The following table sets forth a summary of dividends/interest on own capital declared per share for the periods presented, at the time declared.

Dividend per Share

	Declared On 12/31/2011		Paid[1] On 5/29/2012		Declared On 12/31/2012		Paid[1] On 9/20/2013	
	R$	US$	R$	US$	R$	US$	R$	US$
Common	1.231779162	2.310571353	0.399210837	0.195356416	0.399210837	0.195356416	1.280047007	0.641820601
Preferred A	2.178256581	4.085973695	2.178256581	1.065944008	2.178256581	1.065944008	2.263612588	1.134984250
Preferred B	1.633692440	3.064480279	1.633692440	0.799458008	1.633692440	0.799458008	1.697709445	0.851238189

	Declared On 12/31/2013		Paid[1] On 5/29/2014		Declared On 12/31/2014		Paid[1] [2] On 6/30/2015	
	R$	US$	R$	US$	R$	US$	R$	US$
Common	0.39921083663	0.17640779347	0.39921083663	0.17640779347	0.00	0.00	0.00	0.00
Preferred A	2.17825658673	0.96255262339	2.17825658673	0.96255262339	0.00	0.00	0.10384693436	0.03340311183
Preferred B	1.63369244005	0.72191446754	1.63369244005	0.72191446754	0.00	0.00	0.10384693436	0.03340311183

	Declared On 12/31/2015		Paid 2016		Declared[2] On 12/31/2016	
	R$	US$	R$	US$	R$	US$
Common	–	–	–	–	–	–
Preferred A	–	–	–	–	–	–
Preferred B	–	–	–	–	–	–

(1) Adjusted by SELIC rate variation.

(2) In the financial statements as of and for the year ended December 31, 2014, we did not propose any dividends; however, in our 55th Shareholders' General Meeting held on April 30, 2015 we approved the payment of dividends relating to the balance of the profit reserve account of R$26 million in favor of our Class A Preferred shareholders and Class B Preferred shareholders. This amount was paid in 2015.

Exchange Controls and Foreign Exchange Rates

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and since then, the *real*/U.S. dollar exchange rate has fluctuated considerably. In 2011, the *real* depreciated 12.6% against the U.S. dollar. In 2012, the *real* depreciated 8.9% against the U.S. dollar. In 2013, the *real* depreciated 14.6% against the U.S. dollar. In 2014, the *real* depreciated 11.8% against the U.S. dollar. In 2015, the *real* depreciated 31.0% against the U.S. dollar. In 2016, the *real* appreciated 18.0% against the U.S. dollar. In the past, the Central Bank has intervened occasionally to control instability in foreign exchange rates.

We cannot predict whether the Central Bank or the Brazilian Government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. We cannot assure that the *real* will not continue to appreciate substantially or depreciate against the U.S. dollar in the near future.

The following table sets forth the period end, average, high and low selling rates published by the Central Bank expressed in *reais* per U.S.$ for the years and dates indicated.

	Reais per U.S. Dollar			
Year Ended	Period-end	Average	Low	High
December 31, 2011	1.8758	1.6746	1.5345	1.9016
December 31, 2012	2.0435	1.9550	1.7024	2.1121
December 31, 2013	2.3426	2.1605	1.9528	2.4457
December 31, 2014	2.6562	2.3547	2.1974	2.7403
December 31, 2015	3.9048	3.3387	2.5754	4.1949
December 31, 2016	3.2591	3.4851	3.1193	4.1557

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The following table sets forth the period end, high and low commercial market/foreign exchange market selling rates published by the Central Bank expressed in *reais* per US$ for the periods and dates indicated.

	Reais per U.S. Dollar			
Month	Period end	Average	Low	High
January 2017	3.1270	3.1966	3.1270	3.2729
February 2017	3.0993	3.1042	3.0510	3.1479
March 2017	3.1684	3.1279	3.0765	3.1735
April 2017 (through April 25, 2017)	3.1577	3.1261	3.0923	3.1577

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian Government in the future. See "Item 3.D, Risk Factors – Risks Relating to Brazil."

We currently maintain our financial books and records in *reais*. For ease of presentation, however, certain consolidated financial information contained in this annual report has been presented in U.S. dollars. See "Item 8, Financial Information."

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to our Company

As a state-controlled company involved in many large infrastructure projects in Brazil, we or our employees may be accused, in the media or otherwise, of accepting illegal payments.

As a result of our NYSE listing, we are subject to the U.S. Foreign Corrupt Practices Act of 1977 (as amended), or FCPA, and the disclosure requirements under the U.S. Securities Exchange Act of 1934. In addition, we are subject to broad anti-corruption legislation that has recently become effective in Brazil. In 2009, the Federal Police commenced an investigation called "*Operação Lava Jato*" (the "*Lava Jato* investigation") which, according to official sources, is an investigation into the existence of an alleged corruption scheme involving Brazilian companies acting in various sectors of the Brazilian economy. Since 2014, the Brazilian Federal Prosecutor office has focused part of its investigation on irregularities involving contractors and suppliers used by state-owned companies and uncovered a broad payment scheme that involved a range of participants. In addition to criminal charges in Brazil, the U.S. Securities and Exchange Commission ("SEC") and Department of Justice ("DoJ") have also commenced investigations in relation to the *Lava Jato* investigation and a group of plaintiffs in the United States has commenced a class action lawsuit against us under the U.S. Securities laws. In light of these actions, the Brazilian media and the CVM have begun to question some special purpose entities and other transactions between third party contractors and us referred to in *Lava Jato* investigation.

Although no criminal charges have been brought against us as part of *Lava Jato* investigation, the Brazilian Federal Prosecutor's Office investigated irregularities involving certain of our employees, contractors and suppliers, as well as certain contractors and suppliers of special purpose entities ("SPEs") in which we hold minority interests, involved in the construction of power generation plants.

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As a response to allegations of illegal activities appearing in the media in 2015 relating to companies that provided services to our subsidiary Eletronuclear (specifically, the "Angra 3" nuclear power plant), and to certain SPEs in which we hold a minority stake, our Board of Directors, although not required to do so, hired the law firm Hogan Lovells US LLP on June 10, 2015 to undertake an independent internal investigation for the purpose of assessing the potential existence of irregularities, including violations of the FCPA, the Brazilian Anticorruption Law and our code of ethics. The Independent Investigation focused on identifying potential illegal activities that could have an impact on our financial statements and was subject to oversight by an Independent Commission (*Comissão Independente para Gestão da Investigação*), whose creation was approved by our Board of Directors on July 31, 2015 (the "Independent Commission"). The Independent Commission was composed of Ms. Ellen Gracie Northfleet, a former justice of the Brazilian Supreme Court, Mr. Durval José Soledade Santos, a former director of the CVM, and the Engineer Mr. Manuel Jeremias Leite Caldas. The Independent Investigation is now complete. However, we continue to perform additional procedures related to the investigation in order to improve our internal controls and to review and assess any further information that comes to light as part of the on-going *Lava Jato* investigation. For this second phase, we entered into a temporary contract with Hogan Lovells US LLP. We also made a change to the Independent Commission due to the scope of the additional procedures; and one member, Mr.Manuel Jeremias Leite Caldas, was replaced by Mr. Julio Sergio Cardozo, a well known accounting expert.

Eletrobras, Hogan Lovells and the Independent Commission have been closely monitoring the investigations and cooperating with Brazilian and United States authorities, including the Federal Courts (*Justiça Federal*); the Federal Prosecutors' Office (*Ministério Público Federal* or "MPF); the CVM; the Council for Economic Defense (*Conselho Administrativo de Defesa Economica* or "CADE"), the DoJ, and the SEC, among others, and have responded to requests for information and documents from these authorities in instances where the Independent Committee identified contracts where irregularities may have occurred. We evaluated those contracts and internal investigations and, when applicable, suspended those contracts. We also took administrative measures in relation to employees and officers involved in the activities identified by the Independent Investigation, including, when applicable, the suspension or termination of employees.

On April 29, 2015, the Federal Police commenced the "Operation Radioactivity" under the 16th phase of " the Lava Jato" investigation, which resulted in the imprisonment of a former officer of our subsidiary Eletronuclear. This former officer was sentenced to 43 years in prison, by the judge of the 7th Federal Court of the District of Rio de Janeiro, for passive bribery, money laundering, obstruction of justice, tax evasion and participation in a criminal organization. On July 6, 2016, the Federal Police commenced "Operation Pripyat", in which the Federal Police served arrest warrants issued by the judge of the 7th Federal Court of the District of Rio de Janeiro against five former officers, officers who had already been suspended by our Board of Directors as well as other parties. Formal charges of corruption, money laundering and obstruction of justice were filed against those former officers by Federal Prosecutors Office on July 27, 2016. On April 7, 2017, the 7th Federal Court of the District of Rio de Janeiro revoked the preventive arrest order against these officers on the basis that they played a minor part in any possible corruption scheme. We are continuing to assist the prosecution in these criminal proceedings. For more information concerning civil charges filed against us, please see the risk factor entitled " — *We may incur losses and spend time and money defending pending litigation and administrative proceedings*."

We cannot ensure that we will not become the subject of any criminal or further civil anti-corruption action brought under U.S. or Brazilian law if any illegal acts or regulatory failures come to light. Any potential future anti-corruption-related action brought against us could result in charges against us or, members of our management, significant fines and penalties, reputational harm, distraction from our ongoing business and other unforeseen material adverse effects.

We have been investigating events allegedly incompatible with our ethics and integrity standards. Eventual failures to timely detect or remedy any events of this nature could have material adverse effect on our results of operations and financial condition.

Our business, including relationships with third parties, is guided by ethical principles. We recently updated our Code of Ethics and adopted a number of conduct commitments and internal policies (such as guidelines for compliance with Anti-Corruption Policy) designed to guide interested parties, such as management, employees and contractors and reinforce our principles and rules for ethical behavior and professional conduct.

We are subject to the risk that employees and management, whether of our companies or of the special purpose entities (SPEs), in which we hold equity interests, our contractors, or any person doing business with us may engage in fraudulent activity, corruption or bribery and fail to comply with our internal controls and procedures, by means of, for example, misappropriation or manipulation of our assets for their personal or business advantage to our detriment. This risk is heightened by the fact that we conduct many of our operations through subsidiaries, as well as SPEs or consortia over which we do not have corporate control. Although we have a number of systems in place intended to identify, monitor and mitigate these risks, our systems are relatively new and may not be effective in all circumstances.

