C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

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

Summary of 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.
- If we do not remedy the material weakness in our internal controls, the reliability of our financial statements may be materially affected.
- Our operational and consolidated financial results are partially dependent on the results of the SPEs, affiliates and consortia in which we invest.
- 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 repaid, we may suffer material adverse financial impacts and our results of operations may be adversely affected.
- We may not receive the full value of receivables from the CCC Account transferred during the sale process of our distribution companies.
- We are exposed to mismanagement claims for managing certain sectoral funds and governmental programs.
- 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 or if the amount will be sufficient to cover our investments in these concessions.
- 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.
- There are no guarantees that our existing concession agreements will be renewed and, if so, on what terms.
- We cannot predict on what terms the Itaipu Treaty will be revised.
- 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.
- We cannot predict the financial and operational impacts of the privatization bill proposed by the Brazilian Government.
- We may not be able to maintain our market share unless we make a change to our capital structure.
- We have substantial financial liabilities, which could make it difficult to obtain financing for our planned investments.
- We may be exposed to behaviors that are incompatible with our standards of ethics and compliance; if we fail to prevent, detect or remedy them in time, we may suffer adverse impacts on our operational results, financial condition and reputation.
- We are subject to certain covenants, non-compliance with which may allow the lenders under the relevant facilities to accelerate accordingly.
- We are subject to rules limiting the acquisition of loans by public sector companies.
- Our strategic plan is challenging and requires the synchronization and implementation of several projects.
- 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.
- We may be liable for damages and have difficulty obtaining financing if there are accidents involving our subsidiary Eletronuclear.
- Until we complete the construction of our Angra III nuclear power plant, our financial condition and results of operations may be materially adversely affected.
- We may incur losses and spend time and money defending pending litigation and administrative proceedings.
- We may incur losses in legal proceedings in respect of compulsory loans made from 1962 through to 1993.
- We are party to U.S. proceedings relating to disclosures surrounding our compulsory loan credits and bearer bonds.

- We and our subsidiaries may be required to make substantial contributions to the pension plans of our current and former employees which we sponsor.
- Judgments may not be enforceable vis-à-vis our directors or officers.
- Our insurance policies may be insufficient to cover potential losses.
- We do not have alternative supply sources for the key raw materials that our thermal and nuclear plants use.
- 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.

Summary of Risks Relating to Brazil

- 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.
- 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 trading markets for securities.
- The Brazilian Government has exercised, and continues to exercise, significant influence over the Brazilian economy, which can have a direct impact on our business.
- Political uncertainty has led to an economic slowdown and volatility in securities issued by Brazilian companies.
- 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.
- 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.
- 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.

Summary of Risks Relating to the Brazilian Power Industry

- We are subject to impacts related to the hydrological conditions.
- 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.
- 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.
- We may be subject to administrative intervention or lose our concessions if we provide our services in an inadequate manner or violate contractual obligations.
- 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.
- Failures in our information technology systems, information security systems and telecommunications systems may materially adversely impact our results of operations, financial condition and reputation.
- We are subject to strict environmental laws and regulations that may become more stringent in the future and may result in increased liabilities and increased capital expenditures.
- Environmental mismanagement of our projects and/or ventures can lead to us not obtaining/ or losing our licenses, leading to adverse operational, financial and reputational impacts.
- Given the nature of our generation and transmission activities, we are subject to risks related to human rights violations.
- Climate change can have significant adverse impacts on our generation and transmission activities.
- If we fail to address issues related to the health and safety at work of our employees and the facilities where we conduct our activities, our results and operations may suffer negative impacts.

Summary of Risks Relating to our Shares and ADS

- If you hold our preferred shares, you will have extremely limited voting rights.
- Exercise of voting rights with respect to common and preferred shares involves additional procedural steps.
- If we issue new shares or our shareholders sell shares in the future, the market price of your ADS may be reduced.
- Political, economic and social events as well as the perception of risk in Brazil and in other countries, including the United States, European Union and emerging countries, may affect the market prices for securities in Brazil, including our shares.

- Exchange controls and restrictions on remittances abroad may adversely affect holders of ADS.
- Exchanging ADS for the underlying shares may have unfavorable consequences
- You may not receive dividend payments if we incur net losses or our net income does not reach certain levels.
- You may not be able to exercise preemptive rights with respect to the preferred or common shares.
- Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our shares or ADS.

Risks Relating to our Company

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 may be adversely affected by epidemics, natural disasters and other catastrophes, such as the recent COVID-19 pandemic. Identified in December 2019 in China, the disease quickly spread worldwide, and in March 2020 the World Health Organization classified it as a pandemic. The COVID-19 outbreak prompted authorities in many countries, including Brazil, to implement measures to contain it, including travel restrictions, curfews, lockdowns and the closing of commercial and industrial activities, severely impacting the global and Brazilian economies. Towards the end of 2020, after a period of partial recovery, the COVID-19 pandemic began to gain momentum again, with several countries, including Brazil and the United States, reporting a "second wave" of the disease. The start of vaccinations in December 2020 may reverse the situation in the medium term; however, as of the date of this annual report, there are still uncertainties as to whether the production and distribution of vaccines will be sufficient to overcome the pandemic.

The adverse economic effects of the COVID-19 pandemic on the global economy were substantial in 2020, causing GDP to shrink in virtually all economies. In Europe, GDP contracted by 5.0% in Germany, 8.2% in France, 8.9% in Italy, 9.9% in the United Kingdom and 11.0% in Spain. The United States had a 3.5% GDP decrease, compared to a 4.8% decrease in Japan. In Brazil GDP decreased by 4.1% although initial forecasts (such as those of the IMF) pointed to a 9% retraction. The major exception was China, with a 2.3% GDP growth, and which may lead the recovery of the global economy after the COVID-19 pandemic is under control. Current forecasts for the Brazilian economy point to a growth of 3.1% in 2021.

Our revenues from power generation are derived from sales on (i) the Regulated Market including plants that operate on a quota basis, (ii) the Free Market and (iii) the short-term market. The COVID-19 pandemic initially had a negative impact on the energy market, with average energy consumption decreasing by 15.7% between February and the end of May 2020, primarily due to lockdowns and social isolation measures. However, as of June 2020, when restrictions started to be eased, there was an increase of 3.8% in the average consumption of energy, a trend that remained until the end of the year. In December, the average consumption of energy was 1.3% higher when compared to January 2020.

Defaults on the Regulated Market and the Free Market were somewhat contained in 2020, in respect of the payment of the quotas for physical guarantees, Itaipu and Proinfa. The systemic solutions adopted by the MME and ANEEL in the Regulated Market, such as the creation of the "COVID Account", were fundamental to this framework, maintaining the ability of the distribution companies to make payments. For further information regarding the COVID Account, see "Item 4.B. Information on the Company – Business Overview – The Brazilian Power Industry." Even though the COVID-19 pandemic had negative impacts on the energy market, there were no material impacts on our electric energy trading business, as our results were in line with our projections.

However, with the worsening of the COVID-19 pandemic, issues such as high unemployment and the extension of emergency aid (financial aid granted by the government to low-income families who would not be able to support themselves during the lockdown) may result in increased consumer defaults for the distribution companies, which in turn may lead them to default on the transactions they entered into with our companies if there is no extension of the COVID Account. It is also unclear whether the amortization by the distribution companies of the loans entered into in connection with the COVID Account may put pressure on energy tariffs for 2021.

