	Reais per U.S. Dollar			
Year Ended	Period-end	Average	Low	High
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
December 31, 2017	3.3080	3.1925	3.0510	3.3807

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 2018	3.1624	3.2106	3.1391	3.2697
February 2018	3.2449	3.2415	3.1730	3.2821
March 2018	3.3238	3.2792	3,2246	3.3380
April 2018 (through April 27, 2018)	3.4676	3.4038	3.3104	3.5040

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 the Brazilian Government may not take these measures 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

Violations of the FCPA and the Brazilian Anticorruption Law may materially affect us and may expose us and our employees to criminal and civil claims and sanctions.

As a result of our NYSE listing, we are subject to the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA") and the disclosure requirements under the U.S. Securities Exchange Act of 1934, as well as we are subject to Brazilian Anticorruption Law, including Law No. 12,846/2013 and Law No. 13,303/2016.

In 2009, the Federal Police commenced an investigation called "*Operação Lava Jato*" (the "*Lava Jato* investigation"), which related to a corruption scheme involving Brazilian companies acting in various sectors of the Brazilian economy. Since 2014, the Office of the Federal Prosecutor (*Ministério Público Federal*, or "MPF") has focused part of its investigation on irregularities involving contractors and suppliers used by state-owned companies and uncovered a broad payment scheme involving a range of participants.

In addition to criminal charges in Brazil, the SEC and Department of Justice ("DoJ") have also commenced investigations in relation to the *Lava Jato*'s findings. Additionally, a group of plaintiffs in the United States has commenced a class action lawsuit against us under the U.S. Securities laws, claiming losses as a result of material misstatements or omissions in our financial statements. In light of these actions, the Brazilian media and the CVM have begun to question some transactions involving special purpose entities or SPEs, which are affiliates of ours, and third party contractors referred to in the *Lava Jato* investigation.

Although no criminal charges have been brought against us as part of the *Lava Jato* investigation, 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 ("Hogan Lovells") on June 10, 2015 to undertake an internal independent investigation (the "Independent 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 and Conduct.

The Independent Investigation focused on identifying potential illegal activities that could have an impact on our financial statements and was subject to oversight of an Independent Team (*Comissão Independente para Gestão da Investigação*), whose creation was approved by our Board of Directors on July 31, 2015 (the "Independent Team").

Eletrobras, Hogan Lovells and the Independent Team have been closely monitoring the investigations and cooperating with Brazilian and United States authorities, including the Brazilian Federal Courts (*Justiça Federal*); the Office of the Federal Prosecutor; the CVM; the Council for Economic Defense (*Conselho Administrativo de Defesa Economica* or "CADE"), the Brazilian Court of Auditors (*Tribunal de Contas da União* or "TCU") and the Office of the Controller General (*Controladoria Geral da União* or "CGU"), the DoJ and the SEC, among others, and have responded to requests for information and documents from these authorities in instances where the Independent Team identified contracts where irregularities may have occurred. We evaluated those contracts and internal investigations and, when applicable, suspended or canceled them. We also took administrative measures in relation to employees and officers involved in the activities identified by the Independent Investigation, adopting, when applicable, the respective sanctioning procedure.

Although this investigation had accomplished a significant portion of its scope, we expanded its procedures to qualitative aspects of the FCPA in order to report to the DoJ and SEC (enforcement division).

In December 2017, we signed a new agreement with Hogan Lovells, aiming to (i) finalize the investigation procedures,

(ii) monitor the remediation measures, especially the implementation of our compliance program, and (iii) monitor our interactions with the Brazilian authorities, the DoJ and the SEC. After completion of the investigation, our Compliance Department (*Diretoria de Conformidade*) assumed the oversight of ongoing compliance and Hogan Lovells is providing assistance to us in (i) interactions with United States authorities in relation to the ongoing investigations; (ii) monitoring new findings in the Lava Jato investigation that may be related to us and (iii) monitoring the implementation of our compliance program "Eletrobras 5 Dimensions Program". Accordingly, 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.

In January 2018, we signed new tolling agreements with the SEC and the DoJ, agreeing to again suspend the statute of limitations regarding possible unlawful activities. In relation to a possible investigation by the SEC or the DoJ, we may be required to pay fines or other financial compensations, comply with injunctions or orders, and incur in any other penalties, including adopting remedial measures and agreeing to be monitored in case of a settlement agreement, any of which could have a material adverse effect on us.

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

Although our financial statements reflect our best knowledge of the facts, as the *Lava Jato* investigation is ongoing and the MPF may take considerable time to complete it, if the findings lead to the identification of materially significant differences in the amounts recorded in our balance sheet, we may have to restate our financial statements, which may have a negative impact in the market value of our securities.

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 subject us to sanctions and penalties.

We are enhancing our compliance program under the Eletrobras 5 Dimensions Program (*Programa Eletrobras 5 Dimensões*) based on the guidelines for government-controlled entities issued by the CGU, in compliance with Decree No. 8,420/2015. The program aims to comply with international corporate governance standards, laws and regulations, including the Sarbanes-Oxley Act of 2002, the FCPA, the Brazilian Anticorruption Law, the rules and guidelines published by the SEC, the CVM, the Corporate Governance Brazilian Institute ("IBGC") and the Organization for Economic Co-operation and Development ("OECD"), among others, and adopt the best management and corporate governance practices.

In addition, we recently improved the management and handling of complaints with the launch of a Consequences Policy (*Política de Consequências*) and a centralized, external and independent channel. We implemented several internal policies and behavior commitments, such as the update of our Code of Ethics and Conduct, the inclusion of ethics and integrity issues in our stakeholder's

policies (such as suppliers and sponsors), and the reinforcement of our principles and standards of ethical behavior and professional conduct.

Despite our efforts to implement the Eletrobras 5 Dimensions Program, we are subject to the risk that employees and management, whether of our companies or of the 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. This risk is heightened by the fact that we and our subsidiaries conduct most of our operations through 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, including contractual provisions requiring compliance with anti-corruption laws and performance of due diligence in the hiring and monitoring process of contractors, our systems are relatively new and may not be effective in all circumstances.

Any breach of these principles, the corporate governance obligations, or the applicable regulatory obligations could lead to delays in the construction schedules, investigations, higher costs and expenses, reduced management focus on our ongoing business and lower levels of revenues and profits from any affected projects as well as jeopardize our reputation and limit our capacity to obtain credit, causing a material negative effect on our financial condition and the results of our operations.

Finally, considering the complexity of implementing the Eletrobras 5 Dimensions Program, until it is fully in place or in case it presents any failure and we are not able to identify corruption or fraud or to properly remedy any issues, we may be subject to restrictions on the offering of securities or civil and criminal liability in the United States and in Brazil.

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

Pursuant to SEC regulations, we evaluate through our internal auditors the effectiveness of our controls and procedures, including the effectiveness of our internal control over financial reporting; aiming to ensure the reliability of the information disclosed the market and the compliance with the accounting principles in place.

