were invested on CMDCAs (Municipal Councils for the Rights of Children and Adolescents) and Senior Citizen Funds trained by AES Tietê in

project management and fundraising. For the development of new projects, at the end of 2016 the company invested approximately BRL 444,000 in CMDCAs of eight municipalities and BRL 444,000 in Senior Citizen Funds of six municipalities.

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 59 were from AES Tietê, 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.

Private Social Investment

In 2016, AES Tietê invested BRL 4 million⁸ 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 and incentive laws. Starting in 2017, the volunteer social action of AES Tietê will be managed by the AES Institute, with a focus on social innovation.

⁸Part of the projects will happen in 2017, however they refer to investments made in 2016.

Project	Description	Area of influence	Estimated number of beneficiaries	Resources invested (BRL)	Source of funds
Line of action: education, culture, sports, and health					
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	Barra Bonita, Caconde, Lins and São José do Rio Pardo	1,500 children and youngsters directly benefited and 167,247 attendances in regular courses, lectures and presentations	BRL 940,000.02	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 238,822.98	Company funds
Energia do Bem (Good Energy)	AES Brasil's volunteer program	Applicable to all AES Tietê units	59 employees involved 9,747 beneficiaries	BRL 49,016.31	Company funds
Safety Campaigns	Campaigns on local media to educate the population about the risks involved in sports or leisure near the company's reservoirs	Communities living in the areas surrounding the reservoirs	Undetermined	BRL 100,000.00	Company funds
CMDCA's (City Councils for Children and Adolescent's Rights)	Support for registered social projects, in accordance with the priorities and standards established by the Council	Barra Bonita, Boraceia, Buritama, Caconde, Igarapu do Tietê, Lins, Mococa and Promissão	The number of beneficiaries will be defined in 2017 from the execution of the projects	BRL 443,650.21	Incentivized resources – FUMCAD (Municipal Fund for the Rights of Children and Adolescents)
Senior Citizen Funds	Support for registered social projects, in accordance with the priorities and standards established by the Council	Buritama, Caconde, Igarapu do Tietê, Lins, Mococa and Promissão	The number of beneficiaries will be defined in 2017 from the execution of the projects	BRL 443,650.21	Incentivized resources – Senior Citizen Funds
Every place has a story to tell (Museu da Pessoa) – (People Museum)	Project conducted in two municipalities to record memories based on the life stories of their residents carried out by elementary schools, with their teachers and students	Municipalities will be defined in 2017	The number of beneficiaries will be defined in 2017 from the execution of the projects	BRL 300,000.00	Incentivized resources – Rouanet Law
The Stage (Cultural Center)	Project to stimulate creativity and art as alternatives of social inclusion for children and adolescents	Municipalities will be defined in 2017	The number of beneficiaries will be defined in 2017 from the execution of the projects	BRL 800,000.00	Incentivized resources – Rouanet Law
Cine na Praça Itinerante (Alexa Filmes) / (Traveling Public Square Cinema)	Open-air film screenings in public squares and workshops for revitalization of squares with the involvement of children and youngsters	Municipalities will be defined in 2017	The number of beneficiaries will be defined in 2017 from the execution of the projects	BRL 300,000.00	Incentivized resources – Rouanet Law
Integrated Arts Project (Pombas Urbanas Institute)	It aims to disseminate, through performances and debates across the state of São Paulo, the process of artistic training developed by the Pombas Urbanas Institute with youngsters from the outskirts of the state capital	Municipalities will be defined in 2017	The number of beneficiaries will be defined in 2017 from the execution of the projects	BRL 119,840.00	Incentivized resources – Rouanet Law
Line of action: inclusive professional training					
Technicians Pool	Qualification program for technical school graduates to be interns at AES Tietê	Bauru and Bariri	10	BRL 100,000.00	Company funds
Line of action: social influence					
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
Sustainable Idea	A forum to talk about and build tools, solutions, strategies, and policies for sustainable development	São Paulo	Undetermined	BRL 35,000.00	Company funds
ENASE	National Meeting of the Power Generation Agents	Rio de Janeiro	600 people	BRL 33,726.35	Company funds
Sendi	XXII National Seminar on Electricity Distribution	Curitiba	2,000 people	BRL 60,000.00	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 and customers.

