

ANNUAL REPORT 2016





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ABOUT THE REPORT

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CPFL Energia publishes its Report annually with a view to maintaining a transparent relationship with all of its stakeholders and reporting the actions, projects and results of the holding company. The information contained herein refers to the period from January 1 to December 31, 2016 and covers all of the companies controlled by the Group, with the exception of RGE Sul¹, unless otherwise indicated.

In its pursuit of excellence in management of the short-, medium- and long-term topics of greatest relevance to the company, CPFL Energia has operated a Sustainability Platform since 2014. This sustainability tool is integrated with the Group's strategic planning and its performance is guided and monitored by the Board of Executive Officers, Sustainability Committee, Management Processes, Risks and Sustainability Committee and reported to the Board of Directors.

The Sustainability Platform encompasses a series of indicators that are used for the management of material topics through targets.

The platform is currently in use and being constantly improved. In 2013-2014 the company undertook a robust consultation process with internal and external stakeholders to identify the topics of greatest relevance to short-term management, as well as benchmarking the most important topics for the sector. In 2015, CPFL sought to align these short-term priorities with medium- and long-term visions and trends in the sector. To do so, the Group analyzed the

mapped topics according to the results of the Vision 2030 program and megatrends in the sector, based on the criteria of current importance for management. The tool has been further refined throughout 2016, with the aim of facilitating the methods of monitoring indicators so as to demonstrate action plans for improving performance.

The material topics, as defined by the Platform, provide the framework of this Report. The first section of the report contains a summarized description of our model of business and governance, as well as a review of the past year in the message from the CEO. The second section presents information about our management and performance in the form of an Annual Report, guided by the fourth version of the Global Reporting Initiative (GRI), the International Integrated Reporting Framework (IIRC) and the Principles of the United Nations' Global Compact. Responses to the indicators can be found on page 88, in the Context Index (online version only), which also shows which indicators were submitted for external assurance by the independent auditors SGS.

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For suggestions regarding the content of the Report, please contact us by email at sustentabilidade@cpfl.com.br.

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¹ RGE Sul was acquired by the CPFL Group in the second half of 2016.



MESSAGE FROM THE CEO

G4-1

G4-2

The year 2016 has been a challenging year for most companies with operations in Brazil. The Brazilian economy faced one of its most severe crises, with a slowdown in economic activity and political instability.

Nevertheless, the business environment in the Brazilian power sector showed a significant improvement after overcoming regulatory issues fundamental to the stability and attractiveness of the sector. Furthermore, a new vision has come to the fore in the government's direction of national energy policy, with the team appointed to the energy area showing a closer alignment with the modernizing trends of the global power sector and greater openness to the dynamics of the market.

The past year was marked by frequent discussions about the new forces that are guiding the evolution of the power sector, from the way that companies do business to how they relate to consumers. We will experience a period of transition from the classic power supply chain to a more open and dynamic market that is more digital, closer to the customer, more competitive and much more technological. In addition to focusing on building new power plants, power grids and transmission lines, the most successful companies in this new context will be those that best are able to meet the needs of consumers.

It is in this context that the competitive advantages of CPFL Energia make a difference. Our integrated strategy and corporate management and our financial robustness prepare us to play a leading role in these new areas of evolution in the market.

Our corporate platform is well prepared for new routes to growth and the modernization of the sector. The operating model that we adopt is formed of three integrated pillars: the first is the corporate structure, which is responsible for strategic and financial formulation, as well as sustainability, communication and human resources guidelines. The second pillar is our shared services center, which manages the supporting activities common to all of the Group companies, such as payroll and information technology services. The third pillar consists of the business units. This model enables us to capture synergies with greater agility and guarantee the continuous improvement of the quality of service provided to our customers.

Allied to our integrated corporate management we have a healthy capital structure that is compatible with the risks and challenges of a company in our sector, enabling us to access competitive lines of financing appropriate to our investment profile.

Our results in 2016 reflected the synergies of integrated business management and the robustness of our capital structure. Our EBITDA remained stable from 2015 and totaled R\$ 4.13 billion, while net income also remained stable, reaching R\$ 879 million. These results demonstrate the importance of the diversification of our business. We reduced our leverage to 3.21x Net Debt/EBITDA, an appropriate level for a company of this nature.

In 1H16 we began a new cycle of consolidation of the energy distribution sector in Brazil, with the acquisition of AES Sul, now RGE Sul. The transaction was concluded in November and represented an investment of R\$ 1.7 billion. This takeover added 1.3 million customers to our base, which now exceeds nine million consumers. In addition, we have also moved forwards with our growth strategy for the Group's non-regulated business, which will allow us to participate in and influence the evolution of the free market and the expansion of solar energy in Brazil. We see our businesses in the areas of trading (CPFL

Brasil), distributed power generation, Energy efficiency (CPFL Eficiência) and energy infrastructure services (CPFL Serviços) as important vectors for the future of the Group.

We have also evolved in the area of energy generation from alternative sources such as solar, wind, biomass and small hydro (SHPs). Last year, CPFL Renováveis reached the milestone of 2 GW of installed capacity, consolidating itself as the largest renewables company in Latin America.

In addition to the advances achieved by our businesses, it is important to mention that we also oversaw an important and planned transition in the management of the Company in July 2016. I became the new CEO of CPFL Energia, succeeding Wilson Ferreira Junior, who has been in charge of the Company for 18 years.

The other very important change that took place was the sale of the control block of CPFL Energia to the Chinese company State Grid. It is the largest public utility company in the world and has already been operating in Brazil since 2010. State Grid sets the benchmark for the global power sector, with a strong focus on new technologies and a high financial capacity. With a long-term vision for business, State Grid has shown great confidence in the CPFL Group platform and its professionals.

Given the scenario of positive changes in both the Brazilian power sector and CPFL Energia itself I am convinced that our management model, the priorities we have chosen and our vision for the future will enable us to offer the best solutions for our clients and consolidate our leading position in the Brazilian market.

Finally, I would like to thank the commitment and dedication of our employees, who are the main reason for the results that CPFL Energia has achieved throughout its history.

Thank you very much.
André Dorf



SECTOR CONTEXT

G4-2

FOR POWER GENERATION, THE PUBLICATION OF MP 688 PAVED THE WAY TO SOLVE THE GSF ISSUES, CREATING PROCEDURES TO REDUCE THE RISK AND RENEW THE ATTRACTIVENESS OF THE SECTOR FOR INVESTMENT.

The resumption of business in the Brazilian power sector can be considered one of the highlights of the year 2016. The country went through a period during which the policies being developed created institutional insecurity and generated losses for public and private companies. Towards the end of 2015 more positive news began to emerge with the renewal of the concessions of 41 distributors and the Generation Scaling Factor (GSF) agreement. These two decisions allowed companies to plan their management for 2016 based upon a more predictable scenario.

The new rules defined by the Brazilian Electricity Regulatory Agency (Aneel) for the renewal of concessions for distributors indicated the trend towards market consolidation, leading domestic and foreign companies and investors to prepare for a new phase in the Brazilian market. Another relevant action on the part of the government was the approval of the so-called Provisional Measure for the power sector, which opened the door for the privatization of state-owned distributors, which were federalized.

The migration of customers from the captive market to the free market was another important event for the Brazilian power sector in 2016, as well as confirming itself as a trend in the market. In pursuit of reducing costs from one of the primary inputs for their activities, 2,303 companies opted to migrate to the free energy market. In 2016, the Electric Energy Trading Chamber - CCEE registered a 25-fold increase in the number of approved applications for consumer admissions when compared to 2015 (93 in total).

This movement was mainly driven by the admission of special consumers, companies with a demand of between

0.5 MW and 3 MW that are obliged to purchase energy from Small Hydropower Plants or from special incentivized sources (wind, biomass or solar). With 2,102 companies associated to the CCEE last year, the segment represented 91% of new admissions to the free market. Free market companies currently account for about 27% of consumption.

The severe economic crisis experienced by Brazil had a significant impact on the power sector. Data from the Brazilian Energy Research Company (EPE) indicate a drop in energy consumption of 0.9% in 2016, totaling 460,001 Gigawatts-hour (GWh), mainly driven by industry (-2.9%).

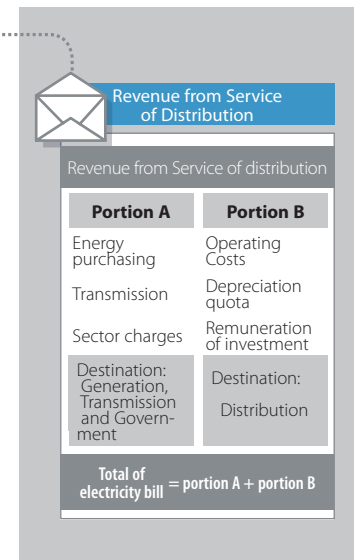
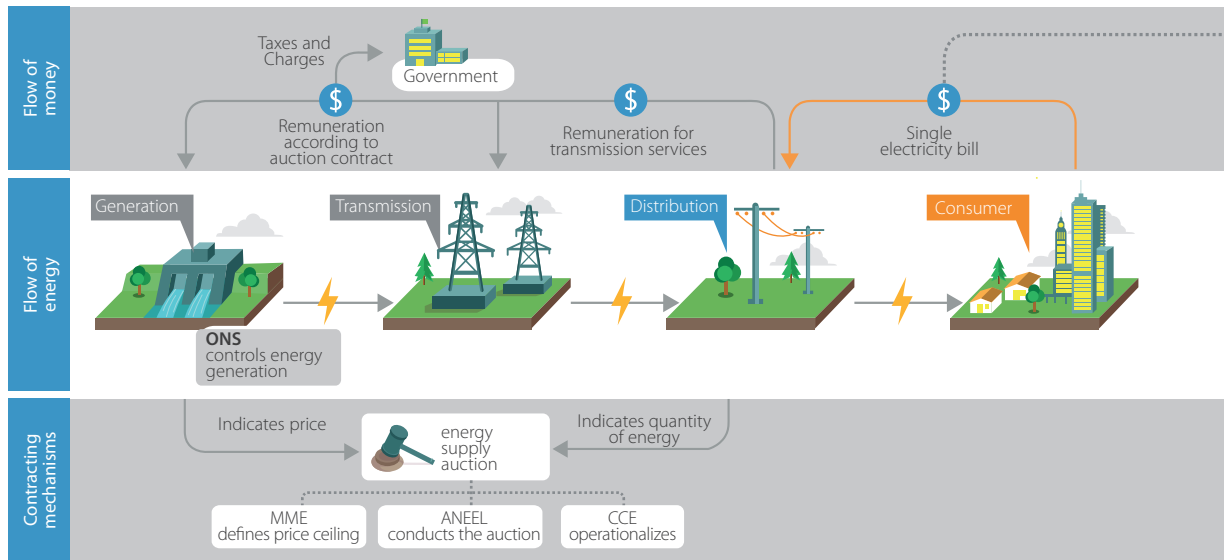
In this context, the distributors faced a scenario of over-contracting of energy. The Brazilian Association of Electricity Distributors (Abradee) predicts that the effects of over-contracting will be felt by companies until 2021, with the worst prediction for 2018. The Electric Energy Trading Chamber (CCEE) estimates that distributors will face an average of 109.1% of demand contracted in 2017, similar to the percentage registered up until November.

4 HOW THE POWER SECTOR WORKS

How does the energy supply chain work?

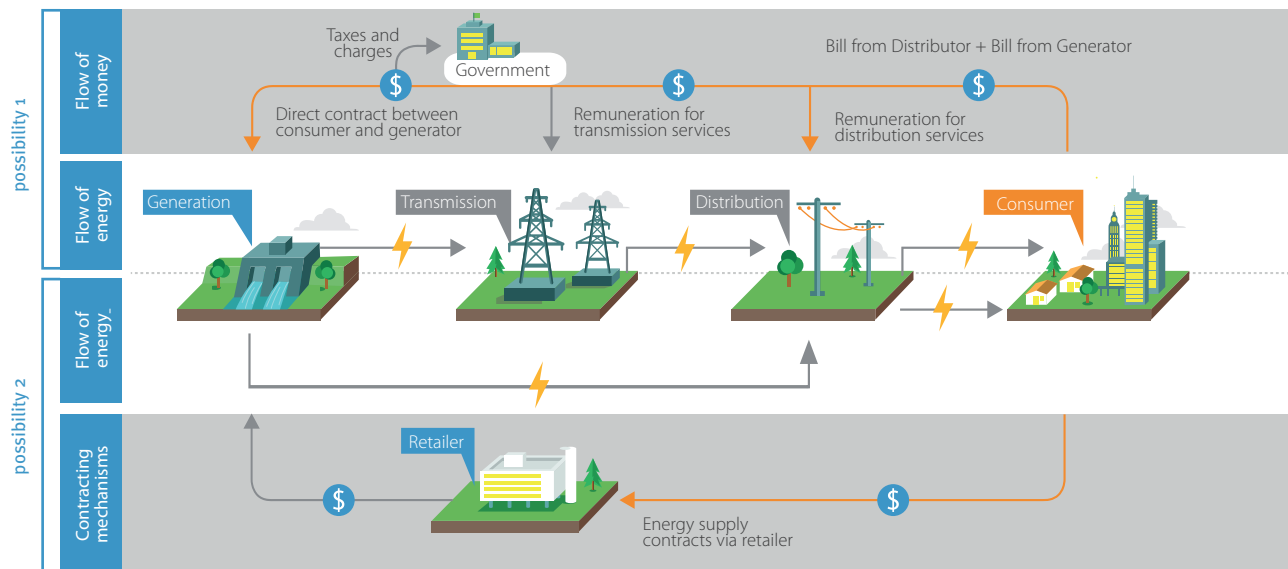
Regulated Market

Captive consumers buy energy from the distribution utilities to which they are connected. Each consumer unit only pays a monthly energy bill. The tariffs are regulated by the Government, and the price is the result of a mix of long-term contracts (auctions).



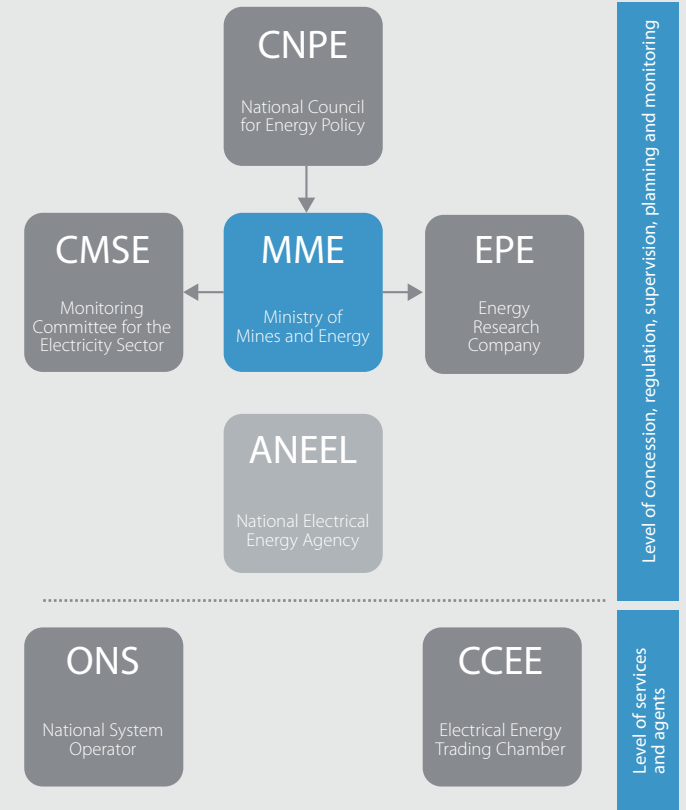
Free Market

Free consumers purchase energy directly from generators or retailers through bilateral contracts with freely negotiated conditions such as price, time period, volume, etc. Each consumer unit pays a bill to the local utility (regulated rate) for the distribution service and one or more bills for the energy purchased (negotiated contract price).



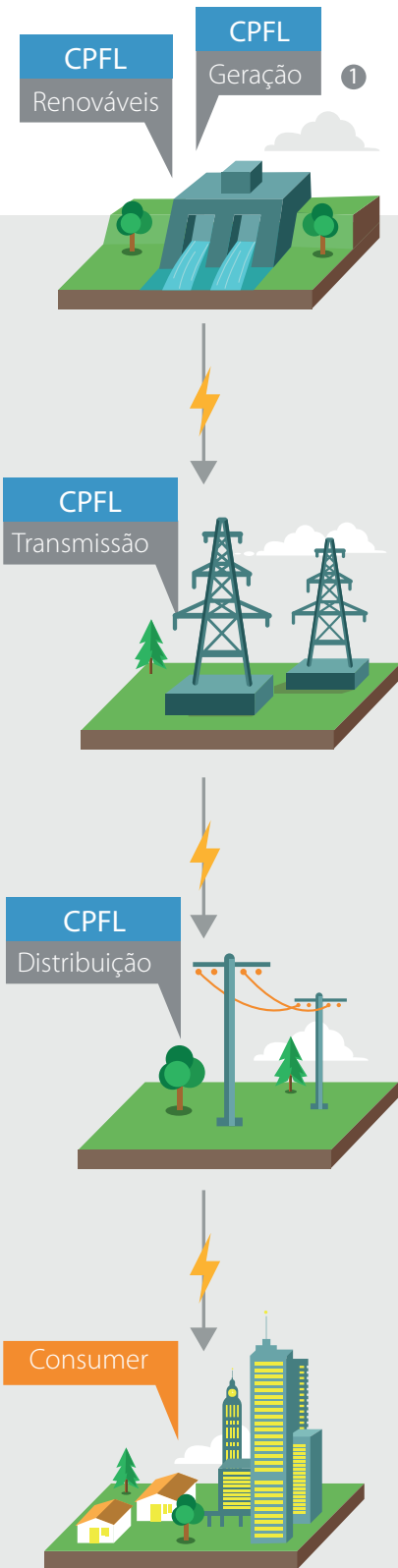
Players

Who are the main players in the market that interact with CPFL's business



- CNPE** National Council for Energy Policy
Defines the country's energy policy with the objective of ensuring the stability of energy supply.
- MME** Ministry of Mines and Energy
Responsible for the planning, management and development of legislation for the sector and the supervision and control of implementation of policy guiding energy development.
- EPE** Energy Research Company
Conducts planning for the expansion of generation and transmission for the MME, and provides technical support for the auction process.
- CMSE** Monitoring Committee for the Electricity Sector
Supervises the continuity and reliability of electrical supply.
- ANEEL** National Electrical Energy Agency
Regulates and supervises the generation, transmission, distribution and retail of electricity. Sets transport and consumption tariff rates and ensures the economic and financial balance of utilities companies.
- ONS** National System Operator
Controls the operation of the National Interconnected System (SIN) to optimize energy resources.
- CCEE** Electrical Energy Trading Chamber
Manages transactions in the energy market and conducts official auctions.

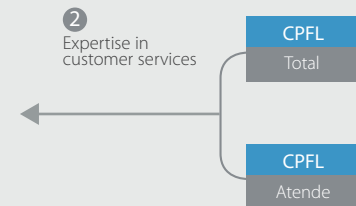
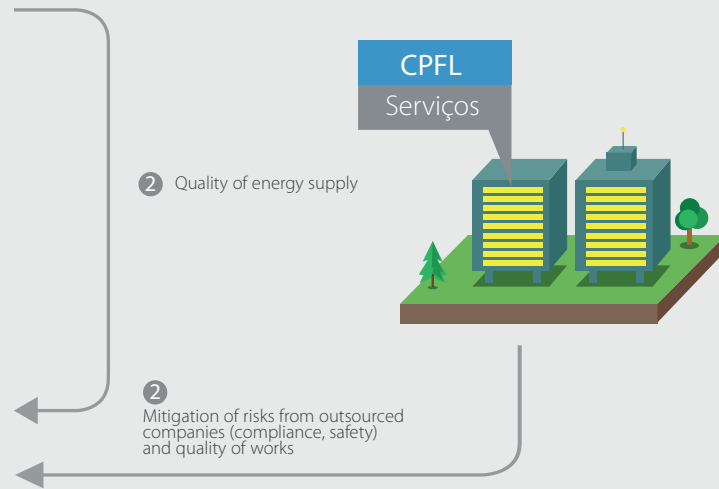
5 CPFL ENERGIA'S BUSINESS MODEL



Business Model for the Regulated Market

Revenues from Generation, Transmission and Distribution are regulated by ANEEL. Maintaining a rigid strategy for growth and financial discipline, CPFL Energia generates value through:

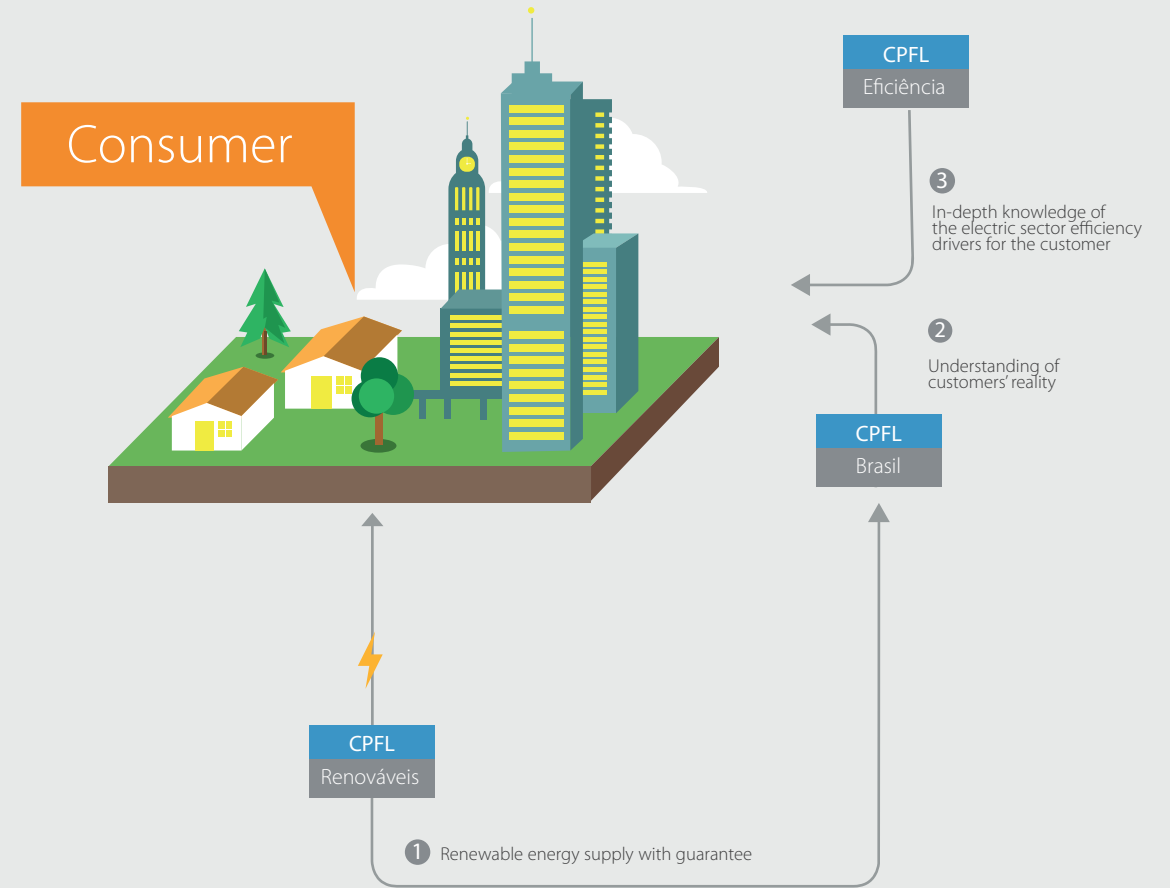
- 1 Efficient management of existing assets
- 2 Complementariness of business activities to mitigate risks from outsourced suppliers



CPFL Energia is the holding company for the CPFL Group, operating in the Brazilian power sector through Directly or Indirectly Controlled Subsidiaries, Jointly-owned Subsidiaries and Affiliates.

The CPFL Group operates through the promotion of electricity distribution, generation, transmission and trading projects and related activities.

In addition, it also provides business services related to electricity; technical, operational, administrative and financial support to Controlled Subsidiaries and to third parties; energy efficiency consultancy and management; and the study and development of research and development projects.



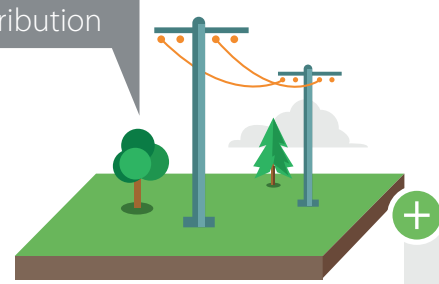
Business Model for the Non-Regulated Market

Existing and new business platforms focused on final customer service. Generates value through:

- 1 Composition guarantee for the retailer
- 2 Expertise in negotiating with free consumers and other free market agents
- 3 Integrated solutions in energy supply and use

Group Companies

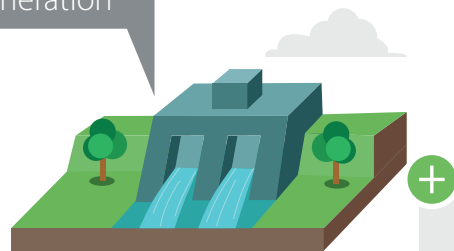
Distribution



Distribution companies are the Group companies that deliver energy to the final consumer via distribution lines. In addition to providing transport infrastructure (poles and wires), the distributors provide all network maintenance services (including pruning trees) and network repairs in the case of power outages. Consumers receive electricity bills in the name of the distributors.

CPFL is a leader in this segment with a 12.4% market share and 9 distribution companies: CPFL Paulista, CPFL Sul Paulista, CPFL Leste Paulista, CPFL Piratininga, CPFL Jaguari, CPFL Mococa, CPFL Santa Cruz, RGE Sul and RGE.

