

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [Reserved.]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Our business, results of operations or financial condition could be harmed if any of these risks materialize.

Risks Relating to our Company

- Following the consummation of our Privatization, we are subject to continuing obligations that expose us to certain ongoing risks.
- Our Privatization is being challenged in court. In addition, certain politicians, including the newly elected President and his party, may formally propose to reverse the Privatization.
- Transactions with related parties may not be properly identified and managed, which could expose us to lawsuits and affect our financial results.
- We may not receive all the debt that Amazonas Energia owes us and our subsidiary Eletronorte.
- We are exposed to claims for our historic management of certain sectoral funds and governmental programs.
- Part of the success of our operations and the implementation of our strategy depends on the technical qualifications of the members of our management and certain key employees, and we cannot guarantee that we will be able to maintain them or replace them with suitable individuals.

Risks Relating to our Operations

- Our increasing reliance on the commercialization on the Free Market exposes us to certain risks that may have an adverse effect on our revenues, results of operations and financial condition.
- If we do not remedy the material weaknesses in our internal controls, the reliability of our financial statements may be materially affected

- Our operational and consolidated financial results are dependent on the results of our subsidiaries, affiliates and SPEs in which we invest.
- Failures in our information technology systems, information security systems, and telecommunications systems may adversely impact us.
- Our business may be impacted by political events, war, terrorism, and other geopolitical uncertainties.
- Our financial and operating performance may be adversely affected by epidemics, natural disasters, and catastrophes, such as the outbreak of COVID-19.
- We may not be able to prevent, detect, and timely implement corrective measures in relation to unlawful conduct in our operations by our management, employees, SPEs in which we hold interests and third-party contractors.
- Our insurance policies may be insufficient to cover potential losses.
- We do not have alternative supply sources for the key raw materials that the thermal plants use.
- Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors could adversely affect our business.

Risks relating to our Financial Condition

- We may suffer material adverse financial impacts as a result of Furnas' control of SAESA.
- We have substantial financial liabilities and may be exposed to liquidity constraints in the near and medium term, which could make it difficult to obtain financing for our planned investments.
- We may incur substantial financial liabilities as well as unexpected expenses until we complete the construction of the Angra 3 nuclear power plant.
- We guarantee several projects that are structured through SPEs. Our financial condition may be adversely affected if the loans related to these projects are not repaid.
- We are subject to certain covenants, which in case of non-compliance may allow the lenders under the relevant facilities to accelerate our obligations to them.
- Indemnification payments for investments in concessions renewed pursuant to Law No. 12,783/2013, which were not yet amortized.
- Every five years the assured energy of our hydroelectric plants can be adjusted, and we may incur additional costs to purchase energy to comply with existing agreements.
- We and our subsidiaries may be required to make substantial contributions to the pension plans of our current and former employees which we sponsor.
- We may be indirectly liable for damages related to accidents involving Eletronuclear.

Risks relating to Compliance, Legal and Regulatory Framework

- We may incur losses and spend time and money defending pending litigation and administrative proceedings.
- We may incur losses in legal proceedings relating to compulsory loans made in the period between 1962 and 1993.
- We are, have been, and may again be party to U.S. proceedings relating to disclosures surrounding our compulsory loan credits and bearer bonds.

- Under the current rules for tariff reviews for generation and transmission concessions, we might not receive full compensation for costs incurred in the operation and maintenance of these concessions and any expenses in relation to these assets.
- We are subject to risks associated with failure to comply with the applicable data protection laws, and we may be adversely affected by the imposition of fines and other types of sanctions.
- Our generation and transmission activities are regulated and supervised by ANEEL. Our business could be adversely affected by regulatory changes, and we may be subject to penalties, administrative intervention or loss of our concessions for public service if we provide our services in an inadequate manner or violate contractual obligations.
- Certain of our subsidiaries adhered to installments programs for tax debts and must comply with special rules, otherwise, these installments programs may be terminated, and the benefits may be cancelled.
- Following our Privatization, we are now subject to the Brazilian Bankruptcy Law. However, if any of our assets are deemed assets dedicated to providing an essential public service, they will not be available for liquidation and will not be subject to attachment to secure a judgement.
- Our failure to protect our intellectual property may adversely impact us.
- If we fail to address issues related to the health and safety of our employees at work and the facilities where we conduct our activities, we may be adversely affected.

Risks Relating to Brazil

- Brazil's economy is vulnerable to external and internal shocks, which may have an adverse effect on Brazil's economic growth and on the trading markets for securities.
- Political uncertainty may lead to an economic slowdown and volatility in securities issued by Brazilian companies.
- The volatility of the Brazilian real and of the inflation rate may impact our operations and cashflows.
- Changes in tax or accounting laws, tax incentives, and benefits or differing interpretations of tax or accounting laws may adversely affect us.
- Any downgrading of Brazil's credit rating could adversely affect the price of our shares and ADS and our cost of funding.

Risks Relating to Environmental, Climate and Social Impacts

- Construction, expansion and operation of our electricity generation and transmission facilities and equipment involve significant risks that may result in loss of revenue or increase in expenses.
- We are exposed to risks relating to the inadequate management of socioenvironmental aspects of our enterprises and projects.
- We are subject to impacts related to hydrological conditions that may result in lower generation of hydroelectric power and adversely affect our business.
- Climate change can have significant impacts on our generation and transmission activities.
- We can be held responsible for the social and environmental impacts of accidents involving the dams at our hydroelectric plants.
- Given the nature of our generation and transmission activities, we are subject to risks related to human rights violations.

Risks Relating to our Shares and ADS

- If you hold our preferred shares, you will have limited voting rights.

- We are conducting studies to assess a potential migration to the Novo Mercado listing segment of B3, and such process, if carried out, would lead to the conversion of all class A and class B preferred shares into common shares, in addition to the review of corporate governance practices in compliance with the Novo Mercado rules.
- Our by-laws include certain provisions that limit shareholders' voting rights and that may discourage takeovers or prevent or delay the approval of certain matters, which could negatively affect the price of our shares and ADSs.
- Exercise of voting rights with respect to common and preferred shares involves additional procedural steps.
- The Brazilian Government has a golden share that grants it a veto power in corporate resolutions aimed at modifying our bylaws with the purpose of removing or modifying the limitation on the exercise of voting rights and entering into a shareholders' agreement. The interests of the Brazilian Government may conflict with the interests of other holders of shares and ADSs issued by us.
- We do not have a controlling shareholder, which may leave us susceptible to alliances between shareholders, conflicts between shareholders and other events arising from the absence of a controlling shareholder or a controlling group.
- If we issue new shares or our shareholders sell shares in the future, the market price of your ADS may be reduced.
- Political, economic and social events as well as the perception of risk in Brazil and in other countries, including the United States, European Union and emerging countries, may affect the market prices for securities in Brazil, including our shares.
- Exchange controls and restrictions on remittances abroad may adversely affect holders of ADS.
- Exchanging ADS for the underlying shares may have unfavorable consequences.
- You may not receive dividend payments if we incur net losses, or our net income does not reach certain levels.
- You may not be able to exercise preemptive rights with respect to the preferred or common shares.
- We may need to raise additional funds in the future and may issue additional common shares, which may result in a dilution of your interest in our common shares underlying the ADSs. In addition, a dilution of your interest in our common shares underlying the ADSs may occur in the event of our merger, consolidation or any other corporate transaction of similar effect in relation to companies that we may acquire in the future.
- International judgments may not be enforceable when considering our directors or officers' status of residency.
- Judgments of Brazilian courts with respect to our common shares may be payable only in reais.
- Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our shares or ADS.

Risks Relating to our Company Following the consummation of our Privatization, we are subject to continuing obligations that expose us to certain ongoing risks.

The Eletrobras Privatization Law and related regulations included certain obligations that we and our subsidiaries must satisfy as part of our Privatization process and the related renewal of certain of our generation concessions' contracts for a 30-year term. As of the date of this annual report, we are continuing to implement the following obligations:

- *Cepel*: we must make contributions to the research center for six years from the Global Offering Date;
- *CDE Account*: our subsidiaries must pay a total of R\$29.8 billion over 25 years to the CDE Account, with an advance of R\$5.3 billion being paid on July 15, 2022;
- *Eletronuclear Investment Agreement*: we must maintain the existing guarantees provided under certain financings of Eletronuclear prior to our Privatization and raise funds and provide guarantees in proportion to our participation in the voting capital of Eletronuclear for the completion of the Angra 3 project. See "– We may incur substantial financial

liabilities as well as unexpected expenses until we complete the construction of the Angra 3 nuclear power plant” and “Item 10. Additional Information – C. Material Contracts” for further details;

- *Optimum use of the plants:* under the new concession contracts, our subsidiaries must carry out studies for the modernization and repowering of these plants; and
- *Regional funds:* our subsidiaries Chesf, Furnas and Eletronorte must contribute R\$6.9 billion over ten years for projects to revitalize certain hydrographic basins and to reduce generation costs in the Legal Amazon region.

See “Item 4. Information on the Company – A. History and Development – Privatization – Conditions for the Privatization” for further details on the current progress on the implementation of these conditions.

Regarding the studies about the optimal utilization of our plants, which must be developed within 36 months, any projects that are economically feasible must be implemented within 132 months, counting from the date of signature of the new concession contracts. If we do not comply with this, the respective concession agreement may be terminated.

In respect of the regional funds, the applicable regulation established that the concessionaires will be responsible for: (i) proposing measures; (ii) implementing the measures approved by the funds’ management committees; (iii) presenting the results of these measures; (iv) contracting an independent auditor to supervise disbursements; and (v) presenting accounting statements of the results of the measures. Our subsidiaries will be subject to inspection by the funds’ committees and, indirectly, by the TCU and the CGU. If they fail to comply with these obligations, they will be subject to sanctions by ANEEL. Pursuant to the Eletrobras Privatization Law, we are subsidiarily liable for the obligations of our concessionaires.

Our compliance with these obligations subsequent requires significant investments, which may have an adverse effect on our future cash flows. Further, certain assumptions used as part of the calculation of the added value of the new concessions may not materialize, which could negatively impact projected revenues and costs for these concessions. If we do not generate sufficient cash or our credit lines are insufficient, we may not be able to meet all these obligations, which could adversely affect our results from operations, financial condition, and the price of our shares and ADRs and result in the early termination of certain concessions.

Our Privatization is being challenged in court. In addition, certain politicians, including the newly elected President and his party, may formally propose to reverse the Privatization.

The model and other aspects of our Privatization, as well as the legislative proceeding that resulted in the enactment of Law No 14,182/2021, may be challenged by regulatory bodies, consumer groups, or others, or be suspended by Brazilian courts, which could have adverse legal and reputational effects on us. In addition, the corporate restructuring, especially the change of control of Eletronuclear, may also be challenged in court. As of the date of this annual report, there are 23 ongoing lawsuits challenging the model of our Privatization in court. It is possible that other parties may file further lawsuits challenging our Privatization. See “Item 4. Information on the Company–A. History and Development–Privatization” as well as “Item 8A. Consolidated Financial Statements and Other Information–Litigation–Legal Proceedings Relating to Our Privatization Process” for further information about legal proceedings related to our Privatization.

In addition, our Privatization may still be formally challenged by the newly elected President and his political allies who are opposed to it. President Luiz Inácio Lula da Silva has issued public statements questioning our Privatization and formally requested the AGU to conduct a study to assess the legal grounds for contesting the provisions of our bylaws limiting the exercise of shareholders’ voting rights to up to 10% of our capital stock regardless of the number of common shares held by such shareholder, which was included to ensure we are a “true corporation.” If the President is successful in contesting these provisions, the Brazilian Government may try to regain control over us, which may cause us to revert the Privatization to once again become a state-controlled company for legal purposes with the implications arising therefrom.

If our Privatization is challenged, we may struggle to raise capital and maintain our investments and current market share. In addition, such a challenge could have negative effects on our rating and the price of our shares and ADS. Transactions with related parties may not be properly identified and managed, which could expose us to lawsuits and affect our financial results.

As part of our Privatization process, we entered into transactions with related parties for which no comparable market terms were available and, therefore, we cannot assure that all the requirements of our related parties policy were met. Additionally, a number of improvements were made to our transactions with related parties’ processes and we are currently developing an improvement to the SAP system. For further details see “Item 7B. Related Party Transactions.”

Transactions with related parties, when not signaled, managed, and communicated to the market, may characterize non-compliance with the requirements made by the CVM, the SEC and the stock exchanges on which our securities are listed, which may adversely affect our financial condition, resulting in regulatory sanctions and exposing us to lawsuits filed by third parties.

We may not receive all the debt that Amazonas Energia owes us and our subsidiary Eletronorte.

In April 2019, we completed the transfer of control of our former subsidiary Amazonas D. At that time, Amazonas D owed us R\$3.9 billion. Additionally, as of the same date, Amazonas D also owed R\$0.4 billion to Amazonas GT in respect of the purchase of energy, totaling approximately R\$4.3 billion of exposure to our economic group.

Between September 2019 and June 2021, Amazonas GT and Amazonas Energia entered into four debt confirmation agreements (“CCDs”) in the total amount of R\$2.3 billion to renegotiate the debts. As of December 31, 2022, Amazonas Energia’s total debt owed to Eletronorte (which incorporated Amazonas GT in July 2021) was R\$2.7 billion and R\$4.9 billion to us.