The second stage, focused on the structuring of an active mechanism for listening to our employees, consisted of creating a panel that brought together 16 professionals from AES Tietê. 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, Safety of Teams and Operations, Protection of Biodiversity, and Local Communities Development.

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**

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Material aspects	GRI aspect/disclosure	Report chapter	Global Compact principle	SDG
Ethics and Governance	G4-57 G4-58 Anti-corruption	We are AES Tietê	10	
Communication Channels	G4-24 G4-25 G4-26 G4-27 Supplier environmental assessment Supplier assessment for labor practices	Stakeholders relations	8	
Financial Performance	Economic performance	We are AES Tietê and Our strategy	-	
Risk Management and Operational Efficiency	G4-2 Economic performance Energy Emissions Access	We are AES Tietê, Our strategy and Operational efficiency	7 and 8	
Innovation	Training and education Research and development	Our strategy and Growth strategy	6	
Safety of Teams and Operations	Employment Occupational health and safety Disaster/emergency planning and response	Safety first	6	
Protection of Biodiversity	Biodiversity	Protection of biodiversity	8	
Local Communities Development	Customer health and safety Local communities	Stakeholders relations	1	

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).

In specific plant maintenance periods, we have a one-off increase in the number of workers, but this variation does not present a regular frequency; it varies according to the needs of each scheduled shutdown. We do not hire independent contractors for significant activities.

G4-12 | In 2016, AES Tietê's expenses with suppliers totaled approximately BRL 325 million. At the end of the period, our base had 1,183 active partners. 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 Tietê's business, and the amount of payments to be made. Among the most critical suppliers, we highlight the companies that provide maintenance services to the plants.

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 36.

G4-13 | In August 2016, in an extraordinary General Meeting we approved a capital increase of AES Tietê in the amount of BRL 154.6 million. The shares issued were assigned to AES Holdings Brasil, observing the right of preference of our shareholders. After the transaction, the company's share capital went from BRL 262.0 million to BRL 416.6 million.

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 1999, 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 2006, 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 SGDs (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 electricity sector associations, we work in governance and in work groups of ABRAGE (Brazilian Association of Electricity Generation Companies), of APINE (Brazilian Association of Independent Electricity Producers) and of Sindienergia (Energy Utilities Union in the State of São Paulo). These institutions act in defense of the interests of the sector and in sharing of information among their members, highlighting the following aspects from last year: union issued, industry charges and safety of dams. In the context

Workforce by gender and category	2016			2015		
	Female	Male	Total	Female	Male	Total
Effective members of the Board of Directors	0	11	11	0	7	7
Effective members of the Fiscal Council	0	5	5	0	3	3
Employees	65	297	362	65	285	350
Apprentices	3	1	4	2	2	4
Interns	0	0	0	0	2	2
Contracted	na*	na*	895	na*	na*	1,159
Total	na*	na*	1,277	na*	na*	1,525

*Not available.

of solar, wind, and other renewable sources, we participated in projects and commissions of ABEEÓLICA (Brazilian Wind Energy Association) and ABSOLAR (Brazilian Association of Photovoltaic Solar Energy). Discussions in those forums are related to diversification of the generation portfolio in renewable sources and to the institutional position on this aspect and in 2016, the discussions focused on the incentives for expansion of solar generation in the country and development of value chain in that segment.

We also actively participate of the board and the initiatives of Amcham (American Chamber of Commerce), where we can expand the sharing of experiences and the debate of issues with other sectors, such as economic and legal issues. In addition, we participate in specific forums, such as the Working Group on Energy and Market of the Global Compact in Brazil and the FNQ (National Quality Foundation).