Generation



Generation companies are the Group companies that produce energy from various sources.

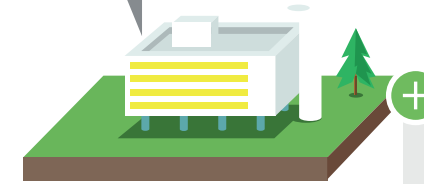
CPFL is the 3rd largest private player and leader in the renewable energy sector in Brazil.

CPFL Geração: operates with a focus on power generation from conventional sources such as hydroelectric power plants (HPPs) and fossil fuel-powered plants (TPPs).

CPFL Renováveis: works exclusively with generation from alternative sources such as wind (wind farms), sun (photovoltaic plants), sugarcane (biomass plants) and rivers (Small hydroelectric plants).

CPFL is looking to expand its installed capacity and diversify the sources used for generation, as well as maintaining the operational efficiency of its generating facilities.

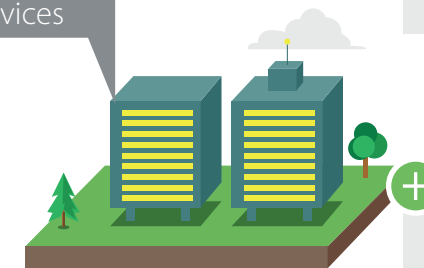
Retail



Retailers are companies operating in the Free Contracting Environment (ACL) whose main role is to act in the intermediation of electricity supply contracts. This reduces the so-called transaction costs, creating an efficient bridge between generators and consumers and assisting Free Consumers and Generation companies to contract electricity with conditions that meet their particularities.

At present there is one company in the Group with this mission - CPFL Brasil. It conducts auctions for the purchase or sale of electricity where the proposed sellers or buyers compete for the energy among themselves in a transparent and competitive manner. CPFL Brasil provides an electronic trading environment.

Services



The mission of service companies is to improve the customer experience in the energy sector. They provide solutions that meet the needs of both CPFL Group companies and other companies in the electricity sector: support for implementation of energy transmission lines from design through to construction, and maintenance, manufacturing and recovery of equipment, etc.

Increased productivity and competitiveness through adoption of the efficient use of resources, intelligence in technical evaluation and the search for the best financial framework for project implementation, flexible contractual alternatives for customers, and management of the supply chain are services offered by CPFL Eficiência.

Other services that take advantage of the experience and knowledge of the Group in the sector are offered by CPFL Atende (contact center and customer service) and CPFL Total (Account payment services).

Transmission



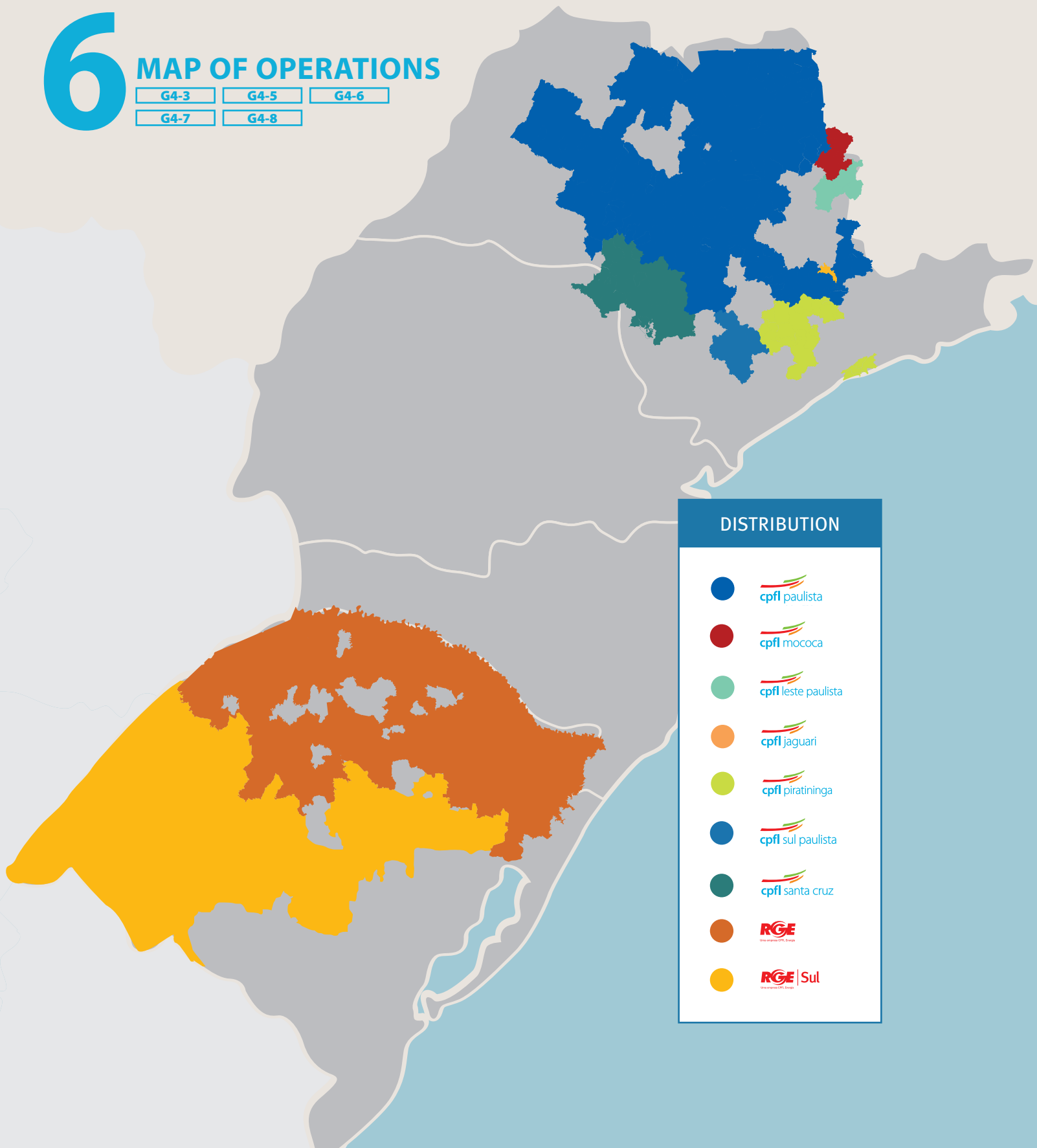
Transmission companies are the Group companies that transport energy via transmission towers and transformers (structures known as the Basic Network) from the plant where it is generated to the distribution substations from where it is distributed to end consumers.

Transmission is a new business for CPFL, still small in scale and born out of synergy with other businesses. Its main function is to ensure a high-quality energy supply to the Group's distributors, acting selectively through complementary assets within the distribution network.

At present there are two transmission companies in the Group: CPFL Transmissão Piracicaba and CPFL Transmissão Morro Agudo.

6 MAP OF OPERATIONS

G4-3 G4-5 G4-6
G4-7 G4-8



DISTRIBUTION

- cpfl paulista
- cpfl mococa
- cpfl leste paulista
- cpfl jaguari
- cpfl piratininga
- cpfl sul paulista
- cpfl santa cruz
- RGE
- RGE | Sul

GENERATION

cpfl geração

- 1 HPP Luis Eduardo Magalhães
- 2 HPP Serra da Mesa
- 3 HPP Foz do Chapecó
- 4 HPP Campos Novos
- 5 HPP Barra Grande
- 6 Ceran complex: HPPs Monte Claro, Castro Alves and 14 de Julho
- 7 8 SHPs: 6 (SP) e 2 (MG)
- 8 2 UTEs (PB)

CPFL RENOVÁVEIS

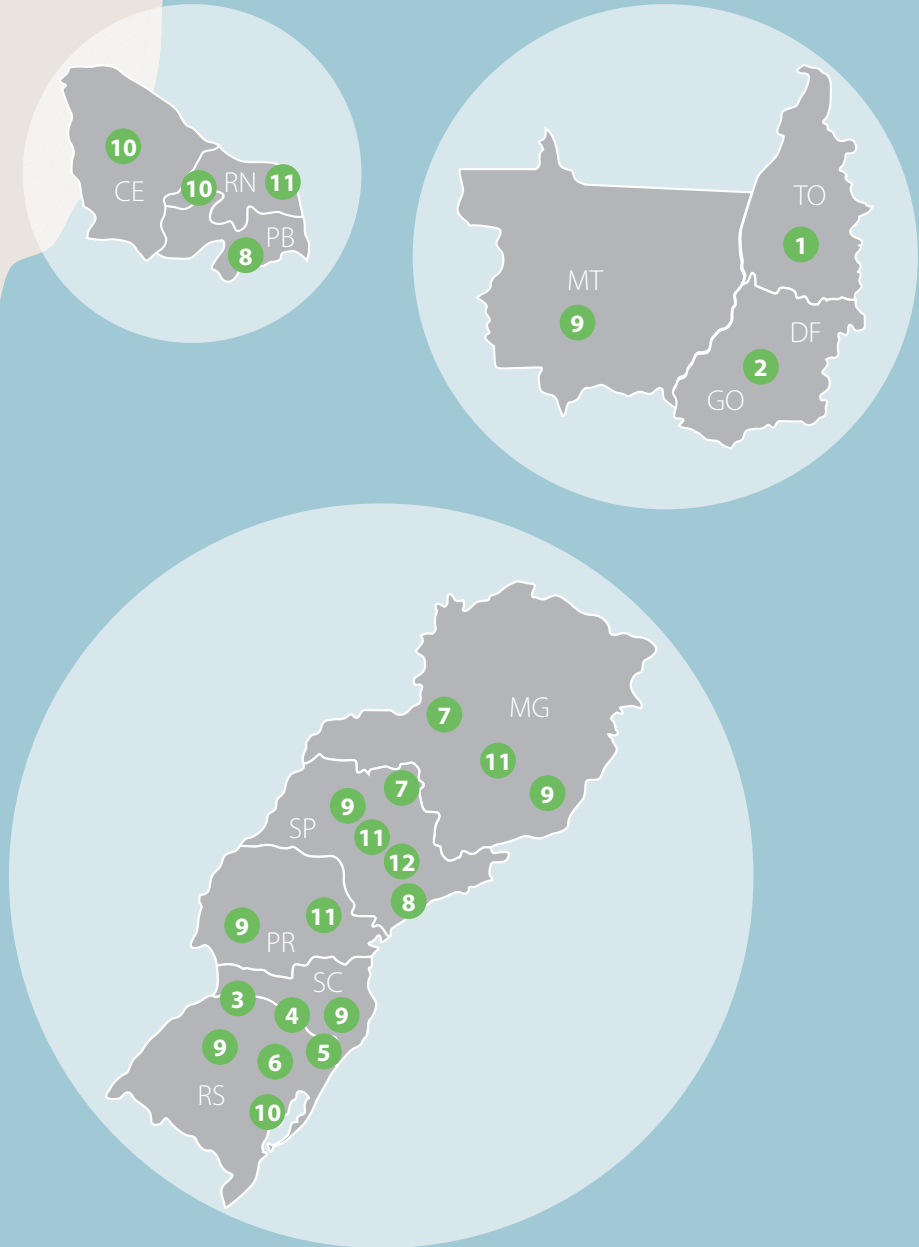
- 9 38 SHPs: 17 (SP), 8 (MG), 6 (SC), 4 (RS), 2 (MT) and 1 (PR)
- 10 33 Wind Farms: 19 (RN), 10 (CE), 4 (RS)
- 11 8 Biomass: 5 (SP), 1 (RN), 1 (MG) and 1 (PR)
- 12 1 Solar Power Plant (SP)

RETAIL

- cpfl brasil
- cpfl planalto

SERVICES

- cpfl serviços
- cpfl atende
- cpfl eficiência
- CPFLTOTAL
- Nect Serviços / Authi



MARKETS SERVED BY THE DISTRIBUTORS OF THE CPFL GROUP (representation in terms of energy sales) **G4-8**



7

GOVERNANCE G4-34





Tanquinto Substation in Campinas - SP

CPFL Energia's corporate governance model is founded on the principles of transparency, fairness, accountability and corporate responsibility, always in line with best practices in Brazil and abroad.

In 2016, CPFL completed 12 years since its IPO on the São Paulo Stock Exchange (BM & FBovespa) and on the New York Stock Exchange ("NYSE"). The Company has operated in Brazil for over 100 years and its shares are listed on the Novo Mercado of the BMF & Bovespa and ADRS Level III of the NYSE, differentiated listing segments that unite companies adhering to the best practices of corporate governance. All of CPFL's shares are common stock, i.e. they give the right to vote and the shareholders are entitled to tag along of 100% in the event of the sale of the controlling interest.

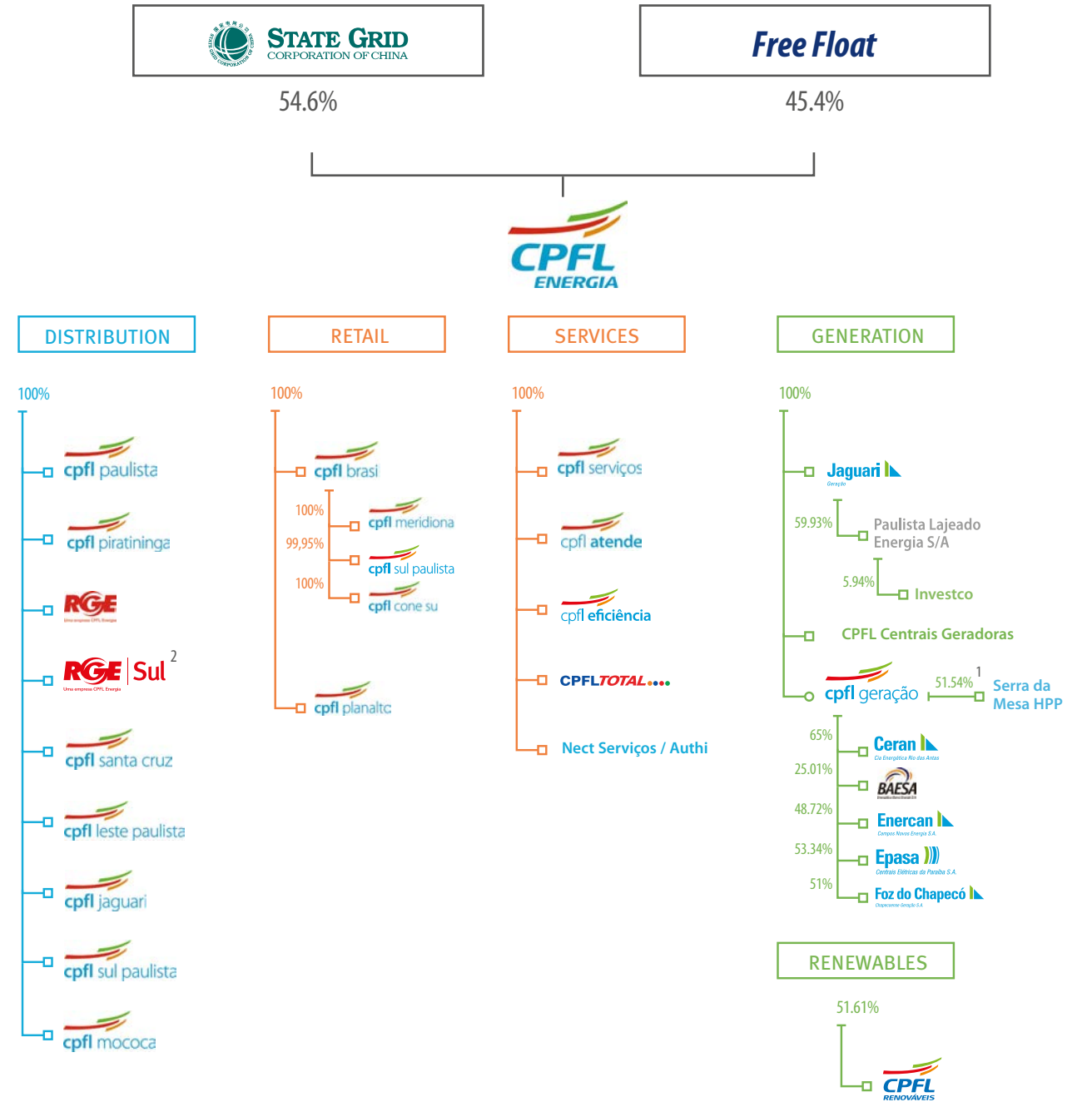
PARTICIPATION IN THE MAIN INDICES

- G4-15 G4-16
- Dow Jones Sustainability Emerging Markets Index

- IBOVESPA: Bovespa Index
- IBRX: Brazilian Index of 100 shares with greatest liquidity
- ISE: Corporate Sustainability Index of the BM & FBovespa
- ITAG: Special Tag Along Stock Index
- IGC: Special Corporate Governance Stock Index
- IEE: Electric Energy Index
- Dow Jones Brazil Titans 20 ADR Index
- MSCI: Morgan Stanley Capital International
- IBX50 of BM & FBovespa
- Carbon Efficiency Index (ICO2) of the BM & FBovespa

CPFL Energia is part of a select group of 15 companies that make up the Latin American Companies Circle on Corporate Governance, an initiative of the International Finance Corporation (IFC) and the Organization for Economic Cooperation and Development (OECD), for the purpose of promotion and encouragement of the improvement of best corporate governance practices in Latin America.

ORGANIZATION OF CONTROLLING SHAREHOLDERS G4-4 G4-17



Notes:

- (1) 51.54% of availability of capacity and energy from the Serra da Mesa HPP, referring to the Energy Supply Agreement between CPFL Geração and Furnas;
- (2) CPFL Energia owns a stake in RGE Sul through CPFL Jaguariúna.

GOVERNANCE STRUCTURE

Good governance practices presuppose an ongoing process of improvement. One of the differentials of CPFL Energia's governance structure is that it permits strategic decision-making to be both responsive and in line with international best practices. The **Administration** - consisting of the Board of Directors and the Board of Executive Officers - represents the interests of all shareholders and other agents with which the Company and its Directly or Indirectly controlled Subsidiaries, Jointly-Controlled Subsidiaries and Affiliates are related, with the goal of preserving the perpetuity of the CPFL Group's business. **G4-39**

The mission of the **Administrators** is to protect and value the Company's assets, optimize the return on invest-

ment for its shareholders and create value in the long term, promoting a culture centered on the values and principles of the organization.

BOARD OF DIRECTORS

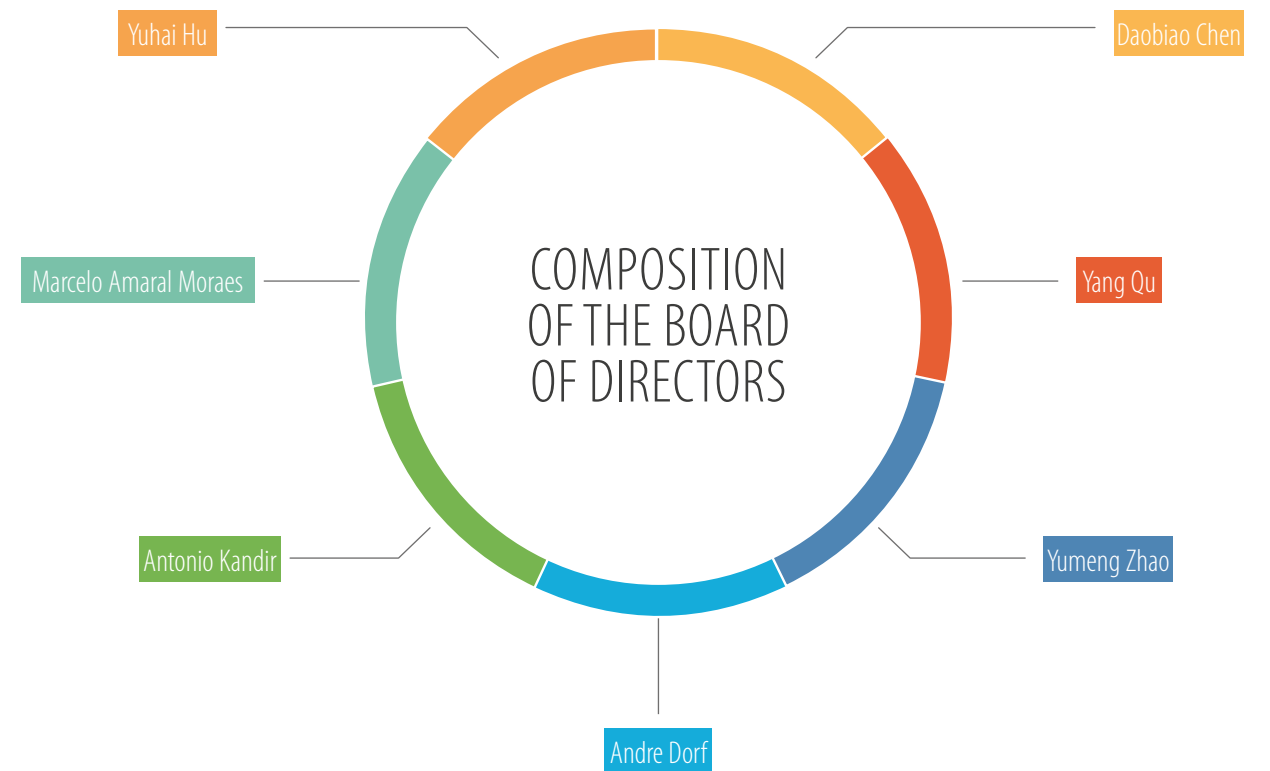
The Board of Directors of CPFL Energia is attentive to present and future opportunities in the market. Responsible for the strategic direction of the holding company and its subsidiaries/affiliates, it acts in accordance with the responsibilities attributed by the Bylaws and the Corporate Governance Guidelines and defines an Annual Calendar of meetings. Every month it is presented with the topics to be deliberated upon in the following quarter. **G4-47**



Campinas - SP

COMPOSITION OF THE BOARD OF DIRECTORS*

At the Extraordinary General Meeting held on February 16, 2017, 6 new members were elected (5 members representing State Grid, new controlling shareholder, and 1 new independent member), replacing the members representing the former controlling shareholders. As a result, the Board has two Independent Advisers. On April 28, the members of the Board of Directors were reappointed, except for Mrs. Ana Maria Elorietta. Mr. Marcelo Amaral Moraes was elected in her place. **G4-38**



The term of office of the Board Members is one year, with the possibility of re-election. The Corporate Governance Guidelines define that the Board Members be selected from senior professionals occupying upper-management positions, with a proven reputation and experience in the power sector or in their respective areas of activity and should come from diverse backgrounds. **G4-40**

The Internal Rules of the Board of Directors establish the procedures for assessing the Board Members, under the leadership of the Chairman of the Board of Directors and their replacement by their respective alternates, which may only occur in the case of impediments to the availability of the Board Member with prior notice given to the Company. **G4-44**

- CHAIRMAN
- VICE-CHAIRMAN
- ADVISER
- ADVISER
- ADVISER
- INDEPENDENT ADVISER
- INDEPENDENT ADVISER

* The Board of Directors composition until February 16, 2017: Murilo Cesar Lemos dos Santos Passos, Décio Bottechia Júnior, Francisco Caprino Neto, Albrecht Curt Reuter Domenech, Deli Soares Pereira, Licio da Costa Raimundo, Ana Maria Elorietta.



The Board of Directors is advised by three committees directly subordinate to it: [G4-35](#) [G4-36](#)

- Management Processes, Risks and Sustainability Committee
- Human Resources Management Committee
- Related Parties Committee

The coordinator of each of these committees reports back on their activities at the regular meetings of the Board of Directors.

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The Management Processes, Risks and Sustainability Committee is responsible for supporting the Board of Directors in the evaluation and monitoring of the Internal Audit, risk management and compliance activities, supervision of the Sustainability Platform and Ethics System, including the External Grievances Channel, as well as improving business management processes. Members: Liu YunWei, Fu Zhangyan and Fabio Fernandes Medeiros.

The duties of the **Related Parties Committee** include evaluation of the selection process for suppliers and service providers for provision of works and procurement of supplies and services. The Committee also monitors the signature of energy

purchase and sale agreements with Parties Related to the controlling shareholders for amounts equal to or greater than the minimum value falling within the responsibility of the Board of Directors, as set out in the Company's Bylaws. This ensures that market conditions are observed and no benefits or advantages of any kind are provided to a Related Party. Members: Ding Hongwu, Li Fu and Marcelo Amaral Moraes.

The **Human Resources Management Committee** regularly monitors and reports back to the Board throughout the year on the development of the Succession Plan for the key executives of the Company and assessment processes for short-term and long-term corporate and individual targets for the Board of Executive Officers, which are defined based on the strategic plan and metrics of the Shareholder Value Generation System (GVA). Members: Chen Daobiao, Zhang Li and Daniela Sguassabia Domingues.

Whenever necessary, ad hoc Committees are set up to advise the Board of Directors on issues such as strategy, budgets, new business and financial policies. In the evaluation of the Board of Directors, the solid corporate governance structure is a priority to ensure transparency and accountability to stakeholders. In 2016, two committees were established: Strategy; and Finance and Budget.