Throughout 2022 the risk of default by Amazonas Energia was aggravated as a result of legal issues raised by it and a deterioration in its general financial and operational condition. Despite constant interactions between us, Eletronorte and Amazonas Energia, we failed to reach a settlement. Since December 2021 we have not received the payment of the principal or the interest due under seven loan agreements entered into with Amazonas D which led to a reanalysis of our provisions for this debt and an increase in our provision to R\$4.6 billion.

Since January 2022 Eletronorte has also not received the payments due by Amazonas Energia under four agreements under which their debt was renegotiated. The amount due under these agreements of R\$2.0 billion was fully provisioned as of December 31, 2022. Amazonas Energia also did not pay Eletronorte part of the current energy transmission invoices between January and April 2022. As a result, Eletronorte also provisioned R\$0.7 billion due to it.

As result, out of Amazonas Energia’s R\$7.6 billion debt to Eletronorte and us, we have provisioned R\$7.3 billion as of December 2022.

Considering Amazonas Energia’s historic and most recent default, we are exposed to a risk of Amazonas not being able to honor all its debt obligations to us under current conditions. Considering the current level of provisions, our current exposure to Amazonas Energia is R\$300.0 million in respect of the existing debt and we may be further exposed in respect of future energy purchases by Amazonas Energia, which could adversely affect our financial results.

We are exposed to claims for our historic management of certain sectoral funds and governmental programs.

We managed the RGR Fund and sectoral funds such as the CDE Account and CCC Account until April 30, 2017, when the CCEE took over the management of these funds. We also manage certain government programs, including *Luz para Todos*, Proinfa, Procel, and *Mais Luz para a Amazônia*, which will have their management transferred to ENBPar until June 15, 2023 as part of our Privatization process. Once the management of these government programs is transferred to ENBPar, we will remain liable for a five-year period for any actions taken by us during our management of the programs pursuant to the statute of limitations provided for in TCU Ordinance No. 344/2022. A proceeding filed under this Ordinance may remain inactive for up to three years. Both statutes of limitation are subject to hindrance, suspension, and interruption rules.

We received capital resources associated with the contracts executed to cover the administrative costs incurred in operating the *Luz para Todos* and *Mais Luz para a Amazônia* programs. In respect of the expenses under the Procel program, we were reimbursed through the revenues obtained from this program in accordance with Law No. 13,280/2016 and its annual investment plan (PAR Procel). Regarding Proinfa, our administrative costs were covered by revenues obtained from the Proinfa account (*Conta Proinfa*) of which the budget is annually approved by ANEEL (*Plano Annual do Proinfa - PAP*), in accordance with Decree No. 5,025/2004.

If the Brazilian authorities conclude that we mismanaged the funds from these government programs, they may impose fines on us, and we may be subject to criminal and civil liability for such. For instance, in July 2019, ANEEL imposed a fine of R\$51.7 million for our non-compliance with the management of the CCC Account (Proceeding No. 48500.001106/2014-20). We appealed to court to cancel this fine and as of the date of this annual report we are awaiting a final decision.

Risks Relating to Our Management

Part of the success of our operations and the implementation of our strategy depends on the technical qualifications of the members of our management and certain key employees, and we cannot guarantee that we will be able to maintain them or replace them with suitable individuals.

Part of the success of our operations and the implementation of our strategy depends on the knowledge, skills, and effort of the members of our management team and certain key employees. If key members of our management team or key employees leave our company, we may not be able to find equally qualified professionals to replace them in a timely manner. Furthermore, the SEC has instituted mandatory clawback rules in respect of publicly listed companies, such as us, that require us to adopt a clawback policy by November 28, 2023, providing for the recovery of incentive-based compensation awarded to executive officers if the company is required to prepare an accounting restatement resulting from material noncompliance with financial reporting requirements. The specific long-term impact of these policies on us is not yet clear. If these proposed new compensation rules come into force, they might make it more difficult for us to attract and retain duly qualified professionals by capping the amount of variable compensation compared to fixed pay, requiring the deferral of certain types of compensation over time, implementing “clawback” requirements, or making other changes deemed onerous by such professionals. The loss of members of our management team or certain key employees and the difficulty in hiring professionals with similar expertise and experience could have a negative effect on our results of operations, financial condition, and our reputation.

Risks Relating to our Operations

Our increasing reliance on the commercialization on the Free Market exposes us to certain risks that may have an adverse effect on our revenues, results of operations and financial condition.

We currently commercialize the energy generated at our plants on both the Regulated and Free Markets. However, pursuant to the New Concession Agreements, the commercialization of the energy generated at 17 of our hydroelectric plants on the Regulated Market are being phased out at a 20% rate per annum beginning on January 1, 2023. Consequently, within five years all the energy generated at those 17 plants will be commercialized on the Free Market. As the portion of our energy sales on the Free Market increases, our energy commercialization segment becomes gradually more significant, representing a larger portion of portion of revenues each year.

As opposed to the Regulated Market where tariffs are fixed and revenues tend to be relatively stable, the commercialization of energy on the Free Market is much more dynamic and complex and depends on our analysis of, and assumptions about, several factors, including hydrological trends, expectations about supply and demand, historical behavior of prices and market variables.

Accordingly, the gradual increase in our commercialization of energy on the Free Market exposes us to various risks such as:

- projections of future energy price curves which do not materialize;
- the introduction or extension of legal and fiscal incentives for the development of other energy sources (such as thermal plants powered by gas, wind or solar projects) that can displace the need for the supply of energy generated by hydroelectric plants;
- market risks;
- liquidity risks;
- counterparty risks; and
- hydrological conditions (GSF and short-term price fluctuations).

In 2022, favorable hydrological conditions and the increase in the installed capacity in Brazil reduced energy prices on the Free Market in the short and medium terms. At the time of our Privatization we expected a certain energy price for the coming years which did not materialize due to impact of the favorable hydrological conditions in 2022 on the price of energy on the Free Market.

Our commercialization planning considers the main conditions applicable to the market and our portfolio, outlining a wider commercialization strategy for our group companies, aiming, on the one hand, to mitigate market and liquidity risks through a level of controlled contracting (uncontracted energy) over the years and, on the other hand, to maximize the value of energy sales so that exposures to market risk in the periods closest to supply are residual. However, if our assumptions do not hold true or if our strategy is otherwise not successful, we may suffer a materially adverse effect on our revenues, results of operations and financial condition.

If we do not remedy the material weaknesses in our internal controls, the reliability of our financial statements may be materially affected.

During the 2022 audit certification process, we and our independent auditor conducted independent tests and identified deficiencies in our internal controls related to control environment, including financial reporting controls as stated in our annual report for the year ended December 31, 2022. See “Item 15—Controls and Procedures” for further details.

These control deficiencies, specifically the material weakness in internal controls over financial reporting, could result in misstatements of accounts and disclosures that could result in a failure to prevent or detect material misstatements in our consolidated financial statements. Accordingly, our management has determined that these control deficiencies constitute a material weakness.

Our internal controls department is responsible for overseeing the implementation of action plans and reports periodically to the Board of Directors and the Audit and Risk Committee. If our future efforts are not sufficient to remedy all the inconsistencies identified, we could continue to experience material weaknesses in our internal controls in the future. Any such material weaknesses could adversely affect our ability to accurately prepare our financial statements, which may result in a restatement of our historical financial statements or in misstatements in our future financial statements and, consequently, adversely affect our business and financial condition.

Our operational and consolidated financial results are dependent on the results of our subsidiaries, affiliates and SPEs in which we invest.

We conduct our business mainly through our generation and transmission operating subsidiaries. In addition, we and our subsidiaries conduct some of our business through SPEs, which are created specifically to participate in public auctions for new enterprises in the generation and transmission segments. Our SPEs are typically structured in partnership with other companies to exploit new energy sources and transmission lines. As of December 31, 2022, we had an equity interest in 21 affiliates and 74 SPEs that explore generation, transmission, and distribution activities. Therefore, our revenues and ability to meet our financial obligations is related, in part, to the cash flows generated by, and earnings of, our subsidiaries and SPEs, and the distribution or other transfers of earnings to us in the form of dividends, loans or other advances and payments.

As these SPEs and affiliates are separate legal entities, any right we may have to receive assets of any SPE or affiliate or other payments upon their liquidation or reorganization will be effectively subordinated to the claims of the creditors of that SPE or affiliate (including tax authorities and trade creditors). In the event we are unable to receive such assets or other payments, our financial condition and results of operations may be materially adversely affected.

Failures in our information technology systems, information security systems, and telecommunications systems may adversely impact us.

Our operations are heavily dependent on information technology and telecommunication systems and services. We also use information technology to process financial information and results of operations for internal reporting purposes and to comply with regulatory, legal, and tax requirements. In addition, we depend on information technology for electronic communications between our facilities, personnel, customers, and suppliers. We also process personal data of our employees and customers (business-to-business).

Interruptions in these systems, caused by obsolescence, technical failures, intentional acts or discontinuity in the implementation, maintenance, and evolution of technological solutions, can disrupt or even paralyze our business and adversely affect our operations and our reputation. In addition, security failures related to sensitive information could occur due to intentional or unintentional actions, such as cyberterrorism, or internal actions, including negligence or misconduct of our employees.

Cybersecurity attacks have increased worldwide in recent years, and we cannot assure that we will be able to address future attacks successfully. Also, the remote working arrangements implemented have increased our dependence on information technology systems and infrastructure, and they may further expand our vulnerability to this risk. In the event of such actions, we, our customers,

and other third parties may be exposed to potential liability, litigation, and regulatory or other government action, damage to brand and reputation and other financial loss. In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, or suppliers. The cost and operational consequences of responding to cybersecurity incidents and implementing remediation measures may be significant and may not be covered by insurance.

In 2021, two new regulations related to operational technology came into force exposing us to further regulatory risks and requiring time and resources for their implementation. We may incur in penalties and financial losses if we do not adapt to and comply with such regulations or any further regulations that may come into force from time to time. For further details regarding our information security systems see “Item 4 Information on the Company–E. Compliance–Information Systems.”

Our business may be impacted by political events, war, terrorism, and other geopolitical uncertainties.

War, terrorism, and other geopolitical uncertainties have caused and could cause damage or disruption to the economy and commerce on a global or regional basis, which could have a material adverse effect on our business, our customers, and the companies with which we do business.

For instance, the global markets are currently operating in a period of economic uncertainty, and significant volatility, following Russia’s full-scale invasion of Ukraine on February 24, 2022. Although the length and impact of the ongoing military conflict are still unpredictable, the conflict in Ukraine and any other geopolitical tensions could have an adverse effect on the economy and business activity globally and lead to:

- credit and capital market disruptions;
- significant volatility in commodity prices;
- increased costs of resources (such as energy, natural gas and coal) for our operations;
- potential further appreciation of the U.S. dollar;
- increase in interest rates and inflation; and
- lower or negative global growth.

Although we are not currently directly affected by such conflict, it still exposes us to the macroeconomic risks set out above, which could lead to an increase in our operating costs and adversely affect our business. Additionally, Russian military actions, the resulting and potential sanctions and Russian counter measures or retaliatory actions could adversely affect the global economy and financial markets and lead to further instability and lack of liquidity in capital markets. Therefore, the current and future measures could adversely affect our business, financial condition, and results of operations.

Certain geopolitical and economic risks have increased over the past few years as a result of trade tensions between the United States and China, Brexit and other geopolitical issues. Any further escalation of tensions may lead, among others, to a further disruption in the global economy, disruption in international trade flows and increased market pricing volatility.

Our financial and operating performance may be adversely affected by epidemics, natural disasters, and catastrophes, such as the outbreak of COVID-19.

Our operations may be negatively impacted by epidemics, natural disasters, or other catastrophes such as the COVID-19 pandemic. The impact of the COVID-19 pandemic on the global economy and financial markets was significant in 2020 and 2021 and introduced new consumption habits that impacted many businesses. The COVID-19 pandemic also resulted in materially increased volatility in both Brazilian and international financial markets and economic indicators, including exchange rates, interest rates and credit spreads.

Our revenues from power generation are derived from sales on (i) the Regulated Market, including plants that operate under the quota regime, (ii) the Free Market, and (iii) the spot market. In case an outbreak of an epidemic (including any resurgence of COVID-19), a natural disaster or a catastrophe, we cannot guarantee that the demand for energy will remain stable or grow. In particular, there

can be no assurance that the price of energy we sell in the Free Market will not decrease below the price at which we obtain energy (as a result of a decrease in demand or otherwise). In such a situation, due to epidemics, natural disasters, and catastrophes, our margins and results of operations may be adversely affected.

In the event of an epidemic, natural disasters, or other catastrophes, we cannot assure you that distribution companies will not experience an increase in consumer defaults. This would negatively impact the financial condition of the distribution companies and could lead to them defaulting on their obligations to generation companies. As a result, any of these factors could affect our revenues.