In the energy transmission sector, our revenues are derived from fixed tariffs established by ANEEL (RAP), periodically reviewed under specific regulations. These revenues depend on the availability of our transmission assets in the Interconnected System, and not on the flow of energy actually transmitted. Accordingly, while we experienced a small increase in the level of defaults in the first half of 2020 as a direct effect of the COVID-19 pandemic, these losses were entirely compensated by the implementation of the COVID Account, which meant that we did not experience a decrease in revenues.

However, as some of our planned transmission lines are still under construction, we may still experience further delays in their construction as a result of the lockdown measures and/or restrictions on the transfers and movements of the teams allocated to these projects. These restrictions can cause us or our contractors operational delays, in the delivery of equipment or other inputs purchased abroad, delays in connecting new users to the Interconnected System and in maintenance on our infrastructure, resulting in missed deadlines.

Regarding our workforce, due to the COVID-19 pandemic, the risk to the health of our employees has increased significantly, especially with employees working in core activities, such as operations, maintenance and engineering. We have modified various workplace practices, such as remote working, travel restrictions and cancellation of attendance at meetings and events, following the official guidelines. We also adjusted work shifts and set up backup teams for critical functions. In addition, we adopted and reinforced various occupational health and safety protocols, aiming at reducing the risk of contamination, which could compromise the generation and transmission of energy. To date, we have not experienced any material operational restrictions or administrative disruptions.

Given the uncertainties about the future impacts or duration of the COVID-19 pandemic, the Brazilian electricity sector may still suffer negative impacts. We cannot predict the duration of restrictions on economic activity or what impacts they will have on our business. We are also unable to predict what actions or policies the Brazilian Government will take in response to the COVID-19 pandemic, such as the renewal of the COVID Account, or how they will impact our operating performance, financial results and cash flows.

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 both 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 2020 certification process, we and our independent auditor conducted independent tests and identified deficiencies in our internal controls, which resulted in five material weaknesses included in our 2020 annual report filed on Form 20-F.

The material weaknesses in internal control over financial reporting existed as of December 31, 2020 related to we did not design and maintain: (i) an effective control environment and monitoring of controls, which led to: (a) failure to monitor that control deficiencies were not remediated in a timely manner; (b) failure to maintain effective controls over the completeness and accuracy of key spreadsheets and system-generated reports used in controls; and (c) failure to design and maintain controls in response to risks of material misstatement related to business processes in scope, including related to calculations and review of non-recurrent/non usual transactions; (ii) effective period-end financial reporting controls, including: (a) failure to design and maintain controls related to impairment calculations, review and approval; (b) failure to design and maintain controls over the completeness and accuracy of deferred taxes; and (c) failure to design and maintain controls over the review of the completeness of participants and accuracy of actuarial calculations and reserves; (iii) effective controls related to review and approval of ERP transactions that could lead to non-authorized manual journal entries; (iv) effective controls related to access granting procedures and segregation of duties; and (v) effective controls over completeness and accuracy of the judicial deposits and legal lawsuits, including periodic reviews/updates of them and the expected losses for accrual purposes.

These control deficiencies resulted a revision and other adjustments related mainly to contingencies, deferred taxes, impairments and actuarial reserves to our consolidated financial statements for December 31, 2020. Additionally, these control deficiencies could result in misstatements of accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that these control deficiencies constitute material weaknesses.

During the course of 2021, we will attempt to remedy these material weaknesses by implementing an improved methodology for the certification of internal controls, aiming to ensure the adequate mapping, design assessments and testing of the internal controls for its effectiveness. This new methodology will rely on risk and control´s self – assessments by their owners, followed by independent tests and a sign-off routine; all of this supported by a systemic tool from the SAP suite – the GRC Process Control, which is already implemented. We intend to hire a consulting firm to assist us in the implementation of this new methodology alongside the 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 2021-2025 Business and Management Plan (*Plano Diretor de Negócios e Gestão*) set as a target the streamlining of our equity ownership portfolio in order to reduce our financial leverage, increase our cash flows and improve the control and management of the assets of our SPEs. As of December 31, 2016, we had a stake in 178 SPEs. Since then we have substantially reduced the number of SPEs we own through sales and other business combinations, to 94 as of December 31, 2020 and we are looking to further reduce this number to 49 SPEs by December 2021 in order to create value by increasing the efficiency of our generation and transmission assets. We continue to hold interests in 94 SPEs, and cannot assure you that we will be able to meet our goal of 49 SPEs by year end 2021.

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 repaid, we may suffer material adverse financial impacts and our results of operations may be adversely affected.

Over the past few 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, 2020, the aggregate value of these guarantees was R$30,6 billion. Among the SPEs for which we currently provide guarantees are: Norte Energia; Santo Antônio; Teles Pires; BMTE; São Manoel; and Jirau. In 2020, we sold our stake in the Campos Neutrais, Santa Vitória do Palmar Holding and Mangue Seco 2 SPEs. As of December 31, 2020, these SPEs were still in the process of replacing our guarantees in an amount of R$761 million with guarantees from the new shareholders. Once this replacement process is concluded, the amount of guarantees concerning these SPEs will be removed from the aggregate/total value of guarantees. If the loans related to these guarantees are not repaid, we may suffer material adverse financial impacts and our results of operations may be materially 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 their loans. That would impact the enforcement of the guarantees provided by us, and could negatively impact our financial condition.

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 us assuming an amount of R$8.5 billion of receivables from the distribution companies, considering adjustments through June 30, 2017. As these receivables relate to the CCC Account, they have been the subject of discussions with ANEEL.

The sale model of our distribution companies (Amazonas D, Ceron, Eletroacre, Cepisa, Ceal and Boa Vista Energia) required us to invest R$11.2 billion in the six distribution companies in advance of the auction, where each entity would be offered for R$50 thousand (and the purchase would assume the same existing debt obligations). To attract interested parties and to facilitate the sale, the model also required that we assume R$8.5 billion in receivables with uncertain payment risk that were recorded in the respective balance sheets of Amazonas D, Ceron, Eletroacre and Boa Vista Energia as receivables as of June 30, 2017, as well as the related debts in the same amount. As a result, we incurred R$19.7 billion in debts from the distribution companies, related to a credit of R$8.5 billion from the CCC Account, which is subject to ANEEL's review. We discussed these amounts with ANEEL but their payment remains uncertain.

During the privatization of the distribution companies, we purchased Amazonas GT from Amazonas D for R$2.8 billion, which reduced the need to make financial contributions to all six distribution companies from R$11.2 billion to R$8.4 billion. The amount of debt assumed by the distribution companies remained the same, the only change was our acquisition of Amazonas GT from Amazonas D for R$2.8 billion, assuming debts of Amazonas D in the same amount. Accordingly, we contributed R$8.4 billion to the distribution companies valued at R$50 thousand each, assumed debts of R$8.5 billion and credits in the same amount from the CCC Account, in addition to having acquired Amazon GT for R$2.8 billion, assuming debts of Amazonas D in the same amount. The aggregate of all these transactions reached R$19.7 billion in debts assumed during the sale process of the distribution companies.

