*Values shown in U.S.$ are the average of the exchange rates of purchases and sales of the relevant date.

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

Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes, such as the recent outbreak of the novel coronavirus.

Our operations could be adversely affected by epidemics, natural disasters and other catastrophes, such as a widespread outbreak of contagious disease, including the recent outbreak of respiratory illness caused by a novel coronavirus known as COVID-19 which was first identified in Wuhan, Hubei Province, China. Since then the virus has spread to over 200 countries and territories, including China, the U.S., the European Union, and Brazil and, on March 11, 2020, the World Health Organization confirmed that its spread and severity had escalated to the point of a pandemic. The outbreak of COVID-19 has resulted in authorities around the world implementing numerous measures to try to contain the spread of the virus, such as travel bans and restrictions, curfews, quarantines and shut downs, which has led to increased volatility and declines in financial markets and severe economic downturns in many countries. The response to the COVID-19 outbreak in many Brazilian states has involved declaring periods of quarantine which has resulted in restrictions on opening hours, and in many cases closures, of plants and stores, leading to prolonged closures of workplaces and reduced business activity, which will likely have a material adverse effect on the Brazilian economy.

As a result, GDP may contract this year as the impacts of COVID-19 on the world economy may be significant and lasting, with forecasts of a global recession. The Central Bank predicts a retraction of 3.3% in 2020. Considering the correlation between GDP growth and electric energy consumption, the downward revision of this estimate, or even an eventual recession, indicates potential reduction in energy consumption in some sectors, such as industrial and commercial. In addition, consumers may not be able to pay their bills to distribution companies. Consumer default and decrease in demand may generate cash flow mismatches for distribution companies and lead them to suspend or delay payments to us, which in turn could lead to cash flow mismatches for us.

Our generation revenue comes from businesses carried out on (i) the Regulated Market (including the plants under the quota regime), (ii) the Free Market and (iii) the short-term market, in which the differences between the amounts generated, contracted and consumed are settled. Due to the reduction in economic activity, there may be instances of defaults by our counterparties.

We are also managers of the Itaipu and Proinfa commercialization accounts. If either account becomes negative, we use our own resources to meet the obligations and reestablish the balance of the accounts, which should be compensated through the tariff the following year (with respect to Itaipu) or through revised quotas (with respect to Proinfa). Any material default in any of these accounts could negatively impact our cash flows.

Considering the possible decrease in our revenues, we might be required to record an impairment, particularly in the case of SPEs that sell significant amounts of energy on the Free Market. Other factors that may contribute to us having to record impairments are the increase in certain costs (especially those indexed in foreign currency) and/or possible difficulties with material suppliers.

In addition, as of the date of this annual report, we also expect low liquidity in the energy trading market, which may lead to difficulties for transacting business on favorable terms in this market. Future energy auctions may also be postponed for an indefinite amount of time depending on the determination of the MME.

In the transmission segment, our earnings are derived from tariffs defined by ANEEL (i.e. the RAP), established at the time of the concession auction, with periodic reviews defined in specific regulations. Accordingly, we currently see no indications that the outbreak of COVID-19 will have a significant impact on the revenues of our transmission assets, since these are related to the availability of the assets in the Interconnected System, and not to the flow of energy transmitted. Despite low historical default rates, the current adverse scenarios, magnified by over-contracting by the distribution companies and exchange rate devaluations, may lead to increased defaults in the transmission segment.

In addition, as certain of our transmission projects are in the implementation phase, we might suffer delays in their construction as a result of a complete shutdown or in the re-deployment of construction teams. Restrictions of this nature may also cause us or our contractors to miss milestones on projects and experience operational delays, delay the delivery of electrical infrastructure and other supplies that we source from around the globe, delay the connection of electric service to new customers, prolong the time period necessary to perform maintenance on our infrastructure, and significantly reduce the use of electricity by commercial and industrial customers.

Further, while we have modified certain business and workforce practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events, and conferences) to conform to government restrictions and best practices proposed by government and regulatory authorities, we have a limited number of highly skilled operators for some of our critical power plants and our grid operations centers. Our operations would be disrupted if any of our employees or employees of our business partners were suspected of having COVID-19, which could require quarantine of some or all such employees or closure of our facilities for disinfection. Also, as a result of these measures, our day-to-day administrative activities have been disrupted, including limiting our access to our facilities and certain technology systems and disrupting normal interactions with accounting personnel, external auditors and others involved in the preparation of this annual report. If this pandemic continues, there may also be an impact on our future reports.

Accordingly, it is possible that the generation, transmission and commercialization of electric energy segments, in which we operate, will suffer material negative impacts. We cannot predict the duration of these restrictions or the exact impact that they will have on our business. Therefore, we currently cannot estimate the potential impact to our financial position, results of operations and cash flows.

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

We cannot predict what policies or actions the Brazilian government may take in the future as a response to the COVID-19 pandemic and how they might affect the economy or our business or financial performance. The overall trend suggests that COVID-19 may affect the electricity industry as a result of lower economic activity.

If we do not remedy the material weakness in our internal controls, the reliability of our 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 controls over financial reporting, aiming to ensure the reliability of the information disclosed to the market and compliance with applicable accounting principles.

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 2019 certification process, we and our independent auditor conducted independent tests and identified deficiencies in our internal controls, which resulted in four material weaknesses included in our 2019 annual report filed on Form 20-F.

The material weaknesses in internal control over financial reporting existed as of December 31, 2019 related to: (i) lack of an effective control environment and monitoring of controls, which led to: (a) a failure to monitor that control deficiencies were not remediated in a timely manner, (b) a failure to maintain effective controls over the completeness and accuracy of key spreadsheets and system-generated reports used in controls, and (c) a failure to design and maintain controls in response to risks of material misstatement related to business processes in scope; (ii) a failure to design and maintain controls over the period-end financial reporting, which led to: (a) the incompleteness of assets that should be considered for impairment analysis and inaccuracy of impairment calculations, and (b) incomplete and inaccurate accounting for deferred taxes; (iii) a failure to design and maintain controls related to review and approval of ERP transactions that could lead to non-authorized manual journal entries; and (iv) a failure to design and maintain controls related to access granting procedures and segregation of duties.

During the course of 2020, we will attempt to remedy these material weaknesses by hiring a consulting firm to assist in the implementation and evaluation of remedial steps designed by the managers of each respective process. These action plans will be designed based on (i) controls classified as ineffective in the previous year, and (ii) tests carried out by our management. Our internal controls department is responsible for overseeing the implementation of these action plans and reports periodically to the Board of Directors and the Audit and Risks Committee.

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

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

We conduct our business mainly through our generation and transmission operating subsidiaries. In addition, we and our subsidiaries conduct some of our business through SPEs, which are created specifically to participate in public auctions for enterprises in the generation and transmission segments. Our SPEs are typically structured in partnership with other companies to exploit new energy sources and transmission lines. Also, we have an equity interest in 25 affiliates that explore generation, transmission and distribution activities. Therefore, our ability to meet our financial obligations is related, in part, to the cash flow generated by and earnings of our subsidiaries, affiliates and SPEs and the distribution or other transfers of earnings to us in the form of dividends, loans or other advances and payments.

As we generally do not control the SPEs and their affiliates, accounting for them under the equity method of accounting, their practices may not be fully aligned with ours. Since the SPEs are not government-controlled, they are not required to follow operational and financial processes applicable to government-controlled entities.

Additionally, as the SPEs and the affiliates 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 instituted internal controls and established a specific department 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 as a result of our reduced cash flow following the implementation of Law No. 12,783/13, our prior and current Business and Management Plan (*Plano Diretor de Negócios e Gestão*) 2020-2024 contemplated the sale of our shares in certain SPEs, in order to reduce our consolidated indebtedness and increase our cash flows. In order to facilitate the sale of these SPEs, we transferred the ownership of these SPEs from our subsidiaries to our holding company. We do not have the control of the management of the SPE, which may lead to operational issues. We created a specific working group to oversee the sale of these SPEs. On September 27, 2018, we sold 26 of the 71 auctioned SPEs, with a spread of 2% over the minimum price. As of the date of this annual report, we have already received R$1,330 million related to sale of 26 SPEs. Of the remaining 45 SPEs from the January 2018 auction, 39 of them, with a book value of R$1.5 billion (as of December 31, 2019), were put up for sale through the Competitive Sale Procedure (*Procedimento Competitivo de Alienação*) No. 01/2019, supported by Decree 9,188/17, grouped into six lots, five relating to wind power generation and one to transmission. On July 30, 2019, we commenced the sales process and received offers from bidders on October 31, 2019. As of the date of this annual report, we have completed the negotiation phase and are awaiting the receive the fairness opinions. Although there is a possibility of retaining the value of 5% of the firm economic proposal, the COVID-19 pandemic may cause the companies that offered the bid to review their cash position and their strategic positioning in the market, possibly requesting postponement of terms or even the cancellation of the purchase transaction.

We cannot assure investors that these sales will not be contested by third parties such as the TCU or the CGU. Similarly, although we rely on the support of external advisors, we cannot ensure that the sale of the remaining SPEs will be successful, and sale prices may be lower than we expect. Further, as a result of auctioning the SPEs, we incurred a loss of R$553 million for the year ended December 31, 2018, resulting from the difference between the book value and the sale value (based on the auction price) of certain SPEs that were classified as held for sale. If any of these risks materialize, it may have a material effect on our results of operations and financial position. Additionally, with the sale of the foregoing assets, we cannot guarantee that we will maintain our current market share in generation and transmission in Brazil.

Given the need to make the electricity generation and transmission projects viable, we, as a state-owned company, are the guarantor of several projects structured as SPEs. If the loans related to such projects are not paid, we may suffer material adverse financial impacts and our results of operations may be adversely affected.

Over the past several years, we have acted as guarantor in respect of several SPE projects in which our subsidiaries were minority shareholders in order to support the construction of electricity generation and transmission projects. As of December 31, 2019, the value of these guarantees was R$30.6 billion. Among the SPEs to which we currently provide guarantees are: Norte Energia; Santo Antônio; Teles Pires; BMTE; São Manoel; Jirau; and others. If the loans related to these projects are not paid, we may suffer material adverse financial impacts and our results of operations may be adversely affected.

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

There are certain risks associated with the sale of our six distribution subsidiaries located in the North and Northeast region of Brazil.

Through auctions on the B3 during 2018, we auctioned our participations in (i) Cepisa and Ceal to Equatorial Energia, (ii) Eletroacre and Ceron to Energisa S.A., and (iii) Boa Vista Energia and Amazonas D to the Oliveira Energia & Atem Consortium. Various labor unions initiated proceedings to stop the sales of certain of the distribution companies prior to their auctions, and we cannot ensure that similar entities will not bring further legal actions against us, the distribution companies or the purchasers in the future.

In connection with the sale of our distribution companies, we agreed to assume debt owed by the distribution companies to Petróleo Brasileiro S.A. — Petrobras ("Petrobras") and certain of its subsidiaries, including Amazonas D (R$10.5 billion), Ceron (R$2.1 billion), Boa Vista Energia (R$0.3 billion) and Eletroacre (R$0.3 billion). We also agreed to pledge certain receivables to Petrobras as security for the debt and to assume R$0.9 billion debt of Amazonas D owed to Cigás. Currently, there are ongoing discussions with Cigás in relation to this matter aiming at formalizing such settlement.

In exchange for the assumption of the debt, we are due to receive certain credits from the CCC Account. However, the receipt of these credits is uncertain because they are credits subject to ANEEL's approval and, to date, the amount of credits recognized by ANEEL is lower than those granted by the distribution companies.

For a further discussion, see "—Risks Relating to our Company—We may not receive the full value of receivables from the CCC Account transferred during the sale process of our distribution companies."

In addition, the distribution companies we sold in the auction process owe us R$6.4 billion as of December 31, 2019. We cannot ensure that we will receive those amounts, even if we take legal action to enforce our rights, as it would depend on the credit worthiness of each distribution company.

We may not receive the full value of receivables from the CCC Account transferred during the sale process of our distribution companies.

At our 170th Extraordinary Shareholders' Meeting held on February 8, 2018, we ratified the decision to sell our distribution companies and approved the capitalization of these companies, in accordance with the CPPI's guidelines. Our shareholders also approved an amount of R$8.5 billion of receivables, which were assumed from the distribution companies' balance sheets, considering adjustments through June 30, 2017. As these receivables relate to the CCC Account, they have been the subject of discussions with ANEEL.