Our revenues from power transmission are derived from fixed tariffs established by ANEEL (through the RAP), which are reviewed periodically in accordance with applicable regulations. These revenues depend on the availability of our transmission assets in the Interconnected Power System and not on the flow of energy transmitted. However, as some of our planned transmission lines are still under development, we may still experience delays in their construction in the event of an epidemic, natural disasters, and other catastrophes. These events can cause us or our contractors operational delays in the delivery of equipment or other inputs purchased abroad, delays in connecting new users to the Interconnected Power System, and in maintenance on our infrastructure, resulting in missed deadlines. Also, these events may impact the construction of our generation assets, which could lead to a default by our generation plants in their obligations under their respective power purchase agreements.

We may not be able to prevent, detect, and timely implement corrective measures in relation to unlawful conduct in our operations by our management, employees, SPEs in which we hold interests and third-party contractors.

We are subject to the risk that our management, employees, contractors, the SPEs in which we hold interests or any person doing business with us may engage in fraudulent activity, corruption, or bribery, circumvent, or override our internal controls and procedures or misappropriate or manipulate our assets for their personal benefit or that of third parties. Further, such parties may, against our interests, misuse insider information or act in situations of conflicts of interests, where their personal interests conflict with our legitimate interests. This risk is heightened by the fact that we have many complex, high value contracts, as well as the geographic distribution of our operations and the wide variety of counterparties involved in our business. We cannot guarantee that all our employees and contractors will comply with our principles and rules of ethical behavior and professional conduct aimed at guiding our management, employees, and service providers. Any failure, whether actual or perceived, to abide by our ethical principles or to comply with applicable governance or regulatory obligations could harm our reputation, limit our ability to obtain financing and have a material adverse effect on our results and financial condition, if not detected in a timely manner.

For instance, in the past we conducted an independent investigation into certain allegations in connection with the *Lava Jato* investigation. In connection with this, the DoJ decided not to prosecute us for any potential FCPA violations or impose any contingencies or conditions on us and in December 2018, the SEC announced it would accept our payment of a settlement of U.S.\$2.5 million for inadequate internal controls, which does not represent an admission of an illegal act on our behalf.

Our insurance policies may be insufficient to cover potential losses.

Our business is generally subject to several risks, including operational accidents, cybersecurity related risks, occupational accidents, unexpected geological and hydrological conditions, environmental hazards and weather, and other natural phenomena. Additionally, we and our subsidiaries are liable to third parties for losses and damages caused by any failure to provide generation and transmission services.

Our insurance policies cover only part of the losses that we may incur. If we are unable to eventually renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected expenses, which may adversely impact our results of operations and financial condition. Currently, the Candiota 3 plant does not have an operational risk insurance in place and, as a result, if any operational damage event occurs, the cost will not be covered by any insurance. For further information see "Item 5.C. Operating and Financial Review and Prospects—Research and Development, Patents and Licenses—Insurance."

We do not have alternative supply sources for the key raw materials that the thermal plants use.

Our thermal plants operate on coal, natural gas, and/or oil, representing 3% of our installed capacity. In each case, we are entirely dependent on third parties, sometimes monopolies, for the provision of these raw materials. If supplies of these raw materials become unavailable or they may not be purchased on reasonable terms for any reason, such as significant increases in price due to inflation, we do not have alternative supply sources and, therefore, the ability of our thermal plants, as applicable, to generate electricity

would be adversely affected, which may impact our results of operations and financial condition. As of the date of this annual report, our supply has not been affected by the current conflict between Russia and Ukraine.

Strikes, work stoppages or labor unrest by our employees or by the employees of our suppliers or contractors could adversely affect our business.

As of the date of this annual report, all our employees are represented by labor unions as determined by law. We face strikes and work stoppages from time to time. Disagreements on issues involving our Privatization, divestments or changes in our business strategy, reductions in our personnel, could lead to further labor unrest. We cannot ensure that future strikes will not affect our operations or administrative routines.

Strikes, work stoppages, or other forms of labor unrest at our company, our subsidiaries or SPES or any of our major suppliers, contractors or their facilities could impair our ability to operate our business, complete major projects and adversely impact the results of our operations, financial condition, and ability to achieve our long-term objectives. For further information regarding strikes and work stoppages, see "Item 4. Information on the Company–B. Business Overview–Operating Process–Types of Plants–Shutdowns and strikes in the last three fiscal years."

Risks relating to our Financial Condition

We may suffer material adverse financial impacts as a result of Furnas' control of SAESA.

In July 2022, our subsidiary Furnas increased its stake in MESA from 43.05% to 72.36% and the shareholders of MESA agreed to terminate the Shareholders' Agreement of MESA. As a result, Furnas became the controlling shareholder of MESA and, indirectly SAESA. As a consequence, we started to consolidate the results of MESA on a line-by-line basis into our results. In March 2023, Furnas acquired a further stake of 22.9% in MESA, bringing its total stake to 95.2%. As SAESA's total debt amounted to R\$20.1 billion, our consolidated debt increased by 57%.

There is also uncertainty about the recoverability of certain tax credits of SAESA related to accumulated losses. Any adverse decision about their recoverability could lead to a reversal of the credits, which could have a material impact on its results of operations. Following this consolidation, our ability to raise funds in the capital markets could also be affected, as the increase in our leverage could lead to a greater perception of risk and higher spreads.

It is possible that SAESA does not meet the profitability forecast in its business plan or that it is not able to generate positive cash flows, which could prevent it from complying with its financial obligations and have a material adverse effect on its results of operations and financial condition. This in turn could have an adverse impact on our results of operations. In addition, SAESA's existing debt is relatively expensive and includes strict covenants as certain of its prior indirect shareholders were involved in cases of fraud and corruption in the past.

SAESA is also party to several judicial and administrative proceedings, involving significant amounts, including civil, environmental, tax and public civil actions. Unfavorable decisions in these proceedings could mean that SAESA has to pay substantial amounts or have potential impacts on its operations which could also have adverse effects on our results of operations.

If any of these events materialize, our results of operations and financial conditions could be adversely affected.

We have substantial financial liabilities and may be exposed to liquidity constraints in the near and medium term, which could make it difficult to obtain financing for our planned investments.

Our main sources of funding are capital markets issuances and loans from multilaterals and commercial banks in both the local and international markets. As there may be liquidity restrictions in the local or international capital markets in the near and medium term, we may experience difficulties to finance our planned investments and to repay principal and interest under the terms of our existing credit facilities. Any difficulty in raising significant amounts of debt capital in the future may adversely affect our results of operations and our ability to fulfill our strategy and planned or future investments.

Any lowering of our credit ratings, as well as Brazil's sovereign ratings, or adverse macroeconomic factors, such as adverse news in Brazil or globally about the financial viability of certain banks or corporations, could also have negative consequences on our

ability to obtain financing in the market through debt or equity securities, or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. The impact on our ability to obtain financing and the cost of financing may adversely affect our results of operations and financial condition.

We may incur substantial financial liabilities as well as unexpected expenses until we complete the construction of the Angra 3 nuclear power plant.

In 2009, Eletronuclear started the construction of the nuclear plant, Angra 3. The construction of the plant was suspended during 2015, as Eletronuclear faced difficulties making the capital contributions required by the financing contracts entered into with BNDES. Additionally, in 2015, several investigations commenced to assess potential illegal activities by companies that provided engineering services to Eletronuclear in relation to the Angra 3 project and the TCU determined the suspension of construction due to these allegations. The termination of the agreements and/or the suspension of payments to these engineering companies, led to civil lawsuits filed by them against Eletronuclear regarding the suspension of construction at Angra 3.

In 2020, we approved a plan to resume the construction of Angra 3, however, no assurance can be made regarding the timely completion of construction on budget. In addition, Eletronuclear is still involved in the lawsuits mentioned above.

Even though we are no longer the controlling shareholder of Eletronuclear, the Eletrobras Privatization Law provided that we must continue to guarantee all existing obligations of Eletronuclear with respect to the development of the Angra 3 nuclear plant. In addition, we entered into various agreements with ENBPar, including an investment agreement for the continued development of the Angra 3 project. Under this agreement, we committed to raise funds and grant guarantees in proportion to our participation in the voting capital of Eletronuclear, with any remaining funds and guarantees being provided by ENBPar. We cannot assure you that we will be able to obtain the funds necessary to meet our investment obligations or that ENBPar will be able to obtain all the necessary funds and guarantees, which could adversely affect the completion of the project as well as our ability to leverage and guarantee new projects.

The project also assumes a certain tariff to be charged for energy to be produced by the Angra 3 plant upon its completion. We cannot guarantee that this tariff which we expect to be approved by CNPE later this year, will achieve its purpose of guaranteeing the economic-financial balance (considering a present value of the project equal to zero), while also being considered a reasonable tariff. If the actual tariff is lower than the one required to reach break-even, the viability of the project could be severely jeopardized, which in turn could have an adverse effect on our financial condition.

As of December 31, 2022, Eletronuclear had completed approximately 66.97% of the original project. The revised budget for Angra 3 now totals R\$29.3 billion. As of the date of this annual report, it is estimated that Angra 3 will commence operations in July 2028, instead of November 2026 as previously assumed. As of December 31, 2022, total impairments accumulated and recognized on our balance sheet amounted to R\$4.5 billion. We continue to monitor the estimates and the associated risks in determining the recoverable value of this project and we will reflect any changes to these estimates as part of the business plan as and when they become available.

If there are further delays in the start of the commercial operation of Angra 3 or the works at the site are once again suspended, we may be required to prepay a financing granted by BNDES to Eletronuclear (under which R\$3.3 billion was outstanding as of December 31, 2022) as we are the guarantor of this debt. We may also have difficulties repaying a loan granted by Caixa Econômica Federal (under which R\$2.9 billion was outstanding as of December 31, 2022) which may lead us to record new provisions for impairments, in addition to other liabilities that we may have to record. The total costs of abandoning or interrupting the Angra 3 project and demolishing the plant (to be divided between the shareholders) were estimated at R\$13.6 billion as of March 2022 by Tractebel, who was hired by BNDES. The occurrence of any of these events could adversely affect our financial condition.

We guarantee several projects that are structured through SPEs. Our financial condition may be adversely affected if the loans related to these projects are not repaid.

Over the past few years, we have acted as guarantor in respect of our share in several projects conducted through SPEs in which our subsidiaries were minority shareholders to finance the construction of these projects.

As of December 31, 2022, the aggregate value of these guarantees was R\$28.8 billion compared to R\$29.9 billion as of December 31, 2021. Among the SPEs for which we currently provide guarantees are Norte Energia, Teles Pires, Sinop, Mata de Santa Genebra, São Manoel, and Jirau.

As a result of Furnas' acquisition of control in MESA in July 2022, we recorded the guarantees we provide to SAESA, MESA's wholly owned subsidiary, as part of our consolidated indebtedness and guarantees as of December 31, 2022. On March 20, 2023, Furnas entered into an agreement to acquire a further 22.9% stake in MESA which will increase our indirect stake to 95.2% and, consequently, also increasing our exposure to SAESA. For more information see "Item 5. Operating and Financial Review and Prospects –Principal Factors Affecting our Financial Performance–SAESA." If the loans related to these guarantees are not repaid, we may suffer adverse financial impacts.

Additionally, as provided for in Law No. 14,182/2021, our capitalization was conditioned upon a corporate restructuring to maintain Eletronuclear under the direct or indirect control of the Brazilian Government through the transfer of its control to ENBPar. As a result, our shareholding in Eletronuclear decreased from 99.95% to 67.95%, resulting in Eletronuclear becoming our affiliate. Law No. 14,182/2021 also provided that we remain a guarantor under any financings entered into prior to our Privatization. As a result, the guarantees we provided in respect of the Angra 1 and Angra 3 plants were reclassified in the aggregate amount of R\$6.3 billion as of December 31, 2022. This results in a total amount of unconsolidated guarantees of R\$28.8 billion.

If any of the SPEs or an affiliate default on their obligations, the guarantees we provided may be called upon, impacting our financial position. Even if a default occurs with only one lender, any such default may trigger cross default clauses in the financing contracts of other SPEs or affiliates, which could lead to other creditors requesting the acceleration of their loans. Any such cross acceleration would impact the enforcement of the guarantees provided by us and could adversely affect our financial condition.

We are subject to certain covenants, which in case of non-compliance may allow the lenders under the relevant facilities to accelerate our obligations to them.

We are party to several international and local financing facilities as borrower or guarantor. The bonds we issued in the international capital markets, the debentures and commercial papers issued in the local market, and our existing credit facilities require that we comply with several non-financial covenants, such as negative pledge provisions relating to the pledging of assets, the provision of financial statements by certain deadlines and the provision of an unqualified audit report, among others. These obligations also require us to obtain waivers from the applicable creditors for certain acts, such as actions that result in a change of control or the sale of relevant assets.

We, our subsidiaries and SPEs are also subject, in certain local financings, to financial covenants requiring compliance with the following indexes: (i) net debt over EBITDA, with a maximum level dependent on the contracts executed by us and each subsidiary, however generally fewer than four; and (ii) debt service coverage ratios, generally higher than 1.2. See "Item 4. Information on the Company–B. Business Overview–Lending and Financing Activities" for further information about our financing agreements.

Since September 30, 2022, the financial liabilities of SAESA were consolidated into the financial statements of Furnas, and consequently we incorporated the remaining gross debt of R\$20.1 billion into our results. This consolidation had a negative effect on our net debt over EBITDA ratio. As of December 31, 2022, we were in compliance with our financial ratios, and we will continue to monitor these financial indicators which are measured annually.