We design our internal controls over financial reporting 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. The internal controls department works in partnership with the managers of our business to identify the processes that are under their responsibility and to implement controls to mitigate risks identified by the risk management department.

During the 2017 certification process, we and our independent auditor conducted independent tests and pointed out inconsistencies in our internal controls, which resulted in one material weakness included in our 2017 annual report on Form 20-F:

> As in previous years, the Company did not maintain adequate controls regarding the preparation of its financial statements and related disclosures. The matters involved: (i) insufficient involvement of skilled personnel in financial reporting closing process; and (ii) ineffective process level controls over the financial reporting closing, including related disclosures, where the management review controls (e.g. journal entries, related parties, contingency, fixed assets, impairment and tax), provisions (e.g. judicial deposits and compulsory loans) and related accounts were not designed or operating at a sufficient level of precision to identify material misstatements.

In the course of 2017, we attempted to remedy the deficiences identified by us and our independent auditor in the previous year and continue to focus on curing our remaining material weakness.

If our future efforts are not sufficient to remedy all the inconsistencies identified, we could experience material weaknesses in our internal controls in future periods.

Our operational and consolidated financial results are increasingly dependent on the results of the SPEs (SPECIAL PURPOSE ENTITY) and consortia in which we invest.

We conduct our business mainly through our generation and transmission operating subsidiaries. In addition, some of the business conducted by our subsidiaries and us are made through SPEs, which are created specifically to participate in public auctions for concessions in the generation and transmission segments. Usually the SPEs are structured in partnership with other companies to exploit new energy sources. Our ability to meet our financial obligations is therefore related in part to the cash flow and earnings of our subsidiaries and SPEs and the distribution or other transfer of earnings to us in the form of dividends, loans or other advances and payment. For the purposes of SX Regulation or Rule 3-09, no affiliate was considered a material subsidiary for the year ended December 31, 2015. For the years ended December 31, 2016 and 2017, only CTEEP was identified as a material affiliate.

As we generally do not control the SPEs, their practices may not be fully aligned up with ours. As the SPEs are not government-controlled, they are not required to follow operational and financial processes applicable to government-controlled entities.

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Additionally, as the SPEs are separate legal entities, any right we may have to receive assets of any SPE or other payments upon their liquidation or reorganization will be effectively subordinated to the claims of the creditors of that SPE (including tax authorities and trade creditors).

In order to standardize the management and monitoring of the financial and operational performance of the SPEs, we have established specific departments dedicated to the management of participations in the SPEs, with the aim of improving the flow of information and management. The guidelines and the applied principles are set out in the SPEs Manual (*Manual de SPEs*) approved by our Board of Directors.

Due to the high level of financial leverage of our subsidiaries and the difficulties in obtaining financing mainly because of the lower level of cash generation arising from Law No. 12,783/2013, our current Business and Management Plan 2018-2022 contemplates the sale of shares in some SPEs, in order to reduce our consolidated indebtedness (measured by the ratio of Net Debt/EBITDA) and increase cash flow. We created a specific working group to oversee the sale of SPEs, which is responsible to create an adequate regulation for the process and to report timely to the supervisory bodies. The auction of the SPEs is scheduled for the end of the second quarter of 2018.

Despite the involvement of our management in the process of the auction of the SPEs, we cannot ensure that it will not be challenged by the TCU or the CGU. Similarly, although we will have the support of external advisors in the auction process, we cannot ensure that it will be fully successful, and sale prices may be lower than we expect.

We plan to sell or liquidate our six distribution subsidiaries located in the North and Northeast region of Brazil by July 31, 2018.

On February 8, 2018, in our 170th Extraordinary Shareholding Meeting, Eletrobras' shareholders ratified their decision to sell our six distribution companies by July 31, 2018 for at least R$50,000 per company. In the event of a sale, Eletrobras would retain one common share of each company. The approval contemplated that, in the event of a sale, Eletrobras will assume certain debts of the distribution companies (and/or those debts would be converted to a capital increase by Eletrobras). The shareholders approved the assumption of an amount of debt per distribution company ranging from R$50,000 to R$8.9 billion, for a total of R$11.2 billion, subject to adjustments, if Eletrobras were to assume all the debt.

Although we are the controlling shareholders of these companies, the process for the transfer of their shares is coordinated by MME and BNDES, following the guidelines established by the CPPI. Therefore, we cannot ensure that the transfer of control of the distribution companies will occur by the proposed date.

If the control of any of the distribution companies is not transferred by July 31, 2018, those companies would be liquidated and dissolved, and we may have to bear the costs related to the liquidation or dissolution which could adversely affect our financial position, results of operations and future cash flows. We estimate the following settlement costs for each distribution company in case of liquidation: R$13.4 billion for Amazonas D, R$3.5 billion for Ceron, R$0.7 billion for Eletroacre, R$0.8 billion for Boa Vista, R$1.4 billion for CEAL and R$1.7 billion for CEPISA, totaling a cost of R$21.5 billion. We consider the possibility of liquidation to be remote as the sale of the distribution companies is our first priority; therefore, these amounts are not included in our financial statements.

In the event Eletrobras either assumes debt in excess of the amounts it is able to receive for the sale of the distribution companies, or liquidates the companies, it will continue to retain the debt obligations, without any distribution operations that could create offseting revenues.

In the event of a sale of Amazonas D, the debt of Amazonas D owed to Petrobras relating to oil and gas supplied by Petrobras would be transferred to Eletrobras. Eletrobras, Petrobras, Petrobras Distribuidora S.A. (BR) and Companhia de Gás do Amazonas – CIGÁS are negotiating the assumption of the debt by Eletrobras and the assignment of the oil and gas supply agreement to Amazonas GT. On April 27, 2018, our Board of Directors approved the agreement in principle, which is pending Petrobras' approval.

The sale or liquidation of certain distribution companies may require waivers from our lenders and bondholders, and creditors of the distribution companies may require us to pledge assets as security, which may require further waivers from our lenders and bondholders. Our inability to obtain these waivers could result in our lenders or bondholders accelerating our debt.

In addition, in the event the acquirors of the distribution companies or any new companies that ultimately distribute electricity in the North and Northeast region of Brazil subsequent to our administration of those services are not effective, Eletrobras may suffer reputational harm.

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The amount of any payments to be received following the renewal of our transmission concessions may not be sufficient to cover our investments in these concessions. Further, we cannot estimate when and on what terms indemnifications in respect of generation concessions will be made.

By agreeing to the renewal of our generation and transmission concessions, which were due to expire between 2015 and 2017, we have agreed on certain payments as compensation for the unamortized undepreciated portion of our assets with renewed concessions. On December 31, 2012, pursuant to Law No. 12,783, a R$25.8 billion indemnity was recognized in relation to our renewed transmission concessions RBSE and Basic Network – New Instalations ("RBNI"). The indemnification amounts related to the RBNI were paid between 2013 and 2015 (at an historical value of approximately R$8.1 billion at December 31, 2012).