Currently, ANEEL is examining the distribution companies regarding the credits they hold in respect of the CCC Account for the period from July 2009 to June 2016 (first round inspection) in order to identify any asset or liability pursuant to Resolution No. 427/11. ANEEL has already prepared a technical note on the review process for Amazonas D; Eletroacre; Ceron; and Boa Vista Energia. This technical note questioned the amounts paid by the CCC Account to these companies and the method of processing and composition of the total generation costs to be reimbursed to these companies. We, as managers of the CCC Account during the monitoring period, together with the distribution companies, challenged the decision issued by ANEEL and the criteria they applied. See note 11 to our Consolidated Financial Statements for a further description of the receivables from the CCC Account.

On March 7, 2018, the technical notes of ANEEL noted a credit of R$163 million in favor of Eletroacre, and a credit of R$1.6 billion in favor of Ceron, as of December 31, 2017. On April 16, 2018, ANEEL issued technical note No. 65/18 establishing that the final amount to be reimbursed to Boa Vista after the review is R$69.6 million (as adjusted to December 31, 2017). ANEEL also affirmed that, due to the "inefficiency" cost of Boa Vista's fuel, the Brazilian National Treasury should pay Boa Vista R$20 million, subject to adjustment.

ANEEL has not yet disclosed new technical notes on the first inspection period for Boa Vista Energia. As for Ceron, on August 20, 2019, ANEEL issued a technical note No. 134/2019 for the first inspection period, incorporating some of the distributor's and our requests and increasing the total amount to be paid to us, which is now R$1,904 million, adjusted by the IPCA index for July 2019. With respect to the first inspection period of CCC refunds to Eletroacre, ANEEL issued technical note No. 149/2019 on September 3, 2019. This technical note converted the amount to be paid into R$191.6 million, adjusted by the IPCA index for July 2019.

At the meeting held on March 10, 2020, ANEEL's Board of Directors decided to complete the process of inspecting refunds from the CCC Account to Eletroacre and Ceron, both in respect of the first inspection period. ANEEL acknowledged that Ceron is due to receive R$1.9 billion as of July 2019 from the from CCC Account. Eletroacre is due to receive R$192 million as of July 2019 from the CCC Account. These amounts deliberated by ANEEL are the same as those mentioned in Technical Notes No. 134/2019 and No. 149/2019, regarding the first period of the CCC Account inspection process reimbursed to Ceron and Eletroacre, respectively. The regulatory agency has not yet issued technical notes on the second inspection period for Ceron and Eletroacre.

On March 19, 2019, ANEEL concluded its process of inspection and processing of the benefits reimbursed by the CCC Account to Amazonas D, for the period between July 30, 2009 and June 30, 2016, partially complying with the litigation and administrative processes filed by us and Amazonas D. Pursuant to ANEEL's technical note No. 60/2019-SFF-SFG-SRG/ANEEL, as of April 18, 2019, the CCC Account owed Amazonas D R$1,621.9 million. These credits were transferred by Amazonas D to us during the privatization. Additionally, ANEEL will determine the value of the "fuel inefficiency" with the Ministry of Economy that was calculated to be R$1,357.8 million (historical cost) between July 2009 to April 2016 (already accounted for), to be paid by the Brazilian National Treasury. Even though Provisional Measure No. 855/18 and Provisional Measure No. 879/19 have not been converted into law, we understand that Laws No. 13,299/2016 and No. 13,360/2016 maintain Amazonas D and Boa Vista's rights to receive the "inefficiency" rates from the Brazilian National Treasury for the period from July 2009 to April 2016.

In addition, Bill No. 5,877/2019, which discusses the proposal for our privatization, recognizes our right to use the "fuel inefficiency" values to offset the payment amount of any new power generation concessions granted to our companies in the process of not taxing our plants. For more information on the risks involving this matter, see "—Risks Relating to our Company—We are controlled by the Brazilian Government, the policies and priorities of which directly affect our operations and may conflict with the interests of our investors."

There has been no decision on how the amount of the "fuel inefficiency" may be adjusted. However, if it is adjusted by the SELIC rate, as is typical, the adjusted amount would be R$2,394.2 million (adjusted to December 2019) for Amazonas D and R$40.1 million (as of December 31, 2019) for Boa Vista, for the period from July 2009 to April 30, 2016. In our financial statements for the year ended December 31, 2019, we considered the adjustment by the SELIC rate as a credit to be paid by the Brazilian Government.

Regarding the second period of inspection of reimbursements from the CCC Account to Amazonas D (from July 2016 to April 2017), ANEEL decided, at a Board Meeting held on March 10, 2020, to return the amount of R$2.1 billion (as of March 2019) to the CCC Fund. Accordingly, Amazonas D has finalized its entire inspection process, as ANEEL's Board of Directors had already deliberated, on March 19, 2019, the result of the first inspection period of reimbursements from the CCC Account to Amazonas D, with the company being entitled to receive the amount of R$1.6 billion (as of September 2018).

As of December 31, 2019, we recorded R$9.1 billion as refunding rights in respect of credits from the CCC and CDE Accounts acquired through the sale of the distribution companies. However, due to the inspections and partial results, we recorded provisions of R$3.7 billion associated with these credits, resulting in a net value of R$5.4 billion. Of this amount, R$2.4 billion are credits related to "fuel inefficiency" adjusted by the SELIC rate and should be paid by the Brazilian National Treasury or offset by granting values that we have to pay to the Brazilian National Treasury. The remaining balance should be paid by the CCC Account; however, we cannot predict the timing of payments since these refunds are dependent on ANEEL's discretionary approval. While management has recorded its best estimate, the conclusion of the discussions with ANEEL regarding the credits from the CCC Account is crucial for the provision of an amount to be received by us and our subsidiaries from the CCC Account.

In view of the above, considering that we are still discussing the credits of the CCC Account with ANEEL, we may receive an amount that is lower than the one we originally assumed. In addition, the amount related to "fuel inefficiency" depends on the budget forecast of the Brazilian Government to be paid or compensated with granting bonuses, which has not yet occurred.

We are exposed to mismanagement claims for managing certain sectorial funds and programs.

We were responsible for the management of the financing agreements granted with funds from the RGR Fund until May 2017 and the CDE and the CCC Accounts until April 2017, when the management of both was transferred to the CCEE. However, we will remain responsible for managing the financing arrangements entered into prior to November 17, 2016 under article 28 of Decree No. 9,022/17, and to reimburse the RGR Fund for funds received as amortization payments, interest payments and reserve rate credit.

Due to ANEEL's inspections, we are liable for the recovery of debt and resources of the RGR Fund pursuant to article 21-A of Law No. 12,783/13, of R$1.6 billion as of December 30, 2019.

We are also the managers of certain governmental programs: *Luz para Todos*, Proinfa, Procel and, more recently, *Mais Luz para a Amazônia*, introduced by Decree No. 10,221/2020 and MME Ordinance No. 86/2020. These programs are subject to the regulations of ANEEL and the MME and are subject to the supervisory bodies.

Proinfa, incorporated by Article 3 of Law No. 10,438/02, and regulated by Decree No. 5,025, dated March 30, 2004, was developed to increase the participation of electric power generated by Independent and Autonomous Producers (*Produtor Independente Autônomo*) - PIA from sources such as wind, small hydroelectric power plants and biomass in the Interconnected Power System. Pursuant to Article 13 of Decree No. 5,025/2004, Proinfa's costs and generated power will be apportioned in a manner that does not treat us unfairly. If funds in the Proinfa account are insufficient to cover the program's costs, we will review Proinfa's annual plan and forward it to ANEEL to reestablish the quotas.

As managers of the CCC Account until April 2017, we questioned how the amounts were calculated and the methodology applied by ANEEL. Additionally, the CDE sectoral fund commenced an inspection process related to the reimbursement of coal for the period from January 2011 to April 2017. We were the manager of this fund. Accordingly, we may be liable for possible failures in the management of the CCC Account or the CDE Account, as well as other sectorial funds, in which could negatively impact our financial condition and reputation.

On July 20, 2018, ANEEL initiated the process of inspection and reprocessing of the benefits paid by the CDE Account, for the period from January 2011 to April 2017, when we were the manager of the sectorial fund. Three companies benefiting from the coal refund were subject to inspection: Copel, Engie and CGTEE, the latter being one of our companies. The regulatory agency also investigated the coal stock at April 30, 2017.

On January 23, 2020, ANEEL issued technical note No. 05/2020 with the preliminary result of the inspection of the coal costs reimbursed to CGTEE, determining the amount of R$118.9 million to be returned by CGTEE to the sectorial fund. CGTEE and we, as former manager of the sectorial fund have the right to comment on the methodology, information and results determined by ANEEL. In the case of CGTEE, almost the entire difference between the amount reimbursed by the sectorial fund and the amount set out by ANEEL as part of the inspection relates to the treatment given by ANEEL to the Candiota III Plant.

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 we will receive indemnity payments for our generation concessions nor if the amount will be sufficient to cover our investments in these concessions.

By agreeing to the renewal of our generation and transmission concessions, which were due to expire between 2015 and 2017, we agreed to receive certain payments as compensation for the unamortized undepreciated portion of our assets that relate to the renewed concessions. Based on the provisions of Law No.12,783/13, we have filed claims with ANEEL for our renewed transmission concessions, the RBSE assets and the RBNI assets. The indemnification relating to the RBNI assets was paid in installments between 2013 and 2015 (at the book value of approximately R$8.1 billion as of December 31, 2012). Between 2015 and 2016, ANEEL reviewed the appraisal reports and approved the indemnity payment in respect of the RBSE's assets at the book value of approximately R$17.6 billion as of December 31, 2012.

MME Ordinance No. 120/16 established the conditions for receipt of this unamortized and/or undepreciated remuneration related to the RBSE assets. According to ANEEL, the order stipulates that the cost of capital of the concessionaires referring to these assets will be included in the respective RAP, as of July 1, 2017, with two components:

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

2. The Financial Component: the 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 commencing on July 1 of one year and ending on June 30 of the following year.

Certain associations of energy consumers have argued that these adjustments should not be passed on to consumers. On April 10, 2017, ANEEL partially adjusted the position of these associations as a result of a preliminary judicial injunction and reduced the additional RAP accordingly. As of the date of this annual report, ANEEL is contesting the preliminary injunction. Since November 2019, the Brazilian courts have been rendering decisions in order to dismiss the legal proceedings that discuss RBSE and revoke the majority of injunctions that were previously granted. As a consequence, the transmission companies will receive full payment of the due amount, including the remuneration. It should be noted that these legal proceedings are subject to a mandatory double degree of jurisdiction (*duplo grau de jurisdição obrigatório*), and the appeals were received only with devolutive effect (*efeito devolutivo*). For this reason, the Brazilian Association of Electric Power Transmission Companies (*Associação Brasileira das Empresas de Transmissão de Energia Elétrica*, "ABRATE") is leading discussions with ANEEL so that transmission companies should receive the amounts starting from the tariff review of July 2021.

Pursuant to Resolution No. 2,258, of June 27, 2017 ANEEL provided an additional RAP for the 2017/2018 cycle of approximately R$6.8 billion, related to RBSE, of which R$3.2 billion is the financial component and R$3.6 billion is the economic component. Therefore, in that cycle, the decision would reduce the additional RAP to be received by our subsidiaries by 13.4%.

In relation to the 2018/2019 cycle, ANEEL identified issues that require further analysis and remain undetermined. Accordingly, ANEEL published Resolution No. 2,408, of June 28, 2018, that postponed the revision of the tariff to June 2019 and established a provisional RAP, with retroactive effect to June 2018 and compensation in equal installments until the next tariff review. The provisional tariff establishes that: (i) for the RBSE economic component, the relevant criteria will be depreciation, demobilization, monetary adjustment and amortization of the income; and (ii) for the other components (such as the financial component), the criteria will only be the monetary adjustment.

During the 2019/2020 cycle, ANEEL decided to again delay the final tariff revision for the extended transmission concession agreements, pursuant to Law No. 12,783/13.

In April 2020, ANEEL initiated public consultations in order to consolidate the final values from the tariff review of the transmission companies, with retroactive effect to 2018. The initial revised RAP proposal for our companies is R$9,763 million, which corresponds to an increase of 4.15% as a result of the June 2018 tariff cycle review. The retroactive amount corresponding to the period of provisional revenues for our companies is R$1,089 million, and will be diluted over the next three cycles of the tariff review (approximately R$363 million per year) and will increase revenues from July 2020 to June 2023. These amounts are preliminary and ANEEL could adjust them retroactively as ANEEL expenses the regulatory remuneration base of companies.