BOARD OF EXECUTIVE OFFICERS [G4-36](#)

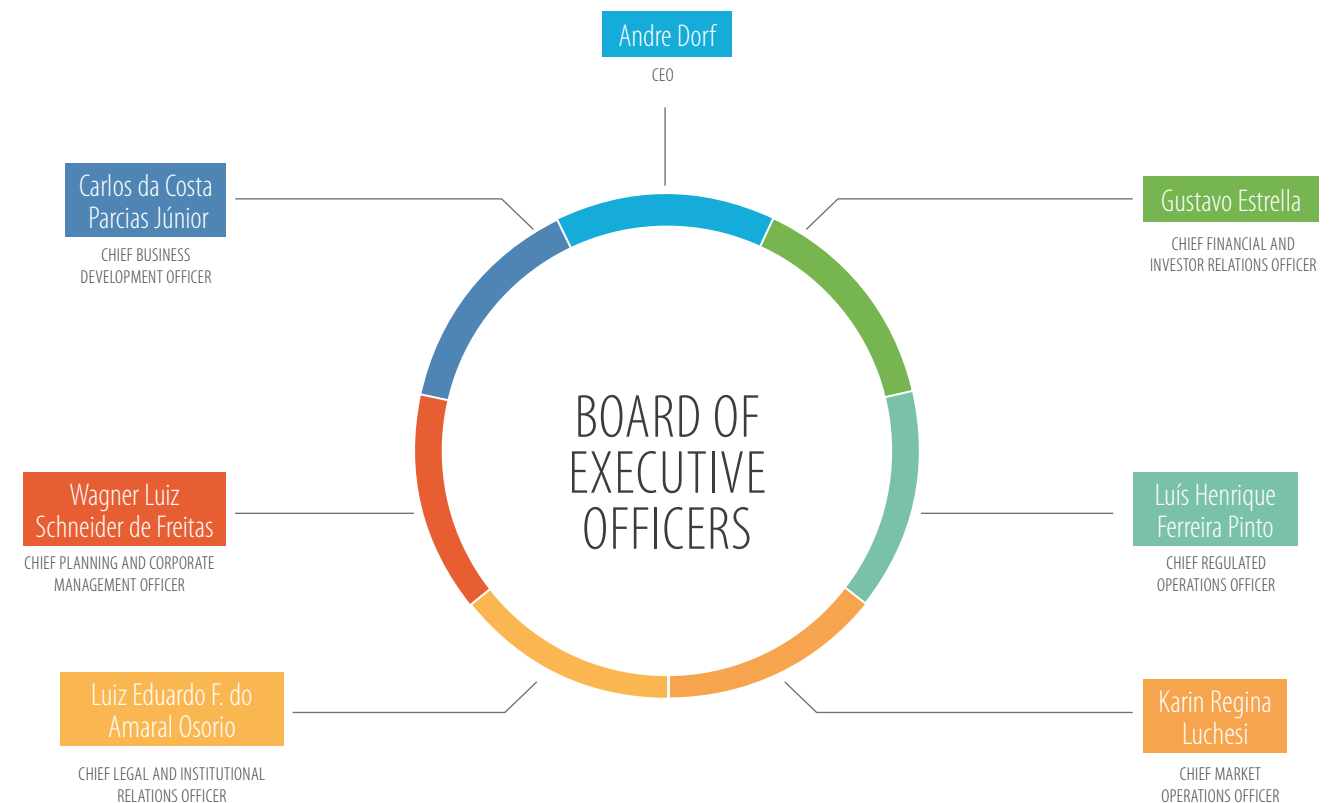
In order to ensure the alignment of governance practices, the Executive Officers hold positions on the Boards of Directors of the companies that compose the CPFL Group and nominate their respective statutory directors. The Board of Executive Officers is composed of the Chief Executive Officer and six Senior Vice Presidents, all with a two-year term.

The Executive Board is composed of professionals identified by the Company's succession process or selected from the market from eligible candidates that stand out in their respective areas of action. All Executive Officers are senior executives with ample experience and outstanding performance in their respective areas of expertise.

The remuneration of the Administration (Executive Board and Board of Directors) is established by the General Shareholders' Meeting, based on a survey of the market carried out by a specialized company and submitted for prior appraisal by the Human Resources Management Committee. This payment consists of a monthly fee. [G4-52](#)

Variable pay is determined based on criteria defined in an Annual Targets Plan and a Long-Term Incentive Plan. The definition of the targets and the assessment of the performance of the executive officers, as well as the Company's Succession Plan, are monitored by the Human Resources Management Committee.

[G4-51](#) [G4-52](#)



FISCAL COUNCIL G4-36

The Company's Fiscal Council is a collegiate body elected by the General Shareholders' Meeting, with a unified term of one year. It is composed of three effective members and their respective alternates and is responsible for supervising the acts of the Administration and verifying the fulfillment of its legal and statutory duties. It has a permanent status and a schedule of activities that includes periodic meetings with External Auditors and the Company's main executives. The Fiscal Council exercises the activities of an Audit Committee in compliance with the rules of the Sarbanes Oxley Act (SOX) applicable to foreign companies listed on US stock exchanges, including meeting periodically with the Internal Audit, the Risk Management and Compliance Department and the Accounting Department. One of the Fiscal Council Members qualifies as a Financial Expert, as defined in the SOX.

COMPOSITION OF THE FISCAL COUNCIL

- Pan Yuehui
- Reginaldo Ferreira Alexandre

For more information on the competencies and attributions of the Members of the Board of Directors, Fiscal Council and Committees and the Executive Officers of CPFL and to view their resumé, consult the Investor [Relations/Governance](#).

ETHICAL CONDUCT G4-57 G4-58

Ethics is seen as an essential guiding value for the business of the CPFL Energia Group and for the conduct of its employees. At a company, ethics are manifested through the daily fulfillment of concrete tasks. At CPFL Energia, the Code of Ethics is primarily a map of values, a set of major guidelines and a benchmark for moral and ethical conduct to guide the actions and decisions of all employees, regardless of their hierarchical level.

ETHICS MANAGEMENT AND DEVELOPMENT SYSTEM

The Ethics Management and Development System is made up of seven components that jointly aim to strengthen the effectiveness and integrity of the management of ethics at CPFL.

1 CODE OF ETHICAL CONDUCT

The Code has been updated for regulatory compliance and as a result of changes to the company and to the business environment of the CPFL Energia Group. The update also sought to simplify the structure and language of the Code, using shorter and more concise text to facilitate understanding among the group's stakeholders.

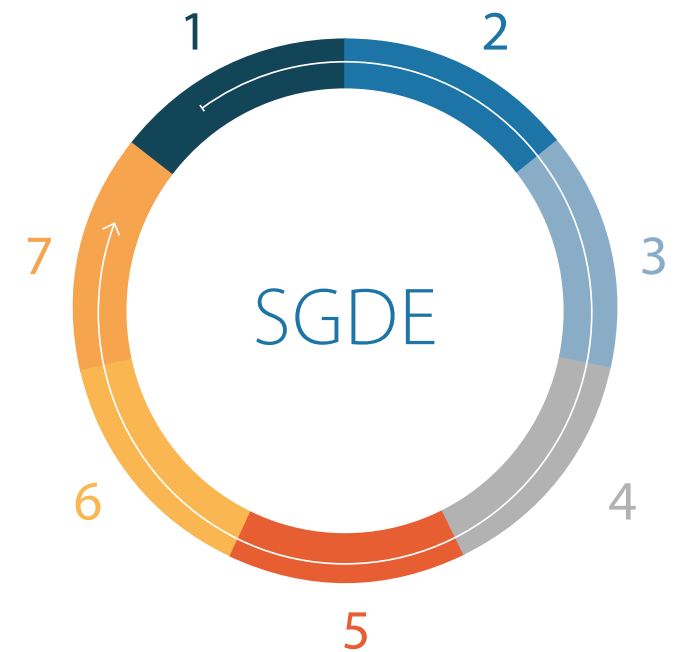
2 ETHICS COMMITTEE

The composition of the Committee has been revised and it now contains five members, of which three are senior vice-presidents of CPFL Energia and two are Independent External Members. The Internal Audit area also participates in a listening-only role.

3 INTERNAL RULES OF THE ETHICS COMMITTEE

The Internal Rules have been revised and define the following, among other aspects: the duties and responsibilities of the Members of the Committee and its commissions; its dynamics of operation; the processes and deadlines for the treatment of ethics-related reports (inquiries, suggestions and grievances); the system for recording the deliberations and other activities of the Committee; and the periodicity of reporting the actions of the Committee to CPFL Energia's Board of Executive Officers, Board of Directors and Fiscal Council.

ETHICS MANAGEMENT AND DEVELOPMENT SYSTEM (SGDE)



4 EXTERNAL ETHICS CHANNEL

For the first time in its history, CPFL Energia has established an external channel for receiving ethics-related reports - inquiries, suggestions and reports of ethical transgressions. The solution - a benchmark for the market for this type of platform - is accessible 24 hours a day, seven days a week. It guarantees privacy and confidentiality of information and the anonymity of the user and permits permanent monitoring of ethics-related reports, from their appearance through until their resolution.

- Telephone access through the number 0800 601 8670
- Electronic access through the website: www.contatoseguro.com.br/cpflenergia (Portuguese only)
- Electronic access through the application Contato Seguro, available from the App Store and Google Play
- Electronic access via e-mail: eticacpfl@contatoseguro.com.br

5 REPORTS PROCESSING COMMISSION

The Reports Processing Commission was created with the aim of strengthening the process of investigating complaints received by the Ethics Committee. It is composed of three executives of CPFL Energia and the investigation of complaints is carried out by a team of internal investigators, trained in investigative techniques and specialized in the activities under their responsibility. Within the structure of commissions supporting the Committee, Local Ethics Commissions continue to carry out activities to support the dissemination of ethical guidelines in the Group's companies and now carry out investigative activities only when requested to by the Reports Processing Commission.

6 TRAINING

The training of company employees, either in person or through e-learning, is a key element for the success of the Ethics

Management and Development System. It is the company's responsibility to disseminate ethical principles, guiding and preparing its employees at all levels with regards to the conduct expected in each situation that involves ethical issues.

7 DISSEMINATION

This aspect includes ongoing actions to disseminate the ethical guidelines of the CPFL Energia Group, through communication campaigns and other initiatives to increase awareness of ethical guidelines among stakeholders, including suppliers and partners in society.

Complaints from employees are now received and reviewed by an external body, which follows a protocol to assess whether there has been a breach of company rules and/or national laws. Upon completion of the process the information is sent to the Ethics Board for application of the appropriate measures.

RISK MANAGEMENT AND COMPLIANCE

G4-14 G4-45 G4-47

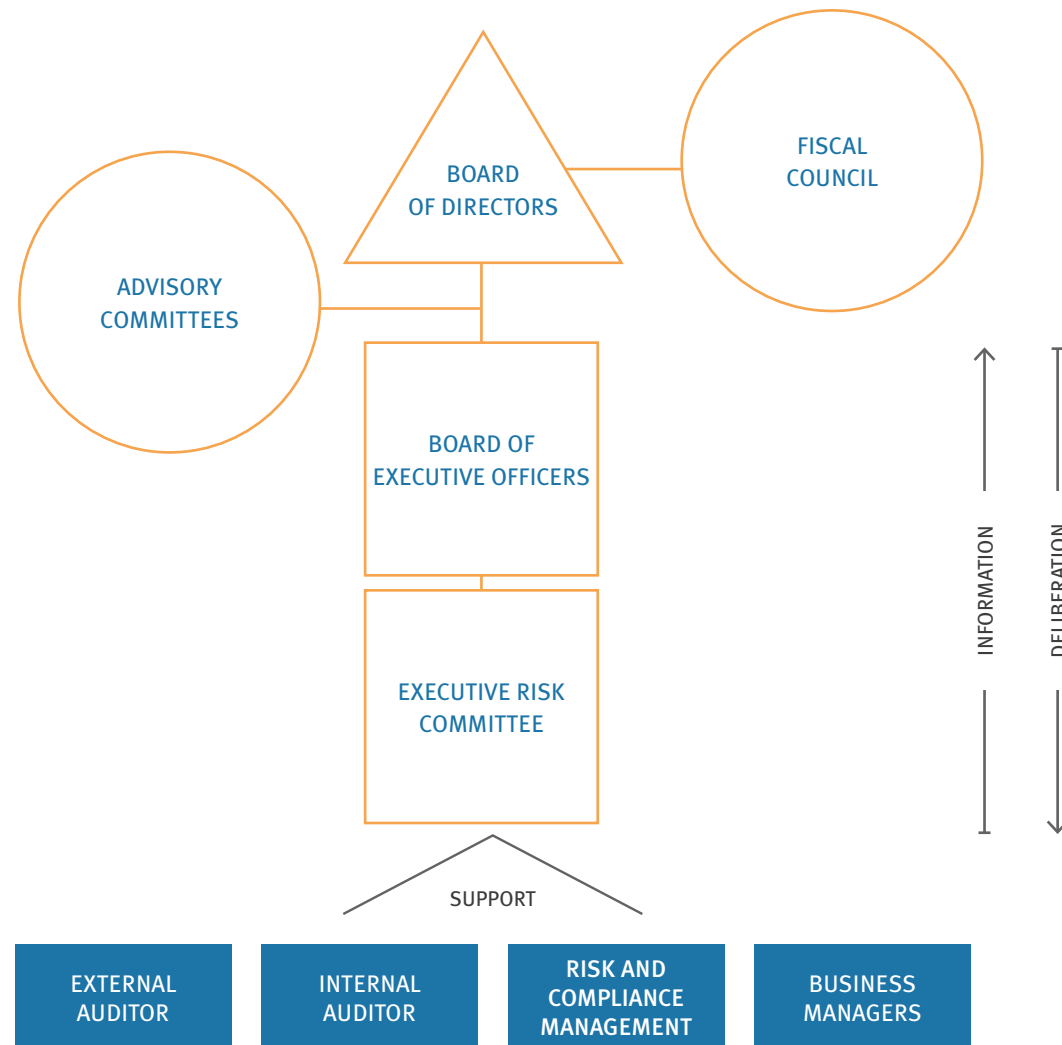
THE RISK MANAGEMENT FRAMEWORK AT CPFL ENERGIA

According to the established risk management model at CPFL Energia it is up to the Board of Directors to deliberate on the risk limit methodologies recommended by the Board of Executive Officers and become familiar with exposures and mitigation plans in the event of exceeding these limits. The Advisory Committees to the Board of Directors should understand the risk models, exposure to risk and control levels (including their effectiveness) to provide support for the Board of Directors in monitoring risk. **G4-46**

The Board of Executive Officers of CPFL Energia is responsible for conducting the CPFL Group's business within the risk

limits set and taking the necessary measures to prevent risk exposure from exceeding these limits. In the case that risk limits are exceeded this should be reported to the Board of Directors, alongside possible mitigation actions. **G4-46**

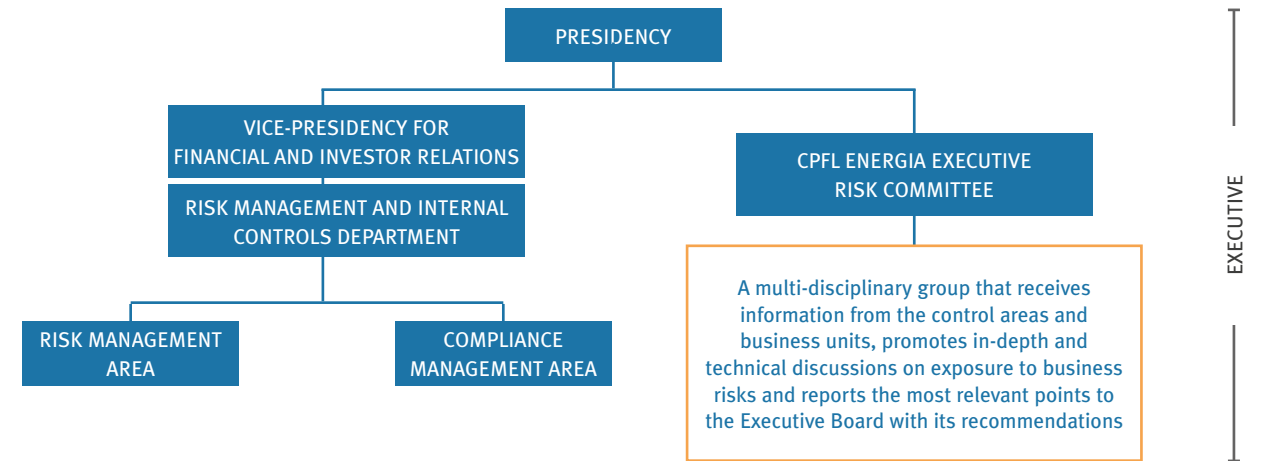
The Board of Executive Officers of CPFL Energia is assisted in this function by the **Management Processes, Risks and Sustainability Committee**. The Committee, after receiving information provided by the control areas and business units, undertakes technical and in-depth discussions of exposure to business risks and reports the points of greatest relevance to the Board of Executive Officers with its recommendations. **G4-46**



ORGANIZATIONAL STRUCTURE (EXECUTIVE LEVEL): RISK MANAGEMENT AND COMPLIANCE DEPARTMENT

The Risk Management and Compliance Department reports to the Vice-Presidency for Financial and Investor Relations and is responsible for coordinating risk management, ensuring the compliance of CPFL Energia's processes with national and

international standards and aligning policies with the Company's business planning. To implement these activities the company has created two management areas: Compliance and Risk Management.



In addition to identifying, measuring and monitoring business risks, this department works as a supporting body for the decision-making of the Board of Executive Officers and the Board of Directors, playing a key part in maintaining the company's strategy. To achieve this, the area works with a Risk Map divided into categories (Financial, Energy Market, Operational, Legal, Sector Regulation, Environmental, Image and Sustainability), which consolidates the set of events that can affect the strategy and operations of the Company, which in turn are regularly monitored by indicators/models and exposure limits (risk appetite).

ANTI-CORRUPTION MEASURES

G4-S03 G4-S04

Law 12,846/13, known as the Brazilian Anti-Corruption Law, brought important advances by providing objective accountability for companies that practice harmful acts, committed in their interest or for their benefit against national or foreign governments.

In order to meet the requirements of the Law, CPFL Energia has developed an Integrity Program that is applied and updated according to changes in the characteristics and risks of its business. The Company periodically re-assesses corruption-related risks to CPFL's organizational units and to suppliers. Based upon these assessments, prevention measures are implemented and the Integrity Program is improved.

In order to ensure that its employees or third parties acting on its behalf act in accordance with the principles of its Code of Ethics, the Group executes and monitors internal control

practices and audits, follows legal procedures and investigates complaints forwarded from its relationship channels. There were no well-founded cases of corruption related to CPFL Energia's business, as defined by CPFL Energia's internal policies.

G4-S05

Prevention and responsiveness

The Corporate Communication and Institutional Relations area implemented a Crisis Management System (CMS), which will be supported by two Committees: Strategic and Operational. The CMS allows the Company to quickly identify crisis situations and their possible impacts on operations, management and relationships with stakeholders. To create the system the hired consultancy firm interviewed 27 executives to help map the Group's crisis risk scenarios. The interviews also provided information for the preparation of the CPFL Energia Crisis Manual, which will be used by employees who participate in the management of a crisis.

The Strategic Committee is composed of the CEO, the Chief Corporate Communication and Institutional Relations Officer and the Senior Executive Officer of the affected area. It is responsible for assessing whether there is a crisis situation and what the Company's operating guidelines will include. Under the management of a leader - who will be appointed by the area involved in the crisis - the Operational Committee will define actions for control and resolution of the crisis. The CMS will have a Crisis Room to ensure the integration of the professionals responsible for actions, the efficiency of decisions and, if necessary, confidentiality of information.

8

CAPITAL PERFORMANCE



INFRASTRUCTURE CAPITAL

CPFL Energia's infrastructure is administered based on the principles of operational safety and excellence. This applies both to the expansion and maintenance of its assets, which consist of facilities, sites, networks and equipment. Allocated financial capital is used to fund innovative technologies, in order to reduce potential environmental impacts, improve the eco-efficiency index and comply with environmental legislation in the country.

THE CAPITAL RESOURCES

- Assured energy: 14,188 GWh **EU2**
- Energy generated: 15,713 **EU2**

Conventional Generation:

- 8 Hydroelectric Power Plants, 2 Thermal Power Plants
- Installed Capacity (MW) 2,199 MW

Renewable Generation*:

- 39 Small Hydroelectric Plants, 8 Biomass Thermal Power Plants, 43 Wind Farms, 1 Solar Plant
- Installed Capacity (MW): 1,060 MW

Distribution:

- Distribution networks: 315,538 Km
- Distribution transformers: 450,247
- High-voltage distribution lines between 34.5 kV and 138 kV: 12,181 Km
- High- to medium-voltage transformer substations for subsequent distribution: 523
- Total transforming capacity: 17,316 MVA

* proportional to shareholder participation.

NATURAL CAPITAL

The CPFL Energia Group uses natural resources such as water and fossil fuels as raw materials for some of its business, because they can be transformed into energy. The allocation of the company's financial capital considers the positive impact of maintaining biodiversity in the areas where CPFL operates. The biodiversity maintained in these areas is not directly involved in energy production but helps to ensure the availability of the water supply and has social and environmental heritage value. This is an action that creates value for the Group's stakeholders.

THE CAPITAL RESOURCES **EU1** **EU4**

CONSUMPTION OF NATURAL RESOURCES	2015	2016
Energy consumption by CPFL Energia (in GJ) G4-EN3	64,200,453.44	65,660,172.38*
Water consumption at the head offices (in m ³) G4-EN8	151	161
Electricity consumption (in GWh) G4-EN3	3,939	3,886**

* considering power consumption by RGE Sul: 68,602,304.9
** considering electric energy consumption of RGE Sul: 4,641

IMPACTS GENERATED	2015	2016
Greenhouse Gas Emissions (Scope 1) (thousand tCO ₂ e) G4-EN15	116	200*
Greenhouse Gas Emissions (Scope 2) (thousand tCO ₂ e) G4-EN16	490	318**
Class 1 waste generated (in tons) G4-EN23	72.72	105.77

* considering direct emissions of RGE Sul: 231
** considering indirect emissions of RGE Sul: 381

In 2016, investments in the environment amounted to R\$ 132.37 million. **G4-EN31**

KNOWLEDGE AND SKILLS CAPITAL

CPFL Energia is alert to the big picture for identifying tendencies and detecting developments in the Brazilian electric energy sector, in this way, promoting the creation and expansion of businesses, which contribute to the creation of value for the Company. This capital represents knowledge generated by the employees not only on the functioning of the business and the sector but also in relation to operational excellence and strategic intelligence. This knowledge, together with the internal management systems and corporate culture, is fundamental to the growth of the business.

THE CAPITAL RESOURCES

- R\$ 20.2 million invested in Research and Development in 2016
- A group of Cambridge University students participated in the update of the CPFL's innovation pipeline
- The Solar Roofs Project - a large-scale lab of distributed photovoltaic generation - will receive an investment of R\$ 14.8 million until 2018. The entities responsible for the project studies for the project include CPqD and Unicamp.

SOCIAL AND RELATIONSHIP CAPITAL

The quality of the stakeholder relationship is fundamental for ensuring the financial sustainability of the business and the license to operate. The CPFL Energia Group is constantly upgrading its systems and processes for effective engagement with its stakeholders, including consumers and clients, government and non-government entities, suppliers, partners, local communities among others, thus stimulating the Company's role as protagonist in the sector.

THE CAPITAL RESOURCES

- 4,592 suppliers, of which 107 are strategic (representing more than 80% of CPFL Group's costs with suppliers) and 53 critical (besides being strategic also implying operational/reputational risk). **G4-12**
- 9.224 million clients. **EU3**
- R\$ 870 thousand invested in the Philanthropic Hospital Modernization program, to attend 20 hospitals in Barretos and Marília regions.

HUMAN CAPITAL

CPFL Energia considers its human capital to be the main factor influencing the positive results of its operations. As a result, the Group works to maintain the appropriate profile of employees based on technical capability, diversity, productivity and work culture focused on meeting the goals of the strategic planning and adherence to company values.

THE CAPITAL RESOURCES

- The Company ended 2016 with 10,195 employees, 22 % women and 78 % men. Considering the employees of the recently acquired RGE Sul, the total number of employees will reach 12,879.
- Turnover was 17.80% (19.90% in 2015). **G4-LA1**
- 32% of employees are under 30 years of age.

All employees of the CPFL Group are covered by collective bargaining agreements, excluding the CEOs, Senior Executive Officers and Statutory Directors. **G4-11**

FINANCIAL CAPITAL

The management of CPFL Energia's financial capital is based on a conservative financial policy, with the Group's stability considered the priority. The investments made by the different areas of the company are always aligned to strategic planning and established targets, considering the creation of value for the business and its shareholders. Financial balance creates the necessary conditions for the development of new businesses and acquisitions, with the aim of expanding the customer base and increasing the return to investors, whose profile is long-term. The company's solid risk management policy enables the implementation of strategies for the preservation of liquidity, as well as extending the profile of its debt.

THE CAPITAL RESOURCES

CONCILIATION OF NET PROFIT AND EBITDA	2014	2015	2016
	(R\$ MILLION)		
Net profit	886	875	879
Depreciation and Amortization	1,160	1,281	1,292
Financial Result	1,089	1,408	1,453
Income Tax/Social Contributions	624	579	501
EBITDA*	3,759	4,143	4,126

* EBITDA is calculated according to the CVM Instruction 527/12 (more details available at: www.cpl.com.br/ir).