Of the total debt of R$19.7 billion, R$13.0 billion was debt related to the purchase of oil and gas from Petrobras and BR Distribuidora, and R$0.9 billion was debt incurred with Cigás. The remainder were debts owed to us and Eletronorte. As of December 31, 2020, of the total debt incurred with Petrobras, BR Distribuidora and Cigás, we have already paid R$6.7 billion in principal and interest, leaving an outstanding balance of approximately R$8.0 billion. As a result, we have already paid a substantial part of the debts incurred by the distribution companies, but have not yet been able to receive a large part of the credits due from the CCC Account.

As of December 31, 2020, we adjusted the amount recorded in our balance sheet from R$8.5 billion related to credits due from the CCC Account to R$6.0 billion as a result of the progress of the discussions held with ANEEL to that date. The discussions were divided into phase 1, from July 2009 to June 2016, and phase 2, from July 2016 to April 2017. The credits in the amount of R$6.0 billion recorded on our balance sheet as of December 31, 2020 are recorded in two line items, "the right to reimbursement account" and "loans and financings."

As of the date of this annual report, ANEEL had completed only the inspection of all the reimbursements to the CCC Account by Amazonas D. ANEEL approved the reimbursement related to the first and second phases (which occurred in March 2019 and March 2020, respectively) and, in the specific case of credits assigned by Amazonas D, ANEEL understood that there are no credits to be repaid by the CCC Account, but a debt to be reimbursed and returned to the CCC Account. As of December 31, 2020, the reimbursement obligation by Amazonas D was R$472 million. As we assumed the credits from the CCC Account that were subject to ANEEL's review, the obligation to return such amount to the CCC Account and the CDE Account was transferred to us.

Notwithstanding this balance to be returned to the CCC Account, the final net balance of credits assigned by Amazonas D is positive by R$2.4 billion, as a debt assumption contract was signed with Amazonas D for the payment of R$442 million and we also understand that we are entitled to receive credits arising from the disallowances of the CCC Account in accordance with the criteria of economic and power efficiency, according to Law No. 13,299/2016, in the historical amount of R$1,358 million. We believe that these amounts are owed to us by the National Treasury and not by the CCC Account. We updated the economic and power "inefficiency" value by the Selic rate until December 31, 2020, totaling an accounting record of R$2.4 billion.

In addition, on March 10, 2020 ANEEL completed the first review period for reimbursements from the CCC Account in respect of Ceron and Eletroacre. As of December 31, 2020, Ceron has the right to receive R$2.0 billion and Eletroacre has the right to receive R$204 million. Considering the four review procedures already concluded by ANEEL, we have the right to receive R$1.8 billion from the CCC Account and the CDE Account, net of the obligation to return R$472 million, and an additional R$2.8 billion from the other sources indicated above referring to the credits of Amazonas D.

Further, ANEEL issued Technical Note 49/2020 on April 6, 2020 regarding the first review phase for refunds from the CCC Account in respect of Boa Vista Energia stating that Boa Vista Energia is entitled to receive R$108 million from the CCC Account as of December 31, 2020. Accordingly, as of December 31, 2020, we are entitled to receive an aggregate amount of R$1.9 billion in reimbursements from the CCC Account. ANEEL has not yet published its technical notes with the preliminary amounts for the second phase of the review process for Ceron, Eletroacre and Boa Vista Energia. Similarly to Amazonas D's situation, we also believe that we are entitled to receive credits arising from the disallowances of the CCC Account in accordance with the criteria of economic and power efficiency, according to Law No. 13,299/2016, in the historical amount of R$19.6 million. This amount updated by Selic rate until December 31, 2020, resulted in an accounting record of R$41.2 million.

The R$6.0 billion of credits from the CCC Account assumed from the distribution companies recorded on our balance sheet as of December 31, 2020 includes: (i) R$1.9 billion from the CCC Account inspected by ANEEL and which ANEEL has made its determination or issued a technical note, already deducted from the obligation to return the R$472 million referring to Amazonas D; (ii) R$0.9 billion regarding two claims by Ceron, Eletroacre and Boa Vista which are still pending analysis by ANEEL, and which we believe ANEEL will accept; (iii) R$2.5 billion from the CCC Account assumed from the distribution companies, endorsed by Law No. 13,299/2016, which gives us the right to receive reimbursements from the National Treasury for fuel expenses incurred up to April 30, 2016, which are proven and have not been reimbursed due to the requirements of economic and energy efficiency; and (iv) R$0.8 billion in current credits from the CCC Account that were originally received by the distribution companies and, therefore, could not be assigned to us. Accordingly, Ceron, Amazonas D, Eletroacre and Boa Vista should enter into agreements to reimburse these amounts. Of the credits from the CCC Account related to inspection, we have a claim with ANEEL to start receiving installments regarding these credits related to the inspection in 2021, with the adjustment being made in 2022, the inspection is ongoing. The credits assigned and to be paid by the Treasury based on Law No. 13,299/2016 must be realized if the Provisional Measure for the privatization is approved by Congress, reducing the amount that we have to pay for the removal of quotas and a new concession for the plants. As for the current credits, we are required to sign a refund contract with each distribution company. We have already signed the contract for the largest amount, R$442 million, with Amazonas D. We are in negotiations to sign a contract with Boa Vista Energia, and intend to sign contracts with Ceron and Eletroacre in the first half of 2021. Only after the signing of the contracts will we begin to receive the payments in installments.

The credits from the CCC Account assumed from the distribution companies with respect to Law No. 13,299/2016 will be paid by the National Treasury with funds from the bonus payment for the grant. Provisional Measures No. 814/2017, No. 855/2018 and No. 879/2019, which have not been converted into law and have expired, provided for, among other items, the payment of compensation for economic and energy "inefficiency" to us. However, failure to convert provisional measures into law does not remove our right to be paid for "inefficiencies," based on the original Law No. 13,299/2016. An opinion of external counsel recognizes this right, despite MP No. 879/2019, requires us to reflect this receivable on our balance sheet. In addition, in November 2019 the executive branch submitted Bill No. 5,877/19 to the National Congress, which addresses our privatization. Article 5 of this Bill provides that, from the amount to be paid to the Granting Authority for the new concession of the "decommissioned" plants, the amount of economic and energy "inefficiency" incurred up to June 30, 2017 (not to exceed R$3.5 billion) will be deducted. Therefore, if this bill is approved we will receive a rebate of the "inefficiency" credit assumed by the distribution companies we sold. The provision for a rebate of the "inefficiency" credit to be paid for the "decommissioned" plants included in Bill No. 5,877/19, was also included in Provisional Measure No. 1,031/2021, issued in February 2021, which provides for our privatization.

In a meeting held in February 2021, ANEEL committed to issue the technical notes on the 2nd period of inspection of Ceron, Eletroacre and Boa Vista by the end of June 2021, and to analyze the proposal of Eletrobras to include in the 2021 CDE budget payment installments for the four inspection processes already concluded, totaling R$ 1.8 billion. Additionally, ANEEL has already issued a technical note on the first inspection period for reimbursements from the CCC Account to Boa Vista in the amount of R$108 million, which has not yet been voted on by ANEEL. Adding the inspection of Boa Vista to the four processes already completed, we expect R$1.9 billion to be paid by the CDE Account and the CCC Account to us.