In addition, certain of the financing agreements for the development of our plants, some of which are guaranteed by us, contain acceleration clauses which could be triggered upon default. Any defaults or the acceleration of any financing agreements may also give other lenders the right to accelerate indebtedness owed to them pursuant to cross-default provisions. The acceleration of any financing agreements could adversely affect our results of operations and financial condition.

Indemnification payments for investments in concessions renewed pursuant to Law No. 12,783/2013, which were not yet amortized.

Pursuant to Law No. 12,783/2013, by agreeing to the renewal of our generation and transmission concessions which were due to expire between 2015 and 2017, we agreed to receive certain payments as compensation for the unamortized, undepreciated portion of our assets that relate to the renewed concessions.

In respect of our generation concessions, we are no longer entitled to receive indemnification payments for these plants as we agreed to forego these payments as part of our Privatization.

Regarding our transmission concessions, we have filed claims with ANEEL for our renewed transmission concessions, the RBSE assets and the RBNI assets. The indemnification relating to the RBNI assets was paid in installments between 2013 and 2015, at a book value of approximately R\$8.1 billion, as of December 31, 2012. Between 2015 and 2016, ANEEL approved the indemnity

payment in respect of the RBSE's assets at a book value of approximately R\$17.6 billion, as of December 31, 2012. The RBSE amounts were included in the transmission tariff as of July 2017. This amount has been challenged in court, which has delayed the timing of payment to us. As a result, in 2017, part of the compensation was excluded by ANEEL due to judicial injunctions. However, these injunctions were subsequently revoked, and the compensation was included in the revenue of our transmission companies in 2020.

On April 22, 2021, ANEEL's executive board approved a proposal for the re-profiling of the financial component of the RBSE. This decision caused a reduction in the payment curve of these amounts between July 2021 and June 2023, and an increase in the flow of payments after July 2023, extending these installments until July 2028. We cannot assure that any subsequent changes in the payment flow by ANEEL will not occur.

As a response to this decision, users of the transmission system submitted requests for reconsideration alleging that they identified inconsistencies in the numbers approved by ANEEL. So far, some studies have already been carried out by ANEEL's technical teams, but no final decision was made by ANEEL's Board of Directors. If ANEEL decides to uphold these requests, there may be negative impacts on our transmission revenues. The payment for the RBSE is also subject to analysis by the TCU in TCU proceeding No. 012.715/2017-4. As of the date of this annual report, neither the TCU nor ANEEL have issued any decisions on these matters.

As of the date of this annual report, we recorded R\$61.1 billion in our financial statements to be received as RBSE and RBNI assets. However, we cannot guarantee that we will receive the full amount or that such payments will be made in a timely manner.

Every five years the assured energy of our hydroelectric plants can be adjusted, and we may incur additional costs to purchase energy to comply with existing agreements.

Decree No. 2,655/1998 provides that the assured energy of our hydroelectric plants must be reviewed every 5 years. Any potential reduction in the physical guarantee is limited to 10% of the original amount of the concession agreement. Any reduction in the assured energy during any given review may not exceed 5% compared to the prior review period.

MME Ordinance No. 178/2017 amended the amounts of the physical guarantee in force since 2018. As a result, the physical guarantees of our plants were reduced by 4% on average. This included our plants which had their concessions renewed under Law No. 12.783/2013, and some of our SPEs.

As part of our Privatization, new concessions were granted for a period of 30 years beginning on June 17, 2023, for the plants which had their concessions originally renewed under Law No. 12.783/2013, the plants Itumbiara and Sobradinho and the plants Tucuruí, Mascarenhas de Moraes and Curuá-Una. The physical guarantees of these plants were defined by Ordinances GM/MME No. 544/2021 and GM/MME No. 570/2021 and represented an average reduction of 7% in their physical guarantees.

In 2022, the MME conducted a new ordinary review of the physical guarantees to be applied from 2023. The physical guarantees of our plants (including some of our SPEs) which were reviewed were reduced on average by 4%. Given that physical guarantees are reviewed periodically, the value attributed to our plants could be further reduced in the future. The next review is programmed for 2027 and any new values determined as part of this review will become effective in 2028.

Any further reduction in the assured energy could negatively impact our revenues and lead us to incur expenses due to the need to purchase energy to comply with sale and purchase agreements already in effect.

We and our subsidiaries may be required to make substantial contributions to the pension plans of our current and former employees which we sponsor.

We and our subsidiaries may be required to make contributions to the pension plans of our current and former employees. If there is a mismatch in the reserves of the pension plans and the amount of resources available to the plans, in case these plans are defined benefit plans, we (as sponsors) and the pension plan beneficiaries may be required to contribute to the pension plan to top-up the balance to reach the required amount, as provided by the specific regulations established by the regulatory body National Superintendency of Complementary Pensions (*Superintendência Nacional de Previdência Complementar*).

Additionally, we may need to recognize material actuarial liabilities if the equity in the pension funds that we and our subsidiaries sponsor fluctuates because of a decrease in economic activity and its impact on the financial and capital markets.

As of December 31, 2022, we recorded a deficit of R\$5.2 billion in our and our subsidiaries' pension plans. In the same period, we and our subsidiaries made contributions of R\$295 million to our respective pension plans. The implementation of a remediation plan

may result in the payment of extraordinary contributions by us and/or our subsidiaries to restore the balance of the plan. These amounts could be subject to litigation by the participants, due to a possible disagreement regarding the amounts. Such payments could have a material adverse effect on our cash flows and financial condition.

We may be indirectly liable for damages related to accidents involving Eletronuclear.

We currently hold a 67.95% interest in Eletronuclear, which is an operator of nuclear power plants. Eletronuclear is subject to strict liability under Brazilian law for damages in the event of a nuclear accident caused by the operations of nuclear plants Angra 1 and Angra 2, pursuant to the Vienna Convention on Civil Liability for Nuclear Accidents.

The Angra 1 and Angra 2 plants operate under the supervision of the CNEN, and are subject to periodic inspections by international agencies, such as the International Atomic Energy Agency (IAEA) and the World Association of Nuclear Operators (WANO).

Since nuclear accidents are usually catastrophic, any accident could materially affect our financial condition and reputation, including result in criminal liability. If an accident occurs, we can provide no assurance regarding its impact on us, or if the insurance coverage will be sufficient to cover all associated costs. Additionally, Eletronuclear may fail to receive sufficient amounts, or any amount at all, under insurance policies it has obtained for Angra 1 and Angra 2 to pay for eventual damages.

For instance, on September 16, 2022, a non-programmed release of approximately 90 liters of water containing substances of low radioactive levels occurred at Angra 1. As the levels were well below the legal limits for the occurrence of a radioactive accident, Eletronuclear treated this event as an internal operational incident and informed the matter in the regular reports sent to the competent authorities. However, a press outlet reported this occurrence as a "radioactive accident," which Eletronuclear disputes. Nonetheless, any events related to possible errors in the maintenance or operation of the nuclear facilities of Eletronuclear, could have negative effects on our reputation even though Eletronuclear is no longer our subsidiary.

As a result of our current stake in Eletronuclear, we may still be required to contribute amounts to cover any shortfalls in any indemnification due or may be found liable for any such shortfalls or damages arising from nuclear accidents under Brazilian law.

A recent decision from a Brazilian Court has allowed for the inclusion of shareholders as defendants without piercing the corporate veil in claims seeking compensation for environmental damages. The shareholders were included as defendants along with the company in the claims without the need for the plaintiffs to prove the lack of resources of the company. This precedent could be used against us in the event our subsidiaries or affiliates are accused of environmental damages.

Risks relating to Compliance, Legal and Regulatory Framework

We may incur losses and spend time and money defending pending litigation and administrative proceedings.

We are currently a party to, and will likely in the future become party to, numerous legal proceedings relating to civil, criminal, administrative, environmental, labor (including claims filed by outsourced workers), tax, and corporate claims filed against us. Members of our Board of Directors are also, and may become in the future, party to legal proceedings. These claims involve substantial amounts of money and other remedies, under judicial and arbitration proceedings. As of December 31, 2022, we provisioned R\$33.3 billion in respect of our probable legal proceedings, of which R\$586 million were related to tax claims, R\$29.6 billion were related to civil claims and R\$2.1 billion were related to labor claims. Our possible legal proceedings totaled R\$43.6 billion, of which R\$10.4 billion were related to tax claims, R\$27.5 billion were related to civil claims and R\$2.3 billion were related to labor claims. We do not provision for our possible and remote legal proceedings.

Any provisions we have recorded in respect of our legal proceedings may be insufficient to mitigate any losses resulting from adverse decisions. Unfavorable outcomes in legal proceedings and criminal investigations could have a material adverse effect on our consolidated financial position, results of operations and cash flows in the future. We cannot guarantee that new material proceedings or investigations will not arise against us, our affiliates, officers, employees, or members of our Board of Directors. See "Item 8.A. Financial Information—Consolidated Financial Statements and Other Information—Litigation" and note 34 to our Consolidated Financial Statements for further information about claims against us.

For example, we are currently party to a labor public civil action filed by the workers unions representing the employees of our former distribution subsidiaries Amazonas D, Ceron, Eletroacre, Ceal, Cepisa, and Boa Vista Energia against such companies and us

seeking the annulment of our 170th extraordinary general shareholders' meeting, which approved the privatization of our former distribution companies. Both the trial and the appellate Labor Court ruled the case in favor of the unions and annulled the 170th extraordinary general shareholders' meeting and all the acts carried out as a result of this extraordinary general shareholders meeting, including the privatization of our former distribution subsidiaries. The appeals filed by us and our former subsidiaries against the appellate Labor Court opinion are pending judgment before the Superior Labor Court. In case the ruling in favor of the unions becomes final and unappealable, the claim may result in a material adverse effect on our financial condition. For further information, see "Item 8.A. Financial Information—Consolidated Financial Statements and Other Information—Litigation."

In addition, unfavorable decisions in lawsuits and administrative proceedings filed against our directors and officers may affect our reputation and business, as well as prevent them from continuing to exercise their functions as our directors or officers.

Moreover, we cannot assure that new material proceedings against its directors and officers, its managers or other senior employees, will not arise or that existing proceedings will not directly affect its business model and expansion plan, which may adversely affect our business and results of operations.

In the event that claims involving a material amount for which we have no provisions were to be decided against us, or in the event that actual losses are significantly greater than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition. Our ability to estimate judicial losses was considered a material weakness as further described in "Item 8—Financial Information—Litigation." In addition, our management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on our core business. Depending on their outcome, certain litigation could restrict our operations and have a material adverse effect on certain of our businesses. Members of our management have in the past been and may in the future become parties to legal proceedings and may also be prevented from serving in their positions as a result of any criminal proceedings brought against them.

We and our subsidiaries are also parties to administrative and judicial proceedings involving environmental matters. If any of these proceedings are decided against us or them, we may, directly or indirectly, be subject to financial penalties, as well as the suspension or revocation of the relevant environmental license or the suspension of our operations, which could materially adversely affect our operations and financial condition.

Furthermore, we and our subsidiaries can also be held criminally responsible for acts committed by previously controlled companies involving environmental matters. As a result, we can be subject to potential fines and sanctions imposed under the Environmental Crimes Law, together with reputational damage.

We may incur losses in legal proceedings relating to compulsory loans made in the period between 1962 and 1993.

In 1962, Law No. 4,156/1962 established the compulsory loan program for electricity consumption to finance the expansion of the Brazilian electricity sector. The first phase of the compulsory loan program took place from 1964 to 1976 and the second phase took place from 1977 to 1993.

We are party to numerous lawsuits concerning a variety of compulsory loan-related issues. These lawsuits span numerous different jurisdictions within Brazil, and many have been ongoing for several years. The litigation is enormously complex, and plaintiffs together seek significant total damages. Although we believe that the compulsory loan leading cases, decided by the STJ according to Brazil's repetitive appeal regime, are supposed to have binding effect on judges and Courts, it is not possible to predict with the necessary certainty how this litigation will progress or resolve, as courts have in practice reached, and may continue to reach, different or even conflicting conclusions on a number of key issues. Our financial condition and results of operations could be materially adversely impacted in the event of unfavorable judicial decisions.

The provisions we record in respect of compulsory loan litigation require significant judgment, as well as monitoring and analysis of numerous individual lawsuits. These provisions may not be sufficient to cover future losses, including in the event that the future course of the lawsuits differs from our expectations. In addition, we assess our exposure to this litigation on an ongoing basis in light of available judicial authority, and we adjust our provisions from time to time, including, among other things, in response to new judicial decisions. We have in the past modified, and may again in the future modify, our provisions significantly. Our financial condition and results of operations could be materially adversely impacted in the event that we are required to record additional provisions in respect of compulsory loan litigation.