In light of the COVID-19 pandemic, ANEEL prepared short and medium term proposals for all segments of the electricity sector, contained in Technical Note No. 01/2020-GMSE/ANEEL. For the Transmission segment, the main measures proposed by ANEEL in Technical Note No. 42/2020-SRT/SGT/ANEEL consist of the acceleration of the adjustment portion of the 2019-2020 cycle in the amount of R$485 million in respect of all transmission companies, including our share of R$210 million. This amount corresponds to a collection surplus from the transmission companies and would be returned in twelve installments by July 2020. ANEEL's proposal is to accelerate these payments in April, May and June 2020. This will impact our cash flows, but will not otherwise affect our financial position. In this way, ANEEL seeks to provide immediate financial relief to distribution companies and mitigate default risks in the sector. The matter was approved at a board meeting and the decision was published through Order No. 1,106/20.

Certain of our subsidiaries petitioned ANEEL for an additional generation indemnity payment of approximately R$6.0 billion in accordance with Decree No. 7,850/2012 and Normative Resolution ANEEL No. 596/2013. However, ANEEL has not yet calculated the indemnification payments and may not recognize the value claimed.

As part of ANEEL's regulatory agenda for 2018-2019, in January 2019 ANEEL commenced Public Hearing No. 03/19 regarding the revision of Normative Resolution No. 596/13, to define the regulation on how to calculate the remaining value of the indemnification for generation assets related to concessions renewed in accordance with Law No. 12,783/13. ANEEL has not confirmed what amounts, if any, will be paid. Currently, the regulation sets forth that the indemnity, when determined and if paid through the tariff, should be discounted from the amount of investments (GAG Melhoria) which is part of the tariff charged to consumers (Annual Generation Revenue (*Receita Anual de Geração*, "RAG") of the specific hydroelectric plants. Although Public Hearing No. 03/19 has not been concluded yet, a technical note has already been made available in the process (technical note 96/2019-SRG-SFF-SCG / ANEEL, dated December 31, 2019), which did not accept any contribution from us in respect of what was being discussed. If the understanding of the note prevails, our companies would not receive the indemnity, which, having a lower value when compared to the total amount of GAG Melhoria, would be fully deducted from it.

The accounting practice applied in relation to GAG Melhoria may be revised whenever new facts and/or new estimates of associated expenses and/or revenues arise. We have been receiving GAG Melhoria, but the amount received may not be sufficient for all new investments that are necessary to maintain regulatory levels of services throughout the concession period. As GAG Melhoria is a portion of RAG, established to provide resources for improvements in assets in order to maintain regulated levels of service. RAG will be subject to review every five years, and a change in the calculation methodology could reduce the amount of the GAG Melhoria.

As an effort to analyze and mitigate the effects of COVID-19 for the electricity sector, ANEEL elaborated Technical Note No. 01/2020-GMSE/ANEEL, which proposes several measures, such as the use of sectoral funds and the renegotiation of regulated contracts. Among those measures, it indicates the possibility of postponing the payment of the GAG Melhoria in respect of generation companies (such as us), that had their concession agreements amended in accordance with Law No. 12,783/13, preserving the portion that agents may already have allocated to obligations related to improvements. The Technical Note sets out that the GAG Melhoria would be reevaluated in the future and be adjusted with those generation companies, in accordance with the principles defined in the Technical Note.

In addition, Bill No. 5,877/2019, which relates to our proposed privatization, contemplates the de-entitlement (*descotização*) of our plants extended by Law No. 12,783/13. If de-entitlement (*descotização*) occurs, the commercialization regime for these concessions will be changed to independent production (*produção independente*) and we will lose our entitlement to receive the GAG Melhoria. In 2017, we received no payments related to GAG Melhoria. In 2018 and 2019, we received R$0.5 billion and R$1 billion in payments related to GAG Melhoria.

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

In Brazil, the regulatory model for transmission companies is based on the price/revenue cap model. Under this model, ANEEL establishes the revenues to be charged by the companies, which must consider any reasonable costs of capital, operation and maintenance. Transmission companies use these regulatory mechanisms to revise the tariff review that 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, ANEEL's goal is to recalculate the costs for the efficient operation and maintenance of the system managed by the transmission company.

ANEEL is also responsible for determining the revenues to be charged by the generation companies with concession agreements in accordance with Law No. 12,783/13. The RAG is the amount that the generation companies are entitled to receive as consideration for supplying energy produced at hydroelectric plants.

Resolution No. 818/18 established the methodology for the periodic revision of the RAG based on a level of investments needed to ensure the provision of an adequate service (GAG Melhoria). The RAG is monetarily readjusted annually and reviewed every five years and includes an annual monetary readjustment.

For transmission companies, the extended concession contracts provide for a tariff review for the 2018/2019 cycle. On July 31, 2017, ANEEL started the first phase of Public Hearing No. 41/17 to receive comments and suggestions related to the periodic review of the RAP for transmission assets, specifically regarding the rules for the BRR and other income. On September 26, 2017, ANEEL commenced the second phase of this public hearing to receive comments and suggestions related to the rules regarding the Operating Costs (*Custos Operacionais*) and the Weighted Average Cost of Capital (*Custo Médio Ponderado de Capital*, "WACC"). On August 15, 2018, ANEEL started the third phase of Public Hearing No. 41/2017 to obtain subsidies to improve the regulatory proposal for the periodic review of the RAPs of transmission facilities, regarding the issues of operating costs and investments in small improvements.

On April 7, 2020, ANEEL completed the analysis of contributions sent during the third phase of Public Hearing No. 41/2017, approved the final figures for operational costs considering a gradual transition mechanism for the new costs and defined the investments foreseen for small improvements. In April 2020, ANEEL initiated public consultations in order to consolidate the final values from the tariff review of the transmission companies, with retroactive effect to 2018. The initial revised RAP proposal for our companies is R$9,763 million, which corresponds to an increase of 4.15% as a result of the June 2018 tariff cycle review. The retroactive amount corresponding to the period of provisional revenues for our companies is R$1,089 million, and will be diluted over the next three cycles of the tariff review (approximately R$363 million per year) and will increase revenues from July 2020 to June 2023. These amounts are preliminary and ANEEL could adjust them retroactively as ANEEL expenses the regulatory remuneration base of companies.

The concession agreements that may be affected in respect of the operational costs as a result of Public Hearing No. 41/2017 are the concessions extended according to the terms of MP No. 579/2019 (Law No. 12.783/2013), namely the following agreements: Chesf - CC No. 061/2001, Furnas - CC No. 062/2001, Eletrosul - CC No. 057/2001 and Eletronorte - CC No. 058/2001.

In March 2019, ANEEL commenced Public Hearing No. 09/19 to discuss a revision of the WACC, which continued under Public Hearing No. 26/19 and culminated in the publication of Resolution No. 874/2020, that established the new WACC for revenues from (i) our transmission assets, hydroelectric plants subject to the physical guarantee and power quota regime (Law No. 12,783/13), and (ii) Eletronuclear. In March 2020, as a result of Public Hearing No. 09/2019 and Public Consultation No. 26/2019, ANEEL approved the new WACC as 7.66% for 2018 and 7.39% for 2019.

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

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

We carry out our transmission and certain generation activities pursuant to concession agreements entered into with the Brazilian Government through ANEEL. The Brazilian Government may renew any existing transmission concessions that were not renewed pursuant to Law No. 12,783/13 or Law No. 13,182/15, for an additional period of 30 years without the need to carry out a new public bidding process.

Pursuant to articles 1, 2 and 5 of Law No. 12,783/13, the concessions of hydroelectric power generation granted pursuant to article 19 of Law No. 9,074 of July 7, 1995, the concessions for thermal generation and the concessions and authorizations for the use of hydroelectric plants with a potential greater than 5,000 kW (five thousand kilowatts) and less than or equal to 50,000 kW (fifty thousand kilowatts), may be extended, provided that the concession has not been extended and remains in effect at the time of publication of the law. The extension depends on the criteria of the granting authority and the specific framework established by the law.

Hydropower concessions granted between February 14, 1995 and December 11, 2003, may be renewed for up to 20 years pursuant to article 4, second paragraph, of Law No. 9,074/1995. There is currently no legal basis for renewal of other concessions. Should the Brazilian Government decide to renew the concessions, it may offer to do so on less favorable terms, which we may or may not accept.

There is currently no other legal provision regarding the extension of hydroelectric concessions except in the event of a privatization, where a new concession or an extension of an existing concession may be granted, as provided in article 27 of Law No. 9,074/15.

In relation to our generation assets, if the concession for our Tucuruí plant is renewed under the terms of Law No. 12,783/13 (considering the quota allocation system), our income from the Tucuruí plant will decrease significantly, affecting our results of operations. Eletronorte expressed to ANEEL its interest in extending the Tucuruí hydroelectric power plant concession, subject to the terms of an extension. The renewal of the Tucuruí concession will depend on the interest of the granting authority and the contractual conditions disclosed by the granting authority.

The Authorization for Permanent Operation ("AOI") of Angra I expires in September 2024. The AOI of Angra II expires in June 2041. In order to prevent the expiration of the Angra I AOI, Eletronuclear presented an initial request for Long Term Operation of Angra I to CNEN in October 2019 in order to extend operations.

Other generation assets like wind and thermal plants are subject to authorization. There is currently no legal or regulatory provision that entitles these assets to obtain an extension.

We cannot assure that our concessions will be renewed on similar terms or at all. Given the Brazilian Government's discretion in relation to the renewal of concessions, we may face competition during the renewal process. Consequently, we cannot assure you that we will maintain our concessions.

We cannot predict on what terms the Itaipu Treaty will be revised.

The Itaipu Treaty, entered into between the Governments of Brazil and Paraguay, regulates the activities of Itaipu. Annex C of the Itaipu Treaty, which regulates the financial arrangement of the plant, will be revised in 2023.

Paraguay has signaled its intention to propose changes to the Itaipu Treaty, which could happen at the same time as the Annex C revision.

The treaty provides that both countries have priority in purchasing the portion of energy produced and not consumed by the other party. Also defined in the treaty are the payment of royalties, the payment of capital income, the cost of energy produced and the conditions for the transfer of energy.

We are now responsible for the commercialization of the portion of energy produced that belongs to Brazil, as well as of the surpluses ceded by Paraguay. However, we cannot say on what terms the treaty will be renegotiated by the two governments and there is no certainty as to the terms of the sale of energy for the Brazilian market.

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

Decree No. 2,655/98 establishes that the physical guarantees in place for hydroelectric plants must be revised every five years. Any potential reduction in the value of the physical guarantee is limited to 10% of the original amount of the concession agreement. In addition, at each review, the reduction of the physical guarantee of the plant may not exceed 5% in relation to the previous review.

MME Ordinance No. 178/17 specifies the revised amounts for physical guarantees in effect as from 2018. Based on these revised amounts, the physical guarantee for our plants decreased in average by 4% in relation to the original amount of the plants' physical guarantee, including our plants in respect of which the concessions were renewed pursuant to Law No. 12,783/13, Itaipu and some of our SPEs. As there are further revision cycles, the amounts attributable to our physical guarantees may be reduced in the future.

With respect to some of our plants, there was no recalculation of their physical guarantees as part of this ordinary review. However, a recalculation of the physical guarantees of these plants could occur in the next review cycle.

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. Although there is a smaller risk with plants that are governed by the quota allocation system, we cannot assure you that a reduction of the physical guarantee would not adversely impact our revenues and expenses in respect of the quota allocation system.

There is a possibility of a reduction of the physical guarantee of the plants in respect of which the concessions were renewed pursuant to Law No. 12,783/13 and Itaipu, in values above the limits established by Decree No. 2,655/98, in accordance with the recommendations of the Public Consultation Closing Report of the Ministry of Mines and Energy No. 36 from 2017 (*Relatório de Fechamento da Consulta Pública do Ministério de Minas e Energia – MME*). In addition, the final recommendation of the Energy Industry Monitoring Committee (*Comitê de Monitoramento do Setor Elétrico*, "CMSE") regarding the discussions on Itaipu's physical guarantee will be coordinated in the future during the negotiations for the revision of ANNEX C of the Itaipu Treaty and during the discussions of physical guarantees of plants renewed by Law No. 12,783/13 in the de-entitlement (*descotização*) process.

MME Ordinance No. 124/2019 established a working group to coordinate the development of studies to support the process of revising Annex C to the Itaipu Treaty. Additionally, Bill No. 5,877/2019, which relates to our proposed privatization, currently under discussion in the Brazilian Congress (*Câmara dos Deputados*), contemplates de-entitlement (*descotização*) of our plants renewed by Law No. 12,783/13. In this case, new concession contracts would be signed for a new period of 30 years, under an independent power generation regime, with the possibility of revising the physical guarantee of these plants, without the limitation set out in Decree No. 2,655/98. We cannot assure whether this process of de-entitlement would cause an adverse revision of the physical guarantee and thus, negatively impact our financial condition and results of operations.