As we are still discussing credits from the CCC Account with ANEEL, and the discussions have not yet been completed, we may receive an amount lower than the R$8.5 billion in credits from the CCC Account that the distribution companies incurred originally. That may result in new provisions that might further reduce the R$6.0 billion in credits from the CCC Account, as recorded in our balance sheet as of December 31, 2020. In addition, the amounts relating to economic and energy "inefficiency" depend on the budget forecast of the Brazilian Government to be paid or compensated with the bonus grant, which has not yet occurred. We cannot specify when and under what circumstances we will receive credits from the CCC Account in respect of the amounts already decided by ANEEL. In addition, the amounts from the CCC Account to be reimbursed by the distribution companies still depend on the signing of the respective contracts and are subject to the risk of default. Any further reduction in the credits we expect to receive from the CCC Account may adversely affect our financial condition.

We are exposed to mismanagement claims for managing certain sectoral funds and governmental programs.
We managed the RGR Fund and sectoral funds such as the CDE Account and CCC Account until April 30, 2017, when the management of these funds was taken on by the CCEE. We are also managers of certain government programs, including Luz para Todos, Proinfa, Procel, and, more recently, Mais Luz para a Amazônia, introduced by Decree No. 10,221/2020 and MME Directive No. 86/2020. These programs are subject to the regulation of ANEEL, MME, and inspection agencies.

ANEEL is currently auditing the benefits paid by the CCC Account during our management between July 30, 2009 and April 30, 2017. In 2016, Amazonas D was the first beneficiary to have its reimbursements audited. According to ANEEL, as manager of the CCC Account, we were not correctly applying Normative Resolution No. 427/2011 (revoked by Normative Resolution No. 801/2017). In the first technical notes released by ANEEL on the first inspection period (July 2009 – June 2016), in early 2017, Amazonas D received almost R$4.0 billion more from the CCC Account than it was entitled to. As Amazonas D belonged to us and we were the manager of the sectoral fund, ANEEL initially requested us to return the amount overpaid to Amazonas D to the CCC Account. However, as the inspection progressed, ANEEL accepted the arguments presented by us and Amazonas D.

As the audits of Amazonas D and other beneficiaries progressed, ANEEL no longer took the position that we would have to return the overpaid amount to the beneficiaries of the CCC Account. If any company has received more than the amount due under ANEEL regulations, it would be up to the beneficiary to make this payment to the sectoral fund.

Similarly, ANEEL's inspection and reprocessing of the benefits of the CDE Account, managed by us, with respect to the cost of mineral coal and secondary fuels, is underway. The period audited is from January 1, 2011 until April 30, 2017, when the CCEE managed the sectoral fund. If any beneficiary received excess funds from the CDE Account, it would be up to the beneficiary company to return that excess to the sectoral fund.

Accordingly, we believe the risk of ANEEL requiring us to reimburse amounts to the CCC Account and CDE Account for the amounts overpaid to each beneficiary, during the time of our management of these funds, to be low.

On the other hand, we are also the managers of certain governmental programs: Luz para Todos, Mais Luz para a Amazônia, Proinfa and Procel. We receive resources associated with the contracts executed to cover the administrative costs incurred in operating the Luz para Todos and Mais Luz para a Amazônia programs, and this may lead to a mismatch between revenues and expenses in a given year.

Specifically, the Proinfa program, established 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 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.

Any mismatches may have a negative effect on our operations and financial condition.

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 or 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 a 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 a book value of approximately R$17.6 billion as of December 31, 2012.

The RBSE amounts were included in the transmission tariff as of July 2017. Part of this amount has been challenged in court, which has delayed the timing of payment to us. As a result, a question about the index that should be used to update the amount of the overdue installment was raised. In 2017, part of the compensation was excluded by ANEEL due to court injunctions. However, these injunctions were subsequently revoked and this compensation started to be incorporated in the revenue of the transmission companies as of 2020, and the RBSE payment is expected to be concluded in 2028.

In ANEEL's Executive Board Meeting that took place on April 22, 2021, a proposal for the re-profiling of RBSE's financial component was approved. This decision foresees a reduction in the payment curve of these amounts between July/2021 and June/2023, and an increase in the flow of payments after July/2023, extending these installments until July/2028; other changes can happen and impact the flow of revenue we receive. The new payment scheme will impact our short-term cash flow by approximately R$8 billion.

Regarding the generation concessions renewed under Law No.12,783/13, 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 of such concessions. 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 yet been concluded, 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 with the total amount of the GAG Melhoria, would be fully deducted from it.

The accounting practice applied in relation to the GAG Melhoria may be revised whenever new facts and/or new estimates of associated expenses and/or revenues arise. We have been receiving the 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. The 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 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, both Bill No. 5,877/2019 and Provisional Measure No. 1,031, which relate to our proposed privatization, contemplate the loss of entitlement (*descotização*) of our plants extended by Law No. 12,783/13. If loss of 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 2018, 2019, and 2020 we received R$0.5 billion, R$1 billion, and R$1.3 billion, respectively, in payments related to the GAG Melhoria. If we do not continue to receive these payments, our cash flows, financial condition and results of operations may be adversely affected.

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 generation companies with concession agreements renewed in accordance with Law No. 12,783/13. The RAG is the amount that generation companies are entitled to receive as consideration for supplying energy produced at hydroelectric plants.

A monetary readjustment is applied to the RAG annually and is subject to review every five years. A change in the calculation methodology could reduce the amount of the RAG, including the GAG Melhoria.

Resolution No. 874/2020 established the WACC to be applied to the investment for (i) our transmission assets, hydroelectric plants subject to the physical guarantee and power quota regime (Law No. 12,783/13), and (ii) Eletronuclear.

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 agreements 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 pursuant to 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 granting authority and the contractual conditions disclosed by the granting authority. If Provisional Measure No. 1,031/21 dated February 23, 2021 concerning our privatization process, is converted into law, one of the conditions for the privatization is the granting of a new concession for power generation to the Tucuruí plant for a period of thirty years in the independent production regime. In addition, the conversion into law would authorize the Brazilian Government to grant new electric power generation concessions to the plants that already operate under the quota regime established by Law No. 12,783/13, also for a period of thirty years under the independent production regime.

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 you 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. In addition, if the Eletrobras privatization proposal is approved, we will not continue to trade energy from Itaipu.

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 on average by 4% in relation to the original amount of each plant's physical guarantee, including those of 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 loss of 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, both Bill No. 5,877/2019 and Provisional Measure No. 1,031, which relate to our proposed privatization, contemplate loss of entitlement (*descotização*) of our plants renewed by Law No. 12,783/13. In this case, new concession agreements would be signed for a new period of 30 years, under an independent power generation regime, with the possibility of revising the physical guarantees of these plants, without the limitation set out in Decree No. 2,655/98. Specifically in the case of Provisional Measure No. 1,031, in addition to the plants renewed by Law No. 12,783/13, the Provisional Measure No. 1,031 also included the HPP Tucuruí to be granted with a new concession agreement with a tenor of 30 years. We cannot assure whether this process of loss of entitlement (*descotização*) and granting of a new concession agreement to HPP Tucuruí would cause an adverse revision of the physical guarantees and, thus, negatively impact our financial condition and results of operations.

We cannot predict the financial and operational impacts of the privatization bill proposed by the Brazilian Government.

On November 5, 2019, the Brazilian Government submitted a new bill to the Brazilian Congress (PL No. 5,877/2019), maintaining format for the privatization previously presented to the Brazilian Congress by increasing our share capital with a waiver of subscription rights by the Brazilian Government, which would lead to the dilution of its stake in us.