Bearer Bonds

During the first phase, the collection of compulsory loans reached several classes of electricity consumers, and the taxpayers' credits resulting from the collections carried out in the period from 1964 to 1976 were embodied in bearer bonds issued by us. Following an administrative decision of the CVM, among other things, we understand that the bearer bonds issued as a result of the compulsory loan program do not constitute securities, are not tradable on any stock exchange and do not have defined prices. Although we believe that most or all of these bearer bonds have already expired and their collection is no longer enforceable given the statute of limitations, in light of the bearer bond leading case – repetitive appeal Resp No. 1.050.199/RJ, we cannot guarantee that all courts will agree with our interpretation. If one or more courts depart from what we believe was decided in the bearer bond leading case – which has been consistently followed by judges and lower court precedents, then providing holders of these bearer bonds with collection rights, this could adversely affect our financial condition and results of operations. In addition, there are a small number of claims that seek to enforce certain bearer bonds that may have been filed before the applicable statute of limitations expired. As of December 31, 2022, we recorded a provision referring to claims for bearer bonds in the amount of R\$45.0 million. More generally, any court decision that conflicts with our understanding of the possibility of enforcement of bearer bonds could adversely affect our financial condition and results of operations, in addition to materially affecting our loss estimates. See “Item 8–Financial Information–Litigation–Compulsory Loans–Bearer Bonds” for further information.

Book Entry Credits

In the second phase, compulsory loans were recorded as book-entry credits by us, for subsequent conversion into our preferred shares.

Over the years numerous lawsuits have been filed against us in relation to the book-entry credits of the compulsory loans. These lawsuits can be subdivided into three main categories of claims. First, there are disputes concerning the criteria and indices adopted for monetary restatement (i.e., inflation) levied on the principal amount of the compulsory loan credits, which were determined by the law that governs the compulsory loan program. Second, there are disputes regarding the appropriate period for the accrual of remunerative interest of 6% per year on the amount of monetary restatement on the loan principal. And, lastly, there are disputes concerning interest on arrears on the amount of monetary restatement on the principal amount and corresponding remunerative interest of 6% per year. Since the third quarter of 2022, we consider claims seeking the application of the remunerative interest rate of 6% on the amount of monetary restatement after the relevant shareholders' meeting at which the book-entry credit was converted into preferred shares as presenting a remote risk of loss, due to the STJ decision in the appeal EREsp No. 790.288/PR on November 10, 2021, which reversed the unfavorable STJ's judgement of June 2019 (“Case ROMA”).

These matters, among others, have been addressed in decisions handed down by the STJ. See “Item 8 – Financial Information–Litigation–Compulsory Loans–Book Entry Credits” for further details about the relevant case law. As of December 31, 2022, we have a provision of R\$24.4 billion in light of the relevant precedents and on-going judicial decisions. However, if one or more courts decide differently from precedents that we believe to be favorable on such matters, or otherwise render unfavorable decisions against us, this could adversely affect our financial condition and results of operations.

If any of the present claims are decided against us, any further appeals by us are unsuccessful, we may have to significantly increase our provisions for such claims.

Regarding the calculation methodology, in addition to the final term of application of remunerative interest, there are still additional discussions in the legal proceedings concerning differences in the monetary restatement of the compulsory loans. For further details regarding these legal proceedings, see “Item 8–Financial Information–Litigation–Compulsory Loans–Book Entry Credits.”

These proceedings also discuss, among other issues, the incidence of monetary restatement of the principal between December 31 of the year prior to the date of the general shareholders' meeting at which such credits were converted into preferred shares (“Conversion Meeting”) and the date of ratification of the relevant Conversion Meeting. We consider the probability of loss in these cases as remote in the estimated amount of R\$16.3 billion, of which Case ROMA represents the largest amount. Accordingly, we have not recorded any provision in connection with these proceedings. As explained above, our assessment of ongoing claims and their exposure is continuous in nature and may change over time in response to new developments regarding the chance of loss, magnitude of potential loss, or both.

In general, and subject to certain exceptions, we have not recorded any provision in relation to lawsuits aimed at collecting book-entry credits of compulsory loans that are initiated by third parties. This is due to the fact that we have classified the risk of loss in these proceedings as possible.

We believe that previous judgments have ruled that branches of companies do not have the standing to enforce court orders with respect to the difference in the monetary restatement of a compulsory loan granted favorably to the parent company when such branch was not included in the initial petition. In addition, there are discussions about the applicable late interest charged at the Selic rate before the date of the relevant conversion meeting, the criteria for the application of interest and credits claimed in more than one judicial proceeding. However, we estimate that our provision could increase by approximately R\$4.4 billion if all credits from branches of companies not mentioned in the initial petition brought by the parent company are considered enforceable or the further claims mentioned above are decided against us. As of the date of this annual report, however, we believe that the risk of loss in these matters is possible and, therefore, have not recorded any provision in this regard.

In addition, in accordance with the consolidated jurisprudence from the STJ and the Lower Courts we provision all amounts related to reflexive remunerative interest as long as the plaintiffs file the lawsuit to claim this interest within five years from the date of the applicable Conversion Meeting. See "Item 8-Financial Information-Litigation-Compulsory Loans-Book Entry Credits" for further information.

Nevertheless, we still pursue the upholding by the court of the understanding that the holders of book entry credits had five years after the date they received the remunerative interest rate (i.e, July of each year during the grace period), otherwise this interest would no longer be enforceable in light of the statute of limitations. At the moment, the judgment by the STJ of the Divergence Motion No. 1.251.194/PR is pending, in which we argue that the current understanding of the statute of limitations applied to reflexive remunerative interests.

We cannot ensure that we will not be required to record further provisions in respect of any of the claims mentioned above or other claims related to unconverted credits, which, as of December 31, 2022, amounted to R\$467 million.

We cannot assure that new lawsuits will not be filed or that new judicial decisions (including by higher courts) on compulsory loan-related issues will not be adverse to us. The aggregate cost of unfavorable lawsuits or decisions may have a material adverse effect on our financial condition and operating results. For a detailed description of our compulsory loan related litigation, see "Item 8-Financial Information-Litigation-Compulsory Loans."

We are, have been, and may again be party to U.S. proceedings relating to disclosures surrounding our compulsory loan credits and bearer bonds.

Our disclosures surrounding compulsory loan book-entry credits and bearer bonds have been, and in some instances remain, the subject of litigation and investigation in the United States. For example, we were subject to a collective action filed by certain funds in the United States challenging our disclosures related to compulsory loans, which was dismissed in 2021.

There is considerable uncertainty inherent in any ongoing litigation and especially in proceedings relating to bearer bonds and book-entry compulsory loan claims, which together comprise a complex topic. Several of these lawsuits have been ongoing in Brazil for several years, and the status and provisions/liabilities with respect to such proceedings have evolved considerably, and often unpredictably, over time, due to an ever-evolving judicial landscape that has included, among other developments, the issuance of new contradicting court decisions. Our disclosures are subject to change over time as new information becomes available. Thus, we cannot predict with certainty the results of the processes, and we cannot give any guarantee on the course of ongoing and future actions.

Additionally, on April 20, 2021, we received a request for information from the SEC (Division of Enforcement) regarding an investigation by the SEC related to the compulsory loan program and related litigation made on our Forms 20-F. We are cooperating with the investigation, have provided documents in response to the SEC's information request, and may provide additional documents or other information in the future. We are also continually assessing whether, based on the investigation and ongoing developments in legal proceedings in Brazil, any changes to our disclosures or provisions are appropriate.

Under the current rules for tariff reviews for generation and transmission concessions, we might not receive full compensation for costs incurred in the operation and maintenance of these concessions and any expenses in relation to these assets.

In Brazil, the regulatory model for transmission companies is based on the revenue cap model. Under this model, ANEEL establishes the tariffs to be charged by the companies which must consider the reasonable costs of capital, operation, and maintenance. These tariffs are adjusted annually by inflation and may also undergo a periodic tariff review process, depending on the relevant contractual provisions. At the time of the tariff review, ANEEL sets new benchmarks for the cost of capital and for the cost of the efficient operation and maintenance of the system managed by the transmission company. In addition to defining the regulatory costs for operation and maintenance, ANEEL reviews efficiency gains (the so-called X Factor) which could result in a decrease in revenues from transmission services. In respect of the compensation capital costs, most of the investments in the transmission sector are assessed by benchmarking them to pre-determined regulatory prices for equipment and services. Transmission services provided under contracts that are awarded at auctions currently do not have a remuneration forecast for investments in small improvements, which are investments in the upgrade of small equipment to maintain the provision of adequate services.

ANEEL is also responsible for determining the tariffs to be charged by generation companies with concession agreements renewed pursuant to Law No. 12,783/2013. The RAG is the amount that generation companies are entitled to receive as consideration for supplying energy produced at hydroelectric plants. As part of our Privatization, a transitional rule applies for the discounting of legacy contracts, pursuant to CNPE Resolution No. 15/2021, amended by CNPE Resolution No. 30/2021 (20% per year during the next five years).

A monetary readjustment is applied to the RAG annually and is subject to review every five years. A change in the calculation methodology could reduce the amount of the RAG, including the *GAG Melhoria*. Among the benchmarking parameters, ANEEL establishes the WACC to be applied to the investment in our transmission assets and hydroelectric plants subject to the physical guarantee and quota regime (Law No. 12,783/2013). This parameter is established in accordance with Resolution No. 874/2020.

Depending on ANEEL's review of the tariffs to be charged by our generation and transmission companies, we may not be adequately compensated for the costs and expenses of our investments in our generation and transmission assets, which could negatively impact our financial condition and results of operations.

We are subject to risks associated with failure to comply with the applicable data protection laws, and we may be adversely affected by the imposition of fines and other types of sanctions.

We cannot assure you that our operations will be compliant with data protection laws (including the LGPD in Brazil) and that our personal data processing activities will be secure, and consequently that we will not be subject to fines and other types of sanctions.

The LGPD came into effect in September 2020, changing the way the protection of personal data is regulated in Brazil. It establishes a new legal framework to be observed in personal data processing operations and provides, among other things, for the rights of the owners of personal data, the legal bases applicable to the protection of personal data, the requirements for obtaining consent, obligations, requirements regarding security incidents, leaks, and data transfers, as well as the creation of the Brazilian National Data Protection Authority - ANPD.

If we do not comply with the LGPD or any other data protection laws to which we are subject, both we and our subsidiaries may be subject to sanctions, either individually or collectively, including warnings, obligations to disclose incidents, temporary blocking or deletion of personal data, and penalties of up to 2% of our revenue or the revenue of our group. In addition, we may be held liable for material, moral, individual, or collective damages caused by us, and may be held jointly and severally liable for material, moral, individual, or collective damages caused by our subsidiaries.

Failure to protect personal data processed by us and our subsidiaries, as well as the failure to adjust to the applicable legislation, may result in significant fines for us and our subsidiaries, disclosure of any incidents in the media, the deletion of personal data from our database, and the suspension of our activities, which could adversely affect our reputation, business, results of operations and financial condition.

Our generation and transmission activities are regulated and supervised by ANEEL. Our business could be adversely affected by regulatory changes, and we may be subject to penalties, administrative intervention or loss of our concessions for public service if we provide our services in an inadequate manner or violate contractual obligations.

Pursuant to Brazilian law, ANEEL has the authority to regulate and supervise the generation and transmission activities of energy concessionaires, including investments, additional expenses, tariffs, and the passing of costs to customers, among other matters. Regulatory changes in the energy sector are hard to predict and may have an adverse impact on our business. The applicable legislation authorizes ANEEL to intervene in electric power concessions and to penalize concessionaires that do not provide adequate levels of service as well as fail to comply with the terms and conditions under the concession contract, regulations, and other relevant legal obligations.

If ANEEL were to intervene in concessions as part of an administrative procedure, we would have to present a recovery plan to correct any violations and failures that gave rise to the intervention. If the recovery plan is dismissed or not presented within the regulated timelines, ANEEL may, among other things, recommend to the MME the expropriation and the concession loss, reallocate our assets or adopt measures which may alter our shareholding structure, including possible changes in the shareholding control of the companies involved.

In case of an administrative intervention, we and our subsidiaries may be subject to an internal reorganization in accordance with the recovery plan, which may adversely affect us. Also, our request for new licenses and our participation in public biddings may be subject to more stringent scrutiny by ANEEL.

Similarly, concessions may be terminated early through expropriation, forfeiture, or mandatory transfer of control by the concessionaire. Granting authorities may expropriate concessions in the interest of the public as expressly provided for by law, in which case they carry out the service during the concession period. Law No. 13,360/2016 sets forth that the concessionaire can submit a change of control plan as an alternative to the termination of the concession.

We cannot assure that we will not be penalized by ANEEL for a future violation of our concession agreements or that our concession agreements will not be terminated in the future, which could have an adverse impact on our financial condition and the results of our operations. Also, ANEEL may introduce regulatory changes that may be applicable to our transmission and generation assets. Our business could be adversely affected by such regulatory changes.

Certain of our subsidiaries adhered to installments programs for tax debts and must comply with special rules, otherwise, these installments programs may be terminated, and the benefits may be cancelled.

Our subsidiaries Furnas and Eletronorte and our indirect subsidiary, SAESA, are subject to installments programs promoted by tax authorities in respect of certain debts. If they or any of our subsidiaries that may adhere to similar programs from time to time, do not comply with these programs, the installments programs may be terminated and, therefore, the benefits may be cancelled. Some installments programs have specific conditions and requirements, including the regularity of payments regarding the installments. If any of these companies do not comply with the rules, the installments programs may be terminated. In this situation, the tax debts could be charged by the tax authorities, with legal increases pursuant to the legislation applicable at the time of the triggering events. This could have an adverse impact on our results and financial condition.