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

The Brazilian Government, as our controlling shareholder, exercises substantial influence on the strategy of our business. The Brazilian Government also has the power to appoint eight out of the eleven members of our Board of Directors and, through them, influence the choice of 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 (which could dilute the Brazilian Government's interest); (iii) determine our dividend distribution policy, as long as it complies with the minimum dividend distribution regulated by law; (iv) issuances of securities in the domestic market and internationally; (v) corporate spin-offs and mergers; (vi) swaps of our shares or other securities; and (vii) the redemption of different classes of our shares, independent from approval by holders of the shares and classes that are subject to redemption.

Our operations impact the commercial, industrial and social development policies promoted by the Brazilian Government, and the Brazilian Government may, subject to certain limitations, pursue certain of its macroeconomic and social objectives through us. Therefore, we may, subject to legal and by-laws limitations, engage in activities that give preference to the objectives of the Brazilian Government rather than to our own economic and business objectives, which may incur costs or engage in transactions that may not necessarily meet the interest of our other investors.

On November 5, 2019, the Brazilian Government sent a new bill to the Brazilian Congress (PL No. 5,877/2019), maintaining the privatization format previously presented to the Brazilian Congress by increasing the share capital with a waiver of subscription rights by the government, which would lead to the dilution of its stake in us. The bill is still under discussion by the Brazilian Congress and may also pass through the scrutiny of external control entities. We cannot assure you that privatization will continue as described and we have no control over the timeline of such approval.

The bill for our privatization provides that the Itaipu and Eletronuclear government programs must be segregated from us and, depending on the segregation model, we may lose revenues from these assets and about 8,990 MW, equivalent to 5% of our installed capacity, and may result in events of default under various financing arrangements with our creditors. The bill, if approved, also establishes that we will have to assume certain obligations in the amount of approximately R$3.5 billion in respect to the area surrounding São Francisco river. However, these obligations may be amended by the Brazilian Congress.

The bill presumes the process of de-entitlement (*descotização)* of our plants that were renewed pursuant to Law No. 12,783/13 and our subsidiaries will pay new grants to the Brazilian Government to change these plants' contracting regime and enter into new contracts with independent power generators, for a period of 30 years, and the amount will be calculated by CNPE and should be equivalent to two thirds of the value added of economic benefit with the change in the concession regime. In addition, one third of the value added will be paid annually to the CDE Account, in twelve installments. These plants may have their physical guarantees reviewed by the Brazilian Government, together with EPE and ANEEL, as well as the assumption of hydrological risk under Law No. 13,203, of December 8, 2015.

We cannot predict the financial and operational consequences of the proposed capital dilution. We also cannot guarantee that the terms to be presented for renewal will be attractive for us, or that our Board of Directors will accept such terms. Additionally, our privatization could distract our management and result in less government support for us. Certain groups could challenge the proposal, which could lead to time consuming political and legal issues for us. It could also increase our debt costs (due to the possibility that the Brazilian Government would control less than 50% of our common shares) and could constitute an event of default under our loans, which, if not waived, could allow certain of our creditors to accelerate the debt. In addition, any change of control may require the approval of the NYSE for our ADSs to remain listed on the NYSE. Under our outstanding bonds, we are required to make an offer to purchase the bonds at a price equal to 101% of their principal amount outstanding plus interest accrued and additional amounts if the Issuer ceases to be owned, directly or indirectly, as to at least 51 per cent. of our voting share capital by the Brazilian Government and such change of control results in a rating withdrawal or ratings decline by two or more rating agencies (if the notes are then rated by three rating agencies) or ratings decline by one rating agency (if the notes are then rated by two rating agencies or less), if any such rating decline is in whole or in part in connection with such change of control. We cannot assure you that we will have sufficient financial resources at such time to make the change of control offer under the bonds, which could lead to an acceleration of the bonds, which in turn could trigger cross-default clauses under our outstanding loans. In addition, depending on the model chosen, we cannot assure you that there will be no dilution of the participation of minority shareholders that do not fully comply with any capital increase.

We may not be able to maintain our market share unless we make a change to our capital structure.

For the year ended December 31, 2019, we invested R$3.2 billion in capital expenditures for expansion, modernization, research, infrastructure and environmental projects. For 2020, our budget includes R$5.3 billion. However, we may have to review the planned investments set out in our business plans as a result of the economic uncertainties and impacts on the financial markets caused by the current pandemic and the suspension of auctions. To maintain our current market share (as of December 31, 2019) of 30.1% in the generation segment and 45.3% in the transmission segment we will need to undertake additional investments in capital expenditures. As we and our principal shareholder, the Brazilian Government, may not have resources available to make additional capital expenditures, the Brazilian Government is considering the alternatives described in "—We are controlled by the Brazilian Government, the policies and priorities of which directly affect our operations and may conflict with the interests of our investors" that would allow us to raise enough capital to make the requisite investments. However, we cannot assure investors that the Brazilian Congress will approve any changes to our capital structure or business model and, accordingly, we might lose some of our market share in the generation and transmission segments.

We have substantial financial liabilities and are exposed to short-term liquidity constraints, which could make it difficult to obtain financing for our planned investments.

We have substantial financial liabilities and are exposed to short-term liquidity constraints, which could make it difficult to obtain financing for our planned investments, largely due to the reduced operating income of our subsidiaries as a direct result of the early extension of concessions pursuant to Law No. 12,783/13.

In addition, in 2018 with the completion of the privatization process of the distribution companies Boa Vista Energia, Ceron and Eletroacre, we assumed part of their debts with Petrobras and BR Distribuidora, which may bring challenges in terms of refinancing. As of December 31, 2019, the balance of these debts was R$9.6 billion, of which R$8.9 billion was owed to Petrobras and R$627.1 million was owed to BR Distribuidora.

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 proceeds from bond issuances in the capital markets, receipt of indemnifications for the concessions renewed pursuant to Law No. 12,783/13 and the sale of assets.

In February 2020, we launched a tender offer for our outstanding 5.750% notes due 2021 (“2021 Notes”) in conjunction with an offering of 3.625% notes due 2025 in an aggregate principal amount of U.S.$500 million and 4.625% notes due 2030 in an aggregate principal amount of U.S.$750 million. As part of this process, we repurchased U.S.$1,124 million of the 2021 Notes. Depending on the liquidity of the financial markets and our credit risk classification, we may potentially face difficulties refinancing the remaining 2021 Notes or other debt on favorable terms, which could increase the difficulty and the cost of refinancing those obligations.

If, for any reason, we face difficulties in refinancing existing indebtedness or in obtaining new financing or if there is any delay in us receiving amounts due to us as indemnification payments from the Brazilian Government or the relevant agencies, this could restrict our ability to make capital and operational expenditures in the amounts needed to maintain our current level of investments.

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.

In 2009, the Federal Police commenced the *Lava Jato* Investigation, which related to a corruption scheme involving Brazilian companies acting in various sectors of the Brazilian economy.

In addition to criminal charges in Brazil, the SEC and the DoJ also commenced investigations in relation to the *Lava Jato* findings. 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 III 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 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 Ethical Conduct and Integrity.

In May 2018, we entered into a memorandum of understanding to settle an investor class action lawsuit related to the Lava Jato Investigation for U.S.$14.75 million (R$59.1 million) in return for full releases. The settlement does not represent admission of an illegal act of misconduct by us and we deny the accusations in the claim. In June 2018, the parties submitted to the court the stipulation of settlement and other supporting documents. The settlement was preliminarily approved on August 17, 2018 and confirmed by the court on December 12, 2018. As the settlement was not appealed, it is now fully effective. For further information about the settlement, see “Item 8.A. Financial Information—Consolidated Financial Statements and Other Information—Investor Class Actions.”

In August 2018, we were informed that the DoJ decided not to prosecute us for any potential FCPA violations or impose any other contingencies or conditions on us such as having a compliance monitor.

In December 2018, Hogan Lovells assisted us with the negotiation of a settlement with the SEC whereby we agreed to pay a U.S.$2.5 million settlement for inadequate internal controls, and the SEC agreed to terminate its investigation into alleged irregularities during the *Lava Jato* Investigation. See “Item 8.A. Financial Information—Consolidated Financial Statements and Other Information—Criminal Proceedings.”

Given the DoJ's decision not to prosecute us and the approval of the settlement with the SEC, there are no further actions pending before the U.S. regulatory agencies. Accordingly, the DoJ and SEC officially ended their investigations without the recognition of wrongdoing on our part.

In 2018, we acceded to an agreement with the CGU and Odebrecht pursuant to which Odebrecht will reimburse us an aggregate amount of R$161.9 million for losses incurred in relation to projects in which we directly or indirectly participated which were uncovered in the *Lava Jato* Investigation. This amount was treated in the Consolidated Financial Statements for the year ended December 31, 2018 as financial assets receivable. As we have not received any amounts due as a result of entering into the agreement, we have recorded provisions in 2019 classified as Provisions for Doubtful Accounts (*Provisão para Crédito de Liquidação Duvidosa*) in our Consolidated Financial Statements.

However, the first payment, already overdue when we adhered to the agreement, in December 2018, should have been paid together with the second payment, in October 2019, but it still requires a judicial authorization to free the credit that has already been deposited in a judicial account, in virtue of another deal executed with Odebrecht. The second payment, due in October 2019, had its due date postponed to March 30, 2020, because of requests from Odebrecht to the Federal Attorney General (*Advogado Geral da União*) ("AGU") and CGU. Considering that we have not received any payment owed to us as a result of us adhering to the agreement, the provision has been now been classified as Provisions for Doubtful Accounts (*Provisão para Crédito de Liquidação Duvidosa*).

Despite our efforts in the Internal 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 conclude its investigations, new relevant information may come to light and 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 on the market value of our securities. Further, there may be further investigations related to *Lava Jato* and related proceedings, including, but not limited to, ongoing administrative actions related to Angra III and Belo Monte. Any breach of the FCPA or the Brazilian Anticorruption Law or similar regulations could have a material impact on our financial position and results of operations, as well as having a negative effect on our reputation.

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

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 non-financial covenants, such as negative pledge provisions relating to the pledging of assets, the provision of financial statements by certain deadlines and the provision of an unqualified audit report, among others. In addition, we (and not our subsidiaries) are subject to certain financial covenants, such as the leverage ratio (calculated as net debt divided by EBITDA). These obligations also require us to obtain previous creditors' waivers to perform some acts, such as a change of control or the sale of relevant assets.

We also obtained waivers of certain lenders in respect of the sale of our interests in the distribution companies and the related pledge of assets to certain creditors of the distribution companies on March 7, 2019. In addition, in February 2019 we solicited and obtained the consents of the holders of our 6.875% Notes due 2019 ("2019 Notes") and our 2021 Notes pursuant to a consent solicitation permitting the pledge of certain assets to Petrobras.

We, our companies and SPEs are subject to financial covenants requiring compliance with the following indexes, which are the main financial covenants we are subject to: (i) net debt over EBITDA, generally less than or equal to 4; (ii) coverage ratio over debt service generally higher than 1.2; and (iii) EBITDA over financial expenditure generally higher than 1.3.

In addition, certain of the financing agreements for the development of our plants, some of which are guaranteed by us, contain acceleration clauses which could be triggered upon default. Any defaults or the acceleration of any financing agreements may also give other lenders the right to accelerate pursuant to cross-default provisions. For example, in November 2018 the SPE Santo Antônio Energia S/A approved the reprofiling of debts contracted by SPE SAESA with BNDES, onlending banks and debenture holders in order to avoid the enforcement of contractual clauses such as the mitigation of cross default risks. 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.

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 the Economy 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.

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

Our medium-term strategic plan, the PDNG, is based on our 2015-2030 Strategic Plan and is prepared for a five-year period and reviewed annually. The Business and Management Plan has a list of projects that aim to overcome the challenges posed by the current macroeconomic scenario and the situation of the electricity sector.

The Business and Management Plan for the five-year period 2020-2024 (“PDNG 2020-2024”) is structured along four Strategic Guidelines that demonstrate our purpose and ambition: Efficiency, Governance, People and Leverage.

As in prior years, linked to the strategic guidelines, we established a set of indicators with even more challenging goals, which aim to enhance our overall performance.