The bill for our privatization provides that our subsidiaries Itaipu and Eletronuclear must be segregated from us and, depending on the segregation model, we may lose revenues from these assets and about 9,000 MW, equivalent to 17.7% of our installed capacity. This 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 along ten years in an amount of approximately R$3.5 billion in respect of the area surrounding the São Francisco river. These obligations may still be amended by the Brazilian Congress.

The bill presumes the process of loss of 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 the contracting regime of these plants and enter into new contracts as independent power generators, for a period of 30 years. The amount of the grants will be calculated by the CNPE and should be equivalent to two thirds of the value of the economic benefit added following 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 throughout the 30-year period of the new concession. 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.

On February 23, 2021, the President of the Republic issued Provisional Measure No. 1,031, maintaining, in general terms, the conditions set out in Bill No. 5,877/2019, and including other obligations to be paid in a ten-year period, such as the amount of approximately R$2.95 billion for the program for the structural reduction of energy generation costs in the Amazon, and of R$2.30 billion for the program to revitalize water resources in hydrographic basins in the area of influence of the reservoirs of the Furnas hydroelectric plants. In addition, the Provisional Measure included a provision for a special veto power ("golden share") for the Brazilian Government, which will grant it the power to veto certain matters provided for in the Provisional Measure. According to the Provisional Measure, the golden share would allow the Brazilian Government to veto changes to a provision of our bylaws that prohibits any shareholder or group of shareholders to vote in concert or enter into shareholder agreements in respect of shares representing more than 10% of our voting capital.

Provisional Measure No. 1,031 also changed the division of the value added to the new concession agreements, with 50% now being transferred to CDE along thirty years and 50% to the Brazilian Government, as a grant. It also extended the possibility of renewing the concession of the Tucuruí plant, which is owned by Eletronorte, for a further 30 years.

The Provisional Measure is effective immediately, according to article 62 of the Federal Constitution, and must be approved by the Brazilian Congress within 60 days, extendable for a further 60 days. If rejected, it loses its effectiveness immediately. It is not possible to guarantee that this Provisional Measure will be converted into law, which depends on the Brazilian Congress. The Provisional Measure is still under discussion by the Brazilian Congress and, if converted into law, may also undergo scrutiny by external control entities, such as the Brazilian Federal Court of Accounts (TCU), Public Prosecutor's Office and the Judiciary. We cannot assure you that privatization will continue as described above and we have no control over the timeline for its approval or potential implementation.

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% of our voting share capital by the Brazilian Government and such change of control results in a ratings withdrawal or a rating decline by two or more rating agencies (if the notes are then rated by three rating agencies) or a rating decline by one rating agency (if the notes are then rated by two rating agencies or fewer), 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 chosen model, 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, 2020, we invested R$3,122 million in capital expenditures for expansion, modernization, research, infrastructure and environmental projects. For 2021, our budget for CAPEX is R$8.245 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 or a potential suspension of auctions. Also the recent rescheduling of the RBSE payment flow may force us to postpone investments in the short term. In addition, our capitalization process can also impact the market share, as we will no longer receive generation from Itaipu and Eletronuclear. To maintain our current market share (as of December 31, 2020) of 29% in the generation segment and 43.5% 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, which could make it difficult to obtain financing for our planned investments.

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.

Regarding sources of financing from third parties, we have, among the main options available, funding in the local market as well as in the international market, through the issuance of bonds or the entry into loan facilities. However, the decision of which market to access is greatly influenced by the degree of liquidity of the same, in addition to the ability of these markets to grant credit to us, and is also linked to our own internal analyses as to the feasibility and financial advantages of the available funding options.

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.

We may be exposed to behaviors that are incompatible with our standards of ethics and compliance; if we fail to prevent, detect or remedy them in time, we may suffer adverse impacts on our operational results, financial condition and reputation.

Our businesses, including our relationship with our stakeholders, are oriented by our Code of Ethical Conduct and Integrity. We have also implemented a range of actions and internal controls that aim to avoid fraud and corruption-related risks. Due to the extent of our supply chain, the number of subsidiaries and SPEs under our responsibility and considering that those companies have significant autonomy to operate, we may be unable to control all the possible irregularities that they may subject us to. In the past, our systems have not always been sufficient to mitigate these risks, and which has led to fees and penalties in Brazil and the United States; accordingly, we cannot guarantee that our systems that are intended to mitigate these risks are or will be sufficient to prevent us from experiencing problems related to our subsidiaries, SPEs and suppliers' conduct in the future. We also cannot guarantee that our stakeholders will not become involved in irregular practices. Any such irregularities could have a material adverse effect on our results and financial condition, if not detected in a timely manner.

Additionally, employees and managers, whether at holding company level, at our subsidiaries, SPEs or contractors or from any other counterparties we may do business with, may engage in fraudulent activity, corruption, or bribery, disregarding or circumventing our internal controls and procedures. Any of those actions, whether actual or perceived, could harm our reputation, which could reduce trust in us, limit our ability to obtain credit, and lead to a material adverse effect on our financial condition and results of operations.

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 several 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. 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, our companies and SPEs are subject, in certain contracts, to financial covenants requiring compliance with the following indexes, which are the main financial covenants we are subject to: (i) net debt over EBITDA, with a maximum level dependent on the contracts executed by Eletrobras and by each subsidiary, however generally fewer than four; and (ii) coverage ratio over debt service generally higher than 1.2.

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. 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 strategy is to develop a high-performance culture, with lean and agile management, investment capacity, value creation, more competitiveness and less costs, active risk management and digital organization, in order to be an innovative clean energy company, recognized for excellence and sustainability.

As in prior years, linked to these 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 2021-2025 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 our group companies.

Accordingly, 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.

Additionally, pursuant to the Business and Management Plan 2019-2023 (“PDNG 2019-2023”), 3,101 employees accepted voluntary resignation and/or retirement between 2018 and December 2020 in line with plans to increase efficiency in addition to the reduction of 3,699 employees resulting from the sale of our distribution companies. As of December 31, 2020, we (on a standalone basis) had 12,530 employees, compared to 13,089 employees as of December 31, 2019. Although these dismissals were voluntary, some employees may pursue labor claims against us.

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 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 continues to carry out an extensive reassessment of the risk associated with environmental issues and in response continues to make the necessary adjustments to 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 has implemented several additional safety measures.

We insure our nuclear plants against nuclear accidents. As of December 31, 2020, Angra I was insured for U.S.$600 million (R$3.1 billion as of December 31, 2020), Angra II for U.S.$3.0 billion (R$15.6 billion as of December 31, 2020) and Unidade de Armazenamento Complementar a Seco de Combustível Irradiado (UAS) for U.S.$50 million (R$259.8 million as of December 31, 2020). Angra I has a maximum limited guarantee of U.S.$ 450 million (R$2.3 billion as of December 31, 2020), Angra II of U.S.$ 500 million (R$2.6 billion as of December 31, 2020) and UAS of U.S.$50 million (R$259.8 million as of December 31, 2020) to cover property and casualty damages, and both are insured for U.S.$ 295.8 million (R$1.5 billion as of December 31, 2020) 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. The construction of the Angra III plant was suspended during 2015 as Eletronuclear faced difficulties making the capital contributions required by the financing contracts entered into with BNDES. Additionally, construction stopped in the same year due to allegations of potential illegal activities by companies that provide services to Eletronuclear in relation to the Angra III plant.