Following our Privatization, we are now subject to the Brazilian Bankruptcy Law. However, if any of our assets are deemed assets dedicated to providing an essential public service, they will not be available for liquidation and will not be subject to attachment to secure a judgement.

As a private company, we are now subject to the Brazilian Bankruptcy Law.

However, we understand that a substantial portion of our assets, including our generation assets and our transmission network, would be deemed by Brazilian courts to be related to providing an essential public service. Accordingly, even if unrelated to concession agreements, these assets would not be available for liquidation or attachment to secure a judgment.

The Brazilian Bankruptcy Law would also not apply to our subsidiaries conducting their business activities under concession agreements as Law No. 12,767/2012 provides that judicial and extrajudicial recovery do not apply to electric power concessionaires until the termination of their concessions. Accordingly, these assets would not be available for liquidation or attachment to secure a judgment involving us or our subsidiaries.

In either case, these assets would revert to the Brazilian Government pursuant to Brazilian law and our concession agreements would terminate. We cannot assure that any compensation we receive for such assets would be equal to the market value of the assets and, accordingly, our financial condition may be affected.

Our failure to protect our intellectual property may adversely impact us.

We rely on a combination of trademark, patent, copyright, software, and trade secret laws in Brazil, as well as license agreements, to protect our intellectual property assets. We also rely on several registered and unregistered trademarks to protect our brands. On the date of this annual report, we held several registered trademarks and trademark applications in Brazil. See “Item 5C. Research and Development, Patents and Licenses -Trademarks, Patents and Licenses” for further information about our intellectual property.

Unauthorized parties may copy or otherwise obtain and use our assets. In addition, if we intend to maintain international operations, copyright, trademark, software, patent, and trade secret protection may not be available or may be limited in foreign countries. Any significant impairment of our intellectual property rights could adversely affect our business or our ability to compete. Furthermore, competitor companies may own large numbers of patents, software, copyrights, and trademarks and may frequently threaten our rights, which could require us to expend substantial amounts in legal costs to protect our intellectual property rights.

If we fail to address issues related to the health and safety of our employees at work and the facilities where we conduct our activities, we may be adversely affected.

Our operations are subject to comprehensive federal, state, and local health and safety legislation, the implementation of which is supervised by Brazilian Government agencies. The failure to comply with these laws and regulations can result in administrative and criminal penalties, irrespective of the recovery of damages or indemnification payments for irreversible damages in the context of civil and labor proceedings.

Considering the risks inherent in power generation and transmission in a system that uses high voltage lines and equipment, which makes any accident by direct contact or proximity to energized systems possibly fatal or capable of serious injury, there is a real possibility of accidents if the technical and legal recommendations are not properly adopted by us, our employees and outsourced service providers.

Specifically, we are also required to meet a quota for people with disabilities, which ranges from 2% to 5% depending on the total number of employees, as well as to adapt our facilities to offer accessibility and reasonable accommodations for these employees. If we fail to fulfill the quota, fines may be applied by the competent authority, as per the Brazilian Law on the Inclusion of Persons with Disabilities (Law No. 13,146/2015).

Following the COVID-19 pandemic we reinforced the monitoring of our employees’ health and implemented Occupational Health and Safety protocols. Nevertheless, there is a risk that several employees in the same operating unit may be simultaneously contaminated, which could have a negative effect on our operations.

Risks Relating to Brazil

Brazil’s economy is vulnerable to external and internal shocks, which may have an adverse effect on Brazil’s economic growth and on the trading markets for securities.

Brazil’s economy is vulnerable to external shocks, including adverse economic and financial developments in other countries. For example, an increase in interest rates in the international financial markets may adversely affect the trading markets for securities of Brazilian issuers. In addition, a drop in the price of commodities produced in Brazil or a decline in the demand for exports of any of Brazil’s major trading partners could also have a negative impact on Brazil’s exports and adversely affect Brazil’s economic growth.

In addition, because investors’ reactions to the events occurring in one emerging country may produce a “contagion” effect, Brazil could be adversely affected by negative economic or financial developments in other countries. Brazil has been affected by such effects on several occasions, including the debt crises in emerging countries during the 1990s and the 2008 global economic crisis. We cannot assure you that any situations like those described above will not negatively affect investors’ confidence in emerging markets, including Brazil.

Further, the military action by Russian forces in Ukraine has escalated tensions between Russia and the United States, the North Atlantic Treaty Organization, the European Union, and the UK. The United States and other countries have imposed, and are likely to impose, financial and economic sanctions and export controls against certain Russian organizations and/or individuals, with similar actions either implemented or planned to be administered by the EU, the UK, and other jurisdictions. See “Our business may be impacted by political events, war, terrorism and other geopolitical uncertainties, such as the ongoing military conflict between Russia and Ukraine” for further details about the impacts of the military conflict between Russia and Ukraine.

The Brazilian Government frequently intervenes in the country’s economy and occasionally makes significant changes to monetary, credit, fiscal, regulatory, and other policies to influence the country’s economy, which could adversely impact our business and financial condition. Brazil’s economy is also subject to risks arising from several domestic macroeconomic factors. These include general economic and business conditions of the country, consumer demand, exchange rates, the level of domestic debt, inflation, interest rates, and the level of foreign direct and portfolio investments.

Our operating conditions have been, and will continue to be, affected by the growth rate of GDP in Brazil, because of the correlation between GDP growth and energy demand. Therefore, any change in the level of economic activity may adversely impact our operations. This could also affect the liquidity of, and the market for, our securities and consequently impact our financial condition.

Political uncertainty may lead to an economic slowdown and volatility in securities issued by Brazilian companies.

Brazil’s political environment has historically influenced, and continues to influence, the performance of the country’s economy. Political crises affect the confidence of investors and the general public, which may lead to economic deceleration and heightened volatility in the securities issued by Brazilian companies.

Brazil has experienced amplified economic and political instability, as well as heightened volatility, as a result of various corruption investigations. In addition, certain foreign regulators, such as the U.S. Department of Justice and the SEC, have also conducted their own investigations. These investigations have negatively impacted the Brazilian economy and political environment and have contributed to a decline in market confidence in Brazil. In addition, they may lead to further allegations and charges against Brazilian federal and state government officials and senior management of Brazilian industry.

The potential outcome of corruption investigations is uncertain, and they have an adverse impact on the perception of the Brazilian economy, political environment and the Brazilian capital markets. We have no control over and cannot predict whether such investigations or allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future or will adversely affect us.

Brazil’s presidential elections occurred in October 2022, with Luiz Inácio Lula da Silva defeating Jair Messias Bolsonaro, in one of the closest presidential races in history. In the aftermath of the 2022 election results, there were mass protests and demonstrations throughout Brazil by supporters of former president Jair Bolsonaro disputing the election results. On January 8, 2023, protesters stormed government buildings in Brasília, the country’s capital, including the Congress, the Supreme Court, and the Presidential Palace, which prompted the Supreme Court to order participants and certain politicians to be imprisoned and resulted in new investigations. It is unclear whether this heightened state of political and social tension will dissipate or intensify in coming months as the country awaits definition regarding the political and economic agenda of the new administration, which could contribute to increased macroeconomic and political instability.

In addition, there are uncertainties regarding the new government’s ability to implement changes related to monetary, fiscal, and social security policies, especially given that the federal legislative branch is controlled by opposition parties, as well as the post-election political atmosphere, with significant protests and strikes, may contribute to economic instability. These uncertainties and any new measures that the new government may implement may increase the volatility of the Brazilian securities market.

The President has the power to impose policies and issue governmental acts regarding the Brazilian economy that may affect our operations and financial performance. We cannot predict what policies the new President elect will impose, much less whether such new policies or changes in current policies will have an adverse effect on our business or the Brazilian economy.

Any of the above factors may create additional political uncertainty, which could harm the Brazilian economy and, consequently, our business, results of operations and financial condition and the trading price of our common shares and ADSs.

The volatility of the Brazilian real and of the inflation rate may impact our operations and cashflows.

In past years, the Brazilian *real* has been very volatile compared to other major currencies. While the *real* depreciated at a 6.5% rate in 2021, during 2022 the *real* appreciated by 6.5%, ending the year at an exchange rate of R\$5.2177 per U.S.\$1.00. There is no guarantee that the *real* will not fluctuate in relation to the U.S. dollar in the future. The U.S. dollar/*real* exchange rate has experienced further appreciation in 2023, through the date of the annual report.

A depreciation of the *real* relative to the U.S. dollar could create inflationary pressures in Brazil and cause the Brazilian government to, among other measures, increase interest rates. Any depreciation of the *real* may generally restrict access to the international capital markets and reduce the U.S. dollar value of our results of operations. We and certain of our suppliers contract services from foreign suppliers, and thus changes in the value of the U.S. dollar compared to other currencies may affect the cost of these services. Restrictive macroeconomic policies could also harm our results of operations and profitability. In addition, domestic and international reactions to restrictive economic policies could have a negative impact on the Brazilian economy. This may harm us by curtailing access to foreign financial markets and prompting further government intervention.

The uncertainty of the factors that impact the exchange rate makes it difficult to predict its future movements. In addition, the Brazilian Government may change its foreign currency policy. Any governmental interference, or the implementation of exchange control mechanisms or remittance of debt, could influence the exchange rate and the investments in the country. The different exchange rate scenarios may have adverse effects on us as they may affect (i) any of our indebtedness denominated in U.S. dollars; (ii) our credit with ENBPar denominated in U.S. dollars; (iii) the development of the Angra 3 nuclear plant, whose equipment is largely acquired abroad and was purchased under contracts denominated in Euros; and (iv) certain sales of energy by Eletronorte which are tagged to dollar-denominated commodities.

As of December 31, 2022, 12.8% of our total consolidated financing, loans, and debentures of R\$59.1 billion was denominated in foreign currencies and our total consolidated indebtedness denominated in foreign currencies was R\$7.5 billion. Comparatively, as of December 31, 2021, 18.9% of our total consolidated financing, loans, and debentures of R\$44.0 billion was denominated in foreign currencies and our total consolidated indebtedness denominated in foreign currencies was R\$8.3 billion.

In Brazil and globally, inflation rates have increased in the past years largely as a result of the COVID 19 pandemic and the Russia/Ukraine conflict. Brazil's annual rates of inflation, measured in accordance with the variation of the IPCA index, were 5.79% in 2022, 10.06% in 2021, and 4.52% in 2020. The Brazilian Government has been raising the basic SELIC interest rate to elevated levels, and public speculation about possible future government actions is having significant negative effects on the Brazilian economy. If Brazil experiences substantial inflation in the future and the Brazilian Government adopts inflation control policies like those adopted in the past, our costs may increase faster than our revenues, our operating and net margins may decrease and, if investor confidence lags, the price of our shares may fall.

Changes in tax or accounting laws, tax incentives, and benefits or differing interpretations of tax or accounting laws may adversely affect us.

Brazilian tax authorities have frequently implemented changes to tax regimes that may affect us and ultimately the demand of our customers for the products we sell. There can be no assurance that we will be able to maintain our projected cash flow and profitability following any increases in Brazilian taxes that apply to us and our operations. If we lose our existing tax incentives, due to our noncompliance with current obligations and future requirements or if the current tax programs and agreements from which we benefit are modified, suspended, cancelled, or not renewed, we could be materially and adversely affected and there can be no assurance that the tax benefits we receive will not be judicially challenged as unconstitutional. If we are unable to renew our tax benefits, those benefits may be modified, limited, suspended, or revoked, which may adversely affect us.

The Brazilian tax system is complex and can be affected by legal changes or tax laws interpretation by tax authorities. There are two different bills under consideration by the Brazilian Congress seeking to implement tax reforms, including proposals to modify the consumption taxation system in its entirety: the proposed Law No. 3,887/2020 and the proposed Law No. 2,337/2021. Any such changes could have adverse effects on our results and operations, as well as on the taxation of the dividends distributed from our Brazilian subsidiaries. Tax reforms or any change in the laws and regulations that affect our taxes or tax incentives may directly or indirectly adversely affect our business and results of operations.

Furthermore, we may be subject to investigations by tax authorities at the federal, state, and municipal levels. As a result of such investigations, our tax positions may be challenged. We cannot guarantee that the provisions for such proceedings will be correct,

that no additional tax exposure will be identified, and that we will not be required to constitute additional tax reserves for any tax exposure. Any increases in the amount of taxation as a result of challenges to our tax positions may adversely affect us. Any judicial and administrative proceedings related to tax matters before the courts, including CARF and state and municipal administrative courts, may also adversely affect us.

Any downgrading of Brazil's credit rating could adversely affect the price of our shares and ADS and our cost of funding.

Credit ratings affect investor perception of risk and, as a result, the trading value of securities and yields required on future issuances in the capital markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on several factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the prospect of changes in any of these factors. In 2015 Brazil lost its investment grade rating by the three main rating agencies, which adversely affected the trading prices of debt and equity securities issued by Brazilian issuers. As of the date of this annual report, Brazil's sovereign rating was BB-/B (having been revised as stable in June 2022), Ba2 (stable) and BB- (negative) by Standard & Poor's, Moody's and Fitch, respectively. Additionally, now that we are no longer owned by the Brazilian government, we may be rated below the sovereign rating.