The implementation of the initiatives listed in the PDNG 2020-2024 is intended to bring benefits to the group, such as a lower financial leverage, higher operational efficiency and costs consistent with regulatory parameters, continuing the advances already achieved in the previous plan. However, the implementation of these projects requires significant operational and managerial changes in all of our group companies.

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.

The PDNG 2020-2024 was prepared before the outbreak of COVID-19 in Brazil and, therefore, does not contemplate its possible impacts on our business, which were the subject of clarification of a further Relevant Fact that we disclosed to the market on this topic.

Additionally, pursuant to the Business and Management Plan 2019-2023 (“PDNG 2019-2023”), approximately 4,746 employees were dismissed between 2017 and December 2019 through plans to increase efficiency in addition to the reduction of 6,657 employees resulting from the sale of our distribution companies. As of December 31, 2019, we (on a standalone basis) had 739 employees, compared to 982 employees in December 2016. In addition, approximately 1,367 employees left voluntarily through a dismissal program in the second half of 2019. Although these dismissals are voluntary, some employees may pursue labor claims.

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.

The Law No. 11,101/05 (“Bankruptcy Law”) governs judicial recovery, extrajudicial recovery and liquidation proceedings and replaces the judicial debt reorganization proceeding known as reorganization (*concordata*) with judicial and extrajudicial recovery. The law also states 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 us, which operate a commercial business, will be subject to the legal regime applicable to private corporations in respect of civil, commercial, labor and tax matters. Accordingly, it is unclear whether or not the provisions relating to judicial and extrajudicial recovery and liquidation proceedings of the Bankruptcy Law would apply to us. Nevertheless, Law No. 12,767/12 provides that judicial and extrajudicial recovery do not apply to public entity concessionaires until the termination of those concessions.

We believe that a substantial portion of our assets, including our generation assets and our transmission 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 Angra I and Angra II, pursuant to the Vienna Convention on Civil Liability for Nuclear Accidents.

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

Eletronuclear carried out an extensive reassessment of the risk associated with environmental issues and in response made minor adjustments to certain protection barriers. In addition, Eletronuclear might have to reduce the generation capacity of its nuclear power plants if it exhausts the storage limits for nuclear waste. 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, Eletronuclear implemented several additional safety measures.

We insure our nuclear plants against nuclear accidents. As of December 31, 2019, Angra I is insured for U.S.$600 million (R$2.42 billion as of December 31, 2019) and Angra II for U.S.$3.0 billion (R$12.09 billion as of December 31, 2019). Angra I has a maximum limited guarantee of U.S.$450 million (R$1.81 billion as of December 31, 2019) and Angra II of U.S.$550 million (R$2.22 billion as of December 31, 2019) to cover property and casualty damages, and both are insured for U.S.$239.7 million (R$966 million as of December 31, 2019) for civil liability for nuclear damage.

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 Angra III. Construction stopped in 2015 due to allegations of potential illegal activities by companies that provide services to Eletronuclear in relation to Angra III. As of December 31, 2019, Eletronuclear had completed approximately 63.75% of the original project and invested R$11.5 billion in the project.

If we do not succeed in obtaining a private partner for the project, we may not have sufficient resources to complete the remaining investments.

On October 9, 2018, the CNPE granted our request and approved the new reference price for the energy to be produced by Angra III setting it at R$480 per MWh, which is in accordance with international market standards. We believe that this new tariff will make Angra III a more attractive business opportunity for potential partnerships and will facilitate the renegotiation of our financial agreements. If we are not successful, we may be required to prepay a financing granted by BNDES to Eletronuclear (under which R$3.5 billion was outstanding as of December 31, 2019), as we are Eletronuclear’s guarantors, or have difficulties repaying a loan granted by Caixa Econômica Federal (under which R$3.2 billion was outstanding as of December 31, 2019) which may lead us to make new provisions of impairments, in addition to other accounting liabilities which we may record, which could materially adversely affect our financial condition and the results of our operations.

The PPI is also working on a business model to enable us to find a private partner for this project. Eletronuclear has concluded a market sounding, launched in the second quarter of 2019, to assess the attractiveness and viability of the business models currently under evaluation for this partnership. If we are not able to establish the partnership for the completion of this project, we may not have the financial capacity to complete this project.

On July 16, 2019, a presidential decree was published, qualifying Angra III to be part of the Investment Partnership Program. The same decree created an Interministerial Committee to guide the process of defining the business model to be adopted. The Committee is made up of representatives of the MME, the Ministry of Economy, PPI, and the Presidential Institutional Security Office.

Eletronuclear has also hired BNDES as a consultant in the ongoing evaluation of the business model for completion of Angra III. As of December 31, 2019, the amount of impairments, accumulated and recognized on our balance sheet, totaled R$4.5 billion due to the tariff revision. If work on Angra III does not resume in 2020, we may need to make additional provisions. 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 these changes.

In December 2019, we revised the total budget for Angra III, which now totals R$22.4 billion (of which R$14.9 billion is pending implementation) and changed the forecasted date for operation of Angra III to November 2026. For further information, see “Business—Generation.”

As of December 31, 2019, the amount of impairments, accumulated and recognized on our balance sheet, totaled R$4.5 billion. We also recorded an additional provision for impairment of R$0.5 billion as a result of the revision in the forecasted date for operation. If work on Angra III does not resume in 2020, we may need to make further provisions. 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 for the project, we will need to update our estimates to reflect those changes.

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

We are currently 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 portion of the total amount of claims against us. We have established provisions for all amounts in dispute that represent a current obligation as a result of a past event and where it is probable that we will have to make a payment in respect of such 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, 2019, we provisioned R$25,246 million in respect of our legal proceedings, of which R$23,135 million related to civil claims, R$1,775 million to labor claims, and R$336 million to tax claims (See “Item 8.A. Financial Information—Consolidated Financial Statements and Other Information—Litigation” and note 30 to our Consolidated Financial Statements). 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. We cannot guarantee that new material proceedings or investigations will not arise against us, our affiliates, officers, employees or members of our Board of Directors.

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.

In 1962, Law No. 4,156/1962 established the compulsory loan program in respect of electricity consumption. The purpose of the measure was to generate the required resources for the expansion of the Brazilian electricity sector. The first phase of the compulsory loan program occurred from 1964 to 1976 and, after the alterations introduced by the Decree-Law No. 1,512/1976, the second phase occurred from 1977 to 1993. In 1993, the compulsory loan program was terminated, and December 31, 1993 was set as the final collection date.

During the first phase, the collection of Compulsory Loan amounts reached various classes of electricity consumers, and the contributors’ credits resulting from the collections made during the period of 1964 and 1976 were represented by bearer bonds issued by us. We believe that the bearer bonds issued as a result of the compulsory loan program do not constitute securities, are not tradable on any stock exchange and are not priced. In addition, in light of a decision by the STJ (Special Appeal No. 1050199/RJ), we believe that most or all of these bearer bonds are not enforceable in light of the applicable statute of limitations, and are therefore not suitable as guarantees for tax enforcement proceedings.

However, there are a small number of claims seeking to enforce certain bearer bonds that may have been filed prior to the end of the applicable period of limitations. We recorded a provision in respect of the bearer bonds in the amount of R$11.6 million as of December 31, 2019. Although we believe that most or all of these bearer bonds have already expired and their collection is no longer feasible given the applicable statute of limitations and in light of judicial precedents and decisions by the CVM, we cannot assure you that all courts will agree with our interpretation. If one or more courts were to depart from what we believe to be favorable judicial precedents and provide holders of these bearer bonds (whether they filed before or after the statute of limitations) with collection rights, it could adversely affect our financial conditions and results of operations. More generally, any judicial decision that contravenes our understanding as to the enforceability of bearer bonds could adversely affect our financial condition and the results of our operations, as well as materially impact our estimate of losses.

During the second phase, initiated under Decree-Law No. 1,512/1976, the contributors' credits deriving from collections made during the period of 1977 to 1993 were no longer represented by bearer bonds, and were registered as book-entry credits by us, for subsequent conversion into our preferred shares. The majority of these Compulsory Loan book-entry credits, which resulted from collections made during the period of 1977 to 1993 (which were subject, during their periods of maturity, to remunerative interest of 6% per year on behalf of the contributor), were paid through their conversion into preferred shares at our general shareholders' meetings held in 1988, 1990, 2005 and 2008.

Judicial actions concerning Compulsory Loan book-entry credits have been filed against us. These actions involve, among other things, disputes regarding criteria and indices that were adopted for the quantification of monetary adjustment of the Compulsory Loan credits, which were determined by the law that applies to the Compulsory Loan program and with which we believe we have complied. Several also involve disputes concerning accessory surcharges for remunerative interest of 6% per year and default interest – over the eventual difference between the monetary adjustment of the credits paid by us through conversion into preferred shares. We believe that, based on the STJ's precedents (repetitive appeals within the Special Appeal No. 1,003,955/RS and the Motion for Reconsideration Due to a Decision (*Embargos de Divergência*) in Special Appeal No. 826,809/RS), the 6% interest per year, resulting from the eventual difference of monetary adjustment, should cease on the date of the shareholders' meeting in which the conversion occurred, in addition to a five-year statutory period of limitations.

These matters, among others, have been addressed in decisions rendered by the STJ. For example, the criteria and indices adopted for the calculation of the monetary adjustment and the ancillary surcharges of those credits were presented to the STJ, and the Court has rendered decisions related to these issues through a number of appeals (including Special Appeal No. 1,003,955/RS, Special Appeal 1,028,592/RS and the Motion for Reconsideration Due to a Decision (*Embargos de Divergência*) in Special Appeal No. 826,809/RS). We believe that the STJ's decisions in these and earlier proceedings should be applied to the remaining proceedings that involve the same and/or similar issues. If, however, one or more courts were to depart from what we believe to be favorable judicial precedents on these matters, it could adversely affect our financial condition and the results of our operations.

In addition, several of these issues are still the subject of appeals filed before the Brazilian Supreme Federal Court – STF. There are judicial discussions related to the repetitive appellate decisions that are currently in effect (Special Appeal No. 1,003,955/RS), which we use as basis for our estimates of provisions. In the event that the STJ's decisions are modified on an appeal in a manner unfavorable to us, we may need to increase our provisions.

As of December 31, 2019, we recorded a provision of R$17,562 million, of which (i) R$6,128 million relates to the difference of the base amount resulting from the criteria of monetary adjustment; (ii) R$1,715 million relates to the remunerative interest; and (iii) R$9,719 million relates to the calculation of the applicable default interest. We have recorded this provision based on existing judicial precedents (Special Appeal No. 1,003,955/RS and Motion for Reconsideration Due to a Decision (*Embargos de Divergência*) in Special Appeal No. 826,809/RS). We believe that, based on the STJ's precedents (including repetitive appeals within the Special Appeal No. 1,003,955/RS and the Motion for Reconsideration Due to a Decision (*Embargos de Divergencia*) in Special Appeal No. 826,809/RS), the 6% interest per year, resulting from the eventual difference of monetary adjustment, should cease on the date of the shareholders' meeting in which the conversion occurred, in addition to a five-year statute of limitations period. We also believe that the applicable interest rate with respect to any difference of the monetary adjustment calculated on the date of the shareholders' meeting in which the conversion occurred should be the rate which would apply to judicial debts, that is, IPCA-E until the time when the SELIC rate applies. Accordingly, we believe that the SELIC rate should be applied to the base amount and the remunerative interest amount, since the date of the shareholders' meeting in which the conversion took place, or the date on which process was served, whichever is later.

On June 12, 2019, the STJ rendered a majority decision (five of the nine justices) for a motion for reconsideration due to a majority decision (Embargos de Divergência) (the Special Appeal No. 790,288/PR). The decision, which we believe should apply only to the specific case on appeal, was unfavorable to us as it applied the remunerative interest of 6% per year resulting from the difference in monetary adjustment from the 143rd General Extraordinary Shareholders' Meeting of June 30, 2005 (at which conversion of certain compulsory loan credits into preferred shares of the company was approved), until the date of final payment, concomitantly with SELIC rate. We dispute, and have appealed, this decision. In the event, however, that our appeal is unsuccessful and the STJ's rationale in this recent decision is applied to the other cases, specifically with regard to the application of remunerative interest after the respective shareholders' meetings converting amounts due to preferred shares, we may need to materially increase our existing provision for litigation regarding compulsory loan credits as referenced above. We estimate, based on the information currently available, that any such increase could be approximately R$11 billion. To date, we have not recorded a provision for any portion of this potential amount because, in our opinion, the probability of loss associated with the relevant claims remains possible rather than probable.