Regarding the RBSE transmission assets, on April 20, 2016, MME published Ordinance No. 120 establishing the conditions for receiving this unamortized and/or undepreciated remuneration related to this portion of our assets. According to ANEEL, the order stipulated that the cost of capital of the concessionaires referring to these assets will be included in the respective annual permitted revenues (*Receita Anual Permitida*, or "RAP"), as of July 1, 2017, with two components:

1 – Economic Component: cost of capital of assets with residual useful life on July 1, 2017, to be received for the remaining term of the assets' useful life; and

2 – Financial Component: cost of capital not incorporated from January 1, 2013 to June 30, 2017, updated and remunerated by the cost of equity, to be received within eight tariff cycles, each cycle being comprised of the period from July 1 to June 30 of the following year.

For the 2017/2018 cycle, ANEEL stipulated an additional RAP of RBSE of approximately R$7.8 billion, of which R$4.2 billion related to the financial component and R$3.6 billion related to the incorporation of the amount still undepreciated from the RBSE to the Regulatory Remuneration Base.

Certain associations of energy consumers have questioned these increases, however, arguing that such financial burdens would be inappropriate as regards the cost of capital compensation, and that those differences should not be passed on to consumers. On April 10, 2017, an advance relief was granted in favor of these associations.

Thus, ANEEL reviewed its calculations and in Homologatory Resolution No. 2,258, of June 27, 2017, stipulated, for the 2017/2018 cycle, an additional RAP of about R$6.8 billion, of which R$3.2 billion is the financial component and R$3.6 billion is the economic component. Therefore, in the current cycle, the preliminary decision implied a reduction of 13.4% in the additional RAP due to our subsidiaries. We cannot predict if new reductions will occur. For more information, see "Main Factors Affecting Our Financial Performance—Transmission RBSE Payment."

Regarding the generation assets, our subsidiaries petitioned ANEEL for the complementary indemnification related to them for approximately R$6.2 billion. ANEEL has not yet ratified the amounts, has not defined the criteria for payment of the indemnification amounts and has not established deadlines for the receipt of those amounts.

Accordingly, in the ANEEL's regulatory agenda for 2018-2019, the revision of Normative Resolution No. 596/2013 is planned for the second half of 2018, due to the need to adapt the regulations to define other forms of valuation of generation assets, since the methodology contained in said resolution is not suitable for the valuation of investments in modernizations and improvements. Accordingly, ANEEL has not confirmed what amounts, if any, will be paid to us this year.

Under the current rules for the tariff review for generation and transmission concessions, we might not receive an adequate amount to compensate us for costs incurred in 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 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. The regulatory 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 with renewed concession agreements or resulting from concessions auctions (both cases in accordance with Law No. 12,783). The Annual Generation Revenue

(*Receita Anual de Geração*, or "RAG") is the amount to which the generating companies have the right to provide the energy produced in a hydroelectric plant. RAG is calculated taking into account the regulatory costs of operation and maintenance of the hydroelectric plant, being adjusted annually, in addition to being reviewed every five years.

According to the current regulations, to recognize the required investments to maintain the adequate service provision, ANEEL determined that generation companies must present investment plans every five years for approval, so compensation starts to be paid only after the plant commences operations. However, ANEEL is promoting a review of these regulations. On February 8, 2018 ANEEL opened the 2nd Phase of the Public Hearing No. 16/2017 for comments to the proposed rule regarding the periodic review of the RAGs for hydroelectric plants subject to the physical guarantee and power quote regime (Law No. 12,783/13). Accordingly, until the definition and publication of these rules, we cannot guarantee that the costs and expenses of our investments in generation assets will be adequately compensated.

As for transmission companies, ANEEL will approve the tariff review methodology in the concession agreements that were extended pursuant to Law No. 12,783 before July 2018, when the agency will approve the tariff review of the transmission activity. ANEEL will submit to public hearing the review of the Tariff Regulation Procedures section (*Procedimentos de Regulação Tarifária*, or PRORET), which related to the Periodic Review of the Revenues of Transmission Concessionaires (*Revisão Periódica das Receitas das Concessionárias de Transmissão*). The first phase of this discussion began with the opening of Public Hearing No. 41/2017, on August 2, 2017, in order to deal specifically with the rules to determining the Regulatory Remuneration Base (*Base de Remuneração Regulatória*, or "BRR") of the transmission companies. Further steps are also planned for the Public Hearing for the review of the Reference Price Bank (*Banco de Preços de Referência*), Operating Costs (*Custos Operacionais*) and Weighted Average Cost of Capital (*Custo Médio Ponderado de Capital*).

We and our subsidiaries have suggested changes that would be helpful to us during the tariff review process carried out by ANEEL for generation and transmission activities.

If our transmission companies do not adequately perform their transmission activities, we will be subject to the possibility of not being adequately compensated for the costs and expenses of investments on these assets. This could negatively impact our financial condition and results of operations.

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 40% of our corporate generation assets and 9% of our corporate transmission assets, other than Itaipu and our nuclear power plants Angra I and Angra II. In relation to our generation assets, if the UHE Tucuruí's concession is renewed under the terms of the applicable law (considering the quota allocation system), our income from Tucuruí will significantly decrease.

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 assure you that our concessions will be renewed on similar terms or at all.

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.

Decree No. 2.655/1998 regulates that the ordinary revisions of physical guarantee of hydroelectric plants must take place every five years, with the possible reduction of the physical guarantee of plant limited to 10% of the original amount of the concession agreement. In addition, at each review, the reduction of physical guarantee of the plant may not exceed 5% in relation to the physical guarantee obtained in the previous review.

From the public consultation defined by MME Ordinance No. 622/2016, the MME Ordinance No. 178/2017 published the revised physical guarantee values, applicable from 2018, which for our plants, including the plants from renewed concessions pursuant to Law No. 12,783, Itaipu and SPEs represented a decrease of 4% on average.

This revision was the first, so that the plants could have their physical guarantees reduced even further up to the regulatory limits. With respect to some of our plants, there was no recalculation of their physical guarantees as part of this ordinary review. A recalculation of physical guarantees could occur in a subsequent revision.

The reduction of the physical guarantee for those plants could impact our revenues and expenses due to the need to purchase energy to comply with sale and purchase agreements already in effect.

We are controlled by the Brazilian Government, the 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 eleven members of our Board of Directors and, through them, a majority of the executive officers responsible for our day-to-day management. Additionally, it 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 (vii) our management's remuneration; and (viii) 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 or are related to programs for the commercial, industrial and social development promoted by the Brazilian Government. Therefore, we may approve strategies, incur costs or engage in transactions that may not necessarily meet the interest of our other investors.

We cannot predict the financial and operational consequences of the proposed capital dilution.