Political instability, along with a further economic slowdown, could lead to further ratings downgrades. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, negatively affect the ratings of Brazilian companies, such as us. This may increase our future cost of issuances in the capital markets and adversely affect the price of our shares and ADS.

Risks Relating to Environmental, Climate and Social Impacts

Construction, expansion and operation of our electricity generation and transmission facilities and equipment involve significant risks that may result in loss of revenue or increase in expenses.

The construction, expansion, and operation of facilities for the generation and transmission of electricity are exposed to many unmanageable risks, including:

- difficulty in obtaining appropriate government permits and approvals;
- regulatory changes that may hinder the connection of generation projects to the national grid and/or alter the tariffs for the use of transmission and distribution systems;
- difficulty in obtaining the necessary licenses may cause a direct impact in revenues;
- problems with the supply of equipment and/or materials leading to delays in operations;
- work stoppages;
- interruptions due to weather and hydrological conditions;
- unpredictable engineering and environmental problems, as well as hidden flaws and defects in the construction of a project;
- construction delays, or unanticipated cost overruns;
- unavailability of adequate funding;
- fire, climatic factors, vandalism, sabotage, terrorism or extreme socio-environmental tensions in our plants or transmission lines that lead to the interruption in the supply of energy; and
- closures or temporary stoppages of our facilities due to the control of epidemics or pandemics or any other health emergency or public calamity.

For example, in January 2023 amid a wave of protests and acts of vandalism against power facilities across the country, some incidents involved our facilities (transmission towers were tumbled). At that time there was no interruption to services to consumers and the towers were quickly rebuilt, however, we cannot assure the same will happen if there are future attacks.

However, if we suffer any of these unforeseen risks, we may not be able to implement construction works in a timely manner and at planned cost, as well as generate and transmit electricity in amounts consistent with our projections. In addition, we may be subject to fines or other regulatory penalties, which could have a material adverse effect on our financial condition and results of operations.

We are exposed to risks relating to the inadequate management of socioenvironmental aspects of our enterprises and projects.

Our activities expose us to substantial environmental risks, especially during the construction of our generation plants and transmission lines. As a result, the management of socioenvironmental aspects is crucial to our business.

The first socioenvironmental aspect of our business is related to the collection of precise data for any studies in respect of the development of new projects. Information about the location of a new project, including its surroundings and the environmental and social conditions is essential to determine the costs of such a project. Any errors or imprecision in this data may lead to substantial errors in the design of the project and its operational and financial aspects. It may also lead to licenses not being granted, potential revenues not being realized and costs being incurred in the review of the studies on which the project was based.

A second socioenvironmental aspect that may also adversely impact our operations relates to the correct identification of, and compliance with, the environmental requirements for the establishment and operation of a project. If we or our suppliers are not sufficiently familiar with the necessary requirements to obtain and renew environmental licenses, authorizations and permits and the conditions of those licenses in the pre-operational, operational and demobilization stages of a project, we may incur additional costs due to delays in the issuance or renewal of licenses and authorizations, potentially resulting in us being notified and charged with environmental crimes by the applicable environmental authorities.

In the event of failure to obtain or maintain the applicable environmental licenses or to comply with the conditions of the respective licenses, we may be subject to administrative and criminal sanctions, including fines from R\$500 to R\$10 million regardless of the occurrence of any damage since environmental licensing of potentially polluting activities and uses of natural resources is mandatory. In addition to fines, we may also be required to pay for any damage caused to the environment and may be subject to other criminal and administrative penalties, such as suspension of activities, deactivation and demolition, among others. Further, the lack of environmental license and/or the failure to fulfill its conditions may also represent a breach of certain covenants provided for in financing agreement, which may cause the suspension of financing resources or the acceleration of the financing agreements, which may materially affect us.

Another relevant aspect is the environmental management of our operational processes, which if not managed properly may cause substantial socioenvironmental impacts. Failures in environmental management may occur because of a lack of and/or incompleteness in our control systems and operational processes, and the insufficiency of human and financial resources necessary to satisfy the legal and operational requirements imposed on our activities. These failures may cause environmental impacts such as the inadequate treatment of residues and the consequent soil and water contamination of areas surrounding the relevant project, loss of local biodiversity, increase in toxic gases emissions, costs resulting from the need to implement corrective and compensatory measures, as well as adverse impacts on our reputation.

An example of this are the incidents at Pedra plant in respect of our subsidiary Chesf and the Capitólio plant in respect of our subsidiary Furnas plants. Due to heavy rains, Chesf had to activate the reservoir operation procedure at the Pedra plant in agreement with ONS and ANA. This resulted in flooding at the cities of Jequié and Ipiaú, which led to a Public Civil Claim being filed by State of Bahia Attorney General's Office demanding the introduction of safety, contingency and recovery plans for the affected areas and the provision of emergency aid as well as the creation of a fund of no less than R\$100 million in order to compensate the damages caused. The Capitólio plant incident occurred due to a lack of maintenance at the Piumhi river reflux channel which led to a flooding at the city of Capitólio on January 9, 2022, this led to the imposition of a R\$289 million fine by State of Minas Gerais Environmental Secretary. We contested both fines imposed and await a decision. We may also be subject to further legal action in respect of these two incidents.

Also any such non-compliance with environmental laws and regulations and/or failures in the use of materials and disposal of solid waste, contamination, our usage of water resources, possible impacts caused on protected areas, the suppression of vegetation without previous authorization, the breach of any requirement set forth in environmental licenses, may lead us to significant penalties, such as,

the shutdown of a plant and its consequent unavailability to the system, payment of fines, and to reputational damage and civil, administrative, and, in certain cases, criminal liability.

Furthermore, we may also be subject to material reputational risks related to the manner in which we address traditional communities' rights and resettlements. Generally, these matters are addressed through mitigation and compensation measures as part of the environmental licensing process. However, since several of our projects predate the environmental licensing legislation, there are some ongoing discussions as to the need for additional measures. In addition, the sufficiency of certain mitigation and compensation measures as part of the environmental licensing proceedings are also under discussion, as well as the sufficiency of the Free, Prior and Informed Consent ("FPIC") of the traditional communities. The process of FPIC, although enshrined in the Brazilian Constitution, is yet to be thoroughly regulated in Brazilian legislation, thus posing procedural uncertainty, potential risks and controversies to recent and future projects that were or are supposed to undertake FPIC with indigenous and traditional communities (i.e., when those stakeholders are estimated to be impacted). Non-compliance with any of the rules that regulate those issues may result in financial and operational losses.

The failure to comply with these environmental laws and regulations can result in administrative and criminal penalties, irrespective of the recovery of damages or indemnification payments for irreversible damages in the context of civil proceedings. Administrative penalties may include summons, fines, temporary or permanent bans, the suspension of subsidies by public bodies and the temporary or permanent shutdown of commercial activities. With regard to criminal liability, individual transgressors are subject to the following criminal sanctions: (i) custodial sentence (imprisonment or confinement); (ii) temporary interdiction of rights; and (iii) fines. The sanctions imposed on legal entities are: (a) temporary interdiction of rights; (b) fines; and (c) rendering of services to the community. The penalties relating to the temporary interdiction of rights applicable to legal entities can correspond to the partial or total interruption of activities, the temporary shutdown of establishment, construction work or activity and the prohibition of contracting with governmental authorities and obtaining governmental subsidies, incentives or donations. In addition, the failure to comply with environmental laws and regulations can also cause damage to our reputation and image. See "Item 8.A. Consolidated Financial Statements and Other Information-Litigation" for further details about the environmental proceedings we are a party to. We and our subsidiaries are parties to administrative and judicial proceedings involving environmental matters. Any unfavorable decision in these proceedings may lead to financial penalties, as well as suspension or revocation of environmental licenses and/or activities which can cause us material adverse effects. We are aware that some of the environmental licenses were not obtained or timely renewed.

Further, the occurrence of environmental damage or failure to comply with environmental legislation or regulatory requirements may also result in breaches of certain covenants in our financing agreements, which may cause the suspension of financing resources or the acceleration of any financing agreements that required compliance with these environmental rules, which may materially adversely affect us.

We are subject to impacts related to hydrological conditions that may result in lower generation of hydroelectric power and adversely affect our business.

The main source of electric power generation in Brazil is hydroelectric plants, which are a renewable resource and avoid substantial expenditures on fuel needed for thermal generation plants. However, as hydroelectric plants depend on the flow of water, we are subject to substantial seasonal variations in monthly and annual flows, which depend fundamentally on the volume of rainfall during the rainy season. In 2021 and prior years, especially in 2014/2015, adverse hydrological conditions caused several droughts and water scarcity across several Brazilian states, negatively affecting the operations of our hydroelectric plants. The operation of the Brazilian electricity system is coordinated by the ONS, whose primary function is to achieve optimal operation of the resources available, minimizing operational cost, and the risks of shortage of electricity. However, these mechanisms are not able to absorb all the adverse consequences of a prolonged hydrological shortage, which means we are exposed to hydrological risks. When the total energy generated by the entire hydroelectric system is below the aggregate supply (assured energy) of all the hydroelectric plants, the MRE is triggered and a GSF is applied to all the plants in the system. In this event, energy companies must liquidate the negative balance of their contractual positions in the spot market at the current PLD at the CCEE. The PLD is considered a short-term market price, which can be highly volatile, varying mainly depending on changes in hydrological conditions and on the levels of reservoirs of the hydroelectric plants of the Interconnected Power System.

In recent years, adverse hydrological conditions at hydroelectric plants have resulted in a material reduction of the GSF, affecting agents with allocated energy lower than their sales contracts, exposing them to the volatility of the PLD. In 2015, to reduce exposures, ANEEL reduced the PLD threshold by more than 50%. This reduction was insufficient to balance the deficiencies, creating a significant increase in defaults at the CCEE.

This led to judicial claims by the affected parties, including our subsidiaries, to minimize the losses with GSF degradation, which led to the publication of Law No. 13,203/2015, establishing the conditions for renegotiation of the hydrological risk. The conditions are different for assured energy installments granted for contracts on the Regulated Market and those negotiated on the Free Market.

For the instalments contracted on the Regulated Market, the renegotiation of the hydrological risk was permitted to be passed through to consumers in exchange for the payment of a risk premium by generation companies who adhered to the renegotiations. For the Free Market, there is the possibility of renegotiation in consideration for contracting a hedge. Our subsidiaries have adhered to the renegotiation of hydrological risk on the Regulated Market, except for Chesf due to certain characteristics of its Sobradinho plant. We opted not to renegotiate the risk on the Free Market.

In respect of the plants that had their concessions renewed under Law No. 12,783/2013, the hydrologic risks are assumed by the distribution companies and passed on to the consumers. As part of our Privatization, new concessions were granted for these plants for a period of 30 years as of 2023, while the electricity contracted under Law No. 12,783/2013 will be phased out at a 20% rate per annum, beginning on January 1, 2023. The hydrologic risks related to the phased out portion will be assumed by us.

However, if we are not able to adequately manage this risk, our results from operations and financial conditions may be adversely affected.

Climate change can have significant impacts on our generation and transmission activities.

The effects of climate change, including the change in rainfall, flow and wind patterns, the increase in the frequency and intensity of extreme climate events, and regulatory changes can directly affect our generation and transmission activities, which can lead to financial impacts, loss of competitiveness, risk of divestment and reputational damage.

The main risks to our business with respect to climate change relate to the changes in rainfall, which may affect the water flow. These changes may adversely affect our costs and results of operations, including by raising the price of electricity as a result of long periods of drought. We may fail to effectively implement programs or have proper environmental, or sustainability certifications related to reducing our exposure to climate change, which may adversely affect our business and results of operations in the future. In addition, we may be required to spend significant amounts to comply with these regulations. Further, we do not have insurance coverage for some of these risks related to certain weather conditions or manmade or natural disasters.

If we fail to adapt or experience delays in adapting to this new global scenario, our operations and financial results may be adversely affected.

We can be held responsible for the social and environmental impacts of accidents involving the dams at our hydroelectric plants.

Our generation plants have large structures such as dams and floodgates that are used for water storage and reservoir level control. Such structures contain complex engineering works that must comply with several technical and safety standards. Specific laws and regulations provide safety guidelines for these structures, such as Law No. 12,334/2010, which established the National Dams Safety Policy (*Política Nacional de Segurança de Barragens*), and ANEEL Resolution No. 696/2015, which establishes the methodology for risk classification of the dams, the safety standards, and annual inspections of dams. Ordinance No. 696/2015 is under review and a new Ordinance is expected to come into force in the first half of 2023.

In addition, Law No. 12,334/2010 was updated by Law No. 14,066/2020, which, among other things, increased obligations related to dam security, including provisions for new financial obligations.

Any accident with respect to our subsidiaries' dams or related structures could lead to consequences for the surrounding environment, including the population living near or around dams. Any accident could materially affect our results of operations, as well as our financial condition and reputation. It could also lead to the acceleration of financings to which we are a party as borrower or guarantor. Furthermore, a court could find a parent entity, such as us, liable for environmental damages without needing to demonstrate a lack of resources at the subsidiary level, which could also materially affect our results of operations and financial condition.