9

SUSTAINABILITY MANAGEMENT



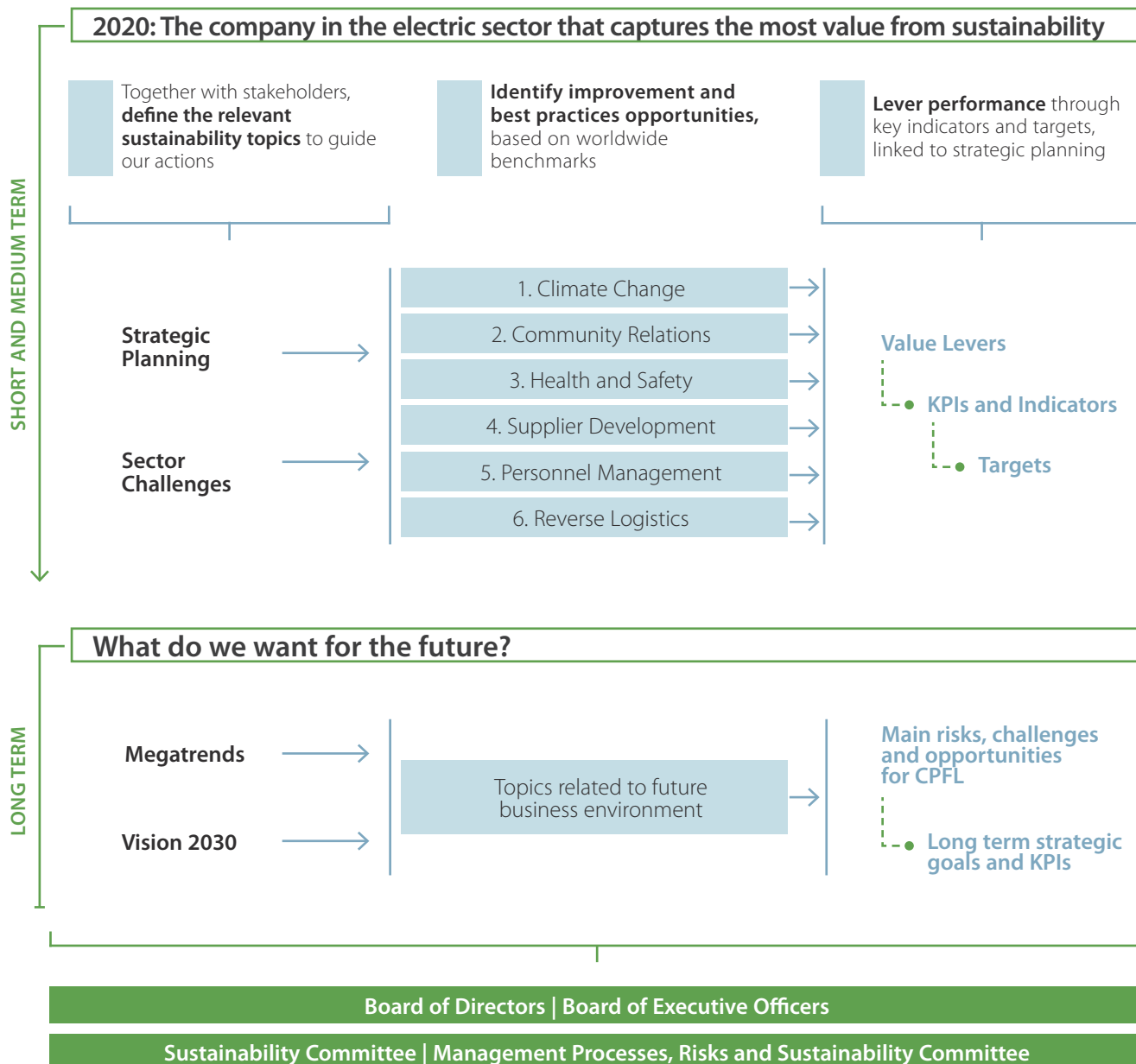
SUSTAINABILITY PLATFORM

G4-37 G4-18 G4-19

CPFL Energia uses its Sustainability Platform, developed in 2013 and 2014, as an integrated tool for strategic planning, definitively incorporating sustainability as one of the determining factors for the future of its business. The Sustainability Platform generated monthly reports throughout 2016, permitting analysis of the per-

formance of the various different areas of the company and definition of medium-term targets (five years). The data generated by the Platform is monitored by the Board of Executive Officers, Sustainability Committee, Management Processes, Risks and Sustainability Committee and reported to the Board of Directors.

SUSTAINABILITY PLATFORM G4-18 G4-19



What do we want for the future?

VISION 2030 – FORCES THAT ARE INFLUENCING THE ELECTRIC SECTOR

1 Greater power for the customer

Customers are more demanding as regards quality of service and more aware of their rights and the negative socio-environmental impacts generated by companies. They will begin to influence the regulator when defining rules and policies for the sector.

2 Movement towards sustainability

Increased environmental commitment is transforming how energy is consumed in the world. Agents are increasingly concerned about the sustainability of consumption and economic growth and seeking more conscientious ways of coexisting with the environment.

3 Introduction of disruptive technologies

By 2030, technology such as smart grids, distributed generation, and energy storage will be even more developed and disseminated across the electric grid and will impact the traditional business of electricity distributors.

MEGATRENDS

SUSTAINABILITY PLATFORM (SHORT AND MEDIUM TERM)

TOPICS RELATED TO FUTURE BUSINESS ENVIRONMENT

PRINCIPAL RISKS, CHALLENGES AND OPPORTUNITIES FOR CPFL IN THIS ENVIRONMENT

LONG TERM STRATEGIC GOALS AND KPIs

The main frame of reference used by CPFL for measuring corporate sustainability performance in the creation of the Platform indicators was the RobecoSAM Corporate Sustainability Assessment (CSA) questionnaire for companies that seek to participate in the Dow Jones Sustainability Indices. Continuous analysis of performance results allows the implementation of action plans to improve the Company's management system.

In 2016, CPFL participated for the fifth consecutive year in the Dow Jones Sustainability Emerging Markets Index, attributed to 10% of the companies with the best sustainability performance in the world in their respective segments.

Comparing the results of 2015 and 2016, the Group witnessed an evolution in the economic, environmental and social dimensions, with the overall score for the period rising from 80 to 85 points (of a total of 100). This result groups it among the 20 most sustainable utilities companies in the world.



Complexo Rosa dos Ventos Wind Farm - CE

10

NATURAL CAPITAL



Hydropower Plant Campos Novos - SC

In all of its business activities the CPFL Energia Group strives to minimize environmental impacts, promote the intelligent use of natural resources and contribute to environmental preservation, through projects and awareness-raising activities aimed at the various stakeholders that make up the value chain. The management of natural capital is an aspect of the sustainable growth strategy, which is supported by the ISO 14001 certified Environmental Management System, the Environmental Policy (applied since 1997), and the Group's Sustainability Policy.

In 2016, CPFL received 5 infraction notices resulting from non-compliance with environmental laws and regulations. The total value of fines paid in the year was R\$ 1,029.47, for an infraction notice issued in 2014 for failure to submit accompanying documentation for the transplantation of trees at the Campinas Headquarters in 2009 (TCRA 6035/2009). The environmental management mechanisms adopted by the Company enable it to identify opportunities for improvement in various operational processes, including the participation of the Environment area in the planning of construction works, environmental licensing and the reuse of materials after use. **G4-EN29**

In 2016, environmental investments totaled R\$ 132.37 million: with R\$ 43.97 million related to the production/operation of the company and R\$ 88.40 million going to external programs/projects. **G4-EN31**

CLIMATE CHANGE MANAGEMENT

CPFL incorporates the issue of climate change into all business strategy and into the development of projects aligned with business initiatives and commitments on the international and national levels. Aware of the impacts of climate change on its business and of its influence and representation in the power sector, CPFL contributes to promote a low carbon economy. The Company's main achievements in 2016 were:

ENERGY AND CLIMATE GROUP OF THE GLOBAL COMPACT

With the aim of being a hub of influence in society and a proactive group in the search for knowledge,

the Energy and Climate Group, coordinated by CPFL, has encouraged companies to take a leading role in the discussion of issues such as mitigation, adaptation and carbon pricing. One of its strategies is to articulate with other corporate initiatives relating to climate and promote joint actions such as the development of studies and position statements and participation in the UN Conferences on Climate (COPs), among other events. At the international level it is aligned with the Caring for Climate platform, a Group which seeks to foster partnerships and projects in areas including energy efficiency and increasing renewable sources in the country.

CARBON PRICING **G4-EU5**

One of the CPFL Group's lines of action for climate change management is carbon pricing, which aims to set a price for consideration in its business plans. CPFL is a member of the C4C Carbon Pricing Champion and the Carbon Pricing Leadership Coalition (www.carbonpricingleadership.org/).

CPFL at COP 22

CPFL Energia's Chief Legal and Institutional Relations Officer, Luiz Eduardo Osorio, made a presentation at COP Marrakesh on the Corporate Climate Initiative's (Iniciativa Empresarial em Clima - IEC) position statement on carbon pricing mechanisms. The presentation took place during the Global Climate Finance Action Summit, an official event of the 22nd Conference of the Parties to the Framework Convention of the United Nations on Climate Change (COP 22) and the World Economic Forum for Young Global Leaders.

The position statement, released in October last year, supports the definition of a methodology for carbon pricing in Brazil, invites companies to engage in this debate and informs the government and society of the IEC's willingness to contribute to this agenda.

The document points out that at a time of crisis carbon pricing can help boost economic growth. At the same time it also represents an efficient and effective alternative to reduce emissions of greenhouse gases (GHGs), in the context of coping with increasing global temperatures post-Paris Agreement.

The IEC is formed of CEBDS, Carbon Disclosure Project (CDP), Envolv-erde, GVCes, Instituto Ethos and of the UN Global Compact Network Brazil.





CLIMATE RISK

In 2016, the Sustainability and Risk Management teams defined a framework for risks related to climate change. Throughout 2017 this structure will be incorporated into indicators that consider operational, financial and reputational risks.

PERFORMANCE OF GREENHOUSE GAS EMISSIONS MANAGEMENT

To monitor its performance with regards to greenhouse gas (GHG) emissions, CPFL Energia has carried out a GHG inventory every year since 2007, the same year in which it started its carbon credits projects.

Considering the operational control approach to calculating emissions, the Group emitted 615,865 tons of carbon dioxide equivalent (tCO₂e), while with the equity share approach total emissions reached 914,748 tCO₂e.

More than 99% of the CPFL Group's GHG emissions inventory is concentrated in its generation and distribution activities. About 80% of the impact from power generation is related to the use of fuel oil in the generators. Meanwhile, about 80% of emissions from power distribution are associated with technical losses. These emissions are indirect, since they originate from inputs of fossil fuel-based generation components to the National Interconnected System. The activities classified as corporate emissions are common to all divisions of the business.

The Sankey diagram shows the proportions of GHG emissions in tons of CO₂ equivalents, according to the size of the bars. In addition, this type of display relates the different classifications of scope and category of the GHG Protocol, units and precursor of emission sources.

TOTAL EMISSIONS AND BY SCOPE (CO₂e, THOUSAND) G4-EN15 G4-EN16 G4-EN17

	2015	2016
Scope 1	116	200*
Scope 2	490	318**
Scope 3	17	4
Total	624	522***

* considering direct emissions of RGE Sul: 231

** considering indirect emissions of RGE Sul: 381

*** considering emissions of RGE Sul: 616

REVERSE LOGISTICS MANAGEMENT G4-EN27

WASTE MANAGEMENT G4-EN27

The waste management program identifies and classifies the main waste materials generated by the different processes of transmission and distribution of energy. For each of the different waste materials identified - especially for hazardous waste (class I) - the CPFL Energia Group has established storage and transportation standards and determined appropriate forms of disposal, taking into account the current legislation. G4-EN23

Since 2006, CPFL has carried out management and monitoring of all equipment identified as contaminated with Ascarel (PCB), contained in a disposal plan duly submitted to environmental agencies to meet the applicable legal requirements. The Company is progressively replacing and disposing of such waste in an environmentally appropriate manner. In 2016, 393 tons were disposed of. CPFL is committed to disposing of 100% of its PCB liabilities by 2020 and annually disposing of at least 80% of other Class 1 waste generated during operation and maintenance of its assets.

HAZARDOUS WASTE (CLASS I) – PCBs

TYPE OF WASTE	DISPOSED OF (T)	
	2015	2016
PCBs	193.3	393

CLASS 1 WASTE GENERATED

TYPE OF WASTE	DISPOSED OF (T)	
	2015	2016
Contaminated gravel	3.78	16.347
Batteries	3.40	1.313
Other contaminated material	41.37	69.003
Oily emulsion	14.35	11.672
Contaminated PPIs	0.91	4.928
Insulating oil	8.91	2.511
Total	72.72	105.77

Reverse Supply Chain

In the process of replacing equipment used in the electrical systems that it administers, the CPFL Energia Group has adopted a methodology to avoid environmental risks while promoting value creation, in line with its business strategy. CPFL Serviços has facilities in São José do Rio Pardo from where it provides services of maintenance, refurbishment, logistics and transport of electrical equipment throughout Brazil. It has more than 700 of its own highly trained and specialized technicians and engineers with market experience and who receive constant training to develop the best solutions for companies. It operates from eight operational centers, strategically located and with cutting-edge equipment and modern operational processes.

CPFL has already implemented an internal reverse supply chain program for materials selected for reverse

logistics, through which used materials removed from the network, such as metals, cables, insulators and bulbs are reused, recycled or sent for treatment.

The scrap resulting from dismantling operations, such as steel, copper and other materials, is sold to the market. Equipment that is reusable is reintroduced into CPFL systems or auctioned off to other companies. The difference with this management model implemented by the Group is the monitoring of the entire process, with the maximum utilization of materials, identification and proper disposal of biodegradable and non-biodegradable substances and verification of the licenses of scrap dealers for the purchase of scrap metal, among other measures.

BIODIVERSITY MANAGEMENT

G4-EN12

G4-EN13

G4-EU13

GENERATION PROJECTS

G4-EN27

The generation projects in which the CPFL Energia Group has interests include investments in socio-environmental programs and actions aimed at conserving the vegetation surrounding reservoirs and regenerating and preserving biodiversity in protected areas close to the plants, as well as conducting studies and systematic monitoring of native fauna and flora. The Company also encourages the development of initiatives aimed at raising awareness in the local community of the importance of proper use of natural resources and environmental protection.

In the case of conventional generation - hydro and thermal - the Group has no new projects, with all plants currently in the operating phase. As a result there was no significant new environmental impact.

The main activities related to the topic in conventional generation plants include various types of monitoring, including monitoring of permanent preservation areas (APPs), fish populations (ictiofauna), surface water and erosion, among other activities including maintenance of tree plantings and service strips. The implementation of hydroelectric projects can require the formation of reservoirs. In the areas belonging to hydroelectric plants in which CPFL has an interest there are a total of 121.9 square kilometers of permanent preservation areas, representing 41% of the total land area and 76% of the total flooded area.

G4-EN11

SOCIO-ENVIRONMENTAL PROGRAMS AT THE POWER PLANTS

G4-EN13

G4-EU13

HPP Foz do Chapecó

During the 2015/2016 reproductive cycle 547,850 curimatá fingerlings were released, with the aim of restocking the Uruguai River. The fingerlings were reared at the Águas de Chapecó Fish Farming Station, through an agreement between the company and Instituto Goio-En. The "Biofábrica" plant nursery increased its capacity from 30,000 to 70,000 seedlings, allowing it to increase the distribution of seedlings of a high genetic quality to farmers benefitting from the project, which aims to generate income and improve the quality of life of the populations affected by the construction of the power plant.

HPP Campos Novos (Enercan)

In 2016, ENERCAN supported various actions for the cultural, environmental and economic development of the region, sup-

porting 55 projects in the region of the Campos Novos Hydroelectric Power Plant, and investing more than R\$ 2.8 million from funds allocated for incentive laws and corporate funds. The Conservation Program for Permanent Preservation Areas (APP) continued for the 5th consecutive year with the residents bordering the HPP Campos Novos reservoir, with awards for the top five initiatives. The positive results of the Program earned the company the Fritz Müller Award 2016, considered the most important environmental award in the state of Santa Catarina. In partnership with Epagri, Senar and local Agriculture Departments, the company supported fruit and fish farming projects with the aim of contributing to the development of the local economy and providing alternative income for farmers in the region. In addition to financial support from Enercan, participants receive free courses in cooperativism, associativism, farm management, entrepreneurship, and specific skills such as production and management techniques.

HPP Barra Grande (BAESA)

In 2016, the Socio-environmental Responsibility Program supported several projects in municipalities within the area of influence of HPP Barra Grande. The initiatives target income generation, the environment, culture, sport, public security and social development, and receive investment of resources from the company, shareholders and local partners. The 5th edition of the Incentive Program for the Conservation of the Permanent Preservation Area of the reservoir was implemented, recognizing the actions of local residents in the preservation of vegetation. Ten residents received awards at a ceremony held during BAESA's 8th Sustainability Week, an event that annually highlights environmental projects developed in the municipalities of the area covered by the HPP Barra Grande. BAESA, in partnership with the Pinhal da Serra Municipal Government and IPHAN, inaugurated the Pinhal da Serra Archaeological Park, located on the São Jorge Line. The park gathers archaeological artifacts collected before, during and after the implementation of HPP Barra Grande, revealing some of the history of the ancient inhabitants of the region, who have occupied the site for around 700 years. Transparency and correctness in the declaration of greenhouse gas (GHG) emissions earned BAESA the Gold Seal of the GHG Protocol. The Gold Seal is the highest recognition awarded by the Program and attests to the transparency of information in BAESA's 2015 Inventory.

Hydropower Plant 14 de Julho - RS

Sustainable Durability

Up until 2010, 100% of the crosspieces used in CPFL's primary distribution networks were made from native wood and their useful lifetime was approximately 10 years. From 2011 onwards, CPFL began introducing pilot batches of crosspieces manufactured from other materials, including lightweight concrete, polymers and fiberglass. The new crosspieces do not use forest materials in their composition and have an expected useful lifetime of at least 20 years. This initiative has led to a gradual reduction in the use of wooden crosspieces between 2011 and 2016, with only 0.1% of wooden crosspieces acquired in 2015, alongside 48% of lightweight concrete and 48% polymer.

New contracts no longer contemplate acquisition of wooden crosspieces, only lightweight concrete and polymers. By 2019, CPFL's purchasing planning considers zero participation of wooden crosspieces in the purchase mix. This initiative has the potential of saving CPFL R\$ 66 million by 2032*.

* Analysis considers the end of the useful lifetime of the first polymer crosspieces installed and the cash flow method discounted.



TRANSMISSION LINES AND DISTRIBUTION

G4-EN12 G4-EN27

One of the concerns of the environmental management of the CPFL Group concerns the impact of its power lines on the rural environment. As a result, procedures have been defined to develop projects that guide the choice of routes for construction of new power networks. Priority is given to avoiding forest fragments and isolated trees so as to avoid the need for removal of individual trees. In some specific locations of high ecological interest and where it is not possible to change the layout of the networks the practice of raising the height of structures and poles has been established. As a result of the measures adopted the need for removal of vegetation has been significantly reduced. In situations that do not permit the adoption of these measures and in cases where there is a need for vegetation management under the existing lines the suppression of vegetation is authorized by environmental agencies, with the condition of offsetting the impacts of this suppression through heterogeneous plantations proportional to the impact caused.

Advanced Stations are regularly assessed for environmental risks and legal requirements, es-

tablishing a ranking and a plan of action for improvements. For situations of environmental emergency the distributors have contracts with specialized companies, as well as environmental insurance. For smaller-scale occurrences, the Advanced Stations and vehicles with hydraulic equipment have environmental emergency kits for immediate use.

In 2016, the companies CPFL Paulista, CPFL Santa Cruz and RGE started the Arborização + Segura (Safer Tree Planting) Program, an initiative to revitalize urban tree planting in partnership with municipalities in its concession area.

The urban tree planting projects of the Group's concessionaires not only consider the tree species most suitable for each site but also monitor the growth of the plants in partnership with local governments. In addition to the typical benefits of well-treed towns and cities experienced with this type of program another advantage is the decreased need for pruning, with reduced environmental impacts and contribution to the beautification of towns and cities.

Preserva Program G4-EN27

Preserva Program arose from the need to add greater robustness and efficiency to the mandatory reforestation process related to the expansion of CPFL's Electrical System and which had previously been conducted in small and dispersed areas. As a way to not only mitigate environmental impacts but also to reduce costs and give greater environmental significance to mandatory reforestation, CPFL approved a new methodology with CETESB (environmental protection agency for the State of São Paulo) to allow the unification of environmental recovery commitment agreements, directing planting schemes to sites of ecological interest defined in a mutual agreement with the environmental agency. It was concluded that the most interesting scenario would be to create "Seedling Banks" for planting larger areas. This new model promotes a significant reduction in costs for the Company: the reforestation of 100 hectares through the Preserva Program economizes about R\$ 1.79 million over eight years - considering the contractual values - or R\$ 223,748 per year compared to reforestation costs for the previous model. The CPFL Energia Group also obtained approval for its offer of offsetting through the registration of excess areas of legal reserve, with the same ecological characteristics and within the same watershed.

This compensation mechanism contributes to the maintenance of forest remnants and their biodiversity and preserves large amounts of carbon stored in mature forests with vegetation in medium and advanced stages of growth. Therefore, this mechanism enables efficient compliance with environmental laws and provides a financial contribution to rural landowners who already protect the natural vegetation, ensuring the preservation of forests, biodiversity and water resources, as well as acting as a tool for implementing public policies for the environment and sustainable development. Environmental pillar: increased ecological significance of larger areas of tree planting, greater diversity of species planted due to the size of the areas; generation of greater awareness of environmental improvement in society; increased resilience of areas of tree planting and minimization of the risk of irreversible biodiversity loss, etc. Social pillar: important role in chang-

ing the current scenario of national biodiversity through learning from critical analysis and appropriation of actions that can change the way companies mitigate their impacts. This leads to a transition to new business models so that society can enjoy the benefits provided by the management involved and replicate such initiatives in any other compensation/offsetting schemes.

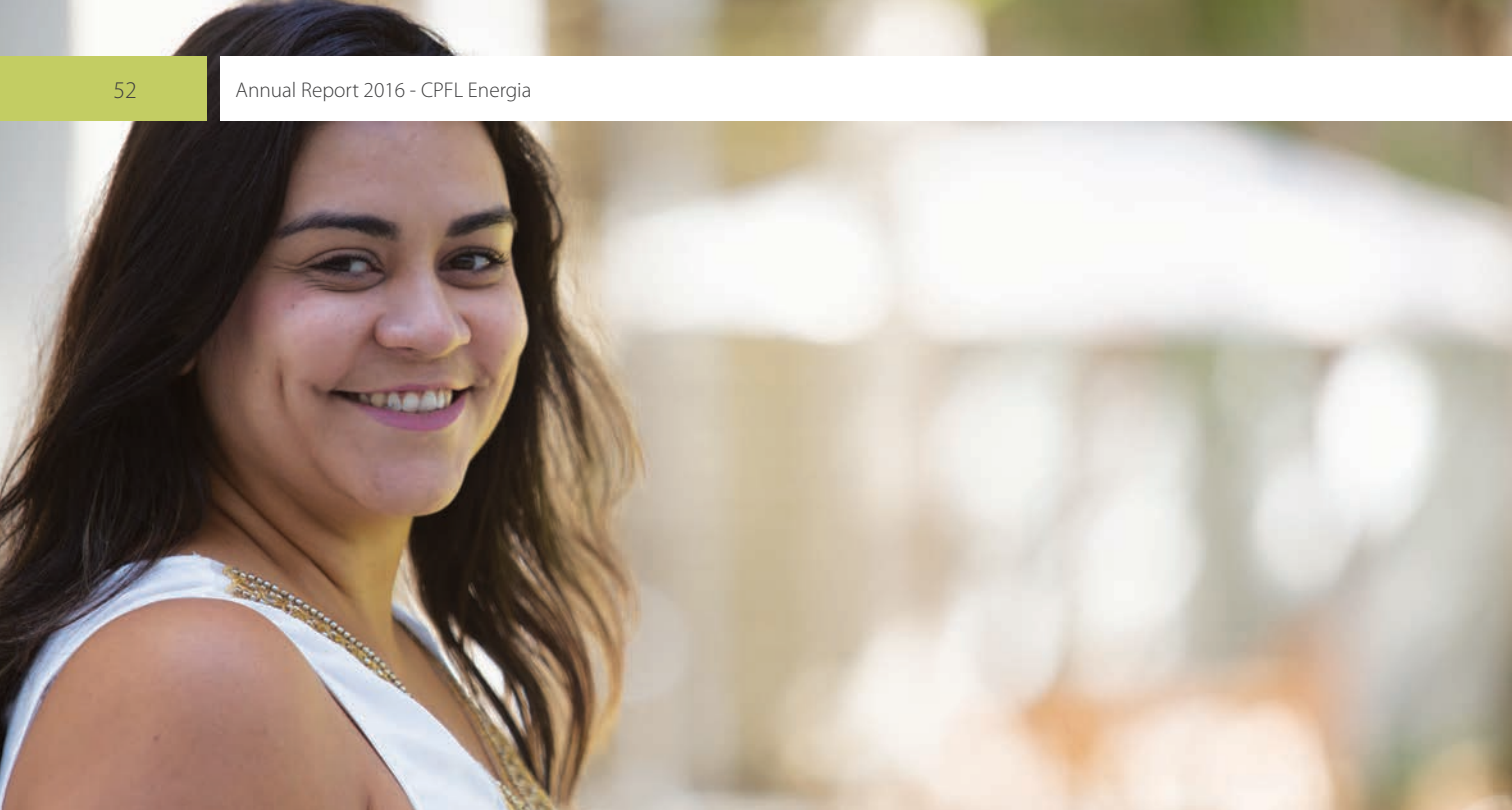
Furthermore, this method contributes directly to reducing the effects of climate change, permits the use of the areas by society and encourages research into the restoration of the country's most degraded biomes: the Cerrado (Savanna) and Mata Atlântica (Atlantic Forest). Financial pillar: contributes to the establishment and consolidation of larger areas, achieving economies of scale with suppliers and approximately 40% reduction in costs. Expandability: any company that is required to reforest an area can adopt the CPFL methodology. All actions can be replicated, requiring only an ideal, an alignment of the organizational strategy and the company's commitment. The good results obtained with the two seedlings banks have encouraged CPFL to expand the initiative, seeking to build new partnerships in other regions of São Paulo such as the Baixada Santista (Santos lowland area), where it contributes to the conservation of Atlantic rain forest.