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, Safety of Teams and Operations, and Local Communities Development, which are more relevant to operational management and maintenance of the plants. 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.

G4-34 | Of the 11 members of the Board of Directors, 2 are independent, and 1 is appointed by AES Tietê

Material aspect	Stakeholders with a material interest
Ethics and Governance	All stakeholders
Communication Channels	All stakeholders
Financial Performance	Investors, government, employees and suppliers
Risk Management and Operational Efficiency	Customers, employees, suppliers and regulatory agencies
Innovation	Investors, regulatory agencies and non-governmental organizations
Safety of Teams and Operations	Employees, communities and non-governmental organizations
Protection of Biodiversity	Employees, communities and non-governmental organizations
Local Communities Development	Employees, communities and non-governmental organizations

employees. Throughout the year, the Board convened 24 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 | Among the main risks associated to climate change, we manage the impact of significant variations and patterns of rainfall intensity in the basins

where our plants are located, in addition to monitoring cyclical events such as the El Niño and La Niña. We have a Water Shortage Risk Committee that gathers, twice a month, representatives of all AES Corp. companies to discuss climate phenomena and design strategies to mitigate negative impacts. In terms of the opportunities associated with climate change, we point out the current transformation context in the energy sector, with the boosting of several renewable sources and new generation methods. In order to stay ahead of these trends, we developed several research and development projects (learn more on page 16).

G4-DMA Research and development | The specific regulation of the electricity sector establishes that 0.4% of the net operating revenue of energy generators 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, 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 6.7 million in 2016, an amount 34% 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.

G4-EN3 | The company's internal consumption of energy is measured monthly, considering the difference between the gross and net generation of each unit and the energy volumes consumed from auxiliary services. In 2016, a total of 45,684 MWh were consumed to supply our operations, 9% less than the 50,364 MWh consumed in 2015. These totals consumed did not consider the electricity used in the Bauru office and fossil fuels. **G4-22**

G4-EN12 | In scheduled shutdowns for the maintenance of plants, fish get trapped in the generation units, spillways and locks. This impact is minimized by actions carried out at our facilities to redirect schools of fish before shutdowns, thus saving the fish. The actions for restocking of the ichthyofauna generate positive impacts, resulting in the maintenance of fish stocks and the

genetic variability in the river basin.

Our plants were built before the application of the current legislation – which provides for the conduction of environmental impact studies prior to installation of dams. Consequently, it is not possible to evaluate the situation of habitats and biodiversity before the installation or to compare the positive and negative effects of the actions taken with the implementation of the reservoirs. Currently, the negative impacts generated by the units are mapped and mitigated through the actions developed in environmental programs and actions carried out in the facilities, in compliance with our Environmental Management System (SGA) certified according to ISO 14001 since 2011. The SGA offers a methodology for continuous improvement through the definition of objectives, goals, and programs for management and evaluation of environmental performance, thus standardizing company processes and activities, identifying the main risks and opportunities to protect the environment.

G4-EN14 | Monitoring of terrestrial wildlife is carried out in our plants through samplings according to the size of each reservoir. Annually, we conduct four five-day field researches, applying methodologies that are appropriate for the analysis of each one of the fauna groups included in

the study (herpetofauna, avifauna, small, medium and large mammals). In 2016, a total of 62 sample units were analyzed in 10 reservoirs.

These surveys identified in 2016 three animal species considered vulnerable in the IUCN (International Unit for the Conservation of Nature) list, and eight listed as vulnerable by IBAMA.

Monitoring of the aquatic fauna is also carried out with sampling points according to the size of each reservoir. We carry out four annual field campaigns, using a team of specific specialists and applying specific methodologies to monitor the species. In 2016, monitoring totaled 55 sampling points in 10 reservoirs.