In addition to the litigation discussed above, we also have others claims under those actions mentioned above concerning the calculation and application of remunerative interest to compulsory loan credits, many or all of which are currently pending before Brazilian courts of first or second instance. In our opinion, based on the information currently available, the risk of material loss associated with these other claims is remote, and, accordingly, we have not provisioned for these claims. In the event of adverse developments in these actions, however, it is possible that we would need to materially increase our existing provision for litigation regarding compulsory loan credits, potentially by as much as approximately R$8.5 billion (without taking into account claims premised on ownership of book-entry credits not recognized by us).

We cannot assure you whether additional claims may arise or whether further court rulings on this matter will be decided in a manner adverse to us. The aggregate cost of these claims or unfavorable decisions could have a material adverse effect on our financial condition and results of operations.

We are party to U.S. proceedings relating to disclosures surrounding our compulsory loan credits and bearer bonds.

On October 9, 2019, Eagle Equity Funds, LLC, along with two other plaintiffs, filed a lawsuit against us and two members of our senior management in the United States District Court for the Southern District of New York. The lawsuit alleges, among other things, that we have made false or misleading statements or omissions in documents filed with the SEC with regards to alleged liabilities related to bearer bonds issued approximately between 1964 and 1976 (first phase) (denominated in Brazil as "Obrigações") and Compulsory Loan credits issued between 1977 and 1993 (second phase). In particular, the plaintiffs assert that our disclosures with the SEC regarding these liabilities were inadequate on the grounds that they allegedly misrepresented the status or impact of certain Brazilian legal proceedings and judicial decisions relating to bearer bonds and/or Compulsory Loan credits.

The plaintiffs claim to be holders of Obrigações (bearer bonds) and American Depositary Receipts (ADRs) issued by us. Among other things, the plaintiffs seek an injunction preventing us from (i) making false and/or misleading statements or omissions regarding our liabilities arising from bearer bonds or Compulsory Loan credits, (ii) making any filings with the SEC containing false and/or misleading statements or omissions in connection with any potential forthcoming privatization transaction we may undertake, and (iii) making any filings with the SEC until we correct any prior allegedly false and/or misleading statements or omissions regarding the bearer bonds and Compulsory Loan credits. The plaintiffs do not specify an amount of monetary damages being claimed, but such amount, once specified, could be deemed material.

We believe that our disclosures on Compulsory Loans, including the bearer bonds and the Compulsory Loan credits, were not false and/or misleading based on the available information as of the date of those filings.

As disclosed in "—We may incur losses in legal proceedings in respect of compulsory loans made from 1962 through to 1993," we have been a party to numerous legal proceedings in Brazil related to bearer bonds or Compulsory Loan credits, many of which are still ongoing. These proceedings present numerous issues, including the validity of the bearer bonds in light of the statute of limitations applied by the STJ (particularly in repetitive Special Appeal No. 1.050.199/RJ), monetary adjustments that may be applied to Compulsory Loan credits allegedly outstanding and the appropriate period for interest incident to such credits. For additional information, including our current assessment of the potential financial implications for these proceedings, see note 5(c) to our Consolidated Financial Statements, which are included elsewhere in this annual report.

While we have made, and continue to make, efforts to minimize any losses related to these lawsuits, we cannot ensure that those efforts will succeed. If those efforts are unsuccessful, our financial condition and results of operations could be materially adversely affected. For instance, although we believe that we do not have further liability for bearer bonds pursuant to the statute of limitations applied by the STJ in the repetitive appeal previously mentioned (excluding any liability we may have incurred or may incur in a small number of claims that may have been instituted before the end of the period of limitations), any future judicial interpretation that the bearer bonds are not expired could adversely affect us.

In addition, several of these issues are still the subject of appeals filed before the Brazilian Supreme Federal Court – STF. There are judicial discussions related to the repetitive appellate decisions that are currently in effect (Special Appeal No. 1,003,955/RS), which we use as basis for our estimates of provisions. In the event that the STJ's decisions are modified on an appeal in a manner unfavorable to us, we may need to increase our provisions.

As of December 31, 2019, we recorded a provision of R$17,562 million, of which (i) R$6,128 million relates to the difference of the base amount resulting from the criteria of monetary adjustment; (ii) R$1,715 million relates to the remunerative interest; and (iii) R$9,719 relates to the calculation of the applicable default interest. We have recorded this provision based on existing judicial precedents (Special Appeal No. 1,003,955/RS and Motion for Reconsideration Due to a Decision (Embargos de Divergência) in Special Appeal No. 826,809/RS). We believe that, based on the STJ's precedents (including repetitive appeals within the Special Appeal No. 1,003,955/RS and the Motion for Reconsideration Due to a Decision (Embargos de Divergencia) in Special Appeal No. 826,809/RS), the 6% interest per year, resulting from the eventual difference of monetary adjustment, should cease on the date of the shareholders' meeting in which the conversion occurred, in addition to a five-year statute of limitations period. We also believe that the applicable interest rate with respect to any difference of the monetary adjustment calculated on the date of the shareholders' meeting in which the conversion occurred should be the rate which would apply to judicial debts, that is, IPCA-E until the time when the SELIC rate applies. Accordingly, we believe that the SELIC rate should be applied to the base amount and the remunerative interest amount, since the date of the shareholders' meeting in which the conversion took place, or the date on which process was served, whichever is later.

On June 12, 2019, the STJ rendered a majority decision (five of the nine justices) for a motion for reconsideration due to a majority decision (Embargos de Divergência) (the Special Appeal No. 790,288/PR). The decision, which we believe should apply only to the specific case on appeal, was unfavorable to us as it applied the remunerative interest of 6% per year resulting from the difference in monetary adjustment from the 143rd General Extraordinary Shareholders' Meeting of June 30, 2005 (at which conversion of certain compulsory loan credits into preferred shares of the company was approved), until the date of final payment, concomitantly with the SELIC rate. We dispute, and have appealed, this decision. In the event, however, that our appeal is unsuccessful and the STJ's rationale in this recent decision is applied to the other cases, specifically with regard to the application of remunerative interest after the respective shareholders' meetings converting amounts due to preferred shares, we may need to materially increase our existing provision for litigation regarding compulsory loan credits as referenced above. While we have not previously been able to quantify the potential amount of any such increase to our provision with a reasonable degree of accuracy, we now estimate, based on the information currently available, that it could be approximately R$11 billion. To date, we have not recorded a provision for any portion of this potential amount because, in our opinion, the probability of loss associated with the relevant claims remains possible rather than probable.

We cannot assure you whether additional claims may arise or whether further court rulings on this matter will be decided in a manner adverse to us. The aggregate cost of these claims or unfavorable decisions could have a material adverse effect on our financial condition and results of operations.

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 Laws No. 108/01 and No. 109/01 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 top-up the balance to reach the required amount, as provided by the specific regulations established by the regulatory body National Superintendency of Complementary Pensions (*Superintendência Nacional de Previdência Complementar*).

For the year ended December 31, 2019, we recorded a deficit of R$4.3 billion in our and our subsidiaries' pension plans. For the year ended December 31, 2019, we and our subsidiaries made contributions of R$289 million to our respective pension plans.

The implementation of a remediation plan may result in the payment of extraordinary contributions by the participants and sponsors, in order to restore the balance of the plan. These amounts could be subject to litigation by the participants, due to a possible disagreement regarding the amounts. The making of such payments could have a material adverse effect on our results of operations, cash flow and financial condition.

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

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

All of our directors and officers named in this annual report reside in Brazil. We, our directors and officers and the members of our Audit and Risks Committee have not agreed to receive service in the United States. 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.

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 framework, environmental hazards and weather and other natural phenomena. Additionally, we and our subsidiaries are liable to third parties for losses and damages caused by any failure to provide generation and transmission services.

Our insurance policies cover only part of the losses that we may incur. Whenever possible, we seek 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 strive to contract insurance in sufficient amounts to cover potential material damages to our plants caused by weather conditions, fire, general third-party liability for accidents and operational risks. We also seek to maintain civil liability insurance for our employees and to cover our assets. 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, which may adversely impact our results of operations and financial condition.

Under Brazilian law, we are strictly liable for direct and indirect damages that results from the inadequate supply of electricity, such as abrupt interruptions or problems related to generation, transmission or distribution systems. If we are liable for these damages, our financial condition, results of operations or reputation and image could be adversely affected.

In respect of the recent COVID-19 pandemic, we have not identified any significant direct impact on the current coverage of our policies, both for operational and life insurance. However, we may be indirectly affected by delays if any supplier involved in the repair of damaged equipment has problems with its activities.

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 raw materials become unavailable or may not be purchased on reasonable terms for any reason, for instance because only one company is authorized by law to supply these materials, 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.

With respect to certain supplies such as coal and uranium, we rely on single suppliers, CRM and INB, respectively, which face financial challenges including from the Brazilian government. If these companies are not able to comply with their contracts with us, or have their production processes interrupted, totally or partially, due to, for example, the current COVID-19 pandemic, our coal plants at CGT Eletrosul and nuclear plants at Eletronuclear could be adversely affected.

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

As of the date of this annual report, all of our employees were represented by labor unions. Disagreements on issues involving divestments or changes in our business strategy, reductions in our personnel, as well as potential employee contributions, could lead to labor unrest. We cannot ensure that strikes affecting our production levels will not occur in the future. Strikes, work stoppages or other forms of labor unrest at any of our major suppliers, contractors or their facilities could impair our ability to operate our business, complete major projects and adversely impact our results of operations, financial condition and our ability to achieve our long-term objectives.

Economic and political instability and uncertainties in Venezuela may adversely affect our reputation and operations.

We are the guarantor of a 20-year contract between Eletronorte and Corpoelec, maintained to purchase electric power from Venezuela that commenced operations on July 15, 2001. This purchase agreement is limited to the supply of energy from Corpoelec to Boa Vista, the Capital of Roraima, which is part of the Isolated System disconnected from the Interconnected Power System. The peak demand of Boa Vista is approximately 230 MW, which is less than approximately 0.4% of the demand of the Interconnected Power System.

In March 2019, the energy supply from Venezuela was unilaterally suspended by Corpoelec without any notice or cause. As of the date of this annual report, Eletronorte did not have any indebtedness arising from this purchase agreement.

Given the economic and political instability facing Venezuela and the frequency of power outages, we may face reputational harm given our previous relationship with Corpoelec.

Risks Relating to Brazil

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

Several members of the Brazilian 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, sitting and former 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 MPF. The amounts of these kickbacks allegedly financed political campaigns of parties were not accounted for or publicly disclosed.

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, Acting 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. In March 2019, there were reports about the alleged influence of former Acting President Michel Temer on our subsidiary Eletronuclear, through its current CEO, Leonam dos Santos Guimarães, which we have been investigating. See "Item 3.D. Key Information—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."

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 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. Therefore, 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 and 2019 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 Brazilian 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)* the basic rate of interest in order to achieve the inflation goals determined by the 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. Political and economic conditions and investor perception of these conditions can have a direct impact on our business, financial condition, results of operations and prospects.

The Brazilian Government frequently intervenes in the country's economy and occasionally makes significant changes to monetary, credit, exchange, fiscal, regulatory and other policies to influence Brazil's economy. The Brazilian Government's actions to control inflation have in the past included 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.

In 2015, the economy contracted by 3.5% and further contracted by 3.3% in 2016. In 2017, the economy rebounded, growing by 1.3%. The growth continued in 2018 and by December 31, 2018 the growth rate was 1.1%. In 2019, the growth rate was 1.1%. We cannot assure investors that Brazil's economy will resume its growth in the future. 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/Brazilian GDP ratio, which could have a material adverse effect on public finances and on the market price of our securities.

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. Our business, results of operations and financial condition may be adversely affected by changes in government policies, as well as other factors including, without limitation:

- expansion or contraction of the global or Brazilian economy;
- economic and social instability;
- changes in labor regulations;
- fluctuations in the exchange rate;
- inflation;
- changes in interest rates;
- fiscal policy;
- political elections;
- other political, diplomatic, social and economic developments which may affect Brazil or the international markets;
- liquidity of the domestic markets for capital and loans;
- development of the electricity sector;
- controls on foreign exchange and restrictions on remittances out of the country;
- limits on international trade; and/or
- the Brazilian Government's response to the COVID-19 pandemic and, *inter alia*, its impacts on, for example, consumption of electricity and labor laws. For further information regarding risks relating to communicable diseases including the novel coronavirus, see "Item 3.D. Key Information—Risk Factors—Risks Relating to our Company—Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes, such as the recent outbreak of the novel coronavirus."