On August 21, 2017, the Brazilian Government proposed a capital increase in Eletrobras which would dilute the government's ownership interest in Eletrobras' common voting shares, directly or indirectly, from 75.4% to less than 50%, as more fully set forth in "Business—Strategy". This proposal is based on the understanding that the Brazilian Government should concentrate its efforts on activities that are necessary to achieve national priorities.

After several conversations and announcements by the MME and the Council of the Investment Partnership Program (*Conselho do Programa de Parcerias de Investimentos*, or "*CPPI*"), we received the formal communication about the capital dilution through the Official Letter No. 817/2017/GM-MME on November 28, 2017. This document describes several details of the capital dilution proposal through the Informative Note No 3/2017/AEPED/MME.

On January 22, 2018, the Brazilian President presented to the Brazilian Congress the bill for the capital dilution of Eletrobras. Currently a special congressional committee is discussing the bill.

The bill proposes to offer additional shares of Eletrobras to the public, which would dilute the Brazilian Government's interest. According to the bill, Eletrobras' shareholders (excluding the Brazilian Government) must vote to approve the capital dilution plan, which includes the following main conditions: (a) the issuance of a special class of shares to the Brazilian Government (golden share), providing the right to appoint an additional director and certain veto rights concerning major corporate decisions such as changing the name and the scope of the company, among others; (b) the prohibition of any shareholder or group of shareholders to exercise voting rights with respect to more than 10% of Eletrobras' voting shares; (c) the transfer of Eletronuclear's and Itaipu's shares owned by Eletrobras to an entity controlled by the Brazilian Government, and (d) opting out of the quota regime created by Law No. 12,783/2013 for all hydroelectric plants (which concession agreements were renewed in 2012), and being able to trade the energy produced by these projects at market prices. However, in this case Eletrobras would have to pay a bonus to the Brazilian Government to be granted with new concession agreements for a 30 years term.

The proposal must be approved by the Brazilian Congress, which may propose changes and amendments to the conditions set out above. We will not participate in the approval process held in the Brazilian Congress and there are uncertainties regarding the final model for the reduction of the Government's participation in the company. Currently, there is no date on which the Brazilian Congress will consider the matter.

If approved, we anticipate that the proceeds of the capital increase would be used to make payments related to existing plants' concessions.

The dilution of the Government's interest could distract our management and result in less government support for Eletrobras. Certain groups could challenge the proposal, which could lead to time consuming political and legal issues for us. In addition, it could increase our debt costs (due to the fact that the government would control less than 50% of our common shares) and would constitute an event of default under our loans and bonds which, if not waived, could allow certain of our

creditors to accelerate the debt. Also, the proposed golden share would require the approval of the NYSE for our ADRs to remain listed on the NYSE. Accordingly, the capital dilution could materially adversely affect the price of the ADRs.

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We have substantial financial liabilities and may be exposed to liquidity constraints, which could make it difficult to obtain financing for our operational expenses and planned investments.

The cash flow from our subsidiaries' operations in recent years has not been sufficient to fund our capital and operational expenditures, debt service and payment of dividends. The reduction of our subsidiaries' operational income was a direct consequence of the anticipated extension of the concessions determined by Law No. 12,783. Therefore, our debt has significantly increased since 2012.

As of December 31, 2017, 75% of our debt, totaling R$29.3 billion, will mature in the next five years.

In order to meet our growth objectives, maintain our ability to fund our operations and amortize scheduled debt maturities, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our credit facilities, our cash and short-term financial investments balance, the incurrence of additional indebtedness and the receipt of indemnifications for the concessions renewed pursuant to Law No. 12,783 and the sale of assets.

Bonds issued by us in the international market will mature in 2019 for US$1 billion and in 2021 for US$1.75 billion. Depending on the liquidity of the international financial markets and our credit risk classification, we may face difficulties in refinancing that debt on favorable terms, which could increase the difficulty and the cost of refinancing those obligations.

As part of our Business and Management Plan 2018-2022, we intend to reduce the Net Debt/EBITDA ratio through the implementation of several measures, such as divestments, capital dilution and/or debt management. In this context, we continue to evaluate initiatives that can contribute to achieving these goals, among them the possibility of new funding to repay or refinance our debt at more favorable rates.

If, for any reason, we are faced with difficulties in financings or there is any delay in us receiving amounts due to us under the payments of indemnifications from the government, this could hamper our ability to make capital and operational expenditures in the amounts needed to maintain our current level of investments and our long-term targets.

We are subject to certain covenants under our agreements, 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 or 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. These agreements also require us to obtain previous creditors' waivers to perform some acts, such as the change of control or the sale of material assets.

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. 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 financial condition and the results of our operations.

We are subject to rules limiting the acquisition of loans by public sector companies.

In 2017, our budget included approximately R$8.9 billion of capital expenditures for expansion, modernization, research, infrastructure and environmental projects. In 2017, these expenditures were approximately R$5.2 billion.

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 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 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 approval to increase our funding, our ability to invest may be impacted, which would materially affect the execution of our growth strategy, particularly our investment in large scale projects, which could materially affect our financial condition and the results of our operations.

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We may not fully receive the receivables from the Fuel Consumption Account (CCC Account) transferred during the sale process of our distribution companies.

Our 170th Extraordinary Shareholders' Meeting held on February 8, 2018 ratified the decision to sell our distribution companies and approved the capitalization of those companies, in accordance with the BNDES proposal. They also approved the assumption of approximately R$8.5 billion of receivables and payables recorded in the distribution companies' balance sheets, considering adjustments through June 30, 2017. However, these receivables are related to the CCC Account and have been the subject of discussions with ANEEL.

Currently, ANEEL is examining the distribution companies regarding the credits they hold over the CCC Account for the period from July 2009 to June 2016 in order to identify any asset or liability under Resolution No. 427/2011. The Agency has already prepared a technical opinion on the examination process in our subsidiaries Amazonas D, Eletroacre, CERON and Boa Vista Energia, questioning the amounts paid by the CCC Account to these companies and the method of processing and formation of the Total Generation Costs to be reimbursed to the companies. We, as managers of the CCC Account during the monitoring period, together with the subsidiaries, challenged the decision issued by ANEEL and the criteria they applied. See note 11 of the Financial Statements for a further description of the receivables from the CCC Account.

ANEEL issued an order (No. 2504/2017) claiming a R$2.9 billion reimbursement to the CCC Account to be paid by Amazonas D. Amazonas D filed a writ of mandamus against the decision to prevent any charge by ANEEL. However, the Federal Tribunal of the 1st Region rejected Amazonas D's claims with respect to the writ. The amount of reimbursement remains subject to confirmation by ANEEL.

Due to Provisional Measure No. 814/2017, ANEEL published new results of the examination of Eletroacre and CERON, changing its

previous position. In March 7, 2018, ANEEL recognized a credit for Eletroacre of R$163 million, and for CERON, a credit of R$1.641 billion, both amounts adjusted as of December 31, 2017.