G4-DMA Emissions, G4-EN15, G4-EN16 and 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 Tietê 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 own consumption of electricity. In 2016, emissions of CO₂e totaling 144 tons were prevented. The

Investments in R&D (BRL)	2016	2015	2014
Alternative sources of electric power generation	189,264	3,031,913	1,796,985
Management of basins and reservoirs	-10	0	0
Environment	1,442,445	3,132,565	2,320,613
Safety	989,356	0	0
Planning of electric power systems	315,509	1,193,873	1,597,087
Operation of electric power systems	392,488	0	6,428
Supervision, control and protection of electrical energy systems	408,769	10,865	1,058,331
Quality and reliability of electric power services	969,197	2,066,041	2,012,966
Other	1,522,782	70,459	0
R&D management	464,988	626,137	508,292
Total	6,694,788	10,131,853	9,300,702

goal, which had previously been defined with a deadline for 2019, was revised and currently is to prevent emissions of CO₂e by reducing **170 MWh** of electricity referring to internal consumption in 2017”, compared with the performance in 2016.

AES Tietê greenhouse gas emissions inventory (tCO ₂ e)	2016*	2015
Direct emissions (Scope 1)	373	299
Indirect emissions (Scope 2)	688	1,260
Subtotal (Scopes 1 and 2)	1,061	1,559
Indirect emissions (Scope 3)	128	95
Total	1,189	1,654

*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.

G4-EN33 | Supplier assessment is made according to the Sustainable Partnerships program (learn more on page 36). Specifically in terms of environmental criteria, three suppliers that were considered critical in this aspect, that operate in waste management, support to disaster/emergency situations and pest control (extermination of rats and insect control) were evaluated. All of them scored above 75 in the IDF and therefore had no significant environmental negative impacts.

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. We also monitor cases of occupational illness through the Medical Control and Occupational

Health Program, but we did not identify occurrences in 2016.

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)	0	1	0
Number of accidents with and without leave (contracted)	6	4	16
Days lost/debited (employees)	0	0	0
Days lost/debited (contracted)	105	0	0
HHT** (employees)	653,754	636,246	637,058
HHT** (contracted)	1,108,438	1,416,910	1,662,931
TF*** (employees)	0	1.57	0.00
TF*** (contracted)	4.51	2.82	9.62
TG**** (employees)	0	0	0
TG**** (contracted)	94	0	0
Fatal accidents (employees)	0	0	0
Fatal accidents (contracted)	0	0	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 operations and maintenance of plants. 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 Tietê.

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.

Average number of training hours per employee by employee level in 2016*	Female	Male	Overall**
Board of Officers	na	0.00	0.00
Management	8.00	12.00	11.16
Coordination	8.33	21.95	18.93
Administration	5.87	3.36	4.48
Operational	0.00	82.89	82.89
Total	6.14	55.10	46.31

*History broken down by employee level not available. We do not have women in the Board of Officers.

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

G4-LA15 | Supplier assessment is made according to the Sustainable Partnerships program (learn more on page 36). Specifically in terms of labor practices criteria, 22 suppliers considered critical is this aspect, that operate in the maintenance of the plants and cleaning, surveillance and reception, were evaluated. 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 6 of them scored below 75 in the IDF, and this performance is related to the various aspects evaluated in this process. Thus, no significant impacts were identified regarding labor practices among our suppliers.

G4-SO1 | All the plants are contemplated by initiatives of private social investment and by the corporate action of Institutional Relations in surrounding communities. In 2017, the AES Institute will consolidate the management of actions with communities influenced by current and future projects, including new mechanisms for diagnosis, engagement and impact assessment. Current projects (hydroelectric plants) have existed for many years, some of them when Brazilian legislation has not yet provided for the current licensing requirements, so it is not possible to

compile a percentage of plants where there is or has been a formal process of impact assessment process and local development.