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.

In October 2019, Eletronuclear engaged BNDES to propose and structure a business model for the completion of the Angra III plant. In May 2020, the BNDES proposal was approved, which foresees two different partners, one for the financing and one for the construction phase. Eletronuclear and BNDES are now working on structuring this model.

In September 2020, the Presidential Cabinet issued Provisional Measure No. 998/20, which was later converted into Federal Law No. 14,120. Among the provisions, it provides for the revision of the Energy Sales Contract for Angra III. The new price will be calculated by BNDES, considering among other issues, the economic viability of the project with a financing subject to market conditions.

As of December 31, 2020, the amount of impairments, accumulated and recognized on our balance sheet, totaled R$4.5 billion. If work on Angra III does not resume in 2021, 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 March 2021, Federal Law no. 14,120 was approved. Article 10 of this law establishes that the price of electricity of Angra III shall be calculated by BNDES, considering the economic viability of the project and its financing under market conditions. 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, 2020), as we are Eletronuclear’s guarantors, or we may have difficulties repaying a loan granted by Caixa Econômica Federal (under which R$3.1 billion was outstanding as of December 31, 2020) which may lead us to make new provisions of impairments, in addition to other liabilities that we may have to record, which could adversely affect our financial condition and the results of our operations.

In order to start the construction works in 2021, Eletronuclear has created the Critical Path Acceleration Plan, which aims to start civil construction works later in 2021 in order to ensure the start of operation of the plant in November 2026. For this plan we approved equity investments of R$1.0 billion in 2020. In addition, we expect to invest a further R$2.5 billion in 2021. As of April 14, 2021, the tender for the civil construction works has been published by Eletronuclear and is currently under way.

As of December 31, 2020, Eletronuclear had completed approximately 65.29% of the original project. In February of 2021, we revised the budget for Angra III, which now totals R$27.1 billion (of which R$18.5 billion is pending implementation); the forecasted date for operation of Angra III remains at November 2026. For further information, see “Item 4. Information on the Company—Business Overview—Generation.”

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, 2020, we provisioned R$25.8 billion in respect of our legal proceedings, of which R$23.5 billion related to civil claims, and R$22.1 billion to labor 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.

Bearer Bonds

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 understand that the bearer bonds issued as a result of the compulsory loan program do not constitute securities, are not tradable on any stock exchange and are not priced. This understanding was confirmed by the board of the CVM in administrative proceeding CVM RJ 2005/7230, filed by holders of the bearer bonds, which stated in 2005 that “the bonds issued by the Company as a result of Law 4,156/1962 cannot be considered as securities.” In addition, we believe that the decision of the STJ (Special Appeal No. 1050199/RJ) confirmed that most or all of these bearer bonds are not enforceable in light of the applicable statute of limitations which makes them not suitable as guarantees for tax enforcement proceedings. We believe that this decision should be followed as repetitive appeals (*recursos repetitivos*) and have a binding effect for other legal proceedings in respect of the same subject.

Although we believe that most or all 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 administrative 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 the bearer bonds with collection rights, it could adversely affect our financial conditions and results of operations. In addition, 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. As of December 31, 2020, we recorded a provision in respect of these filed bearer bond claims in the amount of R$1.2 million.

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. In order to provide the general understanding of our compulsory loan legal proceedings, we disclose possible or remote-loss estimates in respect of the compulsory loan legal proceedings. Accordingly, based on the information currently available, we estimate that if the bearer bonds in all pending actions are found to be enforceable, our estimate of losses could increase by approximately R$7.55 billion. At present, we believe the risk of loss in these bearer bond actions is remote and, therefore, we have not recorded a provision for any portion of this estimated amount.

Compulsory Loan Book Entry Credits

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 compensatory 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. We believe we satisfied our obligation relating to the compulsory loan involved in judicial disputes were resolved through the issuance of preferred shares at shareholders`meetings.

Over the years, numerous judicial actions concerning compulsory loan book-entry credits have been filed against us. Some of these disputes concerned the criteria applied to update the nominal amount of the book-entry credit and the interest that has accrued on such amount, and others related to the standing of certain plaintiffs to commence claims in respect of these book-entry credits, in addition to questions about interest due and the monetary correction of the loan principal.

The disputes can be further broken down into three principal groups. First, there are disputes regarding the criteria and indices that were adopted for the quantification of monetary (i.e., inflationary) adjustments to the principal amount of the compulsory loan credits, which were determined by the law that applies to the compulsory loan program. Second, there are disputes concerning the accrual of additional compensatory interest of 6% per year on the adjusted principal amounts referred to above, including, among other things, the appropriate accrual period and the limitation period for collecting this interest. Third, there are disputes concerning the accrual of certain default interest on the compulsory loan book-entry credits. We consider the application of the interest rate of 6% after the shareholders`meeting as a possible loss.

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 STJ has rendered decisions related to these issues through a number of appeals, including the repetitive appeal in Special Appeal No. 1,003,955/RS, the repetitive appeal in 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. Based on these precedents, we believe that the accrual of the additional 6% compensatory interest rate applied on the adjusted principal amount of the compulsory loan credits should cease on the date of the shareholders' meeting at which the relevant credits were converted into preferred shares (the "**Conversion Meeting**"). We also believe there is a five-year limitations period for the collection of this compensatory interest, so that the complainant can only seek interest from the period beginning five years prior to the date of the petition and ending on the date of the relevant Conversion Meeting. We also believe that the default interest rate that may apply to the difference resulting from the monetary restatement and the compensatory interest rate of 6% per due year should be the rate that would be applicable to judicial debts. Judicial debts accrue interest at the IPCA-E until the summons and, thereafter, at the SELIC rate. Accordingly, we believe that the SELIC rate should be applied to the loan principal and any compensatory interest, from the later of (i) the date of the shareholders' meeting on which the conversion occurred and (ii) the date of the summons.

The divergences about the merits of the enforcement of the compulsory loan legislation was settled by the STJ through the following repetitive appeals: Special Appeal 1,003,955/RS and Special Appeal 1,028,592/RS. In accordance with the special appeals, future legal proceedings that involve the same and/or similar issues should follow the same legal conclusions.

However, the matter is currently the subject of appeals before the Federal Supreme Court - STF, which are pending judgment. The appeals question the violation of the full bench clause, provide for in article 97 of the Brazilian Constitution, in that any type of judicial review to declare the unconstitutionality of the compulsory loan legislation should have be issued by the full composition of the STJ and not by one of its committees.

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 as repetitive appeals (*recursos repetitivos*) have a binding effect for other legal proceedings in respect of the same subject.

Accordingly, as of December 31, 2020, the recorded provision was R$17.5 billion, of which (i) R$5.9 billion refers to the difference in the base value resulting from the monetary restatement criteria provided for in the precedents of the STJ; (ii) R$1.9 billion relates to compensatory interest, including, among other things, the accrual of an additional 6% interest per year up to the date of the shareholders meeting on the loan principal to account for monetary restatement and considering the limitation period for collecting this interest; and (iii) R$9.4 billion relates to the calculation of applicable default interest. We recorded this provision based on existing jurisprudence (for example, Special Appeal No. 1,003,955/RS and Motion for Reconsideration in the Special Appeal No. 826,809/RS). Nevertheless, if 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.