On April 16, 2018, ANEEL issued Technical Note No. 65/2018 establishing that the final amount after the examination, adjusted to December 31, 2017, is R$69.6 million, to be reimbursed to Boa Vista. Also, ANEEL affirmed that, in relation to the "inefficient" cost of Boa Vista's fuel, the historical amount is R$20 million, to be paid by the National Treasury. This decision is subject to appeal and these amounts could increase.

In view of the above, considering that we are still discussing with ANEEL the credits over the CCC Account, we may receive an amount that is lower than the one we originally assumed or be required to reimburse amounts to the CCC Account.

We are exposed to mismanagement claims for being the manager of certain sectorial funds and programs in the past.

We were responsible for the management of the financing agreements granted with funds from the RGR Fund until May 1, 2017, when the management was transferred to CCEE. However, the financing agreements signed up to November 17, 2016, will remain under our responsibility for proper contractual management, according to art. 28 of Decree No. 9.022/2017, and it is up to us to collect the financing, in accordance with the schedule established in the clauses of each agreement, and to reimburse the RGR Fund for funds received as amortization, contractual interest rate and reserve rate credit.

We still are the managers to government programs (*Luz para Todos* and *Procel*), which are managed pursuant to rules and regulations enacted by ANEEL and the MME.

We are still liable before the supervisory bodies for the period we managed the sectorial funds. Accordingly, from July 2009 to June 2016, ANEEL has undertaken a series of examinations into the electricity distribution companies that benefit from the CCC Account and issued an order (No. 2504/2017) claiming a R$2.9 billion reimbursement to the CCC Account to be paid by Amazonas D. Amazonas D filed a writ of mandamus against the decision to prevent any charge by ANEEL. However, the Federal Tribunal of the 1st Region rejected Amazonas D's claims with respect to the writ. The amount of reimbursement remains subject to confirmation by ANEEL.

Due to Provisional Measure No. 814/2017, ANEEL published new results for the supervision of Eletroacre and CERON. On March 7, 2018, ANEEL detrmined that Eletroacre should receive R$163 million and that CERON should receive R$1.641 billion, both amounts adjusted as of December 31, 2017. On April 16, 2018, ANEEL determined that Boa Vista should receive R$89.6 million.

ANEEL also reported differences over the CCC Account of a debit of R$0.1 million for CERR, and credits of R$94 million for CEA, R$21 million for Celpe and R$54 million for Energisa.

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As managers of the CCC Account, we questioned how the amounts were calculated and the methodology applied by ANEEL. However, ANEEL has not yet responded to our queries. Accordingly, we may be liable for possible failures in the management of the CCC Account, as well as other sectorial funds, with possible impacts in our financial condition, reputation and image.

Our strategic plan is challenging and require the synchronization and implementation of several projects.

Our medium-term strategic plan, called Business and Management Master Plan (*Plano Diretor de Negócios e Gestão*, or "PDNG"), contains issues of our 2015/2030 strategic plan and is prepared on a five-year basis. The PDNG is a portfolio of projects that aims to conform Eletrobras' companies to a new economic and sector reality.

Subject to what occurred with the PDNG 2017-2021, the version approved for this year, PDNG 2018-2022, has several complex and correlated projects, which reflect the following guidelines:

- Governance and compliance;
- Financial discipline;
- Operacional excellence;
- Sustainable action; and
- Appreciation of people.

The execution of the projects listed in the PDNG 2018-2022 portfolio will bring benefits to the group, such as a lower financial leverage, higher operational efficiency and costs consistent with regulatory parameters. However, these projects imply deep changes in the operational and management processes of our companies, as well as in the number of employees in the operational and management areas, highlighting the importance of retention and transfer of knowledge.

Thus, despite the efforts of our management, if the schedule or the delivery of the projects are delayed, we may face difficulties in achieving the strategic planning goals and eventually fail to obtain, in whole or in part, the benefits related to revenue growth or cost reduction.

If any of our assets are considered deemed assets dedicated to providing an essential public service, they will not be available for liquidation and will not be subject to attachment to secure a judgment.

Law No. 11,101/2005 ("Law No. 11,101") governs judicial recovery, extrajudicial recovery and liquidation proceedings and replaces the debt reorganization judicial proceeding known as *concordata* for judicial and extrajudicial recovery. This law provides that its provisions do not apply to government owned and mixed capital companies such as our subsidiaries and us. 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 Law No. 11,101 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 the generation assets, our transmission network and our 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 or attachment to secure a judgment. In either case, these assets would revert to the Brazilian Government pursuant to Brazilian law and 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 may be affected.

We may be liable for damages and have difficulty obtaining financing if there are accidents 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 plants UTN Angra I and UTN Angra II, pursuant

to the Vienna Convention on Civil Liability for Nuclear Accidents.

The UTNs Angra I and Angra II 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 (IAEA) and the World Association of Nuclear Operators (WANO). Eletronuclear invests approximately R$100 million per year in the modernization and incorporation of the latest safety requirements for the plants.

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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.

We insure our nuclear plants against nuclear accidents. UTN Angra I is insured for US$600 million (R$2.285 billion) and UTN Angra II for US$3.0 billion (R$9.924 billion). UTN Angra I has a maximum limited guarantee of US$450 million (R$1.489 billion) and UTN Angra II of US$550 million (R$1.819 billion) to cover property and casualty damages, and both are insured for US$239.7 million (R$792.9 million) for civil liability.

Eletronuclear seeks to comply with all preventive 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, the results of our operations and our reputation and image may be affected if a nuclear accident were to occur.

Until we complete the construction of our Angra III nuclear power plant, our financial condition and results of operations may be materially adversely affected.

In 2009, our subsidiary Eletronuclear started the construction of a new nuclear plant, called UTN Angra III. Construction stopped in 2015 when the media reported allegations of potential illegal activities by companies that provide services to Eletronuclear in the power plant. On December 31, 2017, Eletronuclear had completed approximately 62% of the original project and invested R$9.65 billion.

In December 2017, we revised the total budget for the UTN Angra III project, which now totals R$20.87 billion, and changed the forecasted date for operation of the Angra III nuclear power plant to January 2025. As a result of the impairment tests on that date, we recognized additional impairment amounts of R$951 million and an expense of R$39 million related to an onerous contract. The amount of impairments and onerous contract, accumulated and recognized on our balance sheet totaled R$11.29 billion as of December 31, 2017, with R$9.90 billion of impairment and R$1.39 million relating to onerous contracts. We continue to monitor the estimates and the associated risks in determining the recoverable value of this project and, as new negotiations, new studies or new information are undertaken and require changes in the business plan of the projects, they will be updated to reflect such changes.