Any findings or allegations of lapses in adherence to these principles could lead to project delays, investigations, higher costs and expenses, reduced management focus on our ongoing business and lower levels of revenues and profits from any affected projects. 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. In the event of a default, certain of these financing agreements could be accelerated. These defaults or the acceleration of these financing agreements may also give other lenders the right to accelerate pursuant to cross-default provisions. Accordingly, acceleration of these financing agreements could adversely affect our results of operations and financial condition. For more information relating to possible defaults under our financing and capital market obligations please see the risk factor entitled" *– We have substantial liabilities and are exposed to short-term liquidity constraints, which could make it difficult for us to obtain financing for our planned investments and adversely affect our financial condition and results of operations.*"

We cannot ensure that employees and management whether of our companies or of the SPEs in which we hold ownership interests, or partners and third parties, will comply with our ethical principles. Any failure – real or perceived – to follow these principles or comply with applicable governance or regulatory obligations could harm our reputation, limit our ability to obtain financing, and otherwise have a material adverse effect on our results of operations and financial condition.

If we are unable to remedy the material weaknesses in our internal controls, the reliability of our financial reporting and the preparation of our consolidated financial statements may be materially adversely affected.

Pursuant to SEC regulations, our management, fiscal council and internal auditors, evaluate the effectiveness of our disclosure controls and procedures, including the effectiveness of our internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. As a result of our management's evaluation of the effectiveness of our disclosure, controls and procedures in 2016, our management determined that these controls and procedures were not effective due to material weaknesses in our internal controls over financial reporting. The material weaknesses identified were:

1 – We did not maintain an effective control environment, especifically regarding the lack of timely remedial actions related to previous years;

2 – We did not maintain adequate controls regarding the preparation of the financial statements and related disclosures, including lacking an appropriate timing analysis and reconciliations from Amazonas D and Furnas;

3 – We did not maintain effective internal controls regarding the adequate monitoring of the investments in specific purpose entities (SPEs), including failure to identify and monitor the physical and financial execution of the relevant investment projects evaluated under the equity method, lack of technical and financial terms review related to construction contracts before the bid process, adequate analysis of the proposals made by suppliers and lack of evaluation and monitoring of progress and budget of projects; and

4 – We did not fully implement internal controls over the Risk, Corruption Prevention and Compliance Program, considering the requirements of the North American legislation (FCPA) and also of the Brazilian Anticorruption Law; including an effective whistleblower channel due to inadequate completeness controls.

If our efforts to remediate the material weaknesses are not successful, we may be unable to report our results of operations for future periods accurately and in a timely manner and make our required filings with government authorities, including the SEC. There is also a risk that there could be accounting errors in our financial reporting, and we cannot be certain that in the future additional material weaknesses will not exist or otherwise be discovered. Any of these occurrences could adversely affect our business and operating results and could generate negative market reactions, potentially leading to a decline in the price of our shares, ADS and debt securities.

Furthermore, in light of the *Lava Jato* investigation, our material weaknesses on financial reporting may result in a situation whereby if an illegal act were to occur, our internal systems and controls may not be sufficient for any such action to come to the attention of our management.

Any potential SEC and DoJ investigations regarding the possibility of non-compliance with the U.S. Foreign Corrupt Practices Act could adversely affect us. Violations of this or other laws may require us to pay fines and penalties, undertake remedial measures, and agree to post-settlement monitoring, and expose us and our employees to criminal sanctions and civil suits.

In January 2017, we signed tolling agreements with the SEC and DoJ agreeing to extend the statute of limitations regarding any potential violations. In connection with any potential SEC or DoJ investigation, there can be no assurance that we will not be required to pay fines and penalties or provide other financial relief, or consent to injunctions or orders on future conduct or suffer other

penalties, including undertaking other remedial measures and agree to post-settlement monitoring, any of which could have a material adverse effect on us.

The Lava Jato investigation is ongoing and new information may be disclosed. As such, our estimates may be under or overestimated, which could thus lead to us having to resubmit our financial statements and cause a material adverse impact in our results of operations and financial condition. This could impact the market value of our securities.

Given that the *Lava Jato* investigation is still ongoing we may have to make adjustments to certain line items of our financial statements in the event the investigations lead to a discovery of materially relevant differences between the accounted amounts in such line items.

Our internal investigations into the allegations made as part of the Lava Jato investigation intend to identify possible illegal payments and other illegal acts that may have occurred in projects in which we and our subsidiaries hold equity interest, either directly or through special purpose entities. One of the possible consequences of illegal payments to the consortia of contractors, suppliers, or other service providers would be the capitalization of undue amounts in the accounting entries relating to any affected projects.

In October 2016, the Independent Investigation completed the first phase of the investigation with the goal of identifying any illegal acts that could result in material distortions in our consolidated financial statements. During this stage, the investigation identified cases of overbilling relating to fraudulent biding processes resulting from the use of bribes and kickbacks that were paid by certain suppliers and contractors of some of our subsidiaries and SPEs hired since 2008. For further information relating to the Independent Investigation see "Information on the Company-E. Compliance."

In April 2017, as a consequence of the plea bargain agreements entered into by executives of the major Brazilian construction conglomerate, Odebrecht, the Federal Supreme Court requested that investigations should be initiated to investigate the conduct of politicians who were referred to in those agreements. Other official investigations may be initiated against

individuals who are subject to the jurisdiction of lower courts.

Certain allegations of potential illegal acts were made public in respect of the Santo Antonio project, in which we hold an indirect minority interest through our subsidiary Furnas. Hogan Lovells, under the direct supervision of the Independent Committee, continues to monitor plea bargaining agreements that are made public as well as other information published by the press concerning the development of the "*Lava Jato*" investigation.

To determine the financial impact to be recognized in our consolidated financial statements, management took into consideration the conclusions reached and findings identified in the Independent Investigation in addition to the conclusions reached and findings identified to date by the Prosecutors overseeing the *Lava Jato* investigation. As the *Lava Jato* investigation is still ongoing and the Federal Prosecutors Office may take a considerable amount of time to conclude its investigations, new relevant information may come to light in the future, which could result in material distortions in our financial statements and cause us to make further adjustments to certain line items.

The operational and financial results of the operating subsidiaries that we own and the SPEs and consortia in which we invest may adversely affect our strategies, results of operations and financial condition.

We conduct our business mainly through our operating subsidiaries and SPEs and consortia, in which we hold equity interests and which were created specifically to participate in public auctions for concessions in the generation and transmission segments. We generally use SPEs when we enter into partnerships to explore new ventures. For the purposes of Rule 3-09 of Regulation S-X, the SPEs that hold the Santo Antônio and Jirau projects were considered significant subsidiaries as of and for the year ended December 31, 2014. For the year ended December 31, 2015, no minority owned subsidiary met the Regulation S-X or Rule 3-09 significant subsidiary criteria and for the year ended December 31, 2016, CTEEP, a transmission company in which we hold a minority interest, was considered a significant subsidiary.

Our ability to meet our financial obligations is therefore related in part to the cash flow and earnings of our subsidiaries, SPEs and consortia and the distribution or other transfer of those earnings to us in the form of dividends, loans or other advances and payment. Given the significant decrease in generation and transmission tariffs in recent years and the current adverse macro-economic conditions in Brazil, the operational and financial results of these operating subsidiaries, SPEs and consortia may be adversely affected.

Further, as we do not control the management of the SPEs or consortia their management practices may not be aligned with ours, which could lead to sanctions or penalties being imposed on them. Any deterioration in the results of operations or financial condition of the SPEs or consortia or any sanctions or penalties imposed on them may have a negative effect on our results of operations or financial condition. In order to standardize the management of the SPEs in which we hold equity interests, we developed a uniform corporate governance model that we are currently implementing across all our subsidiaries which will aim to follow this model when they invest in future SPEs or consortia. If the uniform corporate governance model is not implemented fully we may not be fully protected against any possible penalties or sanctions that may be imposed on these SPEs or consortia for future conduct, which could in turn result in reputational harm and adverse effects on our results of operations and financial condition.

Some of our operating subsidiaries, SPEs or consortia are, or in the future may be, subject to loan agreements that require that any indebtedness of these operating subsidiaries, SPEs or consortia to us be subordinate to the indebtedness under those loan agreements. Our operating subsidiaries, SPEs and consortia are separate legal entities. Any right we may have to receive assets of any operating subsidiary or SPE or other payments upon their liquidation or reorganization will be effectively subordinated to the claims of the creditors of that operating subsidiary, SPE or consortia (including tax authorities, trade creditors and lenders to such subsidiaries), except to the extent that we are a creditor of the relevant operating subsidiary, SPE or consortia, in which case our claims would still be subordinated to any security interest in the assets of that operating subsidiary, SPE or consortium and indebtedness of that operating subsidiary, SPE or consortium senior to the interest we hold.

Due to the length of time required to fully implement our compliance program, we may be subject to sanctions and penalties related to the enforcement of the FCPA and the Brazilian Anticorruption Law.

In mid-2014 our Board of Directors approved our compliance program (*Plano de Implementação do Programa de Compliance*), pursuant to (i) the Brazilian Anticorruption Law, and (ii) the U.S. laws and regulations applicable to companies that have their securities listed on the NYSE, such as the FCPA. Pursuant to our policies, all of our and our subsidiaries' employees, management, partners and third parties must follow all applicable anti-corruption laws and regulations, whether in Brazil or overseas. On December 22, 2014, our Board of Executive Officers approved our compliance manual (*Manual de Compliance referente às leis Anticorrupção*). Each of our subsidiaries nominated compliance managers and assistants (*Gerentes e Assistentes de Compliance*) which together form the compliance commission (*Comissão Diretiva de Compliance*) of the Eletrobras group.

In December 2015, we updated our Compliance Manual. In August 2016, our Board of Directors created a Compliance Officer (*Diretoria de Conformidade*) to specifically address issues relating to enterprise risk management, internal controls and corporate integrity. The Board elected Mrs. Lucia Casasanta to fill the compliance role. Our Board of Directors and Executive Officers monitors the implementation of our compliance program by reviewing advances and setbacks.

