

EDP-Energias do Brasil

ISIN CODE: BRENBRACNOR2

Overall score **35/100**

Sector: Electric & Gas Utilities
Emerging Market

Information rate: 91% (Sector average: 61%)
Company cooperation level: Responsive *

General information

EDP-Energias do Brasil (EDP Brasil) is engaged in the generation, transmission, distribution, and sales of electric power to households, as well as commercial and industrial customers. EDP Brasil operates hydroelectric power plants and thermal power plants. EDP Brasil is a subsidiary of EDP - Energias de Portugal.

Main Economic Segment**	Turnover 2016
Distribution	58.1 %
Generating	23.4 %
Sales	18.1 %

CORPORATE GOVERNANCE				
	2015	2016	2018/03	2018/03
Score				35
Allegations				No
Rating				+
Risk management				Limited

Key issues

Sound corporate governance is required to oversee a company's strategic direction, including the CSR strategy. Vigeo Eiris' framework has been adapted to capture the level of integration of CSR topics at Board-level, supplementing traditional signals on efficient governance practices. Directors are notably evaluated on their level of diversity and experience with operational, financial, and CSR topics. The audit and internal controls system is examined regarding the efficiency and reach of its risk management. Shareholders are expected to have fair voting rights and access to all relevant information on emerging ESG risks. Executive remuneration is assessed for transparency and alignment with balanced stakeholder interests.

Company performance

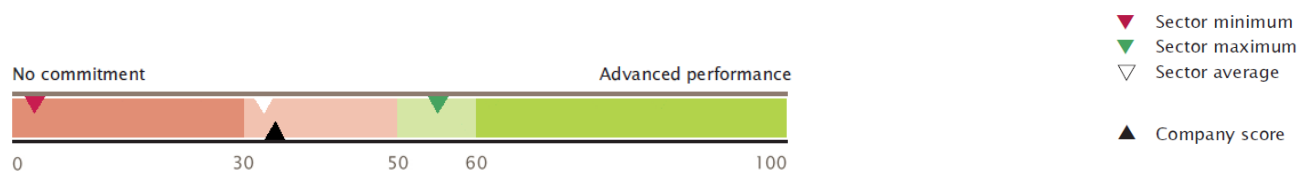
- The Company's performance in the Corporate Governance domain is limited in absolute terms, representing a deterioration compared to the previous review.
- None of the Board members are considered independent and there is no specific committee in charge of director nomination. There is a Board level CSR Committee but CSR issues do not appear to be reviewed at Board level. Corruption and health and safety are covered by the internal controls but the Audit Committee appears to have a limited role in overseeing internal and external controls. There are major restrictions to convene an EGM and not all major items are put to a shareholder vote. Lastly, there still is lack of disclosure on executive remuneration.

Corporate Governance

Score : 35

CGV1.1 Board of Directors

(score: 34, weight: 3)



[LISTED COMPANIES] Existence and independence of Nomination Committee

No specific committee is in charge of director nomination, which might raise concerns.

Independence of the Board Chairman

The roles of Chairman and CEO are separated, but the chairman is not considered independent.

Responsibility allocated over CSR issues

There is a CSR committee that is part of the Board.
There is a Board level Sustainability committee headed by the CEO.

Share of independent shareholder-elected Board members

Information obtained from company and public sources regarding detailed biographical information for all members of the Board of Directors is insufficient.
None of the seven-member Board are considered independent.

Diversity of the skills and backgrounds of the Board

The Board of Directors diversity appears to be partial:

- At least 30% of directors are women*
- At least 40% of directors are women*
- Employee representative(s) sitting on the Board*
- Board members with demonstrated professional experience in the company's sector of activities*
- Board members with demonstrated expertise on CSR issues*

Training and expertise provided to board members

The parent company, EDP Portugal, states that Board members are provided training and participate in conferences and seminars, but it is unclear if this applies to the directors of EDP Brasil as well.

Regular election of Board members

Board members are eligible for re-election following 1-year terms.

Evaluation of Board's functioning and performance

Performance is evaluated regularly, but with no disclosure on the results.
Performance is evaluated by the Corporate Governance committee.

Review of CSR issues at Board meeting

Information obtained from the company and public sources regarding the review of CSR issues at board meetings is insufficient.