Given the nature of our generation and transmission activities, we are subject to risks related to human rights violations.

In performing our core activities, whether in the construction or operational phase, as well as in our administrative activities and partnerships with suppliers and other agents, we may be directly or indirectly connected to human rights violations due to factors such as: (i) logistical challenges involved in the monitoring and conduct of due diligence of our wide range of suppliers and partners; (ii) direct and indirect operations taking place in areas of political instability, socioeconomic vulnerability and lack of robust public policies for social security and human rights protections; (iii) projects (such as large hydroelectric dams) that may involve the delicate process of relocating local and indigenous communities; (iv) interactions with vulnerable groups around our operations; and (v) corporate demographic profile and organizational culture that do not emphasize diversity and equality.

Moreover, our projects may directly and indirectly impact local and indigenous communities, such as, for example, through housing displacement. They may also affect the economic outputs of the local and indigenous communities, lead to the loss of cultural identity or increase demand for government services. For further details see "Item 8-Financial Information-Litigation-Environmental Proceedings."

Our exposure to this risk is evidenced by human rights-related issues frequently raised by our stakeholders, the media and market research analysts, such as Sustainalytics and MSCI, which we strive to properly address in our actions and reports.

We may not be able to avoid certain financial and reputational impacts derived from indirect human rights violations. Acts or perceived violations of human rights could materially negatively impact our results of operations and financial condition.

Risks Relating to our Shares and ADS

If you hold our preferred shares, you will have limited voting rights.

In accordance with the Brazilian Corporate Law and our bylaws, holders of the preferred shares, and, by extension, holders of the ADS representing them, are not entitled to vote at our shareholders' meetings, except in very limited circumstances. This means, among other things, that a preferred shareholder is not entitled to vote on corporate transactions, including mergers or consolidations with other companies, and systems of the CVM. Although, our bylaws restrict shareholders on voting individually or in concert on more than 10% of their shares, if the majority of holders of common shares are aligned on certain points, it is possible that they can approve certain corporate measures at our shareholders meetings without the approval of holders of our preferred shares. The approval of such measures may hinder corporate measures that are of importance to holders of our preferred shares and therefore materially adversely affect the trading price of such shares. Accordingly, an investment in our preferred shares is not suitable for you if voting rights are an important consideration in your investment decision.

We are conducting studies to assess a potential migration to the Novo Mercado listing segment of B3, and such process, if carried out, would lead to the conversion of all class A and class B preferred shares into common shares, in addition to the review of corporate governance practices in compliance with the Novo Mercado rules.

To be listed on the "Novo Mercado" listing segment of B3, we can only have outstanding common shares. If we migrate to this listing segment, we would be required to convert all our outstanding class A and class B preferred shares into common shares and the then former holders of class A and class B preferred shares would lose their priority rights in the distribution of dividends and the payment of advances on capital.

The conversion of class A and class B preferred shares into common shares requires the approval of at least 50% of the votes attributed to our shares with voting rights and more than 50% of the holders of each of our preferred shares being affected by such conversion in a special shareholders' meeting. Such approval would also need to cover the migration to the Novo Mercado listing segment of the B3, as well as the relevant amendments to our bylaws to comply with the Novo Mercado listing rules.

This would entail significant changes to our corporate governance structure, which could potentially impact our ability to execute our business plan and strategy. The required changes to our corporate governance structure (including amendments to our bylaws) related to a possible migration to the "Novo Mercado" listing segment, as well as the terms and timing of this migration, including the conversion ratio of class A preferred shares and class B common shares, continue still subject to studies, discussions and approvals by us and our shareholders, and we cannot predict or assure how this process will unfold or what the final result will be.

However, due to the greater rigor and number of corporate governance practices imposed by the listing rules of the “Novo Mercado,” if we migrate to the “Novo Mercado” listing segment we may increase our compliance costs arising therefrom, including, among other mandatory practices, with the creation and implementation of new policies or the amendment of the current ones and the creation of new advisory committees or changes thereto.

Our by-laws include certain provisions that limit shareholders’ voting rights and that may discourage takeovers or prevent or delay the approval of certain matters, which could negatively affect the price of our shares and ADSs.

Our bylaws contain provisions intended to avoid the concentration of more than 10% of our voting rights in a single or group of shareholders. Accordingly, the exercise of voting rights by any shareholder or group of shareholders is limited to 10% of the total number of shares representing our voting shares regardless of whether the shareholder or the group of shareholders hold any common shares in excess of this 10% threshold.

Additionally, certain provisions contained in our bylaws, often referred to as a “poison pill,” subject any shareholder who acquires more than 30% or 50% of our shares to a takeover obligation and to the payment of a 100% or 200% premium, respectively, on the purchase price of the shares. Such provisions may have the effect of discouraging or preventing takeovers, stakebuilding, the acquisition of control and/or the formation of a group of controlling shareholders, which in turn could negatively affect the price of our shares and ADSs.

The absence of a single controlling shareholder or group of controlling shareholders may also create difficulties for our shareholders to approve certain matters or transactions as the voting thresholds required by law for the approval of certain matters may not be reached. Additionally, the protections provided for under the Brazilian Corporate Law are not available to us and our shareholders, such as the ability of minority shareholders to elect members of the Board of Directors and Fiscal Council or the right of minority shareholders to seek reparation for damages caused by the controlling shareholders, as provided for in Articles 117 and 246 of the Brazilian Corporate Law.

Futhermore, beyond the uncertainty regarding corporate approvals, the absence of controlling shareholders increases the risk of a sudden and unexpected change in management, in corporate policies or in strategic direction.

Within this context, the absence of a single controlling shareholder or group of controlling shareholders could adversely affect our business and results.

Exercise of voting rights with respect to common and preferred shares involves additional procedural steps.

When holders of common shares are entitled to vote, and in the limited circumstances where the holders of preferred shares are able to vote, holders may exercise voting rights with respect to the shares represented by ADS only in accordance with the provisions of the deposit agreements relating to the ADS. There are no provisions under Brazilian law or under our bylaws that limit ADS holders’ ability to exercise their voting rights through the depositary bank with respect to the underlying shares. However, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, in addition to the legally mandated publication of notices in newspapers and on CVM’s system, holders of our shares will receive notice and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy or also voting at distance through a voting bulletin. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreements, we will provide the notice to the depositary bank, which will in turn, as soon as practicably possible thereafter, mail to holders of ADS the notice of such meeting and a statement as to the way instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary bank how to vote their shares. Because of this extra procedural step involving the depositary bank, the process for exercising voting rights will take longer for ADS holders than for holders of shares. ADS for which the depositary bank does not receive timely voting instructions will not be voted at any meeting.

The Brazilian Government has a golden share that grants it a veto power in corporate resolutions aimed at modifying our bylaws with the purpose of removing or modifying the limitation on the exercise of voting rights and entering into a shareholders’ agreement. The interests of the Brazilian Government may conflict with the interests of other holders of shares and ADSs issued by us.

As part of our Privatization, with the aim of preserving our status as a corporation with dispersed share ownership, statutory provisions were approved according to which the exercise of voting rights by any shareholder or group of shareholders, whether

Brazilian or foreign, public or private, is limited to 10% of the total number of shares representing our voting shares irrespective of whether such shareholder or group of shareholders are holding shares representing more than this 10% threshold.

The Brazilian Government is the holder of a special class of preferred share (*golden share*), which grants it veto power in relation to amendments to our bylaws aimed at removing or modifying the statutory provisions that regulate the limitation on the exercise of voting rights and the prohibition on entering shareholders' agreements. Accordingly, the Brazilian Government may veto statutory amendments that may be of interest to other holders of our shares or ADSs.

We do not have a controlling shareholder, which may leave us susceptible to alliances between shareholders, conflicts between shareholders and other events arising from the absence of a controlling shareholder or a controlling group.

Following our Privatization, we no longer have a specific controlling shareholder or controlling group.

The absence of a controlling shareholder or controlling group may turn the decision-making process difficult within the scope of our corporate activities, leading to the emergence of conflicts between shareholders and other events resulting from the absence of a controlling shareholder or controlling group, including relating to the approval of matters that require majority approval, either by law and/or due to the provisions of our bylaws.

In addition, we and our shareholders may have greater difficulties in identifying those responsible in relation to situations of abuse of voting rights and conflict of interests and, consequently, enjoy the protection provided for by the Brazilian Corporate Law for such situations, cases in which they may experience greater obstacles to obtain compensation for any damages potentially suffered.

In addition, the absence of a controlling shareholder or controlling group may leave us susceptible to the emergence of a group of shareholders acting together (even without entering into a formal shareholders' agreement) with the ability to exercise control and, consequently, hold the decision-making power over our activities. In such an event, we may experience instability or undergo sudden and unexpected changes in corporate and strategic policies, including through the replacement of management.

Any instability or sudden or unexpected change in our management, our business plan and strategic direction or dispute between shareholders concerning their respective rights, may adversely affect our business and operational results.

If we issue new shares or our shareholders sell shares in the future, the market price of your ADS may be reduced.

Sales of a substantial number of shares, or the belief that this may occur, could decrease the prevailing market price of our common and preferred shares and ADS by decreasing the shares' value. If we issue new shares or our existing shareholders sell their shares, the market price of our common and preferred shares, and of the ADS, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue shares or ADS in the future at a time and at a price that we deem appropriate and for you to sell your securities at or above the price you paid for them.

Political, economic and social events as well as the perception of risk in Brazil and in other countries, including the United States, European Union and emerging countries, may affect the market prices for securities in Brazil, including our shares.

The Brazilian securities market is influenced by economic and market conditions in Brazil, as well as in other countries, including the United States, European Union and emerging countries, such as the conflict between Russia and Ukraine. Despite the significant different economic conjecture between these countries and Brazil, investors' reactions to events in these countries may have a relevant adverse effect on the market value of Brazilian securities, especially those listed on the stock exchange. Crises in the United States, European Union or emerging countries may reduce investors' interest in Brazilian companies, including us. For example, the prices of shares listed on the B3 have been historically affected by fluctuations of the American interest rate as well as the variations in the main indexes for North American shares. Events in other countries and capital markets may adversely affect the market price of our shares to the extent that, in the future, it could difficult or prevent access to capital markets and investment financing on acceptable terms.

Exchange controls and restrictions on remittances abroad may adversely affect holders of ADS.

You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of *reais* into foreign currencies. The Brazilian Government imposed remittance restrictions for approximately three months in late 1989 and early 1990. Restrictions like these would hinder or prevent the conversion of dividends,

distributions or the proceeds from any sale of our shares, as the case may be, from reais into U.S. dollars and the remittance of the U.S. dollars abroad. We cannot assure you that the Brazilian Government will not take similar measures in the future, including as a result of the ongoing military conflict between Russia and Ukraine.

Exchanging ADS for the underlying shares may have unfavorable consequences.

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our shares underlying the ADS in Brazil, which permits the custodian to convert dividends and other distributions with respect to the shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADS and withdraw shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the shares unless you obtain your own electronic certificate of foreign capital registration, or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration, you would not be able to remit abroad non-Brazilian currency. In addition, if you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

You may not receive dividend payments if we incur net losses, or our net income does not reach certain levels.

Under Brazilian Corporate Law and our bylaws, we must pay our shareholders a mandatory distribution equal to at least 25% of our adjusted net income for the preceding fiscal year, with holders of preferred shares having priority of payment. Our bylaws require us to prioritize payments to holders of our preferred shares of annual dividends equal to the lesser of 8% (in the case of our class "A" preferred shares subscribed up to June 23, 1969) and 6% (in the case of our class "B" preferred shares subscribed after June 24, 1969), calculated by reference to the capital stock portion of each type and class of stock.

If we record a net income in an amount sufficient to make dividend payments, as a rule, at least the mandatory dividend is payable to holders of our preferred and common shares. However, we may not pay mandatory dividends, even in the case of profits, if we declare an inability to pay, as occurred for the year ended December 31, 2018. In this case, mandatory dividends must be retained in a special reserve and paid as soon as our financial situation permits. Excluding the mandatory dividend, we can retain profits as statutory profit reserves for investments or capital reserves. If we incur net losses or record net income in an amount insufficient to make dividend payments, including the mandatory dividend, our management may recommend that dividend payments be made using the statutory profit reserve after accounting for the net losses for the year and any losses carried forward from previous years, although it is an option and not an obligation. In the event that we are able to declare dividends, our management may nevertheless decide to defer payment of dividends or, in limited circumstances, not to declare dividends at all. We cannot make dividend payments from our reserves in certain circumstances established by Brazilian Corporate Law.

Additionally, in accordance with the Brazilian Corporate Law, if we post net income for the year which is characterized, in whole or in part, as not having been financially unrealized, according to the parameters defined in this law, management may choose to create a reserve of unrealized profits. Any amounts remaining after absorption of losses will be distributed as a dividend when the profit which is subject to this retention is financially realized and such dividend payment will be added to any dividend payment made in the year in which such profit is realized.

You may not be able to exercise preemptive rights with respect to the preferred or common shares.

You may not be able to exercise the preemptive rights relating to the preferred or common shares underlying your ADS unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary or, if the preemptive rights cannot be sold, they will be allowed to lapse and accordingly your ownership position relating to the preferred or common shares will be diluted.