We are implementing our compliance program as part of the "Eletrobras 5 Dimensions Program" based on guidance for state-owned companies, issued by *Ministerio da Transparencia Fiscalização e Controle (CGU)*, in compliance with Decree No. 8,420/2015. Given the complexity of the implementation of this kind of program, it may not be fully operational until early 2018. The Eletrobras 5 Dimensions Program includes: (i) the commitment of our Board of Directors to fully implement the compliance program, the existence of the Compliance Officer role as well as her/his periodic reporting to the Board of Directors and to the Fiscal Council (with Audit Committee role) related to the ongoing compliance procedures; (ii) the development of a corruption risk assessment program to identify and protect the areas of a company in the energy sector which are most vulnerable to corruption; (iii) formal guidelines for compliance with our Anti-Corruption Policy, review of the procurement policies and procedures ; (iv) training of the employees, members of the management and of the Fiscal Council of the guidelines and integration of the Code of Ethics and Conduct Commitments, including formalizing procedures to mitigate the risk of corruption and training our employees regarding our compliance procedure and the risks of corruption; and (v) implementation of an independent whistleblower channel, annual internal audits to evaluate our compliance, including implementing due diligence for third parties and conducting background checks when appointing the members of Board of Directors, Board of Officers and Fiscal Council. In late 2016, we updated our Code of Ethics and Conduct.

Until the program is fully implemented, or if the program fails to identify corruption or fraud once it is implemented or we do not successfully remediate future issues that arise, we could be exposed to financial losses, restrictions on securities offerings, or civil and criminal liability in the United States and in Brazil.

The renewal of our concessions pursuant to Law No. 12,783/2013 or Law No. 13,182/2015 may adversely affect our results of operations and financial condition.

The Brazilian Government enacted Law No. 12,783/2013, or Law No. 12,783, in order to regulate the terms and conditions for the renewal of concessions for the generation and transmission of electricity which were due to expire between 2015 and 2017. Law No.

12,783 provides that companies may, only once, renew their generation, transmission and distribution concessions for a further thirty-year term, provided they accept certain conditions established by ANEEL, such as the revised tariffs to be calculated by ANEEL, and submit to the agency's quality standards.

On December 4, 2012, we renewed the generation and transmission concessions which were due to expire between 2015 and 2017 of our subsidiaries Chesf, Eletronorte, Eletrosul and Furnas for a further 30 years pursuant to Law No. 12,783. By doing so, we accepted the application of the annual tariffs for generation and transmission (*Receita Anual Permitida*) as remuneration for the operation and maintenance of our generation and transmission activities in accordance with the MME's Ordinance Nos. 578 and 579, both enacted in 2012.

Further, the Brazilian Government enacted Law No. 13,182/2015 to regulate the terms for the renewal, for a further thirty years, of the generation concessions and including the Sobradinho and Itumbiara hydroelectric power plants. On November 3, 2015, Chesf renewed the concession of the Sobradinho hydroelectric power plant. In order for Furnas to renew the concession for the Itumbiara hydroelectric power plant for a further 30 year term starting from February 27, 2020, it will have to follow certain conditions provided for in Law No. 13,182/2015, as partially amended by Law No. 13,299/2016. The law established that the supply for agreements entered into by Furnas pursuant to auctions should commence on January 1, 2016, and terminate on February 26, 2035, subject to gradual annual decreases in the energy supplied under those agreements from February 27, 2030 to February 26, 2035, when the entire physical guarantee of the Itumbiara power plant will be allocated to the quotas regime established by Law No. 12,783. Further, pursuant to the current legislation, the energy not sold by the Itumbiara power plant will be subject, form February 27, 2020, to the quota regime established by Law No. 12,783. Furnas approved the renewal of the concession of the Itumbiara hydroelectric power plant, however, the reference price established by the law might not be attractive to consumers in future auctions to be held until December 2019 for the hiring of the physical guarantee. As of the date of this annual report, Furnas held four auctions to sell energy produced by the Itumbiara power plant, on January 19, 2016, November 7, 2016, December 16, 2016 and February 21, 2017, selling part, but not all, of the total volume available. We cannot guarantee that the legality of Law No. 13,182/2015 and of Law No. 13,299/2016 will not be questioned, nor that all conditions needed to turn the renewal of the Itumbiara concession into an economically feasible project will be met, which could have an advserse effect on our results of operations and financial condition.

The amount of any payments to be received following the renewal of our concessions, which were due to expire between 2015 and 2017, may not be sufficient to cover our investments in these concessions. Further, we cannot estimate when and on what terms payments in respect of generation concessions will be made.

In respect of our generation and transmission concessions, by agreeing to the renewal of the concessions, which were due to expire between 2015 and 2017, we accepted payments as compensation for the unamortized undepreciated portion of our assets relating to those concessions. As of December 31, 2016, pursuant to Law No. 12,783, we were awarded the total payments of R$36.6 billion in relation to our transmission concessions. For further information, please see "*—Principal Factors Affecting our Financial Performance— Transmission RBSE Payment*."

On April 20, 2016, MME enacted Instruction No, 120, which regulates the conditions under which the payments in connection with the RBSE transmission assets are to be received and which establishes that the amounts homologated by ANEEL referring to these assets should be merged into the Regulatory Asset Basis (*Base de Remuneração Regulatória*), increased with respect to compensation for the cost of equity from January 1, 2013 to July 2017 when the tariff process will take place in order to include such payments, and, from this date, the compensation of these assets will be determined through WACC, the weighted average cost of capital, defined by ANEEL, until the effective date of payment. The WACC is calculated as an average between the cost of equity of the shareholders and of third parties, which is the cost of financial debts.

The amounts related to RBSE, once updated and paid, will be added to the Permitted Annual Revenues ("RAPs" - *Receitas Anuais Permitidas*) of the relevant projects which were renewed in 2012, as from the 2017 tariff review, increased by the compensation related to the cost of equity mentioned above. The compensation and depreciation installments will be defined according to the methodologies of the Periodic Tariff Review of Revenues from Existing Concessionaires (*Revisão Tarifária Periódica das Receitas das Concessionárias Existentes*), approved by ANEEL, and the Regulatory Asset Basis will be depreciated considering the residual life span of the assets and will be updated using the IPCA index. Starting with the 2017 tariff process, the compensation through the application of WACC will be applicable for an eight-year period.

However, certain associations of energy consumers have legally questioned these increases, claiming that these charges would be improper, especially regarding the compensation for the cost of equity, and that those differences should be paid from public resources, and not passed on to consumers. In the event that the consumers succeed in their lawsuits and are able to entirely or partially reverse the collection of theseamounts, our financial results might be materially adversely affected. On April 10, 2017, a partial injunction was granted in favor of these associations in order to exclude the tariff that the associations had to pay in relation to the compensation provided for by Portaria MME 120/2016. Should the partial injunction remain in effect, the lawsuit be decided

against us, and/or new lawsuits be filed by other consumers associations from the regulated market with the Brazilian Government not assuming the obligation to pay for these credits, we might not receive the total amount of the assets accounted in our financial statement, or might be required to make an accounting provision. ANEEL has not yet defined the criteria for the indemnification of generation assets, which may be below the amount claimed by us.

The value of the revised tariffs we calculated as part of the renewal of the concessions within the ambit of Law No. 12,783 based on our expected expenses, costs and revenues may be lower than the tariffs we will eventually receive.

Law No. 12,783 determines, among other things, the tariffs to be charged by concessionaires based on costs of operation and maintenance, charges, taxes and payments for the use of the transmission and distribution systems. By agreeing to renew our concessions early, we made certain assumptions about the assets of Furnas, Chesf, Eletronorte and Eletrosul that may not materialize over time, particularly in relation to planned cost reductions. As a result, the tariffs our subsidiaries will receive in time may be lower than predicted, may not cover the amounts actually invested or may be paid only after a significant amount of time, which could materially adversely affect our results of operations and financial condition.

Under the current rules for the tariff review for generation and transmission concessions, we might not receive the full amount to compensate us for costs incurred in relation to the operation and maintenance of these concessions and any expenses

in relation to these assets.

In Brazil, the regulatory model adopted for transmission companies is based on the traditional English price/revenue cap model. According to this model, ANEEL determines the revenues to be charged by the companies, which must cover any costs of capital, operation and maintenance considered efficient. As is the case for distribution companies, the regulation mechanisms for transmission companies are the tariff review, which occurs every five years, and the annual tariff readjustment, which is a monetary adjustment of the tariffs charged. These mechanisms depend on the concession agreement of each company. At the time of the tariff review, the objective of ANEEL is to recalculate the costs for the efficient operation and maintenance of the system managed by the transmission company. Companies with high operating costs comparative to similar companies only receive partial compensation.

It is also incumbent upon ANEEL to determine the revenues to be charged by the generating companies, holding assets with renewed concession agreements or resulting from concessions auctions (both cases in accordance with Law No. 12,783). The Annual Generation Revenue (RAG) is the amount to which the generating companies have the right to provide the physical guarantee of a hydroelectric plant. RAG is calculated taking into account the regulatory costs of operation, maintenance, administration, compensation and amortization of the hydroelectric plant, being adjusted annually, in addition to being reviewed every 5 years.

According to the current regulations, to recognize the required investiments to maintain the adequate service provision, ANEEL determined that generating companies must present investment plans, every 5 years, to be approved by the Agency, so compensation starts to be paid after the plant starts to operate. However, ANEEL is promoting a review of this methodology, which consists in establishing a regulatory amount to cover investments in improvements, to be included in the fixed revenue of the concession. This revenue will then be adjusted annually, with no the need for a tariff review process.

If our transmission companies do not perform properly or ANEEL chooses to maintain the current process of reviewing transmission revenues, we will be exposed to the possibility of not being adequately compensated for the costs and expenses of investments on these assets. This may affect our results of operations and financial condition. Should this not occur, the risk of not having our investments properly remunerated by ANEEL will continue and might materially adversely affect our operation results and financial condition.

There are no guarantees that our existing concession contracts will be renewed and, if so, on what terms.

We carry out our generation, transmission and distribution activities pursuant to concession agreements entered into with the Brazilian Government through ANEEL.

The Brazilian Government may renew any existing concessions that were not renewed pursuant to Law No. 12,783 and Law No. 13,182/2015, for an additional period of 30 years without the need to carry out a new public bidding process. If we request a renewal, the Brazilian Government may renew the concession on less favorable terms. This applies to approximately 41% of our corporate generation assets and 9.1% of our corporate transmission assets, other than Itaipu and our nuclear power plants Angra I and Angra II.

Given the Brazilian Government's discretion in relation to the renewal of concessions, we may face considerable competition during the renewal process. Consequently, we cannot give you any assurances that our concessions will be renewed or renewed on similar terms.

Every five years the physical guarantees for our plants can be revalued and we may incur additional costs having to purchase energy to comply with existing agreements, which could reduce our revenues.