In 2016 the CPFL Energia Group consolidated the new model of environmental offsetting through the registration of the surplus legal reserve (area exceeding the mandatory area) and the management of exotic species in conservation units. This methodology is necessary as a result of the large number of areas dominated by these species, which include Pine (Pinus), Eucalyptus and Braquiaria grass species, within the limits of the conservation units. These areas prevent the spread and growth of native species, hindering the full performance of ecological functions and preservation of the biodiversity of flora and fauna. This offsetting project has been approved and included into the government of the State of São Paulo's Programa Nascentes "Headwaters Program", formerly known as the Programa Mata Ciliar "Riparian Forest Program". This program aims to increase the protection and conservation of water resources, as well as biodiversity.

11

HUMAN CAPITAL





TALENT MANAGEMENT

GROWTH FOR ALL

Attentive to providing opportunities for the professional growth of all of its employees, the CPFL Group provides its employees with a structured program that encourages each individual to be the protagonist of their own development.

In its Career Management Program, CPFL has laid out a catalogue of requirements and qualifications so that employees know the skills required to occupy different positions in the company. The Career Portal provides access to this catalogue, as well as an overview of all the processes in the company and descriptions of the activities and responsibilities of each position, allowing for comparison of the individual's professional profile with any existing positions at CPFL and permitting them to express their interest in a desired career. All expressions of interest are stored in a database, which feeds the internal recruitment process for the positions available. All leaders of the organization are trained and qualified to guide the career development of their teams.

CPFL also developed a **Career Primer** that communicates concepts, tools and success stories from the company. The company also operates a **Talent Management Program**, which internally identifies professionals with potential and aspirations for leadership positions. The program promotes accelerated development activities for the employee to be better prepared when an opportunity arises.

In 2016, the first group of the Talent Program (2014-2016) was concluded, in which 19 talents were selected. During the program there was a 79% retention rate, 58% career advancement and 42% of talent was promoted to leadership positions. The sec-

ond group of the Talent Management Program is underway, with 18 professionals participating in accelerated development activities, such as Leadership Workshops and projects arising from the Vision 2030 Program, which looks to build the necessary actions for a long-term vision for the energy sector. **G4-LA9**

SUCCESSION FOR SUSTAINABILITY

Another important program for the development of talent at CPFL is the **Succession Plan**. Tied to the Calibration Committee and in operation for five years, it maps potential successors with the guarantee of fairness in the process and approval by the Board of Directors. This model of assessment and management of succession is focused on the sustainability of the CPFL Group's business, as well as providing career development opportunities for its talent pool. In 2016, four positions for executive officers were occupied by professionals mapped in the Succession Plan, as well as management positions. In this system, the **Calibration Committee** is responsible for collectively assessing the performance of managers and enables the optimization of human capital. The Committee holds a structured meeting annually, conducted by a mediator, in which it reflects upon and analyses professional potential and performance objectively and effectively. At the end of the process a realistic analysis is obtained regarding the current performance level and the future capacity observed amongst the professionals.

In 2016, CPFL held 8 Committee meetings for Managers and Executives, with a total of 180 assessed.

PERFORMANCE MANAGEMENT **G4-LA11**

A PERFECT MATCH BETWEEN THE PROFILE OF THE EMPLOYEE AND THEIR OCCUPATION

The Group adopts an assessment system to analyze the overall performance of its employees at different hierarchical levels. This process covers 100% of eligible professionals and includes stages of evaluation of skills and targets, feedback, Individual Development Plans and development of targets for the next cycle. Called Personal Value, the system allows the creation of Individual Development Plans (IDPs) in which personal goals are established and areas for improvement are identified to be overcome with training sessions and other forms of learning. In addition, the Group has a technical and behavioral assessment system aimed at identifying the match-up between of the employee's profile and the technical and behavioral requirements for the position occupied. This assessment is performed by the immediate superior and feeds the professional profile in the Career Portal, helping to identify gaps for development and also to guide the development of the employee's IDP. In the participating companies, 100% of employees were assessed through the Personal Value program. The companies CPFL Serviços and Instituto CPFL are in the implementation phase of this process. EPASA, which represents just over 1% of the workforce of the CPFL Energia Group, does not participate in the assessments of the Personal Value program.

planning, through which employees are invited or summoned to participate in initiatives to develop their positions and careers. The focus is on employees, but it may also extend to the entire value chain. In addition, the university directs its activities in line with the Company's business activities through its schools of Leadership, Specializations and Customer and the Market, as well as supporting all other areas with common and supporting processes through Training Support and Corporate Qualification. **G4-EU14**

In 2016, the focus of the Corporate University was on strengthening the technical skills of the Group's employees. Actions tailored to the needs of executives included Qualifications for Members of the Board of Directors and MBAs at reputable universities abroad, among others. For other employees, improvement opportunities are offered through the technical tracks denominated Regulatory Affairs and Energy Management. **G4-LA10**

For all employees - including those at the management level - the technical tracks in 2016 were focused on business skills: the Energy Management Track and the Regulatory Affairs Track. With an excellent turnout, this work facilitated the management and expansion of critical knowledge. The tracks relied on the work of internal educators who are specialists in these respective subjects, with the aim of ensuring the continuity of this knowledge within the organization. This is in line with the Knowledge Management Program and the development of professionals with regards to issues of critical importance to the organization's business. Training in the area of Integrity and Anti-Corruption Regulations was also offered to all groups, both in person or through distance learning, and Corporate Governance training was provided for the leadership, taught by internal experts. **G4-LA10**

DEVELOPMENT OF HUMAN CAPITAL

CORPORATE UNIVERSITY

Another important point for CPFL is the training of its employees. Therefore, the Corporate University conducts training in the classroom or through an online platform linked to strategic





Talent for Innovation

The areas of Human Resources and Innovation at CPFL Energia have developed a plan to stimulate the company's talents to find solutions as part of the actions that make up the 2030 Plan. The 47 activities foreseen in the 2030 Plan were distributed to the employees who were selected for the company's Annual Talent Program. The initiative challenges employees to propose innovative solutions, stimulating their creativity and professional commitment.

Every two months the program's members participate in a workshop and present their ideas and results to three of the Company directors. With this initiative, they gain visibility and have an opportunity to demonstrate their skills and the progress of the actions that they are proposing.

CPFL also continues to run the Usina de Ideias ("Ideas Plant"), an online platform where any employee can make suggestions for improvements to processes and innovations. In three years of existence, the Usina de Ideias has accumulated over a thousand proposals. Most refer to everyday processes at the company and their implementation results in financial benefits. But for the company, it is not so much the financial return, but rather the engagement of employees with the company's initiatives that really counts. Every year, the best ideas receive prizes.

PROFESSIONAL EXCELLENCE PROGRAM

As part of its move to modernize and to meet its strategic objectives, CPFL Energia created its Professional Excellence area in 2016. Supported by three pillars - processes, projects and quality (management) - the new area will become the principal disseminator of the Company's procedures, policies and guidelines through the standardization of processes in all areas of the company and at all sites of operation. Implementation will be intensified in 2017, with the inclusion of the units that have not yet been reached. With this objective in mind, the team of professionals implementing the program has been expanded from five to 20 specialists in processes and project management. With the implementation of the Professional Excellence program, CPFL Energia can disseminate and oversee the adoption of new management practices, processes and projects in the more than 700 municipalities in which it operates and with its more than 13,000 employees.

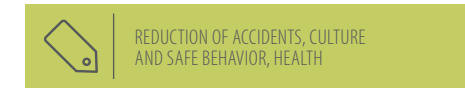
School for Electricians

To speed up the selection process for electricians and train professionals in the skills required to engage in the activity, CPFL has run a School for Electricians (Escola de Eletricistas) program since 2012. The project is run in partnership with recognized training centers and aims to train people from the communities in CPFL's concession area to work as network electricians. Through the initiative CPFL has been able to shorten the time required for the admission of electricians and reduced costs. The traditional hiring process takes 120 days, from the identification of the need through to the professional reaching the field. It takes 30 days for selection and hiring and another 90 days for the practical and theoretical training.

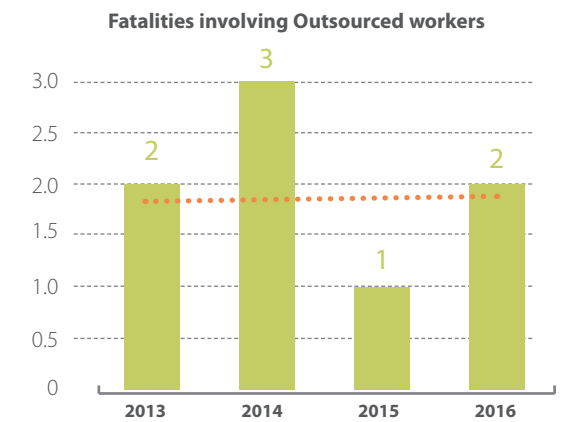
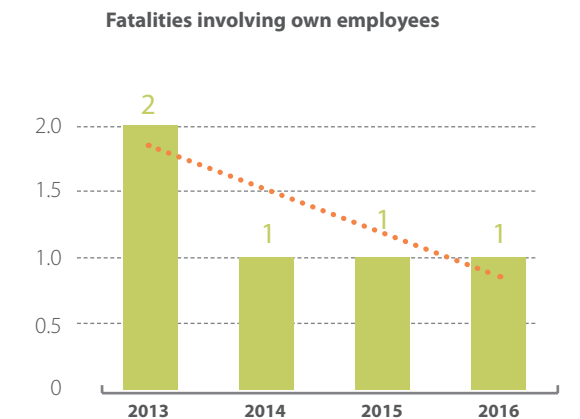
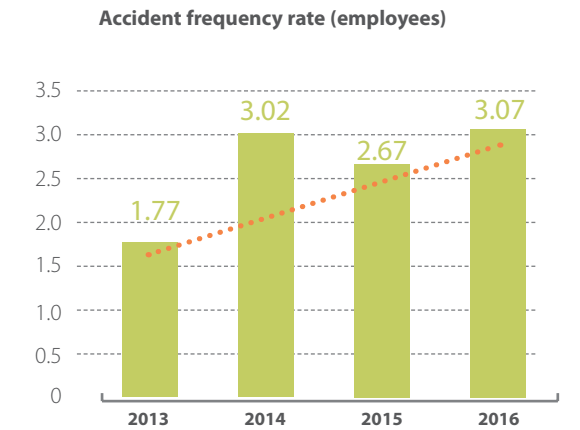
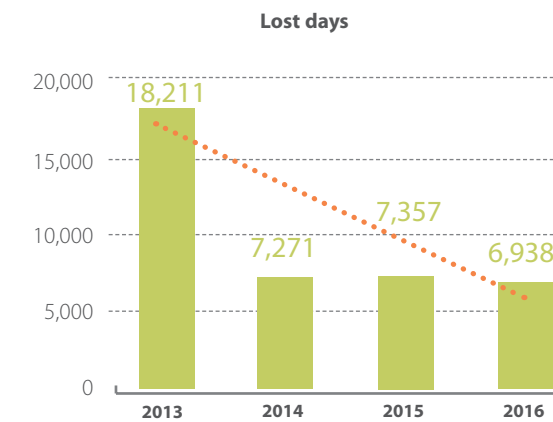
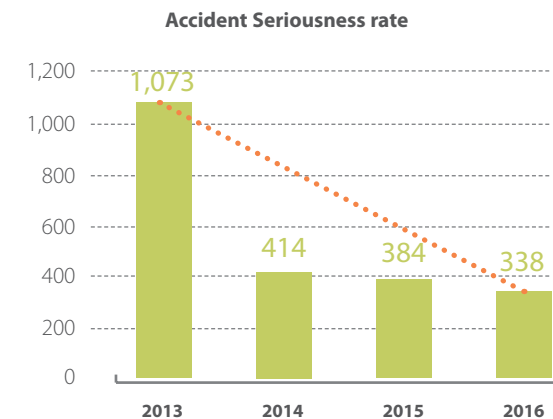
Through the School for Electricians, students are prepared before the vacancies open, eliminating the time used for the selection and training processes. As a result the time required to fill the vacancy now depends only on the admission and Service Center tests, reducing the time between the vacancy appearing and the electrician entering into the field to 20 days.

By the end of 2016 the School had trained 215 new electricians and 143 of these were hired. Of a total of 482 electricians hired by CPFL between 2012 and 2014, 17% were trained by the School. Considering the projected figure of providing 20% of the demand for electricians via the School for Electricians by 2020, this initiative provides potential annual savings of R\$ 850,000 in the hiring process, representing total savings of R\$ 3.6 million by 2020.

HEALTH AND SAFETY



Key performance indicators **G4-LA6**



CPFL Energia considers the health and safety of its workers to be a core value of the organization. Since 2013 the Company has run the *Primeiro as Pessoas* ("People First") program to facilitate actions to prevent accidents and promote health, working with various actions related to the Health, Safety and Quality of Life of employees, partners and customers.

In 2015, Phase 1 of the *Sinto Segurança* ("I Feel Safe") Behavioral Program was implemented. In addition to strengthening and spreading a Safety Culture throughout the organization, the program pursues excellence in the management process through concepts such as operational discipline, a sense of ownership of the area and visible and perceived leadership. This methodology, developed by DuPont, enables awareness-raising and encourages the commitment of different members of the institution in terms of the importance of their participation for the consolidation of this culture and the proper functioning of the integrated management system. The main phases of the program involved interviews with executives, workshops with senior leadership and managers and coaching for behavioral observers. Behavioral observation tools and a safe practices index (IPS) were also implemented. In addition, a survey of the cultural perception of safety was conducted and used as a base to establish targets, indices and measures of evolution for the organization in this area.

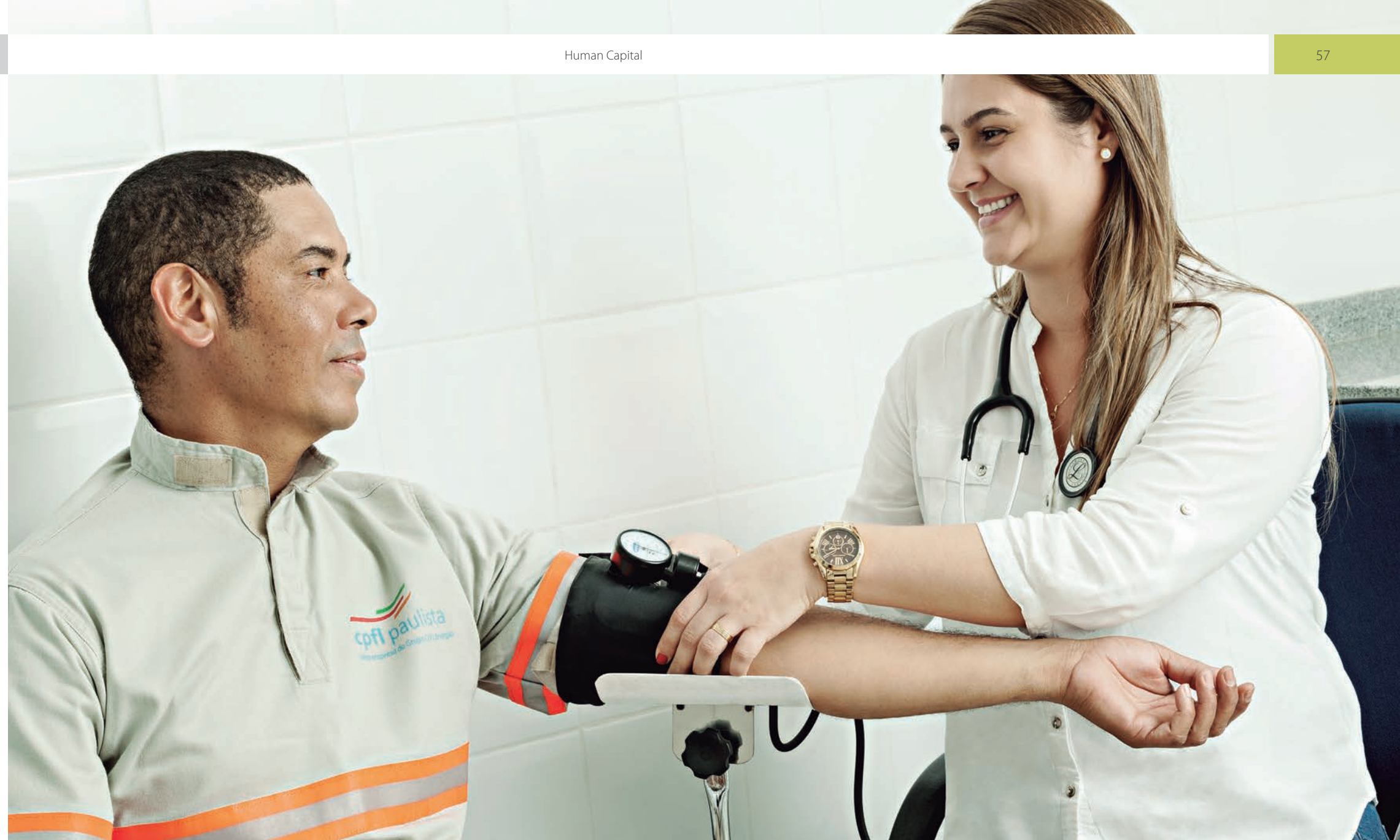
The *Sinto Segurança* Behavioral Program continued in 2016, with the aim of strengthening and disseminating a Safety Culture throughout the organization. The year also saw the Go-live of the *Primeiro as Pessoas* ("People First") System (SPAP). This is a robust platform providing monitoring, management and provision of information on Health and Safety for the entire CPFL Energia Group (Leadership and Employees), permitting improved traceability of information with additional features allowing the sending of information to the eSocial.

Safety audits are carried out in partner companies on a quarterly basis in order to develop a culture of prevention and corrective actions in necessary Health and Safety processes. **With regards to the Safety of the population, alongside various mass communication efforts CPFL has promoted the External Campaign for Prevention of Electrical Accidents (CEPAE) throughout 2016 through lectures, informative booklets and actions in schools, construction companies, sugarcane mills,**

etc. Through our Internal Accident Prevention Committees (CIPAs) and their members we took the message of preventive safety with the power grid to the population during events which were carried out on a voluntary basis by our employees.

The SIPAT Internal Week for Accident Prevention involved the participation and involvement of 83 CIPA's and the participation of employees to reflect on the theme "Your Family, Your Future, Your Safety" ("*Sua Família, Seu futuro, Sua Segurança*").

Another important program is the outstanding safety employee, which aims to recognize the employees who performed exceptionally in the safety assessment criteria during the year. The idea is to value safe behavior, with 876 employees performed outstandingly in the year 2016, of which 270 had



also performed outstandingly in 2015. To further value the employees that were outstanding for more than one year in a row, stars were added to the stickers that indicate this recognition.

G4-EU24

It is also important to note that since the launch of the *Primeiro as Pessoas* ("People First") program, the Executive Health and Safety Committee (CSS) has been formed, with the role of deliberating on and promoting strategic actions and operational directions to be introduced to the CPFL Group.

The CSS is officially composed of: **G4-LA5**

- Chief Regulated Operations Officer;
- Chief Market Operations Officer;

- CEO of CPFL Paulista and Piratininga;
- CEO of RGE;
- CEO of CPFL Santa Cruz and Jaguariúna;
- CEO of CPFL Serviços;
- CEO of CPFL Geração;
- Director of Strategic HR;
- Director of Distribution Operations;
- Director of Engineering;
- Director of Procurement and Infrastructure;
- Director of Corporate Communications and Institutional Relations;
- Safety, Health and Quality of Life Manager;
- Human Resources Development Manager.

12

SOCIAL AND RELATIONSHIPS CAPITAL





MANAGEMENT OF STAKEHOLDER RELATIONS

CPFL Energia's relationship with its stakeholders represents one of the most important pillars for generating value and a positive reputation for the Company. The Company adopts ethical procedures, policies of respect for human rights and good management practices in all of its interactions with employees, customers, suppliers, communities, representative bodies for the industry, regulatory bodies and government. The Company continuously refines its policies for third-party management, generating a positive impact among its suppliers and lower risk for the company. The Company invests in projects to improve the quality of life of the population and to promote the socio-environmental development of the communities located in its concession areas. In 2016 the company further facilitated access to the

Code of Ethics for employees by developing and implementing its Ethics Management and Development System. At the regulatory and governmental levels it contributes to the development of public policies that bring improvements to the energy sector. The company has a *Standard for Engagement with Stakeholders* in order to strengthen relationships and interactions based on trust and transparency. The company also developed a detailed relationship matrix for each of its stakeholder groups.

G4-26 **G4-27**

RELATIONSHIP WITH CUSTOMERS

CPFL Energia continually invests in improving its relationship with its customers. The Company has developed a new customer service system that will further

facilitate interaction with its nine million consumers. In addition to the applications, which can be accessed by tablets, computers and smartphones, CPFL also provides customer service by telephone and will launch a new website in 2017. Its objective is to meet the demands of its customers and anticipate their needs with even greater rapidity, comfort and safety. With investments in the training of its customer service staff and modernization of its tools the company seeks to provide its customers with a positive experience in every single contact. Furthermore, it updates its customer service channels by integrating new products and services as they become available in the market. All of the solutions that will be implemented in 2017 were developed based on a survey that considered all of the Company's customer profiles.

Changes to the IT Platform

CPFL Energia undertook a major overhaul of its Technology and Information Master Plan in 2016, resulting in actions that will help to determine the Company's future. The decisions made included the expansion of automation and wider adoption of the digital world. The schedule began in 2016, with the approval of the project and the choice of strategic partners. The implementation of the changes is scheduled for 2017 and will take place in stages. The plan is to begin with implementation in the human resources and commercial areas.

The changes will be implemented based upon the existing governance structure at CPFL Energia, with a pipeline of solutions being proposed for each Department. When it comes into operation the system will provide increased flexibility and reduce the exposure of process structures to risk, adapting them to the expected scenario for 2030.

The new IT platform that resulted from the changes to the Technology and Information Master Plan puts CPFL at the forefront of the energy sector. The Genesis Project, as developed for the commercial area, for example, is unique among Brazilian energy companies. To develop it, CPFL Energia looked to benchmarks in the international market, especially in European countries and the United States. With the information obtained from this research and based on its strategic plan the Company has developed its own solutions, appropriate to its business model and its customer profile.

SATISFACTION SURVEYS **G4-PR5**

CPFL conducts a series of customer satisfaction surveys, including the ABRADÉE survey of residential customers, a survey of large consumers and an image and branding survey, as well as participating in the satisfaction survey conducted by ANEEL. The ABRADÉE Survey of residential customers is the largest one and serves as a basis for comparison between companies in the sector, with the participation of the largest companies in the country.

Recognition for its work

CPFL Energia was one of the winners in the 2016 edition of the Abradee Award. The utilities companies CPFL Paulista, CPFL Piratininga and CPFL Leste Paulista, which operate in the state of São Paulo, won in two categories.

CPFL Paulista and CPFL Piratininga together serve more than 5.8 million consumers in 261 municipalities of São Paulo and won in the "operational management" category for utilities companies with more than 500,000 consumers. CPFL Leste Paulista, which supplies power to 57,000 customers in seven towns and cities in the state of São Paulo, won the award for "social responsibility" for distributors with less than 500,000 customers.

RGE Sul, a distributor that serves more than 1.3 million customers in the State of Rio Grande do Sul, won the "Largest Growth for Utility Company 2016/2015" category in the IASC Award (Aneel Consumer Satisfaction Index) 2016. The IASC Award is granted by the National Electricity Regulatory Agency (ANEEL), where the awards ceremony took in Brasília (DF), attended by authorities and agents of the power sector.

ENERGY EFFICIENCY PROGRAM

In order to disseminate the use of smart energy consumption and energy efficiency, the CPFL Group annually develops its Energy Efficiency Program for its customers: residential, commercial and services, industrial, government and public agencies, hospitals and charities, rural, etc. CPFL Energia implements projects aimed at replacing obsolete equipment with more efficient models, promoting technological innovation. It also implements projects related to sustainability and cultural and educational changes to reduce waste and encourage safe and legal energy use.

In 2016, the Company invested more than R\$ 97.7 million in this area, with R\$ 54.0 million for projects aimed at low-income consumers. This resulted in the regularization of 3,057 customers, the exchange of 5,746 refrigerators and 188,135 light bulbs for more efficient models (LED in the case of light bulbs) and the installation of 5,275 solar water heaters, 3,500 heat exchangers and 6,438 E-Power electronic controllers to reduce energy consumption by electric showers. The Company also ran the educational projects CPFL *nas Escolas*

("CPFL in Schools") and the Educational Program for Energy Efficiency in Industry. These programs benefited 32 municipal and state schools, with 14,032 students and 2,392 teachers in 32 municipalities received training, with investment of over R\$ 4.9 million. 39 public buildings, 19 schools, 34 hospitals and 17 philanthropic institutes also received energy efficiency makeovers, with investment of over R\$ 5.7 million. The *bônus residencial* project resulted in the replacement of 7,053 refrigerators and 43,617 light bulbs, with investment of over R\$ 12.8 million. More than R\$ 78,900 was invested by CPFL in four municipal energy management projects; more than R\$ 3.6 million in three commercial projects; and R\$ 4.2 million in three industrial projects. Public lighting projects were responsible for replacing 1,618 light fixtures, at a total investment of over R\$ 2.0 million. Of the grand total invested (R\$ 97.7 million), R\$ 87.3 million was invested in customers and R\$ 10.4 million was provided in accordance with Law 13,280/2016, to be passed on to PROCEL in due course. **G4-EN7** **G4-EC8**

Social Inclusion: Efficient Communities Program

CPFL Energia developed the *Comunidades Eficientes* ("Efficient Communities") Program. With the objective of promoting smart energy consumption and replacing obsolete domestic equipment with efficient new models. It involves a set of projects for residential customers with low purchasing power.