- Health & safety*
- Climate change*
- Pollution prevention*
- Anti-competitive practices*
- Corruption*
- Community relations*

Regularity of and attendance at Board meetings

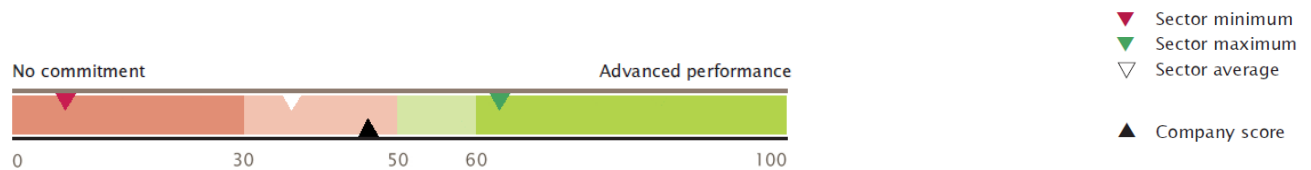
Regular meetings are held, and attendance rates are above 90%
16 Board meetings were held in 2016. The attendance rate stood at 95.6% in 2016.

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	>9 years on Board	Stock options	Paid > 1/2 executive salary	Represent >3% company's shares	Other	Independency
António Luís Guerra	Chairman of the Board of Directors, Chairman of the Compensation Committee		X				X							

Name of Board member	Role	Executive	Non executive	Employee representative	Nomination	Audit	Remuneration	Former executive	> 9 years on Board	Stock options	Paid > 1/2 executive salary	Represent > 3% company's shares	Other	Independence
Miguel Nuno Simões N	Chief Executive Officer, Vice Chairman of the Board	X												
Nuno Maria Pestana			X			X	X		X					
João Manuel Veríssim			X											
Pedro Sampaio Malan			X				X		X					
Francisco Carlos Cou			X			X			X					
Modesto Souza Barros	Chairman of the Audit Committee		X			X			X					

CGV2.1 Audit & Internal Controls

(score: 46, weight: 2)



[LISTED COMPANIES] Existence and independence of Audit Committee

None of the three-member Audit Committee are considered independent.

Skills and backgrounds of Audit Committee members

Members appear to have financial and/or audit experience, but lack relevant operational experience in the sector.

Operational and CSR risks covered by the company's internal controls system

The internal control system covers the standard issues related to financial, operational, and legal risks. In addition, the system covers some of the CSR risks inherent to the company's business operations.

- Health & safety
- Climate change
- Pollution prevention
- Anti-competitive practices
- Corruption
- Community relations

- Health & safety: the Company confirmed that there are specific internal audits related to health and safety. An example of internal audit report related to health and safety was provided to Vigeo Eiris.

- Corruption: the Company states that in compliance with the Sabarcanes-Oxley law, through internal audit mechanisms and financial report internal control system the corruption risks and impacts and vulnerabilities of each business in the group are mapped and monitored periodically.

Role of the Audit Committee in overseeing internal and external controls

- The Audit Committee has a limited role that includes:
- Oversee internal audit and internal controls
 - Review accounting policies and be responsible for updates
 - Nominate the statutory auditor
 - Oversee the work of the external auditor
 - Approve the type of audit and non-audit services provided and fees paid to the external auditor

Management of the CSR risks

- Although the company has set up some measures, it has not gone beyond that to integrate CSR risks in its overall strategy.
- Balanced scorecard
 - Risk-related training
 - Monitoring of key risk indicators
 - Reporting system to the Board
 - Risk mapping/materiality assessment
 - A Board Risk Committee with no executive part of it
- Risk mapping/materiality assessment: there is a risk map that is updated annually, with approximately 150 risks identified, divided into 60 categories that quantify likelihood of occurrence and impacts. These categories cover environmental, ethical risks as well as risks related to technical losses and energy efficiency.

Independence of the firm's external auditors

The audit firm receives non-audit fees, but these represent only 25% or less of total fees.
Non-audit fees represented 15.8% of total fees paid to PricewaterhouseCoopers in 2016.

Inclusion of CSR issues in the company's reporting

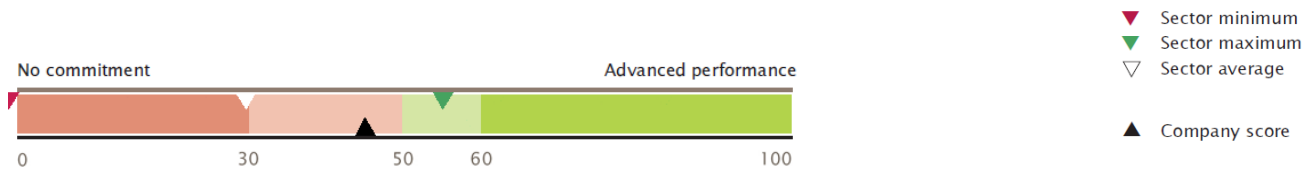
The Company publishes significant CSR reporting on key material issues, with an independent third party assessment of the reliability of key performance indicators, with limited level of the assurance against ISAE 3000 standard.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral

CGV3.1 Shareholders

(score: 45, weight: 2)



Nonexistence of voting rights restrictions

The company respects the "one share - one vote" principle.