Order MME No. 622/2016 published and opened to public consultation the Ordinary Review Report of Energy for Physical Guarantees of hydroelectric power plants (*Relatório Revisão Ordinária de Garantia Física de Energia*) and the Reviewed Amounts of Energy for Physical Guarantees of hydroelectric power plants (*Valores Revistos de Garantia Física de Energia das Usinas Hidrelétricas Despachadas*) operating in the SIN. The impacts to our group could trigger changes to the system's total physical guarantees which are still under analysis, as the result of the public consultation has not yet been disclosed. We expect the process to be concluded in 2017 and the review to be applied from 2018 onwards. Possible changes to the physical guarantee in 2018 could impact our plants as follows: Boa Esperança (a decrease of 5%), Paulo Afonso Complex – Moxotó (a decrease of 5%); Corumbá I (a decrease of 5%); Curuá-Una (a decrease of 3.3%); Funil (a decrease of 5%); Furnas (a decrease of 2.8%); Itumbiara (a decrease of 5%); Sobradinho (a decrease of 5%); Tucuruí I and II (a decrease of 3.2%), among others.

The decrease in the physical guarantee, especially for those plants that have not had their concessions renewed yet, could impact our revenues and increase our expenses due to the need to purchase energy to comply with sale and purchase agreements already in effect.

The value of any government bonds that we might receive in exchange for our credits in Itaipu might be less than the value of such credits.

Law No. 12,783 authorized the Brazilian Government to acquire any of the credits we hold against Itaipu as a result of our financing of the construction of the Itaipu hydroelectric power plant, in exchange for Brazilian Government bonds (*títulos da dívida pública mobiliária*) of an equivalent value. Should the Brazilian Government acquire these credits, the value of any government bonds transferred to us in the future may be worth less than the value of our credits in Itaipu and could materially adversely affect our results of operations and financial condition.

We are controlled by the Brazilian Government, the current policies and priorities of which directly affect our operations and may conflict with interests of our investors.

The Brazilian Government, as our controlling shareholder, exercises substantial influence on the strategic orientation of our business. The Brazilian Government also has the power to appoint seven out of the ten members of our Board of Directors and, through them, a majority of the executive officers responsible for our day-to-day management. Additionally, the Brazilian Government currently holds the majority of our voting shares. Consequently, the Brazilian Government has the majority of votes at our shareholders' meetings, which empowers it to approve most matters prescribed by law, including the following: (i) the partial or total sale of the shares of our subsidiaries and affiliates; (ii) increase our capital stock; (iii) determine our dividend distribution policy, as long as it complies with the minimum dividend distribution regulated by law; (iv) issuances of securities in the domestic market and internationally; (v) corporate spin-offs and mergers; (vi) swaps of our shares or other securities; and (vii) the redemption of different classes of our shares, independent from approval by holders of the shares and classes that are subject to redemption.

Our operations impact the commercial, industrial and social development promoted by the Brazilian Government. Therefore, we may incur costs or engage in transactions that may not necessarily meet the interest of our other investors.

We have substantial liabilities and are exposed to short-term liquidity constraints, which could make it difficult for us to obtain financing for our planned investments and adversely affect our results of operations and financial condition.

In order to finance the capital expenditures needed to meet our long-term growth objectives, we have incurred a substantial amount of debt. As our cash flow from operations in recent years has not been sufficient to fund our capital expenditures, debt service and payment of dividends, our debt has significantly increased since 2012. In 2016, we were able to reduce our debt by 1.7% to R$45,620 million as of December 31, 2016, compared to R$46,398 million as of December 31, 2015. However, our debt, net of cash, cash equivalents and marketable securities, increased by 3.2% to R$39,196 million as of December 31, 2016 compared to R$37,966 million as of December 31, 2015. 71% of our existing debt (principal), or R$32.6 billion, will mature in the next five years. In order to meet out growth objectives, maintain our ability to fund our operations and amortize scheduled debt maturities, we will need to raise significant amounts of debt capital from a broad range of funding sources as well as sell selected assets. To service our debt after meeting our capital expenditure targets, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our available credit facilities, our cash and short-term financial investments balance, the incurrence

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of additional indebtedness, the receipt of payments from the government for concessions renewed pursuant to Law No. 12,783 and the sale of assets, such as our recent sale of CELG-D. Following the downgrade of the sovereign ratings, we lost our Fitch's, Moody's and Standard & Poor's investment grade ratings. Any further lowering of our credit ratings may have adverse consequences on our ability to obtain financing or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. If, for any reason, we are faced with continued difficulties in accessing debt financings or there is any delay in us receiving amounts due to us under the payments from the government, this could hamper our ability to make capital expenditures in the amounts needed to maintain our current level of investments or our long-term targets. In addition, it could impair our ability to timely meet our principal and interest payment obligations with our creditors.

We are subject to certain covenants, non-compliance with which may allow the lenders under the relevant facilities to accelerate their commitments.

We are party to a number of international and Brazilian financing facilities as borrower and guarantor. The bonds we issued in the international capital markets and our existing credit facilities require that we comply with a number of financial and non-financial covenants, such as the provision of financial statements by certain deadlines and the provision of an unqualified audit report, among others. We may not be able to comply with such covenants, which could trigger certain events of defaults and, consequently, permit the relevant lenders to accelerate the loans, potentially allowing other lenders to rely on their cross-acceleration provisions. Should any lender make this request, it could allow other lenders to use the same arguments and also to ask for the cross-accelerated provisions. However, on an agreed basis, these same lenders may grant waivers regarding the breach of covenants, temporarily or not, and not ask for the corss-accelerated provisions. However, we cannot guarantee that the relevant lenders will grant us waivers for any breaches of our covenants in the future, and any covenant breach may result in circumstances that usually lead to defaults in other loans.

We are subject to rules limiting borrowing by public sector companies and may not be able to obtain sufficient funds to complete our proposed capital expenditure programs.

In respect of capital expenditures for expansion, modernization, research, infrastructure and environmental projects, in 2016 we disbursed R$8.7 billion and, in 2015, R$10.4 billion. For 2017 our current budget provides for approximately R$8.9 billion of capital expenditures. We cannot assure you that we will be able to finance our proposed capital expenditure programs from either our cash flow or external resources. Moreover, as a state controlled company, we are subject to certain rules limiting our indebtedness and investments and must submit our proposed annual budgets, including estimates of the amounts of our financing requirements and sources of our financing, to the Ministry of Planning, Budget and Management and the Brazilian Congress for approval. Thus, if our operations do not fall within the parameters and conditions established by such rules and the Brazilian Government, we may have difficulty in obtaining the necessary financing authorizations, which could create difficulties in raising funds.

If we are unable to obtain funds, our ability to invest in capital expenditures for expansion and maintenance may be adversely impacted, which would materially adversely affect the execution of our growth strategy, particularly our investment in large scale projects, which could materially adversely affect our results of operations and financial condition.

The amounts we receive from the Fuel Consumption Account are insufficient to cover costs related to thermoelectric generation of energy.

The Brazilian Government introduced the Fuel Consumption Account, or CCC Account, in 1973. The purpose of the CCC Account was to equalize the costs of energy generation for electricity companies located in areas where the generation is mainly thermoelectric and, therefore, more expensive in order to avoid peaks in the tariffs paid by end consumers in such locations. We have administered the CCC Account ever since, making the relevant payments to the beneficiaries. Until 2013, the CCC Account was funded through quotas paid by companies operating in the energy sector. However, following the enactment of Law No. 12,783, funds from the CDE Account are now the main funds of the CCC Account.

The generation costs of the Isolated System are partially covered by the CCC Account, however, such reimbursement amounts are important to complement the revenues of our distribution companies due to the high generation costs and technical and commercial losses in the region. Our distribution subsidiaries have incurred substantial debt with third party fuel suppliers, especially as a result of the delay in the transfer of funds from the CCC Account in recent years. Our distribution subsidiaries have incurred penalties and interest payments as a result of non-payment of their debts, which are not fully covered by the CCC Account.

In December 2014, certain of our distribution subsidiaries renegotiated overdue amounts with third party fuel and gas suppliers. As of December 31, 2016, these amounts totaled approximately R$11 billion, which were negotiated and formalized through instruments of acknowledgment of debt, which are to be paid in 120 monthly instalments that are updated using the SELIC rate. In December 2014, our distribution subsidiaries also commenced renegotiations with the CDE Account, established by the Ministerial Order MME/MF No. 652/2014, as the distribution companies are using the credits owed to them under the CDE Account as collateral for their debt

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renegotiations with their suppliers. We guarantee the instruments that are being renegotiated with these fuel suppliers in relation to any values not covered by the receivables owed to them under the CDE Account or CCC Account.

Further, during the period from January 1, 2015 to July 2015, we incurred further debt with oil fuel and natural gas suppliers for approximately R$7 billion as of December 31, 2016 due to the continuing default of our distribution

subsidiaries. The distribution subsidiaries alongside us are still negotiating further agreements with third party fuel suppliers for debt incurred to date. In order to pay for parts of these debts, the distribution companies are lenders of new credits to the CDE Account/CCC Account, as provided in Interministerial Order MME/MF No. 372/2015. However, the renegotiation of this debt has not yet occurred, and the distribution companies continue to incur penalties and accrue interest to fuel suppliers, besides potentially being cut off from the supply at any time.

On February 7, 2017, ANEEL issued Resolution No. 2,202/2017, published on August 2, 2017, which approved the annual budget of the CDE Account for 2017 and suspends the transfer of credits expected by our distribution companies, in accordance with the Interministerial Orders MME/MF Nº 652/2014 and 372/2015. As mentioned above, a significant portion of these credits serve as coverage for the payment of debts with fuel suppliers that were incurred by the distribution companies in 2014 and 2015. The budget that ANEEL approved for 2017 also reduced the CCC Account/CDE Account budget forecast regarding expenses of the distribution companies in the current year.

Currently, ANEEL is inspecting our distribution companies regarding the credits they hold against the CCC Account/CDE Account, especially those that serve as payment coverage and guarantee for debts with fuel suppliers. Should these amounts be questioned and/or partially or fully disallowed, we might have to review the renegotiation of debts with our fuel suppliers; the payment of debts might be accelerated; and/or we might be ordered to fully guarantee the debts not covered by the credits under the CCE Account/CDE Account. The disallowance of the CCE Accounts/CDE Accounts credits might also cause specific accounting adjustments and impacts on our financial statements. The irregularity in the payment of debts with the suppliers might also entail the interruption of fuel supply, disabling our distribution companies to generate energy and causing them to incur in high costs due to the the acquisition of energy for resale from the market. Moreover, any further delay in funds being transferred from the CCC Account to us and our distribution subsidiaries may also adversely affect the cash flow of these companies.