One of the projects implemented involves eliminating illegal hook-ups, which generates new customers and promotes citizenship amongst the beneficiaries. The selection of the beneficiaries occurs through a diagnostic/prospecting process and to receive the benefits consumers must possess an NIS document (Social Identification Number), be registered for the Social Electricity Tariff and have their bill payments up to date. The program also includes the replacement of obsolete light bulbs with efficient LED models, replacement of old

refrigerators with new, efficient models and replacement of electric showers with more efficient technologies and the installation of solar heaters. Public awareness actions are also carried out to promote the smart, safe and lawful use of energy through talks, courses and educational activities. With the adoption of these measures the rates of return to irregularity are low and the company's presence in poor communities creates a special relationship with gains for all parties involved. Engagement is undertaken in a structured manner by community agents, who act as a go-between for the community and CPFL Energia. They are trained and equipped with uniforms and tablets and able to negotiate the correction of illegal connections and outstanding debts, together with the company. This occurs alongside the principal objective of teaching everyone how to use energy correctly and safely.

Tauron G4-EU6

The overarching objective of the Tauron program is to increase the productivity of the company and improve the quality of services provided through the insertion of technology into its processes. The program comprises three major Smart Grid projects: Operation and Mobility, Telemetry of Group A and Automation of Distribution Networks.

The **Operation and Mobility** project has implemented a management system for power outages and the intelligent management of the workforce. The field teams have begun to use smartphones and cars with wireless devices. Work orders were previously sent by voice via radio but through the project have begun to be sent via data messages. The project has improved logistics for field teams by using geo-referenced maps, speeding up the restoral of electricity and reducing travel time by optimizing routes, as well as allowing online progress updates during field work. These changes have been made for 100% of the teams that respond to emergency and commercial orders for the eight distributors of the CPFL Group.

The **Telemetry** project replaced conventional electronic meters with smart meters for Group A customers, which are those served by medium and high voltage supply. Consumption information is automatically collected via CPFL's own telecommunications network, thus eliminating the need for teams to travel to the location to take a reading. This project, in addition to allowing remote readings, also permits the analysis of the load curve, fraud detection, measurement malfunctions and power supply interruptions in real time. The project ended with the installation of 26,783 smart meters.

The **Automation of Distribution Networks** project enables the remote control from distance of the medium voltage reclosers installed across the entire distribution network of the CPFL Group, thereby increasing the supervision and visibility of the network and allowing field teams to act to re-establish supply with greater assertiveness, reducing the time required to normalize the situation. In 2017 we expect to begin the implementation of the Automation of Distribution project in our seven distribution companies located in the state of São Paulo. The goal is to reach 100% of reclosers in the distribution network with the RF Mesh network (radio frequency network) and improve the availability and reliability of communications to reduce the Equivalent Outage Duration index.

RELATIONS WITH LOCAL COMMUNITIES

CPFL Energia's Sustainability and Social Investment guidelines are intended to ensure the perpetuity of the business and create and share value with all of its stakeholders. The guidelines are based on the material topics identified and prioritized by the company and its stakeholders. All programs and activities to promote the development of the communities where CPFL operates are designed to strengthen public policy and promote social leadership, as defined in its Private Social Investment Policy, available [online](#). The social investment activities are divided into five areas: Culture, Sport, Education, Public Management and Community Development. All of CPFL Energia's operations for which the issue of communities is significant have implemented programs with the communities and follow the guidelines established in the Social Investment Policy. G4-SO1

Revitalization Program for Philanthropic Hospitals

Running since 2005, this program helps to raise the administrative performance of philanthropic hospitals and improve the services provided to the community. In 2016, the program benefitted 20 hospitals in the regions of Barretos and Marília. Investment totalled R\$ 870,000. G4-EC8

Support for Municipal Councils for the Rights of Children and Adolescents

– CMDCA (1% Income Tax – I.R.) In 2016 the Group companies earmarked R\$ 1,483,660.00 for the Municipal Fund for Children and Adolescents in 12 municipalities in the concession area. The transfer will support situational diagnoses and action plans developed in 2015/16. G4-SO1 G4-EC8

Support for Municipal Councils for the Rights of the Elderly

– IDMC (1% Income Tax – I.R.) In 2016 the Group companies earmarked R\$ 1,030,600.00 for the Municipal Fund for the Elderly in three municipalities, to support the pilot project "City for All Ages" (*Cidade para Todas as Idades*). G4-SO1

G4-SO1 G4-EC8

Geekie Project - aims to reduce the gaps in student learning and provide training for teachers and regional managers through the implementation of an online platform for adaptive learning. In 2016, the project reached 5,900 students from 15 public schools in Botucatu-SP. Investment was R\$ 586,000, financed with funds from the Brazilian Development Bank's (BNDES) Social Sub-credit scheme.

Tamboiro Project - aims to implement new educational methodologies through the use of an adaptive learning platform

based on games. In 2016, the project reached 7,600 students from nine public schools in Sumaré-SP. The investment was R\$ 811,000, financed with funds from BNDES Social Sub-credit.

ToLife Project - Implementation of a system for classification of clinical risk and organization of patient flow in Emergency Care Units of public hospitals and/or hospitals that accept patients from the Public National Health System (SUS). In 2016, the project assisted six health units in the city of Campi-

nas. Investment was R\$ 980,000, financed with funds from BNDES Social Sub-credit.

Community Libraries (*Bibliotecas Comunitárias*) Project - aims to democratize access to reading materials and contribute to the effectiveness of Law 12,244/10, which states that by 2020 all of the country's educational institutions must have a library. Implementation began in 2016 for three libraries in the cities of Marília, Bebedouro and Campinas-SP. Investment was R\$ 140,000, financed with funds from BNDES Social Sub-credit.



SEMEAR PROGRAM

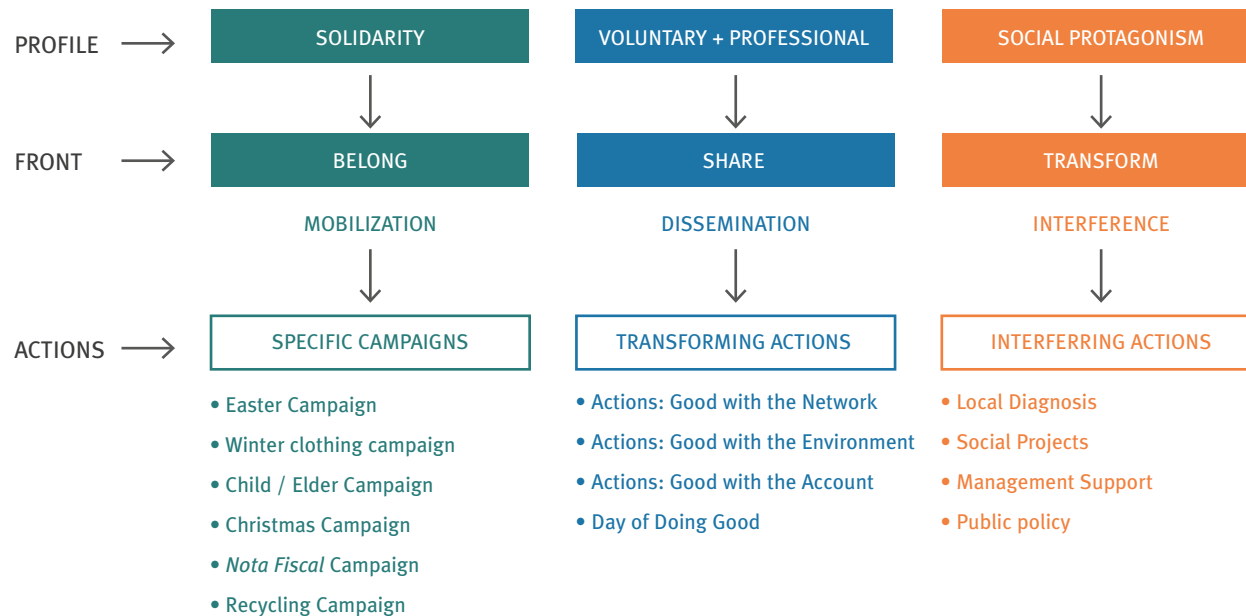
This program was structured to facilitate the voluntary activities of employees, align their actions and promote the development of all of the stakeholders involved, both internally and externally. Its main objective is to publicize the culture of volunteering; creating a participatory movement that engages employees and partners in social actions that change the reality of the communities where the company operates.

The main strategic bases are: mobilization, training, interaction and management. These all contribute so that the whole process of planning, organizing and implementation of voluntary actions by the CPFL Energia Group achieves the desired result: sharing of value.

The Semear Program has a new approach, Pro Bono volunteering.

The term derives from the Latin "for the good" and is a form of volunteering in which a professional service is provided free of charge for a non-profit organization (NGO).

Volunteers transfer their knowledge to organizations, working together with them to build new models, business plans, strategies and products. The result are solutions that strengthen the management of NGOs in areas such as human resources, accounting, law, finance, communications, information technology and others. To promote and realize Pro Bono volunteering, the Semear Program works in partnership with Phomenta, a non-profit organization founded in May 2015 and made up of people who want to impact the not-for-profit sector in the interior of São Paulo.



In 2016, 45 actions were carried out involving about 1,700 volunteer participations. The actions carried out in seven cities in the concession area benefited approximately 5,400 people directly and about 20,000 indirectly. The program has had some important milestones such as the Pro Bono volunteer pilot module in an institution in the city of Campinas.

G4-S01



INSTITUTO CPFL **G4-S01**

MORE ATTENTION TO THE COMMUNITY

Instituto CPFL was created in 2015, following the contemporary trend to create autonomous structures to aggregate and perpetuate the social responsibility of organizations. The Institute has centralized CPFL Energia's culture, sport and quality of life programs, including Café Filosófico CPFL, Cine CPFL and the Contemporary Music program.

From 2016, CPFL Institute has further expanded the promotion of activities targeting the community by bringing the *Circuito Energia* (Energy Circuit) to the interior of São Paulo State.

The Social Management Center was also cre-

ated in 2016 and will support the transfer of the management of the Group's social projects to Instituto CPFL, which until now only ran projects in the areas of culture and sport. The first phase of this transition will occur in 2017, when the volunteer programs and programs of support for children, adolescents and the elderly, among others, will be run by the Institute. The change will permit the Institute to grow and will optimize the allocation of the company's human, financial and infrastructure resources to these projects. More information: www.institutocpfl.org.br (portuguese only)

SUPPLIER MANAGEMENT

The relationship with suppliers is seen as providing an important channel for the Company to promote improved business management and technical and operational development in its supply chain. During the year 2016, the challenge was to ensure the continuity of delivery and the quality of goods and services purchased, despite the economic context and its impact on many of these suppliers.

CPFL Energia has developed a special project called Rede de Valor (Value Network) to prevent disruption to the day-to-day running of the company as a result of interruptions in the supply of material and services. The project has supported its 100 largest trading partners in the implementation of best practices

and the search for joint solutions, as well developing new partners in national and international markets.

In 2016, the Supply Base Management (SBM) of CPFL's strategic suppliers has been enhanced with new risk management practices through the application of a routine that includes a complete analysis of the monthly performance of suppliers, their financial health and their compliance with tax obligations. This methodology is currently applied to the 100 strategic suppliers that represent the largest portion of annual supply costs from among the 4,592 suppliers registered for centralized purchasing.

Alongside the evaluation of the quality and efficiency of delivery of goods and services, CPFL En-

ergia aims to encourage its supply chain to adopt social and environmental responsibility practices, including adhering to work safety standards and social responsibility initiatives, respect for environmental and labor laws and commitments to contribute to social development. **G4-EN33**

G4-LA15

The best practices and best performances displayed by companies are recognized by the **CPFL Mais Valor Award**. The Award was in its 8th year in 2016 and 15 companies were recognized across 15 categories of materials, services and sustainability.

In addition, a new area was created to manage the documentation of suppliers regarded as stra-

tegic. Through this area, the company began analyzing the monthly compliance of these suppliers with regards to labor laws, checking 27 types of documents related to the obligations of the companies with relation to their employees. In this context, CPFL began to monitor approximately 6,000 of the 7,500 suppliers that provide services to the CPFL Group.

Last year, CPFL did not identify any cases among its suppliers of threats to the rights of employees to freedom of association or collective bargaining. This finding is based on periodic assessment visits, during which social responsibility requirements are analyzed in relation to the regulations.



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INFRASTRUCTURE CAPITAL



GENERATION

CPFL Energia continued its expansion in the Generation segment in 2016, with a 4.2% increase in its installed capacity from 3,129 MW to 3,259 MW, considering its 51.61% share in CPFL Renováveis. This increase resulted from the expansion of CPFL Renováveis.

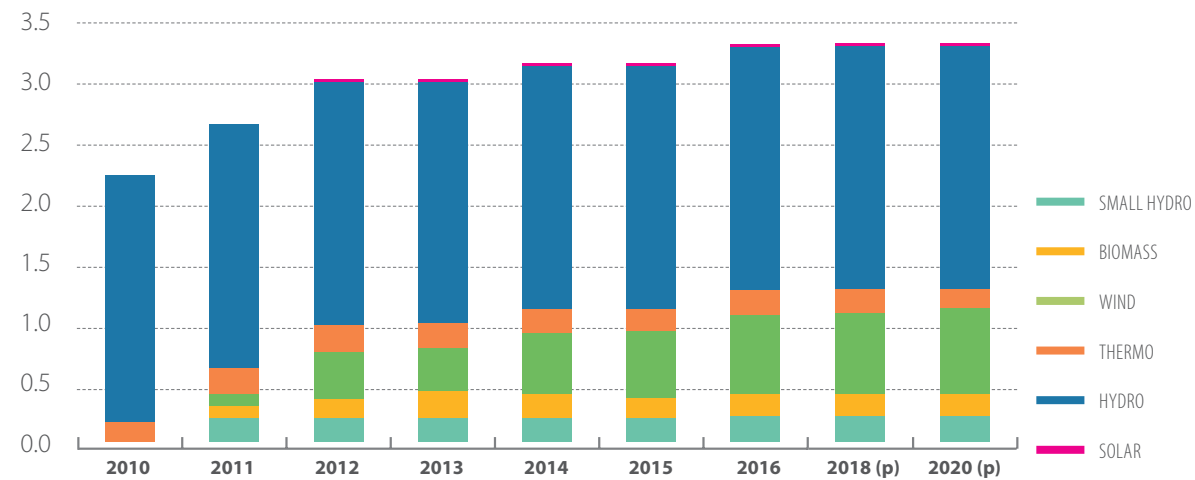
G4-EU1

On December 31, 2016, the portfolio of CPFL Renováveis totaled 2,054 MW of installed capacity in operation, comprising 39 SHPs (423 MW), 43 wind farms (1,260 MW), eight thermal biomass plants (370 MW) and one solar plant (1 MW). There are currently two wind farms (48.3 MW) and one SHP (26.5 MW) under

construction, with the following schedule for beginning operations: 48.3 MW in 2018 and 26.5 MW in 2020.

In May 2016, SHP Mata Velha in the municipality of Unaí/MG began operating with 24 MW of installed capacity. Work on the Campo dos Ventos (São Domingos, Ventos de São Martinho and Campo dos Ventos I, III and V) and São Benedito (Ventos de São Benedito, Ventos de Santo Dimas, Santa Mônica and Santa Úrsula) wind farm complexes in the state of Rio Grande do Norte ended in December 2016, with the start of commercial operations of all of its 110 wind turbines; the combined installed capacity is 231 MW.

INSTALLED CAPACITY /GW



DISTRIBUTION

On December 31, 2016, the distribution companies had 7.9 million customers, or 9.1 million considering RGE Sul. The distribution network consisted of 315,538 km of distribution lines (69,102 km of extra lines; 3,550 km excluding RGE Sul) including 450,247 distribution transformers (increase of 80,721 transformers; 13,847 new transformers excluding RGE Sul). The nine distribution subsidiaries had 12,181 high-voltage distribution lines of between 34.5 kV and 138 kV (increase of 2,196 km of lines; 138 km excluding RGE Sul). **G4-EU4**

On that date, CPFL had 531 high-voltage to medium-voltage transformer substations for subsequent distribution (increase of 71 substations; 9 substations excluding RGE Sul) with total processing capacity of 17,316 MVA (addition of 2,451 MVA; 448 MVA excluding RGE Sul). Investments were made in the expansion, maintenance, improvement, automation, modernization and strengthening of the electrical system to meet

the growth in the market, in operational infrastructure and in customer services, alongside other areas.

The Group continued its strategy of stimulating the dissemination and sharing of best management practices and operations within the distribution companies, in order to increase operational efficiency and improve the quality of services provided to customers. **G4-EU6**

The company is focusing considerable effort on reducing commercial losses from illegal connections, fraud or billing errors. Therefore, in each of the eight subsidiaries there are trained technical teams that conduct inspections, improved monitoring of irregular consumption and increasing replacement of obsolete measuring equipment. Software was also developed to discover and analyze irregular billing. A total of 341,899 inspections took place in 2016, which is believed to have led to an estimated recovery of receivables of more than R\$ 47 million.

Efficiency and responsiveness in customer service

Two projects that are part of the changes to CPFL's IT platform began operating in 2016, with completion of implementation due to occur in 2017. The first, called Transforming Customer Service has involved the revision and modernization of the Company's entire customer service system. The plan foresees an increase in the retention rate (automatic solution) of customer demands by the Interactive Voice Response (IVR) from the current 40% to 60%. This rate is above the international average of 55% retention. In addition, a new customer service website is due to be launched in 2017. These

measures will enable CPFL Energia to speed-up the service and increase its efficiency. The second initiative is called the **Efficiency in Combatting Non-Payment and Efficiency in Combatting Losses Project**. Its implementation will enable CPFL Energia to optimize the management and prevention of non-payment and losses as a result of fraud. The system feeds back the information available on the nine million Company customers and their behavior, helping decision making and the implementation of faster preventive actions to avoid damage to the company.

The following tables show the results achieved by the distributors for the main Brazilian indicators measuring quality and reliability of electricity supply. The Equivalent Duration of Outages (DEC – Portuguese acronym for *Duração Equivalente de Interrupções*) measures the average

duration (in hours) of interruptions per customer during the year and the Equivalent Frequency of Outages (FEC – Portuguese acronym for *Frequência Equivalente de Interrupções*) indicates the average number of interruptions per customer during the year.

DEC AND FEC INDICATORS 2016 (ANNUALIZED VALUES) **G4-EU28** **G4-EU29**

	CPFL PAULISTA	CPFL PIRATININGA	RGE	CPFL SANTA CRUZ	CPFL LESTE PAULISTA	CPFL JAGUARI	CPFL SUL PAULISTA	CPFL MOCOCA
DEC ¹	7.62	6.97	14.44	5.65	8.01	7.58	15.20	10.56
FEC ²	5.00	3.80	7.56	4.09	5.73	6.13	11.76	6.63

(1) measures the average duration in hours of outages per consumer in the year

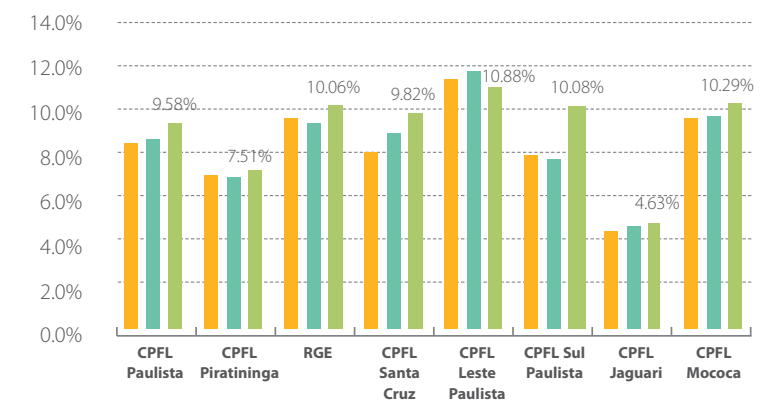
(2) average number of outages per customer in the year

BALANCE OF LOSSES **G4-EU12**

TYPE OF LOSSES	PERFORMANCE	
	%	GWH
Overall	9.15	5.618
Technical	6.28	3.857
Non-technical	2.87	1.760

GLOBAL LOSSES 2016
GLOBAL LOSSES 2015
GLOBAL LOSSES 2014

EVOLUTION OF OVERALL LOSSES **G4-EU12**



14

KNOWLEDGE AND SKILLS CAPITAL EU8



The Brazilian power sector began to consolidate certain trends in 2016 that have high potential to impact the established business models created in recent decades. Discussions on a more liberalized market have advanced. In addition, the consolidation of Distributed Energy Resource (DER) technologies, such as electric vehicles, distributed generation, energy efficiency and demand management (typically "beyond the meter") has opened up new business opportunities and new forms of relationships between companies and their customers. This new way of operating is based upon the search for sustainable energy and the greater involvement of customers in decisions about rational energy consumption.

CPFL Energia's approach to this scenario is to adopt a position of readiness to allocate its human and financial resources to capturing the potential new market opportunities that are appearing. The Company's strategy is to accelerate the development of new business models, products and services through the creation of startups and the study and development of innovative technologies through R&D resources.

In its work to create companies focused on innovative business models, CPFL has developed several new projects in the areas of generation, renewables, transmission and distribution. The highlights include: (i) CPFL GD, a company focused on the sale of distributed solar generation to large commercial and industrial customers (wholesale segment), which also began operating with residential customers and small traders (retail segment) in 2016; and (ii) CPFL Covar (Re-

tail Trader). These are examples of some of the actions adopted by CPFL Energia in pursuit of new routes to growth in a world of more distributed energy. The company has also adopted a process of special treatment for startups in 2016, enabling these projects to develop in accordance with their management needs and without having to follow the same administrative principles as the large and traditional businesses of the Group.

In its R&D program, CPFL has upgraded its trends radar and been involved in innovative projects that aim to prepare the sector and the company for the future.

TECHNOLOGICAL ROADMAP TO DEFINE PRIORITIES

CPFL Energia updated its technological roadmap in 2016. The mapping aims to define the priority projects in innovation, research and development for the next five years. The Company concluded that it should continue to develop fundamental pillars such as **Mobilidade Elétrica (Electric Mobility)**. With regards to this issue, the company has structured a project which aims to study the impacts, technical standards and models of business, with development expected to be finalized in 2018.

Another highlight is the **Solar Roofs** project. CPFL Energia met its target for 2016 with the installation of 200 solar roofs in a single region. One of the goals of the projects is to assess two of the areas in which the mass use of solar energy would affect the distribution company: financial and technical.



A BENCHMARK IN ELECTRIC MOBILITY

Through the electric vehicle project CPFL Energia seeks to position itself as a leader in the Brazilian market, both on the technological level and by providing support for the regulation of the sector in the form of studies of technological standards and norms. The company has 16 cars in operation and is evaluating their performance in a "real laboratory" in Campinas and the surrounding region. A minimal recharging infrastructure has been set up in the city with 16 charging points and partnerships have been formed with intensive car users (fleet owners) to introduce them to the electric car technology, enabling them to test the cars and give feedback to the company. This pilot project anchors a number of technical studies aimed at preparing the sector and the company for electric mobility. A range of scenarios for the penetration and use of electric cars are being formatted to support network planning, standardization and modernization of plugs. As there is no standard international recharge Brazil can make its own choices and CPFL is evaluating the technical and economic advantages and disadvantages of each model. Standardization is important to avoid increased infrastructure costs.

Agreement with the University of Cambridge

The remodeling of CPFL's innovation pipeline has included the participation of a group of students from the University of Cambridge. Through an agreement the students, guided by the Company, supported the rethinking of the themes and priorities of the company's innovation projects in view of the 2030 Plan. The idea of the partnership was to acquire information from which to re-evaluate market trends in order to guide any adjustments in the search for R&D projects. This initiative will help CPFL Energia to prepare itself in advance for the changes ahead.

INVESTMENTS IN R&D

One of the goals of the CPFL Group is to continuously pursue innovation in processes, products, services and business models, with the clear objective of maintaining competitiveness and excellence in its service to the market. CPFL Energia's continuous investment in Research and Development (R&D) has set a benchmark for innovative companies.

Brazilian regulations for the electricity sector require companies operating in power distribution, generation and transmission to invest 1% of their annual net operating income in research and development and energy efficiency programs. The distributors invest 0.5% of income in research and development (R&D) projects and 0.5% in energy efficiency programs. The Generation companies invest 1% of their income in R&D. With these resources it is possible to improve current technology and CPFL's expertise in the segments that are already consolidated and lead the development of technologies focused on new business models.

In 2016, CPFL's investments in Scientific and Technological Research and Development totaled nearly R\$ 20.2 million. It is the responsibility of the company's innovation area to establish a culture that stimulates the development of actions and projects of this nature. To achieve this, its work is divided into two fronts of action: management of innovation projects and financial and regulatory management.

Projects are now classified as "structural" or "operational excellence":

Structural: those long-term projects that prepare CPFL and the electricity sector for the future, including the Tanquinho Solar Power Plant, *Mobilidade Elétrica* (Electric Mobility) and *A Energia na Cidade do Futuro – Visão 2030* (Energy in the City of the Future - Vision 2030).

Operational Excellence: related to the day-to-day activities of the company, such as *Trafo Verde* (Green Transformer), Virtual Training and Mechanized Pruning.

One of the highlights is a CPFL initiative within ANEEL's Research and Development Program called the *Telhados Solares* (Solar Roofs) Project. The goal of the project is to construct a real-life laboratory for large-scale distributed solar photovoltaic generation in one region, in the district Of Barão Geraldo in Campinas. Real data will be gathered on the various applications and implications of the technology, allowing further study and deeper understanding of the impacts of this type of generation on the sector. The study began in 2014 and will receive approximately R\$ 14.8 million in investment by its conclusion in 2018. The studies developed incorporate a global and systemic vision of how the subject is approached in different parts of the world, which enables the identification of the specific challenges to be faced in Brazil. The entities responsible for the execution of the project are CPqD and Unicamp.