Despite favorable results for us in certain repetitive appeals (*recursos repetitivos*), there have also been unfavorable decisions, such as the Motion for Reconsideration by the STJ in the Special Appeal No. 790.288/PR, on June 12, 2019 ("June 2019 STJ Decision"). In this proceeding, the plaintiffs obtained a favorable decision from five ministers, out of a total of nine voting ministers, which stated that the compensatory interest of 6% per year should be applied from the 143rd Extraordinary General Meeting held on June 30, 2005 until the effective payment, accruing at the SELIC rate. Following this decision, we filed a motion for clarification, explaining the legal and practical challenges of accruing interest at the SELIC rate and also arguing that this unfavorable judgment does not have the effect of a repetitive appeal, under the terms of article No. 1,036 of the Civil Procedure Code; for that reason, we argued that it has no binding effect for other legal proceedings in respect of the same subject, and is contrary to the precedent (Special Appeal No. 1,003,955/RS and the Motion for Reconsideration in the Special Appeal No. 826,809/RS). By December 31, 2020, the appeal filed by us had four votes in favor and three against, pending decision by two ministers of the STJ. As of the date of this annual report, these proceedings have been suspended with no fixed resumption date.

Based on the information currently available, we do not believe that the June 2019 STJ Decision (which we are currently appealing) warrants any revision to estimates by our management regarding the appropriate provision for litigation concerning compulsory loan book-entry credits, as now recognized in our consolidated financial statements, therefore we maintain the current criteria which is primarily based on the repetitive appeals (*recursos repetitivos*). Among other reasons, we identified that, the following judgments in other legal proceedings on the same legal issues have confirmed our understanding that the additional 6% compensatory interest applies only until the date of the relevant Conversion Meeting: Special Appeal No. 1,818,653/RS, Special Appeal No. 1,804,433/RS, Motion for Clarification in the Special Appeal No. 1,659,030/RS, Internal Appeal in the Special Appeal No. 785,344/PR (judgment), Motion for Clarification in Special Appeal No. 1,702,937/RS, Motion for Clarification in the Special Appeal No. 866,941/PR, under the terms of the preceding Special Appeal No. 1,003,955/RS, Motion for Reconsideration Due to a Decision (*Embargos de Divergência*) in Special Appeal No. 1,709,573/RS, and Motion for Reconsideration Due to a Decision (*Embargos de Divergência*) in Special Appeal No. 1,859,551/PR.

However, if our appeal is unsuccessful and the STJ's reasoning in June 2019 STJ Decision is applied in other cases, specifically with regard to the continued application of compensatory interest of 6% per year, even after the relevant Conversion Meeting, we may need to significantly increase our provision of the disputes currently recorded as of the date of this annual report. We estimate, based on the information currently available, that this increase may be approximately R$11,458 million (currently classified as possible risk of loss). We have not recorded any provision for any portion of this amount because, in our opinion, the likelihood of loss associated with the relevant claims remains possible, rather than probable. Our assessment of the pending litigation and our exposure thereto is necessarily ongoing in nature, however, and may change over time in response to new developments with respect to the likelihood of loss, the magnitude of potential loss, or both.

Regarding the calculation methodology, in addition to the litigation concerning whether compensatory interest continues to accrue following the relevant Conversion Meeting, there are additional actions concerning compulsory loan monetary restatement differences. These actions present issues concerning, among other things, the initial term of the compensatory interest considering the five-year limitations period for the collection of this compensatory interest, the period during which the loan principal is subject to monetary restatement during the period between December 31 of the year prior to the relevant Conversion Meeting and the date of the relevant Conversion Meeting, and the calculation used by us to deduct the amounts paid by us within the scope of the lawsuit, in relation to the total debt claimed in court payment allocation, in the estimated amount of R$7.3 billion. We believe our likelihood of loss from these actions is remote, and, accordingly, we have not recorded a provision for them. As explained above, our assessment of the pending litigation and our exposure thereto is necessarily ongoing in nature and may change over time in response to new developments with respect to the likelihood of loss, the magnitude of potential loss, or both.

During some of the pending lawsuits in 2019 and 2020, the calculations presented by certain experts appointed by the relevant judges did not follow the calculation methodology (inclusion of the 6% interest rate and different criteria of monetary restatement), we employ in accordance with the applicable repetitive appeals (*recursos repetitivos*). We have challenged these calculations and are currently awaiting a judicial decision. We estimate, based on the information currently available, that if the appeals and oppositions made by us are dismissed, any additional provision we would need to record in respect of all these claims would amount to approximately R$2.8 billion. The amount of R$2.8 billion is already substantially included in the amounts classified as possible and remote discussed above.

In connection with the credits to be judicially enforced, there are compulsory loan credits converted into preferred shares at the four Conversion Meetings, which are not provisioned, either because we identified that the taxpayers filed a lawsuit claiming the difference in monetary restatement and default interest after the term of five years from the date of the relevant Conversion Meeting, or because, in other cases, we did not identify any judicial proceeding of collection of credits, by the relevant holders, within the same term of five years, and based on current information, we understand that any monetary restatement claims are proscribed and that the probability of loss is remote.

As explained above, certain actions also discuss the particular entities that may seek to enforce and collect on these instruments. Because there have been recent unfavorable judgments in relation to this subject, we have provided more information on certain potential risks associated therewith below.

As a general matter, and with certain specific exceptions noted herein, we have not recorded any provision for legal proceedings seeking to collect on compulsory loan book entry credits that are brought by those who are not the legal holders of the credits, who have already transferred the credits to third parties, and/or who are attempting to enforce credits held by entities not specified in the initial petition, as required by Brazilian law.

Regarding the discussion on the enforcement of credits not mentioned in the initial petition, in December 2020, we had an unfavorable decision in connection with legal proceeding No. 0023102-98.1990.8.19.0001, which is pending our appeal. This legal proceeding was commenced in 1990, prior to the third and fourth Conversion Meetings. Although the court of first instance ratified an expert report that indicates an amount due of R $1.4 billion (which may reach R$1.8 billion considering the monetary restatement and the application of the fine and fees claimed by the plaintiffs), we have calculated an amount due of R$227 million and believe our calculation is correct. In our opinion, the difference between the amounts charged by the plaintiffs and those identified by us is related to a series of defects contained in the expert report, which was approved by the lower court, including in particular the inclusion of credits that were not addressed in the initial petition. Some of these credits not included are credits of branches and merged companies and credits arising from the third Conversion Meeting, which took place in 2005, almost 10 years after the decision was pronounced on the original demand of the case. In addition, this decision did not follow the precedent established by repetitive Special Appeal No. 1,003,955/RS as it failed to apply the limitation period to the interest provisions and improperly applied a default interest rate of 12% per year. On appeal, we obtained a favorable preliminary decision to suspend compliance with the decision that ordered payment of the approved amount. However, as this is a monocratic decision that did not deal properly with the merits of the amounts due, we classified the risk of loss associated with this proceeding as probable, we recorded an additional operating provision of R$1.6 billion in the fourth quarter of 2020, bringing our total operating provisions in respect of compulsory loans to approximately R$17.4 billion as of December 31, 2020, as noted above. Notwithstanding the provision, we expect that, in the future, when judging the merits of the appeal, the decision related to the expert report may be amended.