Safeguards on transactions with major shareholder(s)

No safeguards appear to be in place, which might raise concerns with regard to the fairness of any such transaction.

Ability to add items to the agenda of the AGM and to convene an EGM

Major restrictions have been identified to convene an EGM.
5% share ownership is required to convene EGM. On the other hand, the share ownership required to submit a resolution for the AGM agenda is unclear.

Access to voting at General Meetings

There are no major restrictions on shareholders' ability to vote, and it is possible to vote using online services.

Ability to vote on relevant issues in separate resolutions at AGM

Not all major items are put to a shareholder vote.
The following items are not put to a vote at the AGM:
- Board fees
- Selection of external auditors
- Executive remuneration
- Election of board members (a separate resolution for each member)

Presentation of CSR strategy to shareholders and investors

The company has presented to shareholders and investors its CSR strategy but this covers a limited part of the most relevant CSR issues.

- Climate change
- Pollution prevention
- Corruption
- Health & safety
- Community relations
- Anti-competitive practices

The Company presented on its decentralised photovoltaic project which is in the final phase of installation.

Board's attitude towards CSR-related shareholder resolutions

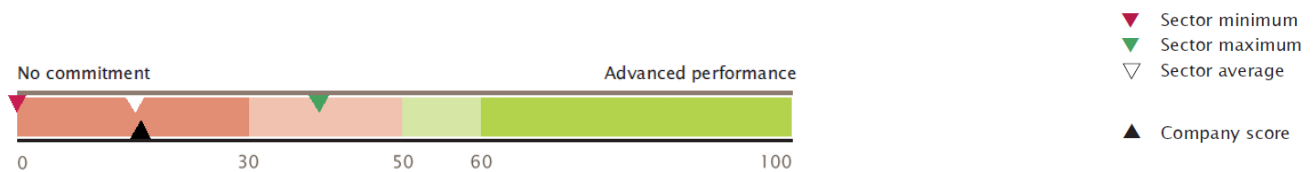
Information obtained from the company and public sources, regarding the Board's attitude toward legitimate CSR related shareholder resolutions is insufficient.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral

CGV4.1 Executive Remuneration

(score: 16, weight: 2)



[LISTED COMPANIES] Existence and independence of Remuneration Committee

None of the three-member Compensation Committee is considered independent.

Disclosure of senior executives' individual remuneration

Executive remuneration is disclosed, but on a collective rather than on an individual basis.

Link between Short Term Incentive Plans and the performance of the company

Bonuses are linked to predetermined and disclosed economic and/or operational performance indicators. However the actual quantified targets are not disclosed.

Annual performance indicators are linked to total shareholder return vs. Eurostoxx utilities and PSI20, ROIC/WACC, growth in gross profit, growth in net profit, performance of EBITDA, performance do free cash-flow, Price ENBR vs Ibovespa IEE, and Corporate Sustainability Index.

Link between the main Long Term Incentive Plan and the performance of the company

Long-term incentives are linked to performance conditions, but quantified targets are not disclosed.

Multi-annual performance indicators are linked to total shareholder return vs. Eurostoxx utilities and PSI20, ROIC/WACC, performance of EBITDA, performance do free cash-flow and sustainability performance indicator.

Link between variable remuneration and CSR performance of the company

Variable remuneration is said to be linked to CSR performance objectives, but these are not disclosed.

- Health & Safety
- Climate Change
- Pollution Prevention
- Customer Satisfaction
- Other

Severance pay for senior executives

Information obtained from the company and public sources regarding severance pay for senior executives is insufficient.

Evolution of CEO-to-employee compensation ratio

Information obtained from the company and public sources regarding the compensation of CEO and the average employee salary is insufficient.

The Company does not disclose CEO's compensation. Average salary for operational employees increased by 8.6%.

Stakeholders' feedback

A review of stakeholder sources did not reveal any allegations against the company during the period under review: stakeholders' feedback is neutral

Contacts

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