Uncertainty on whether the Brazilian Government will make changes in policy or regulation that affect these or other factors in the future might contribute to the economic uncertainty in Brazil and to greater volatility of the Brazilian securities markets and the markets for securities issued outside Brazil by companies. Measures by the Brazilian Government to maintain economic stability, and also speculation on any future acts of the Brazilian Government, might generate uncertainties in the Brazilian economy, and increase the volatility of the domestic capital markets, adversely affecting our business, results of operations and financial condition. We have no control over, and cannot predict what measures or policies the Brazilian Government may take in the future.

Political uncertainty has led to an economic slowdown and volatility in securities issued by Brazilian companies.

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

Brazil has experienced amplified economic and political instability, as well as heightened volatility, as a result of various ongoing investigations by the Brazilian Federal Prosecutors (*Ministério Público Federal*), the Brazilian Federal Police (*Polícia Federal*), the CVM, and other Brazilian public entities who are responsible for corruption and cartel investigations, including, among others, the Cui Bono, A Origem, Sepsis, Patmos, Zelotes and Greenfield investigations, as well as the largest such investigation, known as *Lava Jato*. In addition, certain foreign entities, such as the DoJ, the SEC and the Office of the Attorney General of Switzerland (*Bundesanwaltschaft*), have also conducted and still conduct their own investigations. These investigations have negatively impacted the Brazilian economy and political environment and have contributed to a decline in market confidence in Brazil. In addition, they may lead to further allegations and charges against Brazilian federal and state government officials and senior management of Brazilian industry.

Numerous elected officials, public servants and executives and other personnel of major companies have been subject to investigation, arrest, criminal charges and other proceedings. Depending on the outcome of such investigations and the time it takes to conclude them, they may face (as some of them already faced) downgrades from credit rating agencies, experience (as some of them already experienced) funding restrictions and have (as some of them already had) a reduction in revenues, among other negative effects. Such negative effects may hinder the ability of those companies to timely honor their financial obligations bringing loses to us. The companies involved in the *Lava Jato* investigations may also be (as some of them already have been) prosecuted by investors on the grounds that they were misled by the information released to them, including their financial statements.

There can be no assurance that other federal or state officials or senior management of Brazilian industry will not be charged with corruption-related crimes in the *Lava Jato* or other investigations into corruption. Additional allegations, trials and convictions may lead to political instability and a decline in confidence by consumers and foreign direct investors in the stability and transparency of the Brazilian government and Brazilian companies, and may have a material adverse effect on Brazil's economic growth, on the demand for securities issued by Brazilian companies, and on access to the international financial markets by Brazilian companies.

The potential outcome of *Lava Jato* as well as other related ongoing investigations is uncertain, but they have already had an adverse impact on the image and reputation of those companies that have been implicated, as well as on the general market perception of the Brazilian economy, political environment and the Brazilian capital markets. We have no control over and cannot predict whether such investigations or allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future or will adversely affect us.

We cannot predict how the country´s new administration may impact the overall stability, growth prospects and economic and political health of Brazil. The new Brazilian government established an agenda of privatizations, economic liberalization, and pension and tax reforms. However, there is uncertainty as to whether it will be able to implement these reforms, given the fact that these projects approval also relies on the appreciation of the legislative and not on the executive alone. Uncertainty regarding the implementation of related changes in monetary and fiscal policies, as well as pertinent legislation, and, more recently, matters regarding the policies related to COVID-19, could contribute to the economic instability. These uncertainties and new measures could increase the volatility of Brazilian securities markets, which could harm the Brazilian economy and, consequently, our business, results of operations and financial condition.

We are not able to fully estimate the impact of global and Brazilian political and macroeconomic developments on our business. Any continued economic instability and political uncertainty may materially adversely affect our business, results of operations and financial condition.

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

In the past, the Brazilian Government implemented several economic plans, using different exchange control mechanisms to control the large volatility of the Brazilian currency. After a five-year period of exchange rate stability that ended in 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. During 2015, the *real* depreciated by 32%, ending the year at an exchange rate of R$3.9048 per U.S.$1.00. During 2016, the *real* appreciated by 20%, ending the year at an exchange rate of R$3.2591 per U.S.$1.00. During 2017, the *real* depreciated by 1.5%, ending the year at an exchange rate of R$3.3080 per U.S.$1.00. During 2018, the *real* further depreciated by 14.6%, ending the year at an exchange rate of R$3.8748 per U.S.$1.00. During 2019, the *real* further depreciated by 3.50%, ending the year at an exchange rate of R$4.0098 per U.S.$1.00. On May 18, 2020, the exchange rate between the real and the U.S. dollar was R$5.7375 per U.S.$1.00. There is no guarantee that the real will not depreciate, or appreciate, in relation to the U.S. dollar in the future.

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, 2019, 21% of our total consolidated financing and loans of R$41,940 million was denominated in foreign currencies and our total consolidated indebtedness denominated in foreign currencies was R$8,606 million. As of December 31, 2018, 23.19% of our total consolidated indebtedness of R$54,373 million was denominated in foreign currencies and our total consolidated indebtedness denominated in foreign currencies was R$12,608 million. As of December 31, 2017, 25.0% of our total consolidated indebtedness of R$45,122 million was denominated in foreign currencies and our total consolidated indebtedness denominated in foreign currencies was R$11,148 million.

In February 2020, we launched a tender offer to repurchase our 2021 Notes. We funded the tender offer through a concurrent new issuance of U.S.$1,250 million bonds, which was segregated into two tranches, one maturing in five years in the amount of U.S.$500 million and the other maturing in ten years in the amount of U.S.$750 million. The funds received from the new issuance exceeded the actual settlement of the debt through the repurchase, which totaled U.S.$1,124 million.

As a result, the issuance impacted our dollar denominated debt with an increase of U.S.$126 million, or R$508 million as of December 31, 2019. This increases our indebtedness in foreign currencies, as of February 5, 2020 (the date of the new issuance and the settlement of the tender offer), to R$9.1 billion, or 21.5% of the total consolidated indebtedness, and our dollar denominated indebtedness to R$8.9 billion, or 21% of the total consolidated indebtedness. For further information regarding our exchange rate risks, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Exchange Rate Risks.”

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.

The Brazilian government’s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby limiting the availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets. More recently, inflation rates were 4.31% in 2019, 3.75% in 2018, 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 inflation rate, as measured by the IPCA for 2019 was 4.31%.

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.

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

The Brazilian tax authorities have frequently implemented changes to tax regimes that may affect us and ultimately the demand of our customers for the products we sell. These measures include changes in prevailing tax rates and enactment of taxes, both temporary and permanent. Some of these changes may increase our tax burden, which may increase the prices we charge for the products we sell, restrict our ability to do business in our existing markets and, therefore, materially adversely affect our profitability. There can be no assurance that we will be able to maintain our projected cash flow and profitability following any increases in Brazilian taxes that apply to us and our operations. In addition, we currently receive certain tax benefits. There can be no assurance that these benefits will be maintained or renewed. Also, given the current Brazilian political and economic environment, there can be no assurance that the tax benefits we receive will not be judicially challenged as unconstitutional. If we are unable to renew our tax benefits, such benefits may be modified, limited, suspended, or revoked, which may adversely affect us. Moreover, certain tax laws may be subject to controversial interpretation by tax authorities. In the event that tax authorities interpret tax laws in a manner that is inconsistent with our interpretations, we may be adversely affected. Additionally, changes in accounting policies as a result of the adoption of new standards under IFRS may lead to incomparability of financial statements or to potential adverse effects on our financial results. A comprehensive tax reform which includes changes to the value-added taxation and corporate income taxation regimes (“IRPJ and CSLL”) is part of the government’s agenda and is being intensively discussed in Brazil. This reform is expected to be implemented during the current administration (2019-2023), although it also depends on the negotiation with the Brazilian Congress.

Any further downgrading of Brazil’s credit rating could adversely affect the price of the ADS and our cost of funding in the capital markets as our ratings are linked to the sovereign rating.

Credit ratings affect investors’ perceptions of risk and, as a result, the trading value of securities and yields required on future issuances in the capital markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the prospect of changes in any of these factors. Rating agencies began the classification review of Brazil’s sovereign credit rating in September 2015 and as a consequence, Brazil lost its investment grade condition by the three main rating agencies. As of the date of this annual report, Brazil’s sovereign rating was BB- (having been revised from positive to stable in April 2020), Ba2 (stable) and BB- (stable) by Standard & Poor’s, Moody’s and Fitch, respectively. A prolongation of the Brazilian Government inability to gather the required support in the Brazilian congress to pass additional specific reforms, along with further economic recession and/or the inability to effectively contain the COVID-19 outbreak could lead to further ratings downgrades. Any further downgrade of Brazil’s sovereign credit ratings could heighten investors’ perception of risk and, as a result, negatively affect our rating which is aligned to the sovereign rating. This may increase our future cost of issuances in the capital markets and adversely affect the price of the ADS as our rating is linked to the sovereign rating.

Risks Relating to the Brazilian Power Industry

We are subject to impacts related to the hydrological conditions.

The main source of electric power generation in Brazil is hydroelectric plants. Our companies are exposed to hydrological risk. When the total energy generated by the entire hydroelectric system is below the aggregate supply (physical guarantee) of all the hydroelectric plants, the Energy Reallocation Mechanism (*Mecanismo de Realocação de Energia*) mitigates the related risks. When a deficit in the energy generation occurs, a Generation Scaling Factor (“GSF”) is applied to all the plants in the system. In this situation, the companies must liquidate their negative balance contractual positions in the short-term market at the current Price of Settlement of Differences (*Preço de Liquidação das Diferenças*) (“PLD”) at the CCEE. The PLD is considered a short-term market price and it can be highly volatile, depending on the level of the GSF considered.

In recent years, adverse hydrological conditions associated with factors that influence the generation dispatch resulted in a material reduction of the GSF, affecting agents with allocated energy lower than their sales contracts, exposing them to the volatility of the PLD. In 2015, to reduce exposures, ANEEL reduced the PLD threshold by more than 50%. However, 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. 13,203/15, which establishes the conditions for the renegotiation of the hydrological risk. The conditions are different for physical guarantee installments granted in contracts within the Regulated Market and those negotiated within the Free Market.

For the instalments contracted within the Regulated Market, 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 adhered the renegotiation. For the Free Market, there is the possibility of renegotiation in consideration of contracting hedge. Our subsidiaries have adhered to the renegotiation of hydrological risk in Regulated Market, except for Chesf due to certain characteristics of its Sobradinho plant. As for the amounts negotiated in the Free Market, the option was not to renegotiate the risk.

Among the measures under discussion to improve the legal framework of the electricity sector, initially included in Public Hearing No. 33/17 ("CP-33"), is the discussion of a special regime for the plants, aiming to promote a better allocation of risk. As a result of CP-33, discussions and studies are taking place within the framework of the working group organized in early 2019 by the MME to modernize the electricity sector.

Following CP-33, Bill No. 1,917/2015 is currently being discussed in the Brazilian Congress and intends to provide a more just division of costs for the sector, clearly dividing the costs among all consumers, free and regulated.

Bill No. 10,985/2018, also being currently discussed in the Brazilian Congress, establishes that generation companies that agree to withdraw their lawsuits will have the right to extend their concession agreements. In addition, elements that affect the GSF calculation, such as energy importation, thermoelectric generation out of the order of merit, delays related to transmission lines, and physical guarantee anticipation of relevant plants to the grid, such as UHE Santo Antonio, UHE Jirau and UHE Belo Monte, will be excluded from the calculation of hydrological risk.

Accordingly, in periods of lower precipitation levels and reduction in the GSF we may incur higher costs due to the offer to decrease supply or the need to acquire electricity at higher prices in the short-term market for our concessions which were not renewed by Law No. 12,783/13.

Thus, in periods of lower precipitation levels and reduction in the GSF, we may have lower energy availability and, consequently, the need to purchase energy at higher prices in the short-term market, or reduce the contracted amount, depending on the commercialization strategy, for concessions that were not renewed by Law No. 12,783.

Finally, with the conversion of Bill No. 5,877/2019 (PL No. 5,877/2019), which provides for our privatization and proposes the de-entitlement (*descotização*) of the plants renewed by Law No. 12,783/2013, a condition for a new grant is that the owners of the plants will be required to fully assume the management of the hydrological risk, and will be prohibited from renegotiating under the terms of Law No. 13,203/2015.