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-EU30 | We annually plan the need for scheduled preventive or corrective maintenance shutdowns in our plants, considering the impacts on service availability, on compliance with SIN (National Interconnected System) requirements and on the availability of resources, among other factors. This planning comprises a five-year time span that is shared with ANEEL (National Electricity Agency) according to the regulation of our sector.

The non-scheduled shutdowns are divided into non-planned shutdowns and forced shutdowns. The first group comprises situations that were not foreseen in the annual plan, but that can be programmed in the short term to minimize negative impacts

on generation of energy and costs. The group of forced shutdowns, on the other hand, comprises events in which the machines are switched off immediately – in these cases we try to solve the problem as soon as possible and promote an investigation of the root cause of the event to avoid other similar situations.

In 2016, the general average availability factor of AES Tietê remained stable, but with significant modifications in its structure. Some units resumed operations after general maintenance and modernization showing higher failure rates given the “bathtub

curve”⁹ behavior. Furthermore, we registered extraordinary events, such as the breaking of grids of the water intake of Euclides da Cunha and the inspection and recovery of the Peripheral Ring of the Barra Bonita UG#2. In terms of scheduled shutdowns, the most relevant event occurred in Água Vermelha, a plant that has been in general preventive maintenance since 2013.

⁹The failure rate for one piece of equipment throughout time, which is initially high, but decreasing.

Duration of planned outage (hours) per plant	2016	2015	2014
Água Vermelha	10,870.6	10,932.2	13,370.0
Nova Avanhandava	25.2	521.9	408.9
Promissão	1,247.0	1,186.6	3,054.2
Bariri	509.5	7,898.6	4,701.2
Barra Bonita	3,601.6	2,430.2	8,925.9
PCH São Joaquim	0.0	0.0	0.0
Ibitinga	548.7	1,345.9	521.4
Euclides da Cunha	30.5	253.9	6,234.6
Caconde	103.6	559.4	32.0
Limoeiro	202.0	2,864.8	1,774.8
PCH Mogi-Guaçu	110.9	2,121.4	3,422.3
PCH São José	0.0	744.0	0.0
Total	17,249.5	30,858.7	42,445.3

Duration of unplanned outage (hours) per plant	2016	2015	2014
Água Vermelha	630.8	487.1	348.3
Nova Avanhandava	545.5	175.6	111.4
Promissão	307.9	834.5	298.7
Bariri	648.5	111.2	202.1
Barra Bonita	2,786.1	1,848.5	98.9
PCH São Joaquim	2,457.5	2,096.0	2,277.3
Ibitinga	857.2	429.2	453.1
Euclides da Cunha	7,605.2	826.3	322.7
Caconde	460.0	254.9	512.2
Limoeiro	235.2	103.0	54.4
PCH Mogi-Guaçu	1,605.6	1,887.7	832.9
PCH São José	13,055.2	11,413.6	12,756.9
Total	31,194.7	20,467.6	18,268.7

Average availability factor (%) per plant	2016	2015	2014
Água Vermelha	78.18	78.27	73.90
Nova Avanhandava	97.83	97.35	98.02
Promissão	94.10	92.31	87.24
Bariri	95.61	69.52	81.34
Barra Bonita	81.82	87.79	74.24
PCH São Joaquim	72.02	76.07	74.00
Ibitinga	94.66	93.25	96.29
Euclides da Cunha	78.27	96.92	81.29
Caconde	96.79	95.35	96.89
Limoeiro	97.51	83.06	89.56
PCH Mogi-Guaçu	90.23	77.12	75.71
PCH São José	25.69	30.61	27.19
Total	85.00	84.18	81.03

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Limited assurance report issued by independent auditors

To the Board of Directors, Shareholders and Stakeholders
AES Tietê Energia S.A.
Barueri - SP

Introduction

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

Responsibilities of AES Tietê’s Management

The Management of AES Tietê 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 Tietê’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 Tietê 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 Tietê’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 Tietê’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 Tietê’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 Tietê’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

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