As the manager of certain sectorial funds, we are exposed to mismanagement claims.

We currently manage certain accounts and funds such as the CCC Account, the CDE Account and the RGR Fund in addition to government programs, such as Luz para Todos, Procel and Proinfa. These funds and programs are managed pursuant to rules and regulations enacted by ANEEL and the MME. Accordingly, ANEEL and other oversight bodies, such as the Federal Audit Courts ("the TCU"), may not agree with how we interpreted certain provisions for the management of these accounts and/or funds. Accordingly, we may be exposed to significant penalties for non-compliance with these rules, and may need to reimburse these funds any amounts that might be considered improperly managed. Further, we are subject to civil and criminal liability for the management of third party funds.

In January 2014, ANEEL commenced an administrative proceeding determining that we reimburse the RGR Fund the historical amount of approximately R$2 billion updated by the SELIC rate. We appealed against this decision. On May 10, 2016, ANEEL dismissed the first appeal and determined that we indemnify the RGR Fund for that amount. In June 2016, Law No. 13,299/2016 was enacted. As a result, we have filed a new appeal requesting compliance with the new law, which allowed us to compensate the credits that we accelerated in the past in respect of the RGR Fund with the reimbursement required by ANEEL. On September 27, 2016, ANEEL partially granted our appeal, however, on the understanding that it was our responsibility to reimburse the RGR Fund in the amount of R$2,037.8 million (the historical amount of December 31, 2011), to be adjusted by an annual interest rate of 5% due in monthly installments between January 2017 and 2026. We continue to dispute the amount and, consequently, we appealed this decision. We cannot assure you, however, that this new appeal will be granted. Moreover, under Decree No. 9,022/2017, ANEEL will review the amount mentioned above and issue an act determining the reimbursement of resources from us to the RGR Fund.

In addition, in December 2015, we became aware that we made certain improper payments while managers of the RGR Fund regarding the payment of installments, to certain generation and distribution concessionaires that renewed their concessions in 2013, related to the first tranche of credits considered not impaired and not redeemed under Law No 12,783/2013. Among the concessionaries that received improper additional payment, some of them are our generation and transmission subsidiaries. Hence, such amounts must be returned to the RGR Fund. We voluntarily informed the TCU and ANEEL about the payments so they can request reimbursement. We are investigating this further internally in order to determine responsibility. ANEEL, through Resolution No. 84, dated January 13, 2017, determined that we and our subsidiaries return these amounts to the CDE Account and RGR Fund in the historical amount of R$604.2 million. We will reimburse the RGR Fund in six equal monthly instalments, which will be updated from the payment date to the actual reimbursement date. We are discussing the conditions for reimbursements with ANEEL. However, if the companies that received the improper additional payments do not reimburse those amounts, we might be asked to reimburse any shortfall due to RGR.

Law No 13,360/2016, regulated by Decree 9,022/2017, determined that the budget, the management, and the movement of the CDE Account, the CCC Account and the RGR Fund will be under our responsibility until April 30, 2017, or until ANEEL transfers this

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responsibility to CCEE. However, we will still have to answer to the supervisory bodies for the management of the funds/accounts during the period they remain under our management.In addition, as of April 30, 2017, Decree No 9,022 will edited establish that we will send on a monthly basis, to CCEE the documentation showing the amounts to be transferred and receivedfor the fulfillment of the Luz para Todos program and of the loan agreements executed as part of the CDE Account and the RGR Fund. Further, we will remain responsible for managing the loan agreements with recourse to the RGR Fund that were executed by November 17, 2016. It is our responsibility, according to the Decree: (i) to charge the loan in accordance with the schedule established in the clauses of each agreementt; and (ii) to reimburse the RGR Fund, while debtor under these agreements, the resources related to the amortization, the agreement interest rate, and the credit reserve rate in no more than five days from the date mentioned in the loan agreement, even in the case of eventual contract default by the agents of the electricity sector. We do not agree with the provision that established that we are responsible for the payment of debts of loan agreements entered into by agents of the electricity sector, because we only acted as managers of the RGR Fund. However, if the decree is not amended in the future, we might have to reimburse any defaulted installments or incur penalties and default interest as provided in the agreements.

Any of these events could subject us to liability, which in turn could have a material adverse effect on our results of operations and financial condition.

We may be unable to fully implement our strategy.

Our ability to reach the principal objectives of our strategy depends on a series of factors, among them, our ability to:

· Implement an operational efficiency plan aimed at reducing costs, increasing revenues and improving the quality and reliability of our services;

· Decrease our leverage and our net debt to EBITDA ratio;

· Grow our business in a sustainable and profitable manner, considering the appropriate levels of leverage;

· Improve our business model, corporate governance and management; and

· Improve our human resources allocation in light of the new regulations of the Brazilian energy sector.

We cannot guarantee that we will be able to accomplish these objectives and those specified in see “Item B. Business Overview-Strategy” in their entirety or successfully. Any impact on the main elements of our strategy may adversely affect our financial condition and results of operations. For further information regarding our strategy, see “Item B. Business Overview-Strategy.”

If any of our assets were deemed assets dedicated to providing an essential public service, they would not be available for liquidation in the event of our bankruptcy and could not be subject to attachment to secure a judgment.

Law No. 11,101/2005, or the New Bankruptcy Law, governs judicial recovery, extrajudicial recovery and liquidation proceedings and replaces the debt reorganization judicial proceeding known as *concordata* (reorganization) for judicial and extrajudicial recovery. The New Bankruptcy Law provides that its provisions do not apply to government owned and mixed capital companies (such as Eletrobras). However, the Brazilian Federal Constitution establishes that mixed capital companies, such as Eletrobras, which operate a commercial business, will be subject to the legal regime applicable to private corporations in respect of civil, commercial, labor and tax matters. Accordingly, it is unclear whether or not the provisions relating to judicial and extrajudicial recovery and liquidation proceedings of the New Bankruptcy Law would apply to us. Nevertheless, Law No. 12,767/2012 provides that judicial and extrajudicial recovery do not apply to public entity concessionaires until the termination of those concessions.

We believe that a substantial portion of our assets, including our generation assets, our transmission network and our limited distribution network, would be deemed by Brazilian courts to be related to providing an essential public service. Accordingly, these assets would not be available for liquidation in the event of our bankruptcy or available for attachment to secure a judgment. In either case, these assets would revert to the Brazilian Government pursuant to Brazilian law and the terms of our concession agreements. Although the Brazilian Government would in such circumstances be under an obligation to compensate us in respect of the reversion of these assets, we cannot assure you that the level of compensation received would be equal to the market value of the assets and, accordingly, our financial condition and results of operations may be affected.

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We may be liable for damages, subject to further regulation and have difficulty obtaining financing if there is a nuclear accident involving our subsidiary Eletronuclear.

Our subsidiary Eletronuclear, as an operator of nuclear power plants, is subject to strict liability under Brazilian law for damages in the event of a nuclear accident caused by the operations of nuclear power plants Angra I and Angra II. The Vienna Convention on Civil Liability for Nuclear Accidents, or the Vienna Convention, became binding in Brazil in 1993. The Vienna Convention provides that an operator of a nuclear installation, such as Eletronuclear, in a jurisdiction which has adopted legislation implementing the Vienna Convention, will be strictly liable for nuclear damages. As of December 31, 2016, our Angra I and Angra II nuclear power plants were insured for nuclear risk in the event of a nuclear accident for the total amount, per power plant, of US$500 million for material damages and of US$239.7 million for civil liability.

The Angra I and Angra II nuclear power plants operate under the supervision of the Brazilian nuclear regulatory authority, or CNEN, and are subject to periodic inspections by international agencies, such as the International Atomic Energy Agency and the World Association of Nuclear Operators. Eletronuclear invests approximately R$100 million per year in the modernization and incorporation of the latest safety requirements for the plants.

Eletronuclear carried out an extensive reassessment of the risk associated with environmental issues and in response made minor adjustments to certain protection barriers. In addition, Eletronuclear verified the conditions for responding to accidents following the stress test procedures adopted by the European Union for nuclear plants under construction or in operation in Europe. As a result of this verification process, Eletronuclear implemented several complementary safety measures.

Eletronuclear seeks to comply with all preventative and safety actions, however, it cannot guarantee that, in the event of a nuclear accident that its insurance will be sufficient. Accordingly, our financial condition and results of operations may be affected if a nuclear accident were to occur.

Furthermore, our Angra III nuclear power plant has been subject to extensive delays and has never been operational. If we are unable to conclude the construction of the Angra III power plant, our financial condition and results of operations could be materially adversely affected.

In 2009, Eletronuclear started the construction of a new nuclear plant, called Angra III. Construction stopped in 2015 when the media reported allegations of potential illegal activities by companies that provide services to Eletronuclear in respect of the Angra III nuclear power plant. As of the date of this annual report, Eletronuclear has executed 60% of the original project and invested R$8.9 billion. In 2016, we revised the total budget for the Angra III project and changed the forecasted date for operation of the Angra III nuclear power plant to December 2022. As a result, in 2016 we recognized an impairment in the amount of R$2,886 million and recorded an onerous contract of R$1,350 million in respect of this project. The amount of accumulated impairments recognized on our balance sheet totalled R$8.949 billion as of December 31, 2016 and R$1.350 billion in accumulated onerous contract.

We are currently seeking to review the tariff of Angra III and the authorization of CNPE to resume the construction and are also looking for new sources of funding. If we are not succesful, we will be liable as guarantor under a R$6.15 billion financing (under which R$3.48 billion are outstanding as of December 31, 2016) provided by BNDES to Eletronuclear for the construction of the Angra III plant, in addition to other accounting liabilities which we may record, which could materially adversely affect our financial condition and results of operations.

We are currently looking for purchasers for our distribution companies in the Northern and Northeastern regions of Brazil but if we are unable to find any purchasers we may have to bear the costs related to the dissolution and any prior obligations of those distribution companies.

During the Extraordinary General Meeting of Shareholders held on July 22, 2016, our shareholders decided not to renew the concessions of our six distribution subsidiaries CEPISA, CEAL, Eletroacre, CERON, Boa Vista Energia and Amazonas Energia, and that by December 31, 2017 we intend to transfer the control of these subsidiaries, in compliance with Law No. 13,360. The shareholders also approved that these distribution companies can continue distributing energy until December 31, 2017 provided the funds necessary for operation, maintenance and new investments will be received from customer charges or government funding. The shareholders also approved the resolution to return the concessions to government control at any time if control has not been transferred by December 31, 2017, or if the Government ceases to allocate resources to fund these companies at any time or the tariff does not represent proper compensation. If we return these concessions, they will be

subject to new bids in the future.