We are currently seeking to review the tariff of UTN Angra III and the authorization of CNPE to resume the construction, as well as we are looking for partners to enable the conclusion of the project and verifying the possibilities of renegotiating the terms of the financial agreements. If we are not successful, we may be required to pay in advance a financing granted by BNDES to Eletronuclear (under which R$3.7 billion were outstanding as of December 31, 2017), as we are Eletronuclear's guarantors, or have difficulties to pay the loan obtained from Caixa Economica Federal (under which R$3.2 billion were outstanding as of December 31, 2017), in addition to other accounting liabilities which we may record, which could materially adversely affect our financial condition and the results of our operations.

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, 2017, we provisioned a total aggregate amount of approximately R$24.5 billion in respect of our legal proceedings, of which R$0.6 billion related to tax claims, R$21.3 billion to civil claims and R$2.6 billion to labor claims. (See "Business—Litigation" and Note 30 to our consolidated financial statements).

Our subsidiary Chesf is a defendant against the consortium among Mendes Junior Companies, CBPO and CONSTRAN in respect of certain amendments (1st amendment), which included as price readjustment methodology to the construction agreement of the Xingó hydroelectric plant the "K factor". Motions for reconsideration and a special appeal are currently waiting for trial before the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*, or "STJ"), and an extraordinary appeal is currently pending admissibility before the same court. In the 12th Civil Court of Recife (PE), the provisional enforcement action is suspended due to provisional interim injunction granted by the STJ; with this, the amount of R$497.2 million of Chesf's assets blocked in 2015/2016 were released on January 24, 2017. 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

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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 our 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 has now moved into the class certification and discovery phases. We filed our answer to the second amended complaint on May 5, 2017 and the plaintiffs filed a motion for class certification on June 30, 2017, which was fully briefed and then submitted to the Court on November 21, 2017.

On February 28, 2018, the Court granted the parties' joint request for a 60-day stay of the litigation while the parties attempt to settle the matter by engaging in mediation, and thereafter entered a revised scheduling order, which would apply in the absence of a resolution of the case, under which discovery will continue until at least September 2018.

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.

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. 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 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. 4,156/1962 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. 7,181/1983 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, according to the proceedings described above.

Until June 30, 2010, consumers have 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 methodologies adopted by us and the risk classification of these claims and consequent difference in the provision for contingencies. We filed an appeal with the Federal Supreme Court (*Supremo Tribunal Federal*, or "STF"), however, it has 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, 2017, we had provisioned R$16.6 billion to cover losses arising from unfavorable decisions relating to these lawsuits.

In order to reduce the impact of the losses related to these lawsuits, we filed lawsuits against the Federal Government claiming joint and several liability in certain demands related to the compulsory loans and reimbursement of half of the amount paid by us, but the

STJ has not yet issued a decision. STJ's decision will be binding for all past and future claims filed by us against the Federal Government. Despite our efforts to reduce losses related to these lawsuits, we cannot ensure that we will succeed, and if we are not successful, it could adversely affect our financial condition and the results of our operations.

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 occurred. Although we believe that we have no further liability regarding these bonds because they are expired, any legal interpretation that the bonds have not expired could adversely affect our financial condition and the results of our operations.

Judgments may not be enforceable vis-à-vis our directors or officers.

All of our directors and officers appointed in this annual report reside in Brazil. We, our directors and officers and the members of our Fiscal Council have agreed to receive service in the United States only on specific transactions. Substantially all our and these people's assets are located in Brazil. As a result, it may not be possible to file service within the United States or other jurisdictions outside of Brazil to such persons, pledge their assets, or enforce decisions under civil liability or securities laws of the United States or the laws of other jurisdictions against them or us in the courts of the United States, or in the courts of other jurisdictions outside of Brazil.

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 Laws No. 108/2001 and No. 109/2001 and the rules of the pensions plans themselves, we and our subsidiaries may be required to make contributions to the pension plans of our current and former employees. If there is a mismatch in the reserves of the pension plans and the amount of resources available to the plans, in case these plans are defined benefit plans, we (as sponsors) and the pension plan beneficiaries may be required to contribute to the pension plan to re-establish the plan's balance, as provided by the specific regulations established by the regulatory body National Superintendency of Complementary Pensions (*Superintendência Nacional de Previdência Complementar*, or "PREVIC").

In 2017, the pension plans that we and our subsidiaries sponsor recorded a deficit of approximately R$1.9 billion. We and our subsidiaries made contributions to our respective pension plans which amounted to approximately R$473.9 million in 2016 and R$328.5 million in 2017.

The implementation of balance plans may result in the payment of extraordinary contributions by the participants and sponsors, in order to recover the balance of the plan. Such payments may materially adversely affect our cash flow in the long term.

Our insurance policies may be insufficient to cover potential losses.

Our business is generally subject to a number of risks, including operational 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 seeking, whenever possible, to renegotiate our insurance policies at a group level to ensure a more uniform coverage and adequate protection for all our operations at competitive costs. We believe that we maintain insurance in sufficient amounts to cover potential material damages to our plants caused by fire, general third-party liability for accidents and operational risks. If we are unable to eventually renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional losses.

Under Brazilian law, we are strictly liable for direct and indirect damages resulted from the inadequate supply of electricity, such as abrupt interruptions or problems related to generation, transmission or distribution systems. Therefore, we can be liable for damages even if we not due to our negligence.

Thus, if we are liable for the payment of damages in a material amount, our financial condition as well as our reputation and image could be adversely affected.

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, sometimes monopolies, for the provision of these raw materials. In the event that supplies of these

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

Several members of the federal government and the Brazilian legislative branch have faced allegations of corruption. As a result, some 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 Federal Prosecutor.

In August 2016, Brazil’s Vice President at the time Michel Temer, was named the new President of Brazil following the impeachment of Dilma Rousseff for breach of the Fiscal Responsibility Law. Throughout 2017, president Temer was accused of passive corruption, criminal organization and obstruction of justice by the Attorney General’s Office, however, those complaints were barred by the chamber of deputies. Because of the complaints, the reform agenda proposed to modernize and stabilize the country’s economy is in jeopardy.

The outcome and potential results of the ongoing investigations are unknown and may have adverse impacts in the market’s perception about the Brazilian economy’s future, influencing the consumer’s and investors’ trust. The uncertainties caused by the revelations of possible corruption scandals continue to negatively impact GDP growth, as well as volatility in the stock market, the strength of the *real* and prices of securities issued by Brazilian issuers.

The President of Brazil has powers to indirectly appoint the majority of our directors, in accordance with the applicable laws, including Law No. 13,303/16. Accordingly, any further change in the Brazilian government could lead to further changes in our management. If new allegations against Brazilian government officials arise, we cannot predict the outcome of any such allegations or their effect on the Brazilian economy and on us.

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

Brazil’s economy is vulnerable to external shocks, including adverse economic and financial developing levels in other countries and market developments. A significant increase in interest rates in the international financial markets may adversely affect the liquidity of, and trading markets for, securities. In addition, a significant drop in the price of commodities produced by Brazil could adversely affect the Brazilian economy. A significant decline in the economic growth or demand for imports of any of Brazil’s major trading partners, such as China, the European Union, or the United States, could also have a material adverse impact on Brazil’s exports and adversely affect Brazil’s economic growth.