The topics studied include determination of the impacts caused by distributed photovoltaic generation on energy distribution networks; analysis of economic and financial feasibility from the perspectives of the distributor, society and the user; proposals for tariff models that mitigate the risks involved for the business and support the adoption of the technology; identification of technical requirements and safety conditions for the installation, operation and maintenance of photovoltaic generators distributed on roofs; identification of possible business models for the distributors and companies in the Brazilian Power Sector; and the generation of knowledge for review and adaptation of technical norms and standards. The project has installed 3,390 panels as part of 231 photovoltaic systems, representing an area equivalent to one football field. These panels have the potential to produce 850 KWp, enough to supply the consumption needs of all of the 231 customers in the year. The customers/partners have different consumption profiles, including homes, closed condominiums, small businesses and industries and non-profit institutions.

FUNDS INVESTED IN SCIENTIFIC AND TECHNOLOGICAL RESEARCH AND DEVELOPMENT (R\$)

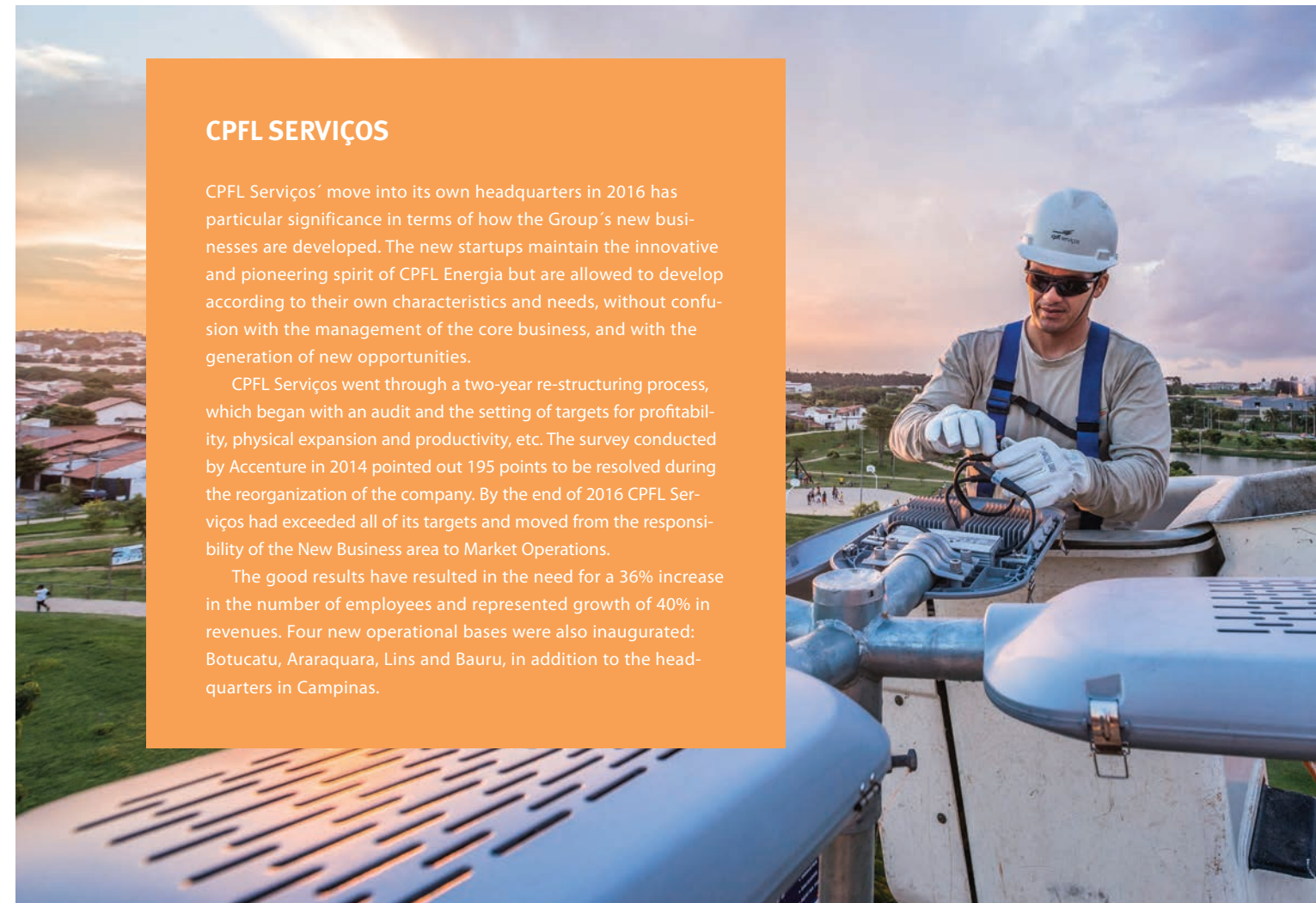
	2014	2015	2016
Alternative electricity generation sources	7,578,556	4,222,356	941,707
The Environment	401,442	777,064	0
Safety	877,466	2,223,876	2,660,476
Energy efficiency	117,703	0	115,745
Planning of Electrical Systems	4,535,237	8,016,378	7,917,816
Operation of Electrical System	5,350,879	2,764,191	3,362,660
Supervision, Control and Protection of Electrical Systems	2,564,430	2,896,023	1,926,321
Quality and Reliability of Electricity Services	1,034,803	1,449,377	104,723
Metering, billing and prevention of commercial losses	256,592	116,263	0
Others	7,691,700	2,678,915	1,660,122
Total	30,156,147	26,744,383	20,164,535

CPFL SERVIÇOS

CPFL Serviços' move into its own headquarters in 2016 has particular significance in terms of how the Group's new businesses are developed. The new startups maintain the innovative and pioneering spirit of CPFL Energia but are allowed to develop according to their own characteristics and needs, without confusion with the management of the core business, and with the generation of new opportunities.

CPFL Serviços went through a two-year re-structuring process, which began with an audit and the setting of targets for profitability, physical expansion and productivity, etc. The survey conducted by Accenture in 2014 pointed out 195 points to be resolved during the reorganization of the company. By the end of 2016 CPFL Serviços had exceeded all of its targets and moved from the responsibility of the New Business area to Market Operations.

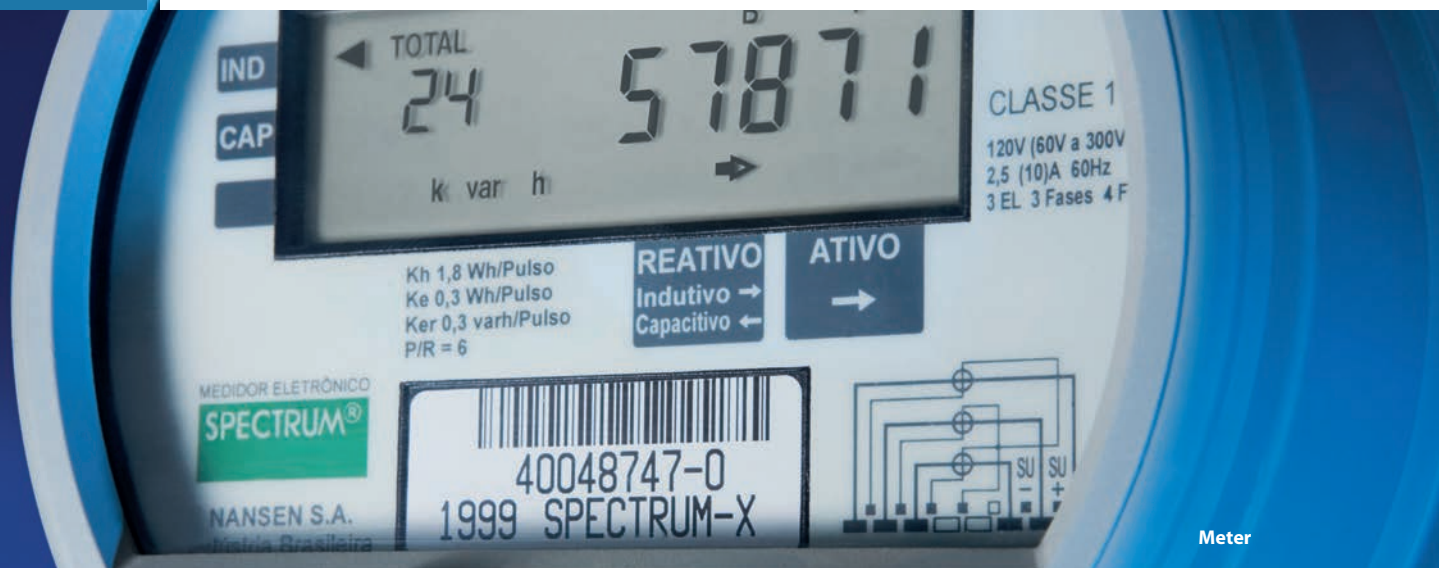
The good results have resulted in the need for a 36% increase in the number of employees and represented growth of 40% in revenues. Four new operational bases were also inaugurated: Botucatu, Araraquara, Lins and Bauru, in addition to the headquarters in Campinas.



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FINANCIAL CAPITAL G4-EC1





Meter

REVENUE

Gross operating revenue in 2016 was R\$ 30.785 billion, representing a fall of 10.3% (R\$ 3.518 billion), mainly due to: (i) the variation of R\$ 4.601 billion in sectorial financial assets and liabilities, from R\$ 2.507 billion in assets in 2015 to liabilities of R\$ 2.095 billion in 2016; (ii) a reduction of 52.7% (R\$ 207 million) from updating the financial assets of the concession; and (iii) a reduction of 1.0% (R\$ 37 million) in the generated electricity sold. This was partially offset by increases of 1.8% (R\$ 421 million) in the electricity distributed, 29.4% (R\$ 307 million) in revenue from construction of concession infrastructure and 19.1% (R\$ 600 million) in other operating revenue.

Deductions from operating revenues amounted to R\$ 11.672 billion, a decrease of 14.8% (R\$ 2.031 billion). Net operating revenue was R\$ 19.112 billion, representing a decrease of 7.2% (R\$ 1.487 billion).

COST OF ELECTRICITY

The cost of purchasing electricity amounted to R\$ 11.200 billion, down 15.9% (R\$ 2.112 billion). The factors that explain this variation are as follows:

- The cost of energy purchased for resale totaled R\$ 9.849 billion in 2016, 16.9% (R\$ 1,998 million) less than the previous year, as a result of the following factors: (i) reduction of 31.5% (R\$ 904 million) in the cost of energy from Itaipu; (ii) reduction of 9.3% (R\$ 852 million) in the cost of energy acquired in the regulated environment and through bilateral contracts; (iii) Reduction of 74.7% (R\$ 767 million) in the purchase of energy in the spot market/costs with PROINFA; Partially offset by: (iv) the impact of the inclusion of RGE Sul in our consolidation in November and December 2016, following completion of the acquisition of this company on October 31, 2016. The cost of energy

purchased for resale in relation to RGE Sul (it was not included in our consolidation in 2015) totaled R\$ 288 million for November and December 2016; (v) Reduction of 19.8% (R\$ 237 million) in PIS/Cofins tax credit (cost-reducing) generated from the purchase of energy.

- Charges for the use of the transmission and distribution system totaled R\$ 1.351 billion in 2016, 7.8% (R\$ 114 million) less than the previous year, as a result of the following factors: (i) reduction of 35.9% (R\$ 200 million) in the System Service charges - ESS; (ii) reduction of R\$ 44 million in charges for use of the basic network and the distribution system; Partially offset by: (iii) Increase of 95.3% (R\$ 52 million) in Reserve Energy Charges - EER; (iv) the impact of the inclusion of RGE Sul on the consolidated result in November and December 2016, following completion of the acquisition of this company on October 31, 2016.

OPERATING COSTS AND EXPENSES

Operating costs and expenses totaled R\$ 5.389 billion, compared to R\$ 4.642 billion in 2015. This represents an increase of 16.1% (R\$ 743 million) and is a result of the following factors:

- PMSO costs totaled R\$ 2.669 billion, up 18.3% (R\$ 413 million). Excluding RGE Sul, the increase would have been 14.2% (R\$ 320 million). The breakdown is as follows: (i) Personnel - up 16.5% (R\$ 155 million); (ii) Materials - up 35.7% (R\$ 50 million); (iii) Outsourced Services - up 16.2% (R\$ 92 million) and (iv) Other costs/expenses - up 18.7% (R\$ 116 million);
- Increase of 23.0% (R\$ 240 million) in construction costs for the concession infrastructure;
- Acquisition of RGE Sul (R\$ 97 million);
- Increase of 3.7% (R\$ 37 million) in Depreciation and

Amortization, mainly due to the increase in the Distribution segment (R\$ 17 million) and at CPFL Renováveis (R\$ 13 million), basically due to assets beginning operations over the past 12 months;

- Increase of 24.9% (R\$ 15 million) in the Pensions item due to updates to the actuarial report; Partially offset by:
 - Reduction of 17.8% (R\$ 54 million) in the item Amortization of Intangible assets under Concession.

EBITDA

(calculated according to the CVM Instruction 527/12)

The operating cash flow, measured as EBITDA, was R\$ 4.126 billion, a reduction of 0.4% (R\$ 18 million). This mainly reflects a reduction of 7.2% (R\$ 1.487 billion) in net operating revenue and an increase of 21.9% (R\$ 736 million) in operating costs and expenses, including expenses with private pensions and concession infrastructure construction costs. These effects were partially offset by a 15.9% (R\$ 2.112 billion) reduction in electricity costs and charges and an increase of 43.1% (R\$ 94 million) in income from equity interest.

FINANCIAL RESULT

The financial result recorded net expenditure of R\$ 1.453 billion, a 3.2% (R\$ 46 million) increase. The items that explain this variation in the Financial Result are:

- **Financial Revenue:** increase of 5.0% (R\$ 57 million), from R\$ 1.143 billion in 2015 to R\$ 1.201 billion in 2016, mainly due to the following factors: (i) Increase of 40.6% (R\$ 192 million) in income from financial investments; (ii) Increase of 22.7% (R\$ 28 million) on monetary and foreign exchange updates; (iii) Increase of 9.1% (R\$ 20 million) in additions and late payment fines; (iv) increase of R\$ 14 million in other financial income; (v) the impact of the inclusion of RGE Sul in our consolidation for November and December 2016, following completion of the acquisition of the company on October 31, 2016. The total financial income in relation to RGE Sul (which was not included in our consolidation in 2015) amounted to R\$ 6 million for November and December 2016;

Partially offset by: (vi) reduction of 76.9% (R\$ 125 million) in updates to sectorial financial assets; (vii) reduction of 61.4% (R\$ 52 million) in judicial deposits update; (viii) Reduction of 43.8% (R\$ 25 million) in tax credit updates.

- **Financial expenses:** increase of 4.0% (R\$ 103 million), from R\$ 2.551 billion in 2015 to R\$ 2.654 billion in 2016, mainly due to the following factors: (i) increase of 3.3% (R\$ 58 million) in the debt charges in local currency; (ii) Impact of including RGE Sul in our consolidation of November and December 2016, following completion of the acquisition of the company on October 31, 2016. Total financial expenses in relation to RGE Sul (which was not included in our consolidation in 2015) totaled R\$ 39 million for November and December 2016; (iii) increase of R\$ 24 million in updates to sectorial financial liabilities; (iv) Increase of 1.1% (R\$ 7 million) on monetary and foreign exchange updates;

Partially offset by: (v) increase of 48.2% (R\$ 22 million) in capitalized interest (expense reducer); (vi) Reduction of R\$ 3 million in other financial expenses.



NET INCOME

In 2016, net income for the year reached R\$ 879 million, an increase of 0.4% (R\$ 4 million), mainly reflecting a reduction of R\$ 78 million in income tax and social contributions and R\$ 0.6 million in amortization of surplus value of assets. These effects were partially offset by the 0.4% (R\$ 18 million) reduction in EBITDA and the 3.2% (R\$ 46 million) increase in net financial expenses and 0.8% (R\$ 11 million) increase in depreciation and amortization.

EBITDA (R\$ MILLION)

2015	2016
4,143	4,126

NET REVENUE (R\$ MILLION)

2015	2016
20,599	19,112

NET INCOME (R\$ MILLION)

2015	2016
875	879

For more information on the consolidated financial performance consult the CPFL Energia Management Report, available at: www.cpfl.com.br/ir.

DEBT

At the end of 2016, gross financial debt (including derivatives) of the Company reached R\$ 21.358 billion, an increase of 9.6%. Cash and cash equivalents totaled R\$ 6.165 billion, an increase of 8.5%. As a result, net financial debt increased 10% to R\$ 15,193 million.

The increase in financial debt is intended to support the Group's business expansion strategy, with the financing of CPFL Renováveis's greenfield projects. In addition, CPFL Energia adopts a strategy of pre-funding, in anticipation of funding debt due to mature within 18 to 24 months.

ANNUAL TARIFF ADJUSTMENTS (RTA) 2016

The following distributors had their rates adjusted as follows:

	CPFL PAULISTA	RGE SUL	RGE	CPFL PIRATININGA
Ratifying Resolution	2,056	2,059	2,082	2,157
Adjustment	9.89%	3.94%	-1.48%	-12.54%
Parcel A	-2.06%	-3.75%	-2.98%	-7.02%
Parcel B	1.78%	1.86%	2.31%	1.67%
Financial Components	10.18%	5.83%	-0.81%	-7.19%
Effect on consumer billings	7.55%	-0.34%	-7.51%	-24.21%
Valid since	08/04/16	19/04/16	19/06/16	23/10/16

PERIODIC TARIFF REVIEW (RTP)

The distributors below passed through the tariff review process in 2016, with the methodologies for the 4th tariff review cycle applied to them from this point:

	CPFL SANTA CRUZ	CPFL LESTE PAULISTA	CPFL JAGUARI	CPFL SUL PAULISTA	CPFLMOCOCA
Ratifying Resolution	2,026	2,029	2,028	2,025	2,027
Adjustment	10.69%	8.02%	14.05%	9.77%	6.08%
Parcel A	-1.84%	-1.95%	-1.20%	-2.70%	-2.35%
Parcel B	1.61%	5.94%	2.80%	5.01%	3.76%
Financial Components	10.92%	4.03%	12.45%	7.46%	4.67%
Effect on consumer billings	7.15%	13.32%	13.25%	12.82%	9.02%
Valid since	22/03/16	22/03/16	22/03/16	22/03/16	22/03/16

CPFL Electricians





CPFL's Center of Operations

DIVIDENDS

Company Bylaws foresee the distribution of at least 25% of adjusted net income in dividends to its shareholders, as provided for in law. The proposed allocation of net income is shown in the following table:

	R\$ MIL
Net income of the fiscal year - Individual	900,885
Results from previous years	25,778
Prescribed dividend	3,144
Net income base for allocation	929,807
Legal reserve	(45,044)
Statutory reserve - concession financial asset	(117,478)
Statutory reserve - strengthening of working capital	(545,505)
Additional proposed dividend	(7,820)
Minimum mandatory dividend	(213,960)

MINIMUM MANDATORY DIVIDEND (25%)

The Company declared, in the fiscal year of 2016, the amount of R\$ 214 million of minimum mandatory dividend, as governed by Law 6,404/76, and, R\$ 8 million of additional proposed dividend. For this fiscal year, considering the current adverse economic scenario and the uncertainties regarding market projections for distributors, the Company's Management proposes the allocation of R\$ 546 million to the statutory reserve strengthening of working capital.

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G4-8	Markets served.		16																												
G4-9	Scale of the organization.		16																												
G4-10	Total workforce by employment type, employment contract and region.	6		<table border="1"> <thead> <tr> <th></th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>AGE GROUP: UNDER 30 YEARS - MEN</td> <td>2213</td> <td>2296</td> </tr> <tr> <td>AGE GROUP: UNDER 30 YEARS - WOMEN</td> <td>956</td> <td>1003</td> </tr> <tr> <td>AGE GROUP: 30 TO 50 YEARS - WOMEN</td> <td>4216</td> <td>4564</td> </tr> <tr> <td>AGE GROUP: 30 TO 50 YEARS - MEN</td> <td>1006</td> <td>1086</td> </tr> <tr> <td>AGE GROUP: 50 YEARS OR OLDER - MEN</td> <td>1030</td> <td>1075</td> </tr> <tr> <td>AGE GROUP: 50 YEARS OR OLDER - WOMEN</td> <td>163</td> <td>171</td> </tr> <tr> <td>FUNCTIONAL CATEGORY EXECUTIVES - MEN</td> <td>18</td> <td>15</td> </tr> <tr> <td>FUNCTIONAL CATEGORY EXECUTIVES - WOMEN</td> <td>1</td> <td>1</td> </tr> </tbody> </table>		2015	2016	AGE GROUP: UNDER 30 YEARS - MEN	2213	2296	AGE GROUP: UNDER 30 YEARS - WOMEN	956	1003	AGE GROUP: 30 TO 50 YEARS - WOMEN	4216	4564	AGE GROUP: 30 TO 50 YEARS - MEN	1006	1086	AGE GROUP: 50 YEARS OR OLDER - MEN	1030	1075	AGE GROUP: 50 YEARS OR OLDER - WOMEN	163	171	FUNCTIONAL CATEGORY EXECUTIVES - MEN	18	15	FUNCTIONAL CATEGORY EXECUTIVES - WOMEN	1	1
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G4-11	Percentage of employees covered by collective bargaining agreements.	3	69	All of the Group's employees are covered by collective bargaining agreements, excluding the CEO, Executive Directors, Employers and Statutory Directors.																											

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER																					
ORGANIZATIONAL PROFILE																									
G4-12*	Description of the organization's supply chain.		69																						
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain			<p>On October 31, with the conclusion of the acquisition, AES Sul was renamed RGE Sul Distribuidora de Energia S.A. ("RGE Sul"), a distribution company that serves approximately 1.3 million clients in the state of Rio Grande do Sul. With this step, CPFL Energia increased its scale and footprint in the state of Rio Grande do Sul, serving 382 cities and reaching a market share of 65%. In Brazil, CPFL Energia now enjoy a market share of over 14% of the distribution segment, serving around 9 million clients through 9 concessionaires in the Southern and Southeastern regions. CPFL took charge of the RGE Sul's management on November 1st, and its plans include investments of around R\$ 1.0 billion in the period 2017-2019, aiming to implement CPFL standards in services and to comply with the improvement plan set by ANEEL. Still in 2016, in early July, CPFL Energia was informed by one of its controlling shareholders, Camargo Corrêa S.A., that the latter had received and accepted a proposal from the State Grid Corporation of China ("State Grid") to acquire its interest in the Company's controlling block for R\$25.00 per share. On September 2, the final share purchase agreement (SPA) was entered into between State Grid and Camargo Corrêa. In sequence, the proposal was extended to other controlling shareholders, which decided, over the course of September, to join Camargo Corrêa and sell their interest. The transaction had all applicable approvals and was concluded in January 23, 2017, when State Grid Brazil became the controlling shareholder of CPFL Energia, with a 54.64% stake. As a result of the closing of the transaction that resulted in the direct change of control of CPFL Energia in the indirect change of the control of CPFL Energias Renováveis S.A. ("CPFL Renováveis") and in accordance with applicable regulation, State Grid Brazil will perform tender offer for the remaining outstanding common shares of CPFL Energia and CPFL Renováveis. According to the Material Facts released by both companies on February 23, 2017, State Grid has filed the Unified Offer documentation with CVM, on February 22, 2017; the registration is now under analysis by CVM.</p>																					
COMMITMENTS TO EXTERNAL INITIATIVES																									
G4-14*	Charters, principles or other externally developed initiatives.		28																						
G4-15	Participation in associations and/or national/international organizations.	all	20																						
G4-16	Participation in associations and/or national/international organizations.		20																						
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES																									
G4-17	Entities included in the consolidated financial statements and entities not covered by the report.		21																						
G4-18	Process for definition of report content.		23	The Report contents are based on the material Aspects of the CPFL Sustainability Platform, as well as the issues identified as relevant by stakeholders consulted for the 2013-2014 cycle.																					
G4-19	List of material Aspects.		37																						
G4-20	Materiality and limits of each aspect within the organization.			<table border="1"> <thead> <tr> <th>Aspects / Material topics</th> <th>Impact within CPFL Energia</th> <th>Impact outside CPFL Energia</th> </tr> </thead> <tbody> <tr> <td>HEALTH AND SAFETY</td> <td>All business</td> <td>Employees, contractors, communities and customers</td> </tr> <tr> <td>PERSONNEL MANAGEMENT</td> <td>All business</td> <td>Contractors, customers and society</td> </tr> <tr> <td>SUPPLIER DEVELOPMENT</td> <td>All business</td> <td>Contractors, customers and society</td> </tr> <tr> <td>REVERSE LOGISTICS</td> <td>Distribution and Services</td> <td>Society</td> </tr> <tr> <td>CLIMATE CHANGE</td> <td>All business</td> <td>All stakeholders</td> </tr> <tr> <td>COMMUNITY RELATIONS</td> <td>All business</td> <td>Customers and communities</td> </tr> </tbody> </table>	Aspects / Material topics	Impact within CPFL Energia	Impact outside CPFL Energia	HEALTH AND SAFETY	All business	Employees, contractors, communities and customers	PERSONNEL MANAGEMENT	All business	Contractors, customers and society	SUPPLIER DEVELOPMENT	All business	Contractors, customers and society	REVERSE LOGISTICS	Distribution and Services	Society	CLIMATE CHANGE	All business	All stakeholders	COMMUNITY RELATIONS	All business	Customers and communities
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* Some indicators are not reported in full accordance with GRI-G4 protocol.