On August 3, 2016, the MME issued decrees that named those distribution subsidiaries as temporarily responsible for distributing public energy so as to assure the continuity of the service, in accordance with article 9, paragraph 1, of Law No. 12,783. According to these decrees, the distribution companies will provide these services, in a provisional manner, against payment of the proper compensation, until the effective transfer of control of these companies, or until December 31, 2017, whichever occurs first .In

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addition, Boa Vista Energia is responsible for the rendering of services in the concession area of CERR, a state company of the government of Roraima. Pursuant to paragraph 4 of article 9 of Law No 12,783, during the temporary service provision period, the distribution companies may borrow and/or receive funds from the CCC Account, the CDE Account and the RGR Fund, subject to ANEEL's approval.

However, as we continue to be a majority stakeholder of the distribution companies, we cannot guarantee that we will successfully transfer the corporate control of all of them by the end of 2017. In this event, we might be required by ANEEL to continue providing distribution services for these companies for an extended period of time. Accordingly, we may have to bear the costs related to the dissolution of any of these distribution companies that might remain under our control. Those costs could include the termination of employees and other obligations. Furthermore, we may have to pay expenses related to obligations the distribution companies might have had untilt he end of the temporary service provision period or related to obligations in which we act as guarantor, which could have a material adverse effect on our consolidated financial position, results of operations and cash flows in the future.

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

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor, tax and corporate claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. We have established provisions for all amounts in dispute that represent a present obligation as a result of a past event and is probable there will be outflow of resources that embodies economic benefits to settle the referred obligation in the view of our legal advisors and in relation to those disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable. As of December 31, 2015, we provisioned a total aggregate amount of approximately R$14.1 billion in respect of our legal proceedings, of which R$0.6 billion were related to tax claims, R$12.5 billion were related to civil claims and R$1 billion were related to labor claims. As of December 31, 2016, we provisioned a total aggregate amount of approximately R$20.7 billion in respect of our legal proceedings, of which R$0.6 billion were related to tax claims, R$18.7 billion were related to civil claims and R$1.4 billion were related to labor claims. (See "Item 8.A, Consolidated Financial Statements and Other Information — Litigation" and note 30 to our consolidated financial statements).

Our subsidiary Chesf is a defendant in a proceeding filed by Companhia Brasileira de Projetos e Obras and Mendez Júnior in respect of certain amendments to the construction agreement of the Xingó plant. An appeal and a special appeal are currently before the Brazilian Superior Court of Justice. One of the main issues relates to the application of a factor for monetary restatement. Furthermore, the Federal Court of Recife, in the State of Pernambuco, had blocked R$497.2 million of Chesf's assets in August 2016 in connection with this ongoing litigation. However, on January 24, 2017, the court reversed the decision, unblocking the assets. If the court decides against Chesf, it may have to pay up to R$1.2 billion to the plaintiffs.

Between July 22, 2015 and August 15, 2015, two putative securities class action complaints were filed against us and certain of our employees in the United States District Court for the Southern District of New York (SDNY). On October 2, 2015, these actions were consolidated and the Court appointed lead plaintiffs, Dominique Lavoie and the City of Providence. The plaintiffs filed a consolidated amended complaint on December 8, 2015 purportedly on behalf of investors who purchased our U.S. exchange-traded securities between August 17, 2010 and June 24, 2015, and filed a second amended complaint on February 26, 2016.

The second amended complaint alleges, among other things, that we and the individual defendants knew or should have known about alleged fraud committed against us by a cartel of construction firms, as well as bribes and kickbacks allegedly solicited and received by our employees; that we and the individual defendants made material misstatements and omissions regarding the alleged fraud; and that our stock price declined when the alleged fraud was disclosed.

On March 27, 2017, the court granted in part and denied in part ourdefendants' motion to dismiss the second amended complaint. All claims against José Antonio Muniz Lopes, our former CEO, were dismissed, as were scheme liability claims against José da Costa Carvalho Neto, our former CEO, and Armando Casado de Araújo, our current CFO, under Section 10(b) of the Exchange Act and Rule 10b-5(a) and (c) promulgated thereunder. The motion to dismiss was otherwise denied as to the remaining claims. The decision does not create any financial obligation for us, and the case will now move into the class certification and discovery phases. The deadline to answer the second amended complaint is May 5, 2017. These legal proceedings, if decided against us, could have a material adverse effect on our consolidated financial position, results of operations and cash flows in the future. For further information, see See "Item 8.A, Consolidated Financial Statements and Other Information — Litigation — Environmental Proceedings".

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 the estimated losses turn out to be significantly higher that the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition and results of operations. 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

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the outcome, certain litigation could result in restrictions in our operations and have a material adverse effect on certain of our businesses.

We may incur losses in legal proceedings in respect of compulsory loans made from 1962 through to 1993.

Pursuant to Law No. 4,156 of November 28, 1962 certain end-users of electricity were required to make "compulsory loans" to us (through collections by distributors) in order to provide funds for the development of the electricity sector. Industrial customers consuming over 2,000 kWh of electricity per month were required to pay an amount equivalent to 32.5% of each electricity invoice to us in the form of a compulsory loan, which was repayable by us within 20 years of draw-down. Interest on the compulsory loans accrues at IPCA — E plus 6.0% per annum. Law No. 7,181 of December 20, 1983, extended the compulsory loan program until December 31, 1993 and provided that such loans may, subject to shareholder approval, be repaid by us in

the form of an issue of preferred shares at book value, in lieu of cash.

We made available to eligible customers upon the first and second conversion of credits from the compulsory loan approximately 42.5 billion class “B” preferred shares and upon the third conversion of credits from the compulsory loan, about 27.2 billion class “B” preferred shares. In addition, our shareholders approved on April 30, 2008 the issuance of additional preferred shares to eligible customers at book value in repayment of our remaining compulsory loans. If additional shares are issued in the future and the book value of such shares is less than their market value, the value of existing shareholders’ shares may be subject to dilution. On December 31, 2008, we recorded approximately R$215 million for debts for compulsory loans that had not yet been converted, which, at any time, by decision of our shareholders, may be refunded to industrial consumers, through issuing class “B” preferred shares, in accordance with the proceedings described above.

As of December 31, 2016, consumers filed a large number of lawsuits against us questioning the monetary adjustments, understated inflation and interest calculations related to the repayment of the compulsory loans. In the third quarter of 2015, the STJ issued decisions defining the parameters for the method to calculate such executions, accepting some of the claims made by us, although not entirely, causing adjustments to the calculation methods adopted by us and the risk classification of these claims and consequent difference in the provision for contingencies. We filed an appeal with the STF, however, as ofthe date of this annual report, it had not yet been decided. The total amount involved in these lawsuits is not adjusted for monetary restatement and required expert assessment to be estimated reliably. In the course of enforcement proceedings, we were required to pledge certain of our assets, consisting mainly of shares held by us in other electricity sector companies. As of December 31, 2016, we provisioned R$13.9 billion to cover losses arising from unfavorable decisions relating to these lawsuits. We are discussing joint responsibility in certain judgements with the Government but as of the date of this annual report, the subject still had not yet been decided by the STJ.

In the course of the execution processes, we must offer as a guarantee some of our assets, which consist mainly of the preferred shares held by us in other companies in the energy sector.

We are also involved in numerous lawsuits related to the repayment of the compulsory loans, in which consumers seek to exercise the option to convert their credits presented by bonds payable to the bearer. These bonds are called “*obrigações da Eletrobras*” and are subject to expiration, which has already passed. Although we believe that we have no further liability in respect of these bonds because they are expired, any legal interpretation that the bonds have not expired could adversely affect our results of operations and financial condition.

Judgments may not be enforceable against our directors or officers.

All of our directors and officers named in this annual report reside in Brazil. We, our directors and officers and our Fiscal Council members, have agreed to accept service of process in the United States only in specific transactions. Substantially all of our assets, as well as the assets of these persons, are located in Brazil. As a result, it may not be possible to effect service of process within the United States or other jurisdictions outside Brazil upon these persons, attach their assets, or enforce against them or us in United States courts, or the courts of other jurisdictions outside Brazil, judgments predicated upon the civil liability provisions of the securities laws of the United States or the laws of other jurisdictions.

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

Pursuant to Supplementary Law No. 108/2001 and Supplementary Law No. 109/2001 and the terms of the pensions plans themselves, we and our subsidiaries are 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, we (as sponsors) and the pension plan beneficiaries must contribute to the pension plan to re-establish the plan’s balance.

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In 2016, the pension plans that we and our subsidiaries sponsor recorded a deficit of R$2.5 billion. In 2015, the deficit was R$2.0 billion. Our subsidiaries and we made contributions to our respective pension plans which amounted to approximately R$473.9 million in 2016, and R$425 million in 2015.

Some pension plans that we sponsor had to approve a balance for the technical deficit which included the amounts to be balanced and the payment terms. The implementation of the balance plan results in the payment of an extraordinary contribution by the participants and sponsors, in order to recover the balance of the plan. Such payments may materially adversely affect our results of operations and financial condition.

Our insurance coverage may be insufficient to cover potential losses.

Our business is generally subject to a number of risks and hazards, including industrial accidents, labor disputes, unexpected geological conditions, changes in the regulatory environment, 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, transmission and distribution services.

Our insurance covers only part of the losses that we may incur. We are currently in the process of renegotiating our insurance policies at a group level to ensure uniform coverage and adequate protection for all our operations. Nevertheless, we believe that we maintain insurance in amounts that are adequate to cover material damages to our plants caused by fire, general third-party liability for accidents and operational risks. If we are unable to 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 additional losses.

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

Our thermal plants operate on coal, natural gas and/or oil and our nuclear plants rely on processed uranium. In each case, we are entirely dependent on third parties for the provision of these raw materials. In the event that supplies of these raw materials become unavailable or may not be purchased on reasonable terms for any reason, we do not have alternative supply sources and, therefore, the ability of our thermal and/or nuclear plants, as applicable, to generate electricity would be materially adversely affected, which may materially adversely affect our financial condition and results of operations.

Risks Relating to Brazil

Allegations of political corruption against the Brazilian federal government and the Brazilian legislative branch could create economic and political instability.

Members of the federal government and the Brazilian legislative branch have faced allegations of political corruption. As a result, a number of politicians, including senior federal officials and congressmen, resigned or have been arrested. Currently, elected officials and other public officials in Brazil are being investigated for allegations of unethical and

illegal conduct identified during *Lava Jato* investigation being conducted by the Office of the Brazilian Federal Prosecutor.