In addition, because international investors’ reactions to the events occurring in one emerging market country sometimes produce a “contagion” effect, in which an entire region or class of investment is disfavored by international investors, Brazil could be adversely affected by negative economic or financial developments in other countries. Brazil has been adversely affected by such contagion effects on a number of occasions, including following the 1997 Asian crisis, the 1998 Russian crisis, the 2001 Argentine crisis and the 2008 global economic crisis.

We cannot assure you that any situations like those described above will not negatively affect investor confidence in mature market economies, emerging markets or the economies of the principal countries in Latin America, including Brazil. In addition, we cannot assure you that these events will not adversely affect Brazil’s economy.

Brazil’s economy is also subject to risks arising from the development of several macroeconomic factors in Brazil. These include general economic and business conditions of the country, the level of consumer demand, the confidence that domestic consumers and foreign investors have in the economic and political conditions in Brazil, present and future exchange rates, the level of domestic debt, domestic inflation, the ability of the Brazil government to generate budget surpluses, the level of foreign direct and portfolio investment, the level of domestic interest rates, the degree of political uncertainty in Brazil.

Any of these events may lead to timely interventions by the Government over monetary, credit, foreign exchange and other policies to influence the Brazilian economy. For instance, recently the Central Bank has established through the Monetary Policy Committee (*Comitê de Política Monetária*, or “COPOM”) the basic rate of interest in order to achieve the inflation goals determined by the National Monetary Council (*Conselho Monetário Nacional*, or “CMN”). We have no control over, and

cannot assume, which other measures or policies the Brazilian Government may take in the future to balance the Brazilian economy.

Our operating conditions have been, and will continue to be, affected by the growth rate of GDP in Brazil, because of the great relation between this variable and the demand for energy. Therefore, any change in the level of economic activity may adversely affect the liquidity of, and the market for, our securities and consequently our financial conditions and the results of our operations.

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 affect other policies have already 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.

Uncontrolled inflation, large exchange variations, social instability and other political, economic and diplomatic events, as well as the Brazilian Government's response to those events, could also negatively affect our business and our strategy. In addition, uncertainty with respect to economic policy and, principally, in regulations of the financial markets can contribute to increased volatility in the Brazilian capital markets, as well as the prices of securities of Brazilian issuers. We have no control over, and cannot predict what measures or policies the Brazilian Government may take in the future.

As an example, 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. In 2017, the economy rebounded, growing by 1%. We cannot assure investors that Brazil's economy will resume its growth in the future. Brazil's economic growth depends on a variety of factors, including, among others, international demand and prices for Brazilian exports, climatic factors affecting Brazil's agricultural sector, fiscal and monetary policies, confidence among Brazilian consumers and foreign and domestic investors and their rates of investment in Brazil, the willingness and ability of businesses to engage in new capital spending, the exchange rate and the rate of inflation. Another recession could result in a material decrease in Brazil's fiscal revenues, or a significant depreciation of the real over an extended period of time could adversely affect Brazil's debt/GDP ratio, which could have a material adverse effect on public finances and on the market price of our securities. Additionally, S&P may downgrade Brazil's rating in the event the Brazilian Congress approves a pending pension plan proposal.

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 exchange volatility affecting our foreign currency-linked receivables and obligations.

In the past, the Brazilian government implemented several economic plans, using different exchange control mechanisms to control the large volatility of the Brazilian currency. After a period of stability after 1999, the *real* returned to volatility against the U.S. dollar during the global financial crisis of 2008, in 2014 and 2015 and more recently in the middle of 2017.

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, or the implementation of exchange control mechanisms or remittance of debt, could influence the exchange rate and the investments in the country. The different exchange rate scenarios may have adverse effects on us as they may affect 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, 2017, approximately 25.3% of our consolidated indebtedness (of R$45,122 million), which amounted to R$11,423 million, was denominated in foreign currencies, of which R$11,159 million (or approximately 24.7%) was 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.

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 2.95% in 2017, 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). The IPCA for the accumulated twelve-month period ended March 31, 2018 was 2.68%.

While the current inflation rate is at historical lows for the past number of years, 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.

Companies are exposed to hydrological risk when the systemic generation is below the physical guarantee of the hydroelectric plants of the National Interconnected System, creating a deficit called GSF (generation scaling factor). In this situation, the companies must liquidate their negative balance contractual positions in the short-term market at the Price of Settlement of Differences (PLD) in place.

In recent years, adverse hydrological conditions caused mainly by the climate change process associated with factors that influence the generation dispatch resulted in an expressive reduction of GSF, affecting agents with allocated energy lower than their sales contracts, exposing them to the volatility of the PLD. In 2015, to reduce exposures, ANEEL reduced the PLD by more than 50%. Even so, this reduction was insufficient to settle the differences, creating a significant increase of default within the scope of the CCEE.

This situation led to judicial claims by the affected parties, including our subsidiaries, to minimize the losses with GSF degradation. This led to the publication of Law No. 13,203/2015, which established the conditions for the renegotiation of the hydrological risk. The conditions were different for physical guarantee installments committed in contracts within the Regulated Contracting Environment (*Ambiente de Contratação Regulada*, or "ACR") and those negotiated within the Free Contracting Environment (*Ambiente de Contratação Livre*, or "ACL").

For the instalments contracted within the ACR, the renegotiation of the hydrological risk was allowed with its transference to the consumers in exchange of the payment of a risk premium by generators who adhere the renegotiation. For the short-term energy market, there is the possibility of renegotiation in consideration of contracting hedge. Our subsidiaries have adhered to the renegotiation of hydrological risk in ACR, except from CHESF due to its specificities related to the UHE Sobradinho and the electro-intensive consumers. As for the amounts negotiated in the ACL, the option was not to renegotiate the risk.

Among the measures under discussion to improve the legal framework of the electricity sector, embodied in Public Hearing 33/2017 ("CP-33") of the MME, is the discussion of the special regime for the plants, aiming to promote a better risk allocation. It is up to consumers to pay for the hydrological risk of power plants that have had concessions renewed through Law No. 12,783 by making a complementary payment for the use of more expensive thermoelectric plants. The CP-33 proposed that the hydrological risk is assumed by those who acquire energy from the generator companies in these marketing auctions. In this case, the price and characteristics of contracts for this energy would be as of the market.

Unfavorable hydrological conditions that result in a reduction of the supply of electricity to the 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 usually have higher costs when compared to hidrolectric power plants.

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Accordingly, in periods of lower precipitation levels and reduction of the GSF we may incur in higher costs by the restriction demand or by the need to acquire electric energy at higher prices in the short-term market for our concessions which were not renewed by Law No. 12,783. Additionally, in case the changes currently being discussed with the CP-33 are implemented, the impacts can extend to the non-cotised plants, adversely affecting our financial condition and the results of our operations.