We can be held 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 contain complex engineering works that have to comply with several technical and safety standards. Specific laws and regulations provide safety guidelines for these structures, such as Law No. 12,334/10, which established the National Dams Safety Policy (*Política Nacional de Segurança de Barragens*), and ANEEL Resolution No. 696/15, which establishes the methodology for risk classification of the dams, the 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 their safety. The plants also have operational contingency plans. We regularly submit information to ANEEL, which performs local inspections annually, pursuant to the risk classification of the dam. At the end of the inspection process, ANEEL may issue infraction notices and companies may abide by their recommendations or present challenges and/or defenses pursuant to the regulatory deadlines.

Any accident with respect to our subsidiaries' dams could have significant consequences for the surrounding environment, including the population living near or around the dams. Any accident could materially and adversely impact to our results of operations, our financial condition and our image and reputation. Furthermore, a court could find a parent entity such as us liable for environmental damages without needing to demonstrate a lack of resources at the subsidiary level, as further described in "Business—Environmental—General," which could also materially adversely affect our results of operations and financial condition.

Construction, expansion and operation of our electricity generation and transmission 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;
- construction delays, or unanticipated cost overruns;
- the unavailability of adequate funding;
- forest fire or extreme environmental stresses in the route of the lines that causes interruption in power transmission;
- expenses related to the operation and maintenance not fully approved by ANEEL and on the transmission segment expenses related to the operation and maintenance pursuant to the ANEEL legislation regarding variable revenue (PV) and Minimum Maintenance Requirements (PMM);
- human rights issues such as conflicts related to indigenous groups, communities based near our facilities, or related to our supply chain and SPEs; and
- closures or temporary stoppages at our facilities for the generation and transmission of electricity as a result of the COVID-19 outbreak.

For example, we experienced work stoppages during the construction of our Jirau, Santo Antônio and Belo Monte hydroelectric plants in which we participate through SPEs. We do not have insurance coverage for some of these risks, particularly for some of those related to certain weather conditions or manmade or natural disasters.

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.

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 and we may face heavy fines or other regulatory penalties, which may have a material adverse effect on our financial condition and the results of our operations.

We may be subject to administrative intervention or lose our concessions if we provide our services in an inadequate manner or violate contractual obligations.

Law No. 12,767/12 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, recommend to the MME the expropriation and the concession loss, reallocate our assets or adopt measures which may alter our shareholding structure, including in relation to possible changes in the shareholding control of the companies involved. For instance, the intervention in the energy distribution concessionaries from the Rede group involved the implementation of a recovery plan which resulted in the change in their shareholding control to Energisa group.

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.

As of December 31, 2019, we believe that we were in compliance with all the terms and conditions with respect to substantially all of our operation assets. However, we cannot guarantee that we will not be penalized 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 indemnity payments for the early terminations may be less than the full amount of our investments.

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

Concessions may be terminated early through expropriation, forfeiture, or mandatory transfer of control by the concessionaire. Granting authorities may expropriate concessions in the interest of the public as expressly provided for by law, in which case granting authorities carry out the service during the concession period. A granting authority may declare the forfeiture of concessions after ANEEL and/or the MME conduct an administrative procedure and declare that the concessionaire (a) did not provide proper service 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 make payment in respect of fines charged by the granting authority. Law No. 13,360/16 sets forth that the concessionaire can submit a change of control plan as an alternative to the termination of the concessions.

Penalties are set forth in ANEEL Resolution No. 846/19, and include, among others, warnings, substantial fines (in certain cases up to 2.0% of the Net Operating Revenue (*Receita Operacional Líquida* – ROL) for the fiscal year immediately preceding the evaluation), restrictions on the concessionaire's operations, intervention or termination of the concession.

For example, the MME declared the termination of the transmission concession agreement No. 01/15, entered into with Eletrosul. In October 2018, Eletrosul contracted insurance for the project in the amount of R$163.8 million. Eletrosul estimated a fine of R$292.3 million. As of December 31, 2019, we have provisioned R$45.9 million with respect to this fine, classified as probable. The difference between R$292.3 million and R$45.9 million is classified as possible risk.

Our subsidiary Eletronorte is currently suspended from participating in auctions for 12 months from December 17, 2019 (Eletronorte - ANEEL Case No. 48500.001989/2019-82 - ANEEL Order No. 3,586/2019) but this suspension may be subject to appeal. Chesf is barred from participating in minority transmission auctions until December 2020 and corporate transmission auctions until December 2021. Eletrosul is barred from participating in transmission auctions until June 2020. Furnas submitted a reconsideration request due to decisions related to wind generation projects which imposed on Furnas a penalty of not contracting or participating in bids held by ANEEL for a period of one year.

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. In these cases, the results of our operations and our financial condition may be adversely affected.

Public consultations and discussions for a new regulatory framework and modernization of the energy sector are underway. Some of the topics considered by these public discussions are: (1) measures to reduce litigation related to the Generation Scaling Factor – GSF and the Reallocation of Energy Mechanism (*Mecanismo de Realocação de Energia*); (2) the introduction of a capacity market and (3) the reduction of subsidies.

On October 29, 2019, a working group established by the MME to modernize the energy sector released a report on modernization measures that should be adopted or studied. These measures include pricing, market opening, capacity market coverage and energy separation, implementation of new technologies, enhancement of the Reallocation of Energy Mechanism, sustainability of transmission. Public consultations were held within the scope of this process which are relevant to our business, such as Public Consultation MME No. 85/2019, which proposes changes to the physical guarantee review of hydroelectric and thermal plants, proposing the exclusion of the physical guarantee reduction limits and the annual review thereof. The implementation of any of these regulatory changes could materially adversely affect our financial condition and results of operations.

Failures in our information technology systems, information security systems and telecommunications systems may materially adversely impact our results of operations, financial condition and reputation.

Our operations are heavily dependent on information technology and telecommunication systems and services. Interruptions in these systems, caused by obsolescence, technical failures intentional acts or discontinuity in the implementation, maintenance and evolution of technological solutions such as the SAP ERP system, can disrupt or even paralyze our business and adversely impact our operations and reputation. In addition, security failures related to sensitive information due to intentional or unintentional actions, such as cyberterrorism, or internal actions, including negligence or misconduct of our employees, may have a negative impact on our reputation, our relationship with external entities (government, regulators, partners and suppliers, among others), our strategic positioning with relation to our competitors, and our results of operations, due to the leakage of information or unauthorized use of such information.

Considering the incidents occurring in facilities similar to ours in other countries, in order to face such challenges we have created and maintained an information security program which is reviewed and updated based on the demands of the senior management, and an analysis of gaps performed annually in all companies of the group, following the CyberSecurity Framework of the National Institute of Standards and Technology - NIST. This program and its actions are monitored quarterly by the Board of Directors.

We currently do not have insurance coverage specific to cyber risk. We are aware that the costs we may incur to eliminate or address any security vulnerabilities before or after a cyber-incident could be significant. We also understand that we are responsible, as provided in the Brazilian General Law of the Protection of Data (*Lei Geral de Proteção de Dados*) (LGPD), for any improper handling of personal data. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of services that may impede our critical functions. Any material costs that we incur as a result of failures in our information technology systems, information security systems and telecommunications systems may materially adversely impact our results of operations, financial condition and reputation.

The COVID-19 pandemic has brought unprecedented challenges for most companies including us. With about 70% of our employees working at home, we had to reinforce communications, requiring us to update our staff about the applicable rules for the use of information and corporate systems. In addition, we were required to make changes to our information security program, temporarily suspending actions that could have significant impacts on important processes or systems.

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 and operation 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 operations.

Specifically, regarding occupational health and safety, the occurrence of accidents is multifactorial, considering that there are many factors that can lead to an accident, including actions by third-parties, such as what recently occurred related to our 230 thousand volts transmission line in the state of Bahia, which led to fatalities. However, we believe that mitigation measures can reduce the risk of new occurrences in this type of facility.

Legislation related to the environmental licensing is currently under review, with the proposed changes being discussed and examined by the Brazilian Congress. Even though we follow all proposals for amendments to environmental laws and the relevant case law, we cannot fully anticipate the impact on us caused by the eventual approval of any changes to such legislation by the Brazilian Congress. Considering also the recent global pandemic situation, it is relevant to highlight that IBAMA published Communication No. 7337671/2020-GABIN on April 2, 2020 (effects retroactive from March 12, 2020 onwards), regarding “the fulfillment of environmental obligations related to federal environmental licensing during the pandemic caused by the virus COVID-19.” In this Communication, IBAMA presents a set of temporary guidelines related to the fulfillment of legal obligations, by companies, regarding the measures for treatment and compensation of environmental impacts caused by the activities and undertakings licensed by IBAMA. Thus, the failure to comply with these measures may have an impact on the continuity of the environmental licensing processes in which we are involved.

The failure to comply with safety, health, environmental laws and regulations can result in administrative and criminal penalties, irrespective of the recovery of damages or indemnification payments for irreversible damages in the context of civil proceedings. Administrative penalties may include summons, fines, temporary or permanent bans, the suspension of subsidies by public bodies and the temporary or permanent shutdown of commercial activities. With regard to criminal liability, individual transgressors are subject to the following criminal sanctions: (i) custodial sentence—imprisonment or confinement; (ii) temporary interdiction of rights; and (iii) fines. The sanctions imposed on legal entities are: (a) temporary interdiction of rights; (b) fines; and (c) rendering of services to the community. The penalties relating to the temporary interdiction of rights applicable to legal entities can correspond to the partial or total interruption of activities, the temporary shutdown of establishment, construction work or activity and the prohibition of contracting with governmental authorities and obtaining governmental subsides, incentives or donations. In addition, the failure to comply with environmental laws and regulations can cause damage to our reputation and image.

For further information regarding risks relating to communicable diseases including the novel coronavirus, see "Item 3.D. Key Information—Risk Factors—Risks Relating to our Company—Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes, such as the recent outbreak of the novel coronavirus."

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 provisions, 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 by the Brazilian Congress. We follow all proposals for amendments to environmental laws and the relevant 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 can be determined in civil, administrative and criminal proceedings. See "—Item 3.D Key Information—Risk Factors—Risks Relating to the Brazilian Power Industry—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" for additional information.

We and our subsidiaries have implemented environmental policies with clear principles and guidelines related to environmental management. Our environmental policies are periodically reviewed, and new versions of the document consolidating them are released and made public on the corporate website. Our fourth Environmental Policy is currently in force, dated as of June 27, 2019. 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 use 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, damage to our image, civil, administrative, and, in certain cases, criminal liabilities.

In addition, we adopt 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.

However, 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, or our inability to comply with these regulations, could materially adversely affect our results of operations and financial condition.

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, and systems of the CVM. 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 agreements 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, in addition to the legally mandated publication of notices in newspapers and on CVM's system, holders of our shares will receive notice and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy or also voting at distance through a voting bulletin. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreements, we will provide the notice to the depositary bank, which will in turn, as soon as 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 decreasing the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of our common and preferred shares, and of the ADS, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue shares or ADS in the future at a time and a price that we deem appropriate and for you to sell your securities at or above the price you paid for them. Our controlling shareholder, the Brazilian Government, may decide to capitalize us for a variety of reasons therefore diluting existing shareholders and ADS holders.

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

The Brazilian securities market is influenced by economic and market conditions in Brazil, as well as in other countries, including the United States, European Union and emerging countries. 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 us. For example, the prices of shares listed on the B3 have been historically affected by fluctuations of the American interest rate as well as the variations of the main indexes for North-American shares. Events in other countries and capital markets may adversely affect the market price of our shares to the extent that, in the future, it could difficult or prevent access to capital markets and investment financing on acceptable terms.

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

You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of reais into foreign currencies. The Brazilian Government imposed remittance restrictions for approximately three months in late 1989 and early 1990. Restrictions like these would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of our shares, as the case may be, from reais into U.S. dollars and the remittance of the U.S. dollars abroad. We cannot assure you that the Brazilian Government will not take similar measures in the future.

Exchanging ADS for the underlying shares may have unfavorable consequences

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

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

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

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

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

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

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

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

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our shares or ADS.

Law No. 10,833 of December 29, 2003 provides that the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. This provision results in the imposition of income tax on the gains arising from a disposition of our common or preferred shares by a non-resident of Brazil to another non-resident of Brazil. There is no judicial guidance as to the application of Law No. 10,833 and, accordingly, we are unable to predict whether Brazilian courts may decide that it applies to dispositions of our ADS between non-residents of Brazil. However, in the event that the disposition of assets is interpreted to include a disposition of our ADS, this tax law would accordingly result in the imposition of withholding taxes on the disposition of our ADS by a non-resident of Brazil to another non-resident of Brazil.