Further, in December 2015, the Brazilian Congress opened impeachment proceedings against the then President Dilma Rousseff alleging non-compliance with the fiscal responsibility law. On April 17, 2016, the Brazilian Congress voted in favor of the admissibility of the impeachment proceedings and the Brazilian Senate voted in favor of commencing the impeachment process on May 11, 2016, removing Ms. Rousseff from the presidency for up to 180 days to defend herself in her impeachment trial. Brazil's Vice President, Michel Temer, was named Acting President of Brazil on May 12, 2016, in response to Ms. Rousseff's temporary removal from office. As Acting President, Mr. Temer has full presidential powers to govern Brazil, and has appointed a new cabinet to govern during the impeachment period. On August 31, 2016, the Brazilian Senate voted in favor of the impeachment, thereby removing Ms. Rousseff from office through the end of her term, and Mr. Temer was sworn in as the country's new president. Mr. Temer will remain in office until January 2019, when the next President is sworn in following the next Presidential election which is schedule for October 2018. The impeachment proceedings have resulted in volatility and we expect that there may be continued volatility in the Brazilian markets, affecting the trading prices of securities issued by Brazilian issuers during Mr. Temer's term. We cannot predict how Mr. Temer's policies will affect the Brazilian economy.

The potential outcome of *Lava Jato* investigation is unknown and could have further adverse impacts on general market perception of the Brazilian economy and on the Brazilian economy itself. The President of Brazil has powers to indirectly appoint the majority of our directors. Accordingly, any further change in the Brazilian government could lead to further changes in our management. We cannot predict whether the outcome of *Lava Jato* investigation will lead to continuing instability or whether new allegations against Brazilian government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations nor their

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effect on the Brazilian economy and, consequently, our results of operations. These and other future developments in the Brazilian economy and governmental policies may materially adversely affect us.

The Brazilian Government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian economic and political conditions and investor perception of these conditions have a direct impact on our business, financial condition, results of operations and prospects.

The Brazilian economy has been characterized by the significant involvement of the Brazilian Government, which often changes monetary, credit, exchange and other policies to influence Brazil's economy. The Brazilian Government's actions to control inflation and effect other policies have often involved wage and price controls, depreciation of the *real*, controls over remittances of funds abroad, intervention by the Central Bank to affect base interest rates and other measures. We have no control over, and cannot predict, what measures or policies the Brazilian Government may take in the future. Our business, financial condition, results of operations and prospects may be adversely affected by changes in Brazilian Government policies, as well as general factors including, without limitation:

- Brazilian economic growth;
- inflation;
- interest rates;
- variations in exchange rates;
- exchange control policies;
- liquidity of the domestic capital and lending markets;
- fiscal policy and changes in tax laws;
- allegations of corruption against political parties, elected officials or other public officials, including allegations made in relation to *Lava Jato* investigation; and
- other political, diplomatic, social and economic policies or developments in or affecting Brazil.

Changes in, or uncertainties regarding the implementation of, the policies listed above could contribute to economic uncertainty in Brazil, thereby increasing the volatility of the Brazilian securities market and the value of Brazilian securities traded abroad.

Historically, the level of the country's political stability has influenced the performance of the Brazilian economy and political crises have affected the confidence of investors and the general public, which resulted in economic deceleration and heightened volatility in the securities issued abroad by Brazilian companies. Currently, Brazilian markets are experiencing heightened volatility due to the uncertainties derived from the ongoing Lava Jato investigation and its impacts on the Brazilian economy and political environment. Any developments in *Lava Jato* investigation (foreseeable and unforeseeable) could have a material adverse effect on the Brazilian economy and on our results of operations and financial condition.

Additionally, after reaching 7.5% in 2010, the Brazilian Gross Domestic Product, or GDP, has declined, indicating a steady economic slowdown. Growth rates were 3.9% in 2011, 1.8% in 2012, 2.7% in 2013 and 0.1% in 2014. In 2015, the economy contracted by 3.9% and further contracted by 3.6% in 2016. Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of GDP in Brazil. In years in which the Brazilian GDP does not grow, there tends to be a decrease in the demand for power. Further, it may also lead to an increase in commercial losses and customer defaults. We cannot assure that GDP will increase or remain stable in the future. Future developments in the Brazilian economy may affect Brazil's growth rates and, consequently, the consumption of energy. As a result, these developments could impair our results of operations and financial condition.

The stability of the Brazilian real is affected by its relationship with the U.S. dollar, inflation and Brazilian Government policy regarding exchange rates. Our business could be adversely affected by any recurrence of volatility affecting our foreign currency-linked receivables and obligations.

In the past, the Brazilian Government has implemented several economic plans, and has used a wide range of foreign currency control mechanisms to cope with high degrees of volatility of the Brazilian currency. Recently, after a relatively long period of stability, the *real* became extremely volatile again in 2014 and 2015, however, starting to appreciate again in mid-2016. Nevertheless, the exchange rate between the *real* and the dollar reached R$3.26, R$3.90 and R$2.66 to U.S.$1.00 on December 31, 2016, 2015 and 2014, respectively.

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Because of the volatility and the uncertainty of the factors that impact the exchange rate, it is difficult to predict future movements in the exchange rate. In addition, the Brazilian Government may change its foreign currency policy. Any governmental interference in the exchange rate, or the implementation of exchange control mechanisms, could influence the exchange rate. These exchange rate scenarios may have adverse effects on us as they may adversely affect the value of our receivables from Itaipu, which are denominated in U.S. dollars, as well as any of our indebtedness denominated in U.S. dollars.

As of December 31, 2016, approximately 27% of our consolidated indebtedness (of R$45,620 million), which amounted to R$12,091 million, was denominated in foreign currencies, of which R$11,795 million (or approximately 26% of our consolidated indebtedness) was denominated in U.S. dollars. As of December 31, 2015, approximately 33% of our consolidated indebtedness (of R$46,398 million), which amounted to R$15,283 million, was denominated in foreign currencies, of which R$14,851 million (or approximately 32% of our consolidated indebtedness) was denominated in U.S. dollars.

Inflation, and the Brazilian Government's measures to curb inflation, may further contribute significantly to economic uncertainty in Brazil and materially adversely impact our operating results.

Brazil has historically experienced high rates of inflation, particularly prior to 1995. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy. More recently, inflation rates were 6.29% in 2016, 10.67% in 2015, 6.41% in 2014, 5.91% in 2013 and 5.84% in 2012, as measured by the IPCA, the National Consumer Price Index, compiled by IBGE (Brazilian Institute of Geography and Statistics).

Brazil may experience high levels of inflation in the future. The Brazilian government may introduce policies to reduce inflationary pressures, which could have the effect of reducing the overall performance of the Brazilian economy. Some of these policies may have an effect on our ability to access foreign capital or reduce our ability to execute our future business and management plans.

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high real interest rates. These policies have contributed to limiting the size and attractiveness of the local debt markets, requiring borrowers like us to seek additional foreign currency funding in the international capital markets. To the extent that there is economic uncertainty in Brazil, which weakens our ability to obtain external financing on favorable terms, the local Brazilian market may be insufficient to meet our financing needs, which in turn may materially adversely affect us.

The vote by the U.K. electorate in favor of the U.K. exit from the European Union could adversely impact our business, results of operations and financial condition.

On June 23, 2016, the U.K. electorate voted in a general referendum in favor of the U.K. exiting from the European Union, so-called Brexit. On March 20, 2017, the U.K. gave formal notice under Article 50 of the Treaty on European Union of its intention to leave the European Union. The on-going process of negotiations between the U.K. and the European Union will determine the future terms of the U.K's relationship with the European Union, including access to European Union markets either during the transitional period or more permanently. The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations. The effects of Brexit will depend on any agreements the U.K. makes to retain access to E.U. markets either during the transitional period or more permanently. Brexit could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial markets. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, could have a material adverse effect on our business, results of operations or financial condition.

Risks Relating to the Brazilian Power Industry

We are subject to impacts related to the hydrological conditions.

We are subject to hydrological risks derived from adverse weather conditions such as flooding of certain rivers and excessively low flow rates in other rivers. Accordingly, the Interconnected Power System, or SIN, uses the MRE (*Mecanismo de Realocação de Energia*), an association of energy sellers to share the hydrological risks existing in the market.

The Generation Scaling Factor, or GSF, represents the relation between the total production and collateral of the hydroelectric energy generators of the SIN that are part of the MRE, which represents the volume of energy in energy generation contracts. If there are excessively low flow rates, the hydroelectric generators will have to obtain energy in the short term market pursuant to the PLD.

As Brazil experienced an unusually severe drought between 2012 and 2015, its energy generation was below its expected levels. Following the enactment of Law No. 12,783, only generation companies which hold concessions which were not renewed

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pursuant to its terms and are due to expire remain exposed to this risk. As some of our subsidiaries hold concessions due to expire, we and our subsidiaries are exposed to this risk. Accordingly, in the event that there are unfavorable hydrological conditions our results of operations and financial condition may be affected. As this risk is systemic, and even though we are currently adopting strategies to reduce the impact of this risk, we cannot guarantee that this risk will be completely mitigated or avoided.

We act as commercial agent for the energy generated by Itaipu in the regulated market making available the total volume of energy agreed between the quota holders. Decree No. 8,401, of February 4, 2015, passed on the hydrological risk related to the MRE, which we accounted for until 2014, to the distribution concessionaires. Currently, we pay the other costs related to the financial settlement with CCEE, which are reimbursed to us in the following fiscal year.

Generally, unfavorable hydrological conditions that result in a reduced supply of electricity to the Brazilian market could cause, among other things, the implementation of broad electricity conservation programs, including mandatory reductions in electricity consumption or the imposition of special taxes or charges on the sector to finance the costs of production of new thermal power plants, which are usually more expensive. In addition, we might incur higher costs in our distribution subsidiaries due to the need to purchase electricity for resale which would impact the cash flows of our distribution companies. Accordingly, it is possible that prolonged periods of reduced precipitation levels might adversely affect our financial condition and results of operations.

We could be penalized by ANEEL for failing to comply with the terms of our concession agreements and applicable legislation and we may not recover the full value of our investment in the event that any of our concession agreements are terminated.