We may be subject to administrative intervention or to lose our concessions if we provide our services in an inadequate manner or violate contractual 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, we 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, determine the expropriation and the concession loss, 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 us. In addition, should the recovery plan be rejected by the administrative authorities, ANEEL would be able to use its powers described above.

On December 31, 2017, we believed we were in compliance with all the terms and conditions of our concession contracts. However, we cannot guarantee that we will not be punished by ANEEL for a future violation of our concession contracts or that our concession contracts will not be terminated in the future, which could have an adverse impact on our financial condition and the results of our operations.

Our generation and transmission activities are regulated and supervised by ANEEL. Our business could be adversely affected by any regulatory changes or by termination of the concessions prior to their expiration dates, and any eventual 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 and transmission activities of electrical energy concessionaries, 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 the results of our 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 the National Eletrict System Operator (*Operador do Sistema Nacional Elétrico*, or "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. 63/2004, 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.

With regard to possible regulatory changes, in July 2017 the MME placed in public hearing several improvements to the legal framework of the electric sector (CP-33). In view of the MME, the Public Hearing No. 33/2017 reflects the need for adjustments in rules of the energy sector "in order to provide an environment of confidence, innovation and competition among agents and institutions, towards goals that contemplate technical, economic and socio-environmental sustainability criteria." These are relevant changes that involve hydrological risk, end of the commercialization system of quotas, power plants' privatization and the separation between coverage and energy. The CP-33 received several comments from agents, including our subsidiaries and us, but is still being discussed among the Government.

Accordingly, in relation to the regulatory issues, 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. Additionally, there is uncertainty about the application of part or the total adjustments proposed for the CP-33. In these cases, our financial condition and the results of our operations may be adversely affected.

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We are strictly liable for any damages resulting from inadequate supply of electricity to distribution companies, and our 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, such as abrupt interruptions or disturbances arising from the generation or distribution 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.

Cyber-attacks, or violations of the security of data such as might lead to interruptions of our operations or leaks of confidential information.

Our subsidiaries and we are the owners of facilities, services, assets and systems that have significant influence on people's life and on the operation of important sectors for the development and maintenance of the country, such as the industrial sector.

These infrastructures operate with highly connected and interdependent equipment and systems, whether by information, administrative or operating systems, increasing the complexity and, consequently, the risks involved in possible cyber-attacks.

Cyber-attacks, even if partially successful, can compromise sensitive information, administrative services or critical infrastructures, causing serious social, economic and political impact, including compromising the security of the country and the society.

We and our subsidiaries have not experienced incidents that compromised information, corporative systems or operational facilities of our responsibility. However, we are aware that the costs we may incur to eliminate or address the foregoing security vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of service that may impede our critical functions.

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 about these subjects are complex and may be changed over time, making the ability to comply with the requirements more difficult or even impossible, thereby precluding our continuing, present 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 applicable 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 the partial or total interruption of activities, the temporary shutdown of establishment, construction work or activity and the prohibition of contracting with governmental authorities and obtaining governmental subsides, incentives or donations.

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

Our operations are subject to federal, state and local environmental legislation, as well as the supervision of government agencies responsible for implementing the laws. Among other things, these laws require that we obtain environmental licenses for the construction of new plants and for the installation and operation of new projects. The rules on these matters are complex. The legislation related to the environmental licensing is currently under review, with the proposed changes being discussed and examined

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by the Brazilian Congress. More serious environmental issues have been brought to the courts. We track permanently the proposals for environmental amendments and case law.

The lack of control and compliance with the requirements and deadlines imposed by the competent authorities can cause significant penalties for us in terms of loss of revenue, fines, stoppages and damages to our reputation and image. For the parties responsible for the projects, the penalties be in civil, administrative and criminal proceedings.

Our subsidiaries and we have environmental policies with principles and guidelines related to environmental management. Our companies have tested and formalized procedures for the treatment of waste and effluents and the management of supplies and pollutant agents, as well as contingency plans for any accidents. In generation projects, the non-compliance with environmental and /or failures in the management of materials and solid waste, for example, may, in case of inspection by the environmental body, lead to the shutdown of a plant and its consequent unavailability to the system, exposing the project to fines and damage to our image.

In addition, we incorporate good market practices to improve our compliance with sustainability principles, transparency and engagement with stakeholders, showing our environmental performance and avoiding damage to our reputation and image.

With the actions described above, we aim to act preventively and avoid the breach of environmental law and regulations that may result in administrative and criminal penalties. However, even though we are in compliance with the rules, we cannot assure you that our environmental impact studies will be approved by the relevant regulatory agencies, 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 financial condition and the results of our operations.

We can be responsible for impacts on the population and the environment in the event of an accident involving the dams at our hydroelectric plants.

Our generation plants have large structures such as dams and floodgates which are used in water storage and reservoir level control. Such structures are complex engineering works that have to comply with several technical and safety standards. Specific laws and regulations guide the safety of these structures, such as Law No. 12,334/2010, which established the National Dams Safety Policy (*Política Nacional de Segurança de Barragens*), and ANEEL Resolution No. 696/2015, which establishes safety standards and annual inspections of dams.

Our subsidiaries have programs to regularly review and monitor all installations related to dams at their hydroelectric plants in order to identify any issues that could compromise safety. The plants also have operational contingency plans. All the relevant information is submitted to ANEEL, which performs local inspections.

However, in the event of an accident to our subsidiaries' dams, we may have to incur in high costs to compensate possible damages suffered by the population, which could severely impact our operations, our financial condition and our image and reputation.

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 for the generation and transmission of electricity involve many risks, including:

- the difficulty to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor and social unrest;
- interruptions by weather and hydrological conditions;
- unforeseen engineering and environmental problems;
- increase in electricity losses, including technical and commercial losses;

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- construction delays, or unanticipated cost overruns;
- issues related to energy sales;
- the unavailability of adequate funding; and
- expenses related to the operation and maintenance not fully approved by ANEEL.

For example, we experienced work stoppages during the construction of our Jirau and Santo Antônio hydroelectric plants and the Belo Monte plant in which we participate through SPEs. 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 some of the shareholders of Norte Energia S.A filed an arbitration proceeding against us seeking a favorable interpretation to them of a provision of the shareholders' agreement of that SPE. The provision established a right of first refusal to us 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 have to provide resources while seeking alternatives about the sale of energy on the Free Market, given the sale of this energy could allow the release of resources worth up to R$2 billion retained in BNDES.

In BNDES' loan agreement, there is a reference to the referred amount, pending the purchase and sale agreement of the energy to be released to Norte Energia. If the interpretation of the disputed section of the shareholders' agreement and the respective arbitration award are unfavorable to us, we may be financially adversely impacted.

Furthermore, the implementation of projects we have 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 and transmit electricity in amounts consistent with our projections, which may have a material adverse effect on our financial condition and the results of our 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

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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.

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.