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES				
G4-21*	Materiality and boundaries of each Aspect outside the organization.			See indicator G4-20.
G4-22	Restatements of information provided in previous reports.		5	
G4-23	Significant changes in Scope.		5	
STAKEHOLDER ENGAGEMENT				
G4-24	List of stakeholder groups engaged by the organization.			Description of the process performed for the 2013-2014 cycle appears in the CPFL Energia Annual Report 2014, pages 30-35.
G4-25	Basis for identification and selection of stakeholders with whom to engage.			Description of the process performed for the 2013-2014 cycle appears in the CPFL Energia Annual Report 2014, pages 30-35.
G4-26	Approach to stakeholder engagement.			Description of the process performed for the 2013-2014 cycle appears in the CPFL Energia Annual Report 2014, pages 30-35.
G4-27	Key topics and concerns raised through stakeholder engagement.			Description of the process performed for the 2013-2014 cycle appears in the CPFL Energia Annual Report 2014, pages 30-35.
REPORT PROFILE				
G4-28	Reporting period for information provided.		5	
G4-29	Date of most recent previous report.		5	
G4-30	Reporting cycle.		5	
G4-31	Point of contact in case of questions regarding the report or its contents.		5	
G4-32	Table identifying the location of information in the report.		5	
G4-33	Policy and current practice with regard to seeking external assurance for the report.		5	
GOVERNANCE				
G4-34	Governance structure of the organization, including committees of the highest governance body.		19	
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.		24	
G4-36	Process of appointment of an executive-level position or positions with responsibility for economic, environmental and social topics.	all	24, 26	
G4-37	Consultation processes between the stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.		36	
G4-38*	Independent or non-executive members of the highest governance body.		23	
G4-39	Chair of the highest governance body.		22	
MECHANISMS FOR SHAREHOLDERS AND EMPLOYEES TO PROVIDE RECOMMENDATIONS				
G4-40	Qualifications of the members of the highest governance body.		23, 24	

* Some indicators are not reported in full accordance with GRI-G4 protocol.

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER
MECHANISMS FOR SHAREHOLDERS AND EMPLOYEES TO PROVIDE RECOMMENDATIONS				
G4-41	Processes to ensure that conflicts of interest are avoided.			It is a duty of the board of directors to prevent and manage situations of conflict of interests or differences of opinion to ensure that the interests of the company and its subsidiaries and affiliate companies always take precedence over any other interests. The member of an advisory committee to the Board of Directors who has actual or potential conflict of interests concerning a particular matter will withdraw from the room and not participate in the meeting during the period in which the matter is being considered but may be asked to provide information. Any Board Member who has actual or potential conflict of interest or who is linked to a Related party whose main activities imply the existence, actual or potential, of conflict of interests with a particular matter to be examined by the Board should abstain from participating in the part of the meeting in which this matter is analyzed. More information is available at www.cpf.com.br
G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	all		The Executive Board is responsible for approving and updating CPFL's strategic directives (Vision, Mission and Principles) and the definition of political strategies and targets as well as the definition of strategies, policies and targets related to the organization's economic, environmental and social impacts. The Committee of Management Processes, Risks and Sustainability of the Board of Directors is responsible for monitoring initiatives related to the sustainability of the company and its subsidiaries.
G4-43	Measures taken to develop and improve the highest governance body's collective knowledge of economic, environmental and social topics.			The company provides the Board Members with Certification from the Brazilian Institute of Corporate Governance (IBGC) to encourage continued and permanently updated education, as well as encourage their participation in events related to governance issues or related to the businesses in which it is involved.
G4-44	Processes for self-evaluation of the highest governance body.		23	
G4-45	Responsibilities for implementation of economic, environmental and social policies.		28	
G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.		28	
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.		22	
G4-49	Process to communicate critical concerns to the highest governance body.			In order to foster the participation of shareholders in the company's relevant decisions, CPFL Energia prepares the Manual for Participation in the General Shareholders' Meetings which clearly and objectively presents the themes on the agenda for the Meeting and makes it possible to freely indicate professionals to be constituted by proxy as shareholder representatives in the Assemblies.
G4-51	Relation between remuneration and the organization's performance (including social and environmental).		25	
G4-52	Process for determining remuneration.		25	

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER
ETHICS AND INTEGRITY				
G4-56	Statements of mission and values, codes of conduct and relevant principles.	all		Available online: http://www.cpfl.com.br/institucional/quem-somos/visao-missao-principios/Paginas/default.aspx http://www.cpfl.com.br/institucional/etica-na-rede/o-codigo-de-etica/Paginas/default.aspx
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice line.	10	26	
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	10	26	
ECONOMIC PERFORMANCE				
G4-EC1	Direct economic value generated and distributed.		81	
INDIRECT ECONOMIC IMPACTS				
G4-EC8	Description of significant indirect economic impacts.	7, 8, 9	63, 65	
ENERGY				
G4-EN3*	Power consumption within the organization.			

POWER CONSUMPTION BY CPFL GROUP IN 2016

Source / type of power	Consumption in GJ
DIESEL	309,749.02
GAS	38,328.77
LIQUEFIED PETROLEUM GAS	315.02
BIOMASS	51,248.428.02
HYDROUS ETHANOL	74,005.1
ELECTRICITY	16,358,496.82
TOTAL	68,029,322.75

1 - Considers RGE Sul.

2 - The values of this indicator, communicated in 2015 Annual Report, considered only the headquarters consumption.

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER
WATER				
G4-EN8*	Total water withdrawal by source.	7, 8	32	
BIODIVERSITY				
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.		32, 47	
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.		47, 48	

G4-EN13 Habitats protected or restored.

EPASA has a reforestation program in the area surrounding the power plant (degraded area recovery). The Epasa area covers a total 79.24 hectares, subdivided into an Internal area of 29.13 hectares (36.74% of the total) and External area of 50.11 hectares (63.25% of total), and separated by a masonry wall. Five reforestation nuclei of one hectare each were implanted in the inner area, which is maintained by a specialized contractor. Native vegetation in the growth stage predominates in this area. In the external area the characteristic vegetation consists of grasses and sedges, until recently used for grazing animals. The herbaceous layer is punctuated by isolated trees of common native species and a variety of exotic plants. Close to the project there is a forest reserve of approximately 80 hectares containing remnants of the original vegetation of the region with plant composition of shrub and subshrub layers, complemented by a sparse herbaceous layer.

	HPP Barra Grande	HPP Campos Novos	HPP Foz do Chapecó	HPP Monte Claro	HPP 14 de Julho	HPP Castro Neves
TOTAL PLOT AREA (KM ²)	125.8	50.5	95.7	4.49	7.97	10.21
FLOODED AREA (KM ²)	82.6	25.6	46	0.69	2.77	3.05
AREA WITH PRIMARY VEGETATION (KM ²)	20.8	-	-	-	-	-
AREA WITH SECONDARY VEGETATION IN MEDIUM AND ADVANCED STAGES OF REGENERATION (KM ²)	45.7	9.9	14.6	3.76	5.17	7.1
PERMANENT PRESERVATION AREA (KM ²)	42.4	20.7	44.6	3.02	4.31	6.87
INSTALLED POWER/FLOODED AREA (MW / KM ²)	8.35	34.38	18.58	189.5	36.15	42.61

* Some indicators are not reported in full accordance with GRI-G4 protocol.

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER																					
EMISSIONS																									
G4-EN15*	Total direct greenhouse gas (GHG) emissions (Scope 1).	8	32, 44																						
G4-EN16*	Energy indirect greenhouse gases (GHG) emissions (Scope 2).		32, 44																						
G4-EN17*	Other relevant indirect greenhouse gas (GHG) emissions (Scope 3).	7, 8	32, 44																						
EFFLUENTS AND WASTE																									
G4-EN23	Total weight of waste by type and disposal method.	8																							
G4-EN24*	Total number and volume of significant spills.			There were five events, considered non-significant, for which a company specializing in emergencies was called in. Other cases were treated by own specially trained team, using the environmental kits available on sites. In both cases, the waste was properly destined, through a company contracted for adequate final destination of the materials.																					
PRODUCTS AND SERVICES																									
G4-EN27	Extent of mitigation of environmental impacts of products and services.	8	45, 47, 49																						
CONFORMITY																									
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.																								
GENERAL																									
G4-EN31	Total environmental protection expenditures and investments by type.		32, 42, 52																						
ENVIRONMENTAL ASSESSMENT OF SUPPLIERS																									
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken.	8	68																						
EMPLOYMENT																									
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender and region.	6		<table border="1"> <thead> <tr> <th colspan="2">New employees and the turnover rate of employees</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td colspan="2">TURNOVER (%) - WOMEN</td> <td>24.03</td> </tr> <tr> <td colspan="2">TURNOVER (%) - MEN</td> <td>16.03</td> </tr> <tr> <td colspan="2">TOTAL TURNOVER (%)</td> <td>17.80</td> </tr> <tr> <td colspan="2">NEW HIRES - TOTAL</td> <td>2,108</td> </tr> <tr> <td colspan="2">NEW HIRES - MEN</td> <td>1,512</td> </tr> <tr> <td colspan="2">NEW HIRES - WOMEN</td> <td>596</td> </tr> </tbody> </table>	New employees and the turnover rate of employees		2016	TURNOVER (%) - WOMEN		24.03	TURNOVER (%) - MEN		16.03	TOTAL TURNOVER (%)		17.80	NEW HIRES - TOTAL		2,108	NEW HIRES - MEN		1,512	NEW HIRES - WOMEN		596
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CPFL TOTAL	Employees are entitled to health and dental care plans, food stamps, pharmacy assistance, payroll loans, life insurance, retirement bonus, sick pay, specific compensation and day care.																													
NECT	Employees are entitled to health and dental care plans, food stamps, pharmacy assistance, payroll loans, life insurance, retirement bonus, sick pay, specific compensation and day-care.																													
TELECOM	Employees are entitled health and dental care plans, nursery assistance, pharmacy, aid special individual, complement sickness, payroll loan, vacation bonus, pension, life insurance and meal vouchers.																													
CPFL EFICIÊNCIA	Employees are entitled to health and dental care plans, day-care assistance, pharmacy assistance, disability assistance, private pension plans, life insurance, food stamps and meals vouchers.																													
G4-LA2	Benefits granted to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.	1, 2																												

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER														
HEALTH AND SAFETY AT WORK																		
G4-LA5	Percentage of employees represented in formal health and safety committees.		57															
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, absenteeism, and total number of work-related fatalities, by region and by gender.		55	In 2016 there were 04 lost day accidents involving women.														
TRAINING AND EDUCATION																		
G4-LA9*	Average hours of training per year per employee by gender, and by employee category.		52	The total figure invested in training and capacity building in 2016 was R\$ 10 million, representing R\$ 1,011.33 per FTE, with an average of 79.78 hours of training per employee (59.06 in 2015), above the average of the Sextante Survey – of 48 hours in 2015.														
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.		53															
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender.		53															
DIVERSITY AND EQUAL OPPORTUNITIES																		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minorities and other diversity indicators.			<p>Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minorities and other diversity indicators.</p> <table border="1"> <thead> <tr> <th>Race</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>ASIAN</td> <td>1.09</td> </tr> <tr> <td>WHITE</td> <td>74.69</td> </tr> <tr> <td>INDIGENOUS</td> <td>0.19</td> </tr> <tr> <td>NOT INFORMED</td> <td>0.47</td> </tr> <tr> <td>BLACK</td> <td>6.22</td> </tr> <tr> <td>MIXED</td> <td>17.34</td> </tr> </tbody> </table>	Race	%	ASIAN	1.09	WHITE	74.69	INDIGENOUS	0.19	NOT INFORMED	0.47	BLACK	6.22	MIXED	17.34
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SUPPLIER ASSESSMENT FOR LABOR PRACTICES																		
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken.		68															

* Some indicators are not reported in full accordance with GRI-G4 protocol.

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER																																								
LOCAL COMMUNITIES																																												
G4 - SO1*	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	1, 2, 7, 8	65, 66																																									
ANTI-CORRUPTION																																												
G4 - SO3	Percentage and total number of business units submitted to evaluation of risks related to corruption.	10	29																																									
G4 - SO4	Communication and training on anti-corruption policies and procedures.	10	29																																									
G4 - SO5	Confirmed incidents of corruption and actions taken.	10	29																																									
G4 - SO6	Total value of political contributions by country and recipient/ beneficiary.	10		No donations were made to politicians or political parties as CPFL Energia's Code of Ethics and Anti-corruption policy prohibits making donations of any party-political character on behalf of any of the CPFL Group companies.																																								
PRODUCT AND SERVICE LABELLING																																												
G4 - PR5	Results of customer satisfaction surveys.		62																																									
COMPLIANCE																																												
G4 - PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.			In 2016, processes of inspection of the distributors CPFL Group conducted by the Agencies ANEEL, ARSESP and AGERGS resulted in nine significant fines of a commercial-technical nature, amounting to the total payment of R\$ 4.01 million.																																								
ORGANIZATIONAL PROFILE																																												
G4-EU1*	Installed capacity, broken down by primary energy source and by regulatory regime.		32, 72																																									
G4-EU2*	Net energy output broken down by primary energy source and by regulatory regime.		72	The assured energy from fossil generation (EPASA), considering the 53.34% interest of the CPFL Group, corresponds to 1,157.42 GWh.																																								
G4-EU3	Number of residential, industrial, institutional and commercial customer accounts.			<table border="1"> <thead> <tr> <th>Customers of CPFL Energia distributors</th> <th>2016*</th> <th>2015</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>RESIDENTIAL</td> <td>7,063,885</td> <td>6,906,580</td> <td>6,750,758</td> </tr> <tr> <td>INDUSTRIAL</td> <td>53,929</td> <td>55,586</td> <td>57,397</td> </tr> <tr> <td>COMMERCIAL</td> <td>467,018</td> <td>473,333</td> <td>484,937</td> </tr> <tr> <td>RURAL</td> <td>248,478</td> <td>245,238</td> <td>243,998</td> </tr> <tr> <td>GOVERNMENT</td> <td>52,083</td> <td>51,359</td> <td>50,931</td> </tr> <tr> <td>PUBLIC LIGHTING</td> <td>10,962</td> <td>10,362</td> <td>9,92</td> </tr> <tr> <td>PUBLIC SERVICE</td> <td>8,656</td> <td>8,402</td> <td>8,251</td> </tr> <tr> <td>OWN CONSUMPTION</td> <td>837</td> <td>845</td> <td>851</td> </tr> <tr> <td>TOTAL</td> <td>7,906,011</td> <td>7,751,705</td> <td>7,607,043</td> </tr> </tbody> </table>	Customers of CPFL Energia distributors	2016*	2015	2014	RESIDENTIAL	7,063,885	6,906,580	6,750,758	INDUSTRIAL	53,929	55,586	57,397	COMMERCIAL	467,018	473,333	484,937	RURAL	248,478	245,238	243,998	GOVERNMENT	52,083	51,359	50,931	PUBLIC LIGHTING	10,962	10,362	9,92	PUBLIC SERVICE	8,656	8,402	8,251	OWN CONSUMPTION	837	845	851	TOTAL	7,906,011	7,751,705	7,607,043
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G4-EU4	Length of above and underground transmission and distribution lines, by regulatory system.		32, 72																																									
G4-EU5	Allocation of CO ₂ emissions allowances or equivalent, broken down by trading framework.		43																																									

* Some indicators are not reported in full accordance with GRI-G4 protocol.

ITEM	DESCRIPTION	GLOBAL COMPACT	PAGE	ANSWER
ORGANIZATIONAL PROFILE				
G4-EU6	Management approach to ensure short and long-term electricity availability and reliability.			<p>The hydroelectric power plants have multi-year plans (5 years) that include preventive (machine stops) and corrective maintenance and an estimate of failures for each generating unit. The management of this plan is carried out weekly at operation and maintenance programming meetings. There is also management software for all maintenance activities, including a schedule of all preventive and predictive maintenance necessary.</p> <p>At EPASA, guidelines of the manufacturers' manuals for the maintenance of the engines are followed. Plans for periodic inspections of the electrical parts are also implemented, as well as the implementation of the asset management system, which is being tested to improve the database system for records of occurrences and maintenance.</p> <p>At CPFL Renováveis, short-term preventive maintenance practices are scheduled with the aim of preserving the equipment, extending its useful life, reducing the need for major interventions with the equipment in the long term and corrective interventions.</p> <p>Short-term maintenance activities are scheduled for the seasons with lowest water levels in the case of hydroelectric plants, less wind in the case of wind farms and the off-season for sugarcane for thermal biomass plants. The scheduling of this maintenance aims to reduce or prevent loss of generation as a result of outages caused by the maintenance.</p>
RESEARCH AND DEVELOPMENT				
G4-EU8	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development.	7, 8	75	

SYSTEM EFFICIENCY																																																																			
G4-EU12	Transmission and distribution losses as a percentage of total energy.			<table border="1"> <thead> <tr> <th>Company</th> <th>Global Losses 2015</th> <th>Technical Losses 2015</th> <th>Non-technical Losses 2015</th> <th>Global Losses 2016</th> <th>Technical Losses 2016</th> <th>Non-technical Losses 2016</th> </tr> </thead> <tbody> <tr> <td>CPFL PAULISTA</td> <td>8.66%</td> <td>6.57%</td> <td>2.09%</td> <td>9.58%</td> <td>6.55%</td> <td>3.03%</td> </tr> <tr> <td>CPFL PIRATININGA</td> <td>6.92%</td> <td>4.52%</td> <td>2.40%</td> <td>7.51%</td> <td>4.57%</td> <td>2.93%</td> </tr> <tr> <td>RGE</td> <td>9.31%</td> <td>7.71%</td> <td>1.60%</td> <td>10.06%</td> <td>7.40%</td> <td>2.66%</td> </tr> <tr> <td>CPFL SANTA CRUZ</td> <td>8.86%</td> <td>8.38%</td> <td>0.48%</td> <td>9.82%</td> <td>8.75%</td> <td>1.08%</td> </tr> <tr> <td>CPFL LESTE PAULISTA</td> <td>11.76%</td> <td>8.64%</td> <td>3.13%</td> <td>10.88%</td> <td>8.49%</td> <td>2.39%</td> </tr> <tr> <td>CPFL SUL PAULISTA</td> <td>7.64%</td> <td>7.42%</td> <td>0.22%</td> <td>10.08%</td> <td>8.26%</td> <td>1.83%</td> </tr> <tr> <td>CPFL JAGUARI</td> <td>4.35%</td> <td>3.48%</td> <td>0.90%</td> <td>4.63%</td> <td>3.37%</td> <td>1.26%</td> </tr> <tr> <td>CPFL MOCOCA</td> <td>9.58%</td> <td>7.69%</td> <td>1.90%</td> <td>10.29%</td> <td>7.46%</td> <td>2.83%</td> </tr> </tbody> </table>	Company	Global Losses 2015	Technical Losses 2015	Non-technical Losses 2015	Global Losses 2016	Technical Losses 2016	Non-technical Losses 2016	CPFL PAULISTA	8.66%	6.57%	2.09%	9.58%	6.55%	3.03%	CPFL PIRATININGA	6.92%	4.52%	2.40%	7.51%	4.57%	2.93%	RGE	9.31%	7.71%	1.60%	10.06%	7.40%	2.66%	CPFL SANTA CRUZ	8.86%	8.38%	0.48%	9.82%	8.75%	1.08%	CPFL LESTE PAULISTA	11.76%	8.64%	3.13%	10.88%	8.49%	2.39%	CPFL SUL PAULISTA	7.64%	7.42%	0.22%	10.08%	8.26%	1.83%	CPFL JAGUARI	4.35%	3.48%	0.90%	4.63%	3.37%	1.26%	CPFL MOCOCA	9.58%	7.69%	1.90%	10.29%	7.46%	2.83%
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BIODIVERSITY				
G4-EU13	Biodiversity of offset habitats compared to the biodiversity of the affected areas.		47	
EMPLOYMENT				
G4-EU14	Programs and processes to ensure the availability of a skilled workforce.		53	
DISASTER/EMERGENCY PLANNING AND RESPONSE				
G4-EU21*	Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans.			Training is provided for fire brigade members and the Emergency Response Plan, with simulations according to the annual calendar. The Emergency Response Plan involves a simulation of an emergency situation, verifying the functionality of the procedure and possible improvements that could be made. At the CPFL Group's Campinas headquarters we have a Civil Fire Brigade, trained and qualified in accordance with legislation to respond to any emergency situations that may arise.
PROVISION OF INFORMATION				
G4-EU24*	Practices to address language, cultural, low literacy and disability related barriers to accessing and safely using electricity and customer support services.	1, 2, 8	57	
CUSTOMER HEALTH AND SAFETY				
G4-EU25	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases.			In 2016, there were 65 accidents involving the population, of which 21 were fatal, in the area covered by the eight distributors - CPFL Paulista, CPFL Piratininga, RGE, CPFL Santa Cruz, CPFL Jaguari, CPFL Leste Paulista and CPFL Sul Paulista. In RGE Sul, a company acquired by the CPFL Group in the second half of 2016, there were 10 accidents, of which 4 fatalities.
ACCESS				
G4-EU28	Power outage frequency.		73	
G4-EU29	Average power outage duration.		73	

* Some indicators are not reported in full accordance with GRI-G4 protocol.

ASSURANCE STATEMENT



Parque das Águas Sorocaba – SP

STATEMENT BY SGS ICS CERTIFICADORA LTDA. (SGS) OF SUSTAINABILITY ACTIVITIES IN “ANNUAL REPORT 2016” FOR CPFL ENERGIA S.A.

ASSURANCE NATURE AND SCOPE

SGS was hired by CPFL Energia S.A. to assure its Annual Report 2016 – CPFL Energia independently. The assurance company is grounded on assuring methodology for SGS Sustainability report, including the text and data from 2016 provided herein.

The information of “ANNUAL REPORT 2016 – CPFL Energia” and its presentation lies on directors and managers of CPFL. SGS is not part of any material added to “ANNUAL REPORT 2016 – CPFL Energia”. Our responsibility is to give our opinion of the text, date, charts and statements within the assurance scope, which were detailed below in order to communicate the stakeholders of CPFL.

The SGS group has developed a set of protocols for Sustainability Assurance Communication based on best practices provided in Global Reporting Initiative (GRI) and on assurance standard - ISAE3000. These protocols offer different options in terms of assurance, depending on context and capacity of Applicant Organization.

This report was assured by using new protocols for assessment of content reliability and its alignment with Sustainability Report-Making Guide (G4), upon limited level. The assurance comprised a combination of previous investigation, interview with employees and interns, desktop analysis, data registration and report assessment that shall be aligned with GRI protocols. The accounting information of CPFL provided and/or referred to “ANNUAL REPORT 2016 – CPFL Energia”, was not assessed as a result of this assurance process.

INDEPENDENCE AND COMPETENCY STATEMENT

The SGS Group is worldwide lead in inspections, analysis and certification, operating in more than 140 countries and rendering services that includes management system certification, audits and trainings on quality, environmental, social and ethical, sustainability report assurance and greenhouse gas verification. SGS reinforce its independence against CPFL, getting exempted from any conflicts of interest with the organization, its subsidiaries and stakeholders.

The assurance team was defined according to the expertise, qualification for this service and includes:

- A Lead Auditor on Sustainability Report Assurance, Lead Verifier of Greenhouse Gases (GHG), Lead Auditor on Social-Environmental Programs, lead Auditor for Environmental, Quality, Energy and Sustainable Events Management.
- An Assurance Auditor on Sustainability Reports, Lead Verifier of Greenhouse Gases (GHG), Weather Change Programs, Lead Auditor on Social Environmental Programs.
- An Assurance Auditor on Sustainability Report, Lead Auditor on Social-Environmental Programs.

ASSURANCE OPINION

It was requested a limited assurance and the activity performed was shorter than the expected to a reasonable assurance. Regarding the methodology provided and the verification performed, we are satisfied with information and data provided in "ANNUAL REPORT 2016 – CPFL Energia" and deemed them as reliable, considering them a fair and balanced representation of sustainability activities performed by CPFL in 2016. The assurance team thinks the report can be used by stakeholders of CPFL. According to its needs, the organization elected the limited assurance level.

In our opinion the report content meets the GRI G4 requirements partially, including some indicators of Sectorial Complement for Electric sector G4, Core Options and Global Compact Principles.

RECOMMENDATIONS, FINDINGS AND CONCLUSIONS ABOUT THE GLOBAL GUIDELINES, REPORTING INITIATIVE GRI G4

The CPFL Report, "ANNUAL REPORT 2016", is aligned with GRI G4, Core Option, in despite of the fact that some parts from content were not fully reported. The material aspects and its limit within and out the organization were properly set up according to the Report Principles of GRI. The statement of material aspects and limits identified, as well as the commitment to stakeholders are described correctly in the reference list and report.

By keeping using GRI G4, CPFL shows its leading position at its market in sustainability report. Equally, it reports voluntarily to CDP (Carbon Disclosure Project) and its GEE inventory is checked by an independent third party. This information was used in GRI report.

SGS congratulates the CPFL commitment to sustainability, as well as its participation in "Dow Jones Sustainability Emerging Markets" rate. CPFL has been making progress on environmental, social and economic areas.

CPFL promotes an ethical behavior on its management, it has a corporate internal audit team. It was found they have robust methods for assessing operational, financial and environmental risks.

Some opportunities for improvement were found during the assurance process 2016 that shall be considered in future, for example:

- The governance report could consider other significant functions and commitments of each committee member, participation of social sub-represented groups, competencies related to economic, environmental, and social impacts and if some member is representing the stakeholders.
- To consider the total volume of water taken exceeding the limit established in the water license for every place where it operates.
- For coming reports, CPFL could consider including information of the whole content from GRI G4 indicators.

Fabian Peres Gonçalves
Lead Auditor Sustainability Report
SGS ICS Certificadora Ltda.
30th March of 2017
www.sgs.com

CORPORATE INFORMATION

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Sustainability Department

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Rodolfo Nardez Sirol | Carlo Linkevieius Pereira | Natalia Tadokoro Ricci

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Carlo Linkevieius Pereira | Natalia Tadokoro Ricci

EXTERNAL PARTNERS

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Keyassociados – www.keyassociados.com.br

PHOTOGRAPHY

CPFL Energia Image Bank, iStock

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We thank the professionals of the CPFL Energia Group who provided the information necessary for the preparation of the Annual Report 2016, including the teams at the generation projects (Foz do Chapecó, Enercan, Baesa, Ceran Complex and CPFL Renováveis) and the people who participated in our survey of relevant issues and contributed important observations, as well as all external partners.