We carry out our generation, transmission and distribution activities in accordance with concession agreements we execute with the Brazilian Government through ANEEL. The length of such concessions varies from 20 to 35 years. ANEEL may impose penalties on us in the event that we fail to comply with any provision of our concession agreements and of the legislation and regulation applicable to the electricity sector. Depending on the extent of the non-compliance, these penalties could include substantial fines (in some cases up to two percent of our gross revenues in the fiscal year immediately preceding the assessment), restrictions on our operations (such as exclusion from upcoming auctions), intervention or termination of the concession. ANEEL may also terminate our concessions prior to their due date in the event that we fail to comply with their provisions, are declared bankrupt or are dissolved, or in the event that ANEEL determines that such termination would serve the public interest (see “Item 4.B, Business Overview — Generation — Concessions”).

Because of delays in the conclusion of the construction of certain transmission lines, we are prohibited by ANEEL to participate in auctions in this sector until the end of 2017. We cannot assure you that we will not be penalized again by ANEEL for a future breach of our concession agreements or that our concessions will not be terminated in the future. In the event that ANEEL were to terminate any of our concessions before their expiration date, the compensation we recover for the unamortized portion of our investment may not be sufficient for us to recover the full value of our investment and, accordingly, could have a material adverse effect on our financial condition and results of operations.

We may be subject to administrative intervention if we provide our services in an inadequate manner or violate contractual obligations, regulations and other legal obligations.

Law No. 12,767/2012 permits ANEEL to intervene in electric power concessions considered part of the public service in order to guarantee adequate levels of service as well as compliance 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, management would have to present a recovery plan to correct any violations and failures that gave rise to the intervention. Should the recovery plan be dismissed or not presented within the timelines stipulated by the regulations, ANEEL may, among other things, expropriate or forfeit the concession, reallocate our assets or adopt measures which may alter our shareholding structure.

If the holders of our concessions are subject to an administrative intervention, we and our subsidiaries may be subject to an internal reorganization in accordance with the recovery plan presented by management, which may adversely affect our financial condition and results of operations. In addition, should the recovery plan be rejected by the administrative authorities, ANEEL would be able to use its powers described above, which could have an adverse impact on our financial condition and results of operations.

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Our generation, transmission and distribution activities are regulated and supervised by the Brazilian Government. Our business could be adversely affected by any regulatory changes or by termination of the concessions prior to their expiration dates, and any indemnity payments for the early terminations may be less than the full amount of our investments.

According to Brazilian law, ANEEL has the authority to regulate and supervise the generation, transmission and distribution activities of electrical energy concessionaries, such as us and our subsidiaries, including investments, additional expenses, tariffs and the passing of costs to customers, among other matters. Regulatory changes in the electrical energy sector are hard to predict and may have a material adverse impact on our financial condition and results of operations.

Concessions may be terminated early through expropriation and/or forfeiture. Granting authorities may expropriate concessions in the interest of the public as expressly provided for by law, in which case granting authorities carry out the service during the concession period. A granting authority may declare the forfeiture of concessions after ANEEL or the MME conduct an administrative procedure and declare that the concessionaire (a) did not provide proper service for more than 30 consecutive days and did not present any acceptable alternative to ANEEL or to ONS, or failed to comply with the applicable law or regulation; (b) lost the technical, financial or economic conditions required to provide the service properly; and/or (c) did not comply with the fines charged by the granting authority.

Penalties are set forth in ANEEL Resolution No. 63, of 2004, and include warnings, substantial fines (in certain cases up to 2.0% of the revenue for the fiscal year immediately preceding the evaluation), restrictions on the concessionaire’s operations, intervention or termination of the concession.

We may contest any expropriation or forfeiture and will be entitled to receive compensation for our investments in expropriated assets that have not been fully amortized or depreciated. However, the indemnity payments may not be sufficient to fully recover our investments, which could materially adversely affect our financial condition and results of operations.

We are strictly liable for any damages resulting from inadequate supply of electricity to distribution companies, and our contracted insurance policies may not fully cover such damages.

Under Brazilian law, we are strictly liable for direct and indirect damages resulting from the inadequate supply of electricity to distribution companies, such as abrupt interruptions or disturbances arising from the generation, distribution or transmission systems. Accordingly, we may be held liable for such damages even if we are not at fault. As a result of the inherent uncertainty involved in these matters, we do not maintain any provisions in relation to potential damage, and these interruptions or disturbances may not covered by our insurance policies or may exceed the coverage limits of such policies.

Accordingly, if we are found liable to pay damages in a material amount, our financial condition and results of operations would be materially adversely affected to a greater degree than those claims where we have recorded provisions.

We are subject to strict safety, health and environmental laws and regulations that may become more stringent in the future and may result in increased liabilities and increased capital expenditures.

Our operations are subject to comprehensive federal, state and local safety, health and environmental legislation as well as supervision by agencies of the Brazilian Government that are responsible for the implementation of such laws. Among other things, these laws require us to obtain environmental licenses for the construction of new facilities or the installation and operation of new equipment required for our business. The rules are complex and may change over time, making our ability to comply with the applicable requirements more difficult, thereby precluding our continuing or future generation, transmission and distribution operations.

We see increasing health and safety requirements as a trend in our industry. Moreover, private individuals, non-governmental organizations and public authorities have certain rights to commence legal proceedings to obtain injunctions to suspend or cancel the licensing process in case of any noncompliance with the law.

The failure to comply with environmental laws and regulations can result in administrative and criminal penalties, irrespective of the recovery of damages or indemnification payments for irreversible damages. 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: (1) partial or total interruption of activities; (2) temporary shutdown of establishment, construction work or activity; and (3) prohibition of contracting with governmental authorities and obtaining governmental subsides, incentives or donations.

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Further, under Brazil's environmental legislation, the corporate veil may be lifted to guarantee the payment of costs related to environmental damages, whenever the legal entity is deemed by a court to be an obstacle to reimbursement of damages caused to the environment.

Environmental regulations require us to perform environmental impact studies on future projects and obtain regulatory permits.

We must conduct environmental impact studies and obtain regulatory permits for our current and future projects. We cannot assure you that these environmental impact studies will be approved by the Brazilian Government, that public opposition will not result in delays or modifications to any proposed project or that laws or regulations will not change or be interpreted in a manner that could materially adversely affect our operations or plans for the projects in which we have an investment. We believe that concern for environmental protection is also an increasing trend in our industry. Although we consider environmental protection when developing our business strategy, changes in environmental regulations, or changes in the policy of enforcement of existing environmental regulations, could materially adversely affect our results of operations and our financial condition by delaying the implementation of electricity projects, increasing the costs of expansion.

Construction, expansion and operation of our electricity generation, transmission and distribution facilities and equipment involve significant risks that could lead to lost revenues or increased expenses.

The construction, expansion and operation of facilities and equipment for the generation, transmission and distribution of electricity involve many risks, including, but not limited to, the following:

- the inability to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor unrest;
- social unrest;
- interruptions by weather and hydrological conditions;
- unforeseen engineering and environmental problems;
- increases in electricity losses, including technical and commercial losses;
- construction and operational delays, or unanticipated cost overruns;
- issues related to the sale of energy;
- the unavailability of adequate funding; and
- expenses related to the operation and maintenance segment cannot be fully approved by ANEEL.

For example, we experienced work stoppages during the construction of our Jirau, Santo Antônio hydroelectric plants and the Belo Monte plant which we own through an SPE. We do not have insurance coverage for some of these risks, particularly for those related to weather conditions.

In 2016, Norte Energia S.A and the shareholders of Norte Energia S.A filed an arbitration proceeding against us about the interpretation of a provision of Norte Energia's shareholders' agreement. The provision established a right of first refusal to enter into a purchase and sale agreement of 20% of the average secured energy generated by Belo Monte and which was designated for the Free Market. While the arbitration is ongoing, the shareholders are attempting to reach a consensus to agree on Free Market agreements, which, once executed by the shareholders and submitted to BNDES, would allow the release of energy worth up to R$2 billion.

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BNDES has already contracted for this amount and will be credited to the company by BNDES once it receives a copy of the purchase and sale agreement duly executed by all parties. If the interpretation of the disputed section of the shareholders' agreement and the respective arbitration award are unfavorable to us, our financial condition and results of operations may be adversely impacted.

Furthermore, the implementation of investments in the transmission sector has suffered delays due to the difficulty to obtain the necessary government permits and approvals. This has led to delays in investments in generation due to the lack of transmission lines to drain production. If we experience any of these or other unforeseen risks, we may not be able to generate, transmit and distribute electricity in amounts consistent with our projections, which may have a material adverse effect on our financial condition and results of operations.

Risks Relating to our Shares and ADS

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

In accordance with the Brazilian Corporate Law and our by-laws, 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. Our principal shareholder, who holds the majority of common shares with voting rights and controls us, is therefore able to approve corporate measures without the approval of holders of our preferred shares. Accordingly, an investment in our preferred shares is not suitable for you if voting rights are an important consideration in your investment decision.

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 agreement relating to the ADS. There are no provisions under Brazilian law or under our by-laws 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, 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 agreement, we will provide the notice to the depositary bank, which will in turn, as soon as practicable thereafter, mail to holders of ADS the notice of such meeting and a statement as to the manner in which 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.

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 diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, 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 a price that we deem appropriate and for you to sell your securities at or above the price you paid for them. Our controlling shareholder, the Brazilian Government, may decide to capitalize us for a variety of reasons therefore diluting existing shareholders and ADS holders.

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 Eletrobras 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. 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. Crisis in the United States, European Union or emerging countries may reduce investors' interest in Brazilian companies, including Eletrobras. For example, the prices of shares listed on BM&FBOVESPA have been historically affected by fluctuations of the American interest rate as well as the variations of the main indexes for North-American shares. Events in other countries and capital markets may adversely affect the market price of Eletrobras shares to the extent that, in the future, it could difficult or prevent access to capital markets and investment financing on acceptable terms.

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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.

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 preferred shares underlying the ADS in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADS and withdraw preferred 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 preferred 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 preferred 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 preferred 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 profit does not reach certain levels.

Under Brazilian Corporate Law and our by-laws, we must pay our shareholders a mandatory distribution equal to at least 25% of our adjusted net profit for the preceding fiscal year, with holders of preferred shares having priority of payment. Our by-laws require us to prioritize payments to holders of our preferred shares of annual dividends equal to the greater 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 realize a net profit in an amount sufficient to make dividend payments, at least the mandatory dividend is payable to holders of our preferred and common shares. After payment of the mandatory dividend, we can retain profits as statutary profit reserves for investments or capital reserves. If we incur net losses or realize net profits in an amount insufficient to make dividend payments, including the mandatory dividend, our management may recommend that dividend payments be made