In addition, we believe that previous judgments decided that branches of companies do not have the authority to execute a judicial title referring to the difference in monetary correction of compulsory loans rendered in favor of the head office when the relevant branch was not included in the initial petition. Following the adverse ruling in a recent case, we estimate that our provision could increase by approximately R$1.6 billion if all credits of branches of companies not mentioned in the initial petition filed by their respective head offices were to be deemed enforceable in filed legal proceedings of the head office. As of the date of this annual report, however, we believe the risk of loss in this regard to be remote and, accordingly, have not recorded a provision therefor.

However, if all credits related to the four Conversion Meetings that are not currently linked, to the best of our knowledge, to any legal proceedings already filed were to be deemed enforceable in filed legal proceedings, regardless of the plaintiff identified in the initial petition and limitations period, we believe that we would need to further increase our provisions.

There is also a separate risk associated with legal claims relating to the calculation criteria used by us for the return of compulsory loan credits previously held as judicial deposits. Most of the compulsory loan credits were converted into preferred shares through the four Conversion Meetings, but there are credits that were not so converted or otherwise repaid because plaintiffs disagreed with respect to the payment of the underlying tax and ended up depositing the amounts due through legal proceedings. Accordingly, as these judicial deposits were only withdrawn by us after the fourth Conversion Meeting, they have not yet been converted into shares and may be paid within 20 years, with compensatory interest of 6% per year until their return. However, as of the date of this annual report we are aware of approximately five legal proceedings with full monetary restatement claims for credits that have not yet been converted – that is, actions claiming that the monetary restatement occurs from the date of the effective judicial deposit, contrary to the criteria used by us, which is from the date of the withdrawal of said deposits when the amounts were made available to us. In the third quarter of 2020, we adopted certain changes to our calculation methodology for the loan principal in respect of the credits that were not yet converted into preferred shares or otherwise repaid as discussed above. Considering that these credits have not yet been settled, either by payment in cash or by conversion into shares, and given the grace period, new legal proceedings of the same nature as the five mentioned above may be filed. As of December 31, 2020, the total principal amount of shares not paid or converted was R$429 million. As of the date of this annual report, we have not made any provision in respect of this class of compulsory loans because we believe the risk of loss associated therewith to be remote. At this moment, there are few judicial disputes about this matter but there is no definitive decision that can serve as jurisprudence.

We cannot assure you that additional claims will not arise or that new judicial decisions (including by superior courts) on compulsory lending will not be adverse to us. The total cost of these unfavorable claims or decisions may 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.

On February 3, 2021, the District Court issued an opinion and order dismissing this lawsuit in its entirety and with prejudice. On March 3, 2021, the plaintiffs initiated an appeal of that decision to the United States Court of Appeals for the Second Circuit. Subsequently, the parties filed a stipulation, dated April 13, 2021, voluntarily dismissing the appeal with prejudice.

It is important to emphasize that dismissal of this U.S. litigation does not eliminate or alter our exposure to Brazilian legal proceedings concerning bearer bonds and/or compulsory loan book entry credits. We believe that our prior disclosures regarding these proceedings and our exposure thereto have been, and remain, accurate based on the information available when made. We also believe that the provisions we have recorded to date for these matters are reasonable and appropriate in light of the various contingencies we face. At the same time, there is considerable uncertainty inherent in any pending litigation and particularly so in proceedings concerning bearer bonds and/or compulsory loan book entry credits, which together comprise an extraordinarily complex subject matter. Many of the relevant proceedings have been ongoing for multiple years, and the status and outlook of the actions have evolved considerably, and often unpredictably, over time amidst an ever-changing legal landscape that has included, among other developments, the issuance of new, and sometimes conflicting, judicial decisions. While we make every effort to continually augment and improve our explanations of these matters to the market, our disclosures are necessarily subject to change over time as new information becomes available, it is impossible to predict the outcomes of the actions with certainty, and we can no make no assurances regarding the course of any ongoing or future proceedings.

In addition, on April 20, 2021, we received a request for information from the Division of Enforcement of the SEC in connection with an investigation the SEC is conducting regarding the disclosures relating to the compulsory loan program and related litigation in our Form 20-Fs. We are in the process of gathering the documentation in order to respond to this information request and intend to cooperate fully with the investigation and to evaluate whether, based on the investigation or continued developments in the ongoing legal proceedings in Brazil, any amendments to our disclosures or provisions are appropriate.

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, 2020, we recorded a deficit of R$6.8 billion in our and our subsidiaries' pension plans. For the year ended December 31, 2020, we and our subsidiaries made contributions of R$242 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 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 several risks, including operational accidents, labor disputes, unexpected geological and hydrological 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 result 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 uranium, we have a single supplier, Indústrias Nucleares do Brasil S.A. (INB), which faces operational and financial challenges. With respect to coal, we have two suppliers, Companhia Riograndense de Mineração (CRM) and Seival Sul Mineração (SSM). CRM also faces financial challenges and SSM does not have the installed capacity to meet the plant's demand. If CRM, SSM and INB are not able to comply with their contracts with us, or have their production processes interrupted, totally or partially, CGT Eletrosul's thermal plants and Eletrouclear's nuclear plants 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 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.

Risks Relating to Brazil

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 most of the executive officers responsible for our day-to-day management.

Any appointment, either originated or not by the Brazilian Government, is subject to an integrity and eligibility analysis, aimed to ascertain compliance with the requirements of the Law of Government-Controlled Companies and with global best practices enforced by our corporate governance area. This process seeks to ensure that only professionals with unblemished reputations, proven experience in the field and no relationships that may be considered conflicts of interest will secure a seat on our board or executive positions. All nominations, once assessed by our teams, are subject to deliberations by the Executive Board, followed by the People and Eligibility Committee ("CGPE"), which is responsible for reviewing and deliberating about eligibility, and ultimately by the Board of Directors. A candidate is only considered eligible after final approval by the Board of Directors.

Additionally, the Brazilian Government 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.

On January 24, 2021, our CEO Wilson Ferreira resigned from the Chief Executive Committee. He remained in office until March 15 for the transition to his successor. On March 15, 2021, our Board of Directors appointed our Chief Financial Officer, Elvira Presta, to act as interim CEO from March 16, 2021 until the completion of the transition period. On March 24, 2021, our Board of Directors recommended Rodrigo Limp to join the board and to assume the position of CEO. Rodrigo Limp, then acting as secretary for electric energy of MME, was appointed directly by the controlling shareholder and was not selected by the external adviser hired to assist our Board of Directors in choosing the new CEO. On the same date, this led to the resignation of board member Mauro Cunha, who disagreed that the nomination had not followed the aforementioned succession process. However, as previously discussed, the appointment was assessed and recommended by the CGPE and most of our Board of Directors, meeting the legal and technical requirements necessary for the position. On April 30, 2021, our Board of Directors elected Rodrigo Limp as our CEO and on May 3, 2021, Mr. Limp signed the instrument of investiture.

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.

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 trading markets for securities.

Brazil's economy is vulnerable to external shocks, including adverse economic and financial developments in other countries. For example, an increase in interest rates in the international financial markets may adversely affect the trading markets for securities of Brazilian issuers. In addition, a drop in the price of commodities produced by Brazil could adversely affect the Brazilian economy. A 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 negative 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 several occasions, including following the 1998 Russian crisis, the 2001 Argentine crisis and the 2008 global economic crisis. We cannot assure you that any situations like those described above will not negatively affect investor confidence in emerging markets or the economies of Latin America, including Brazil.

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

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, which can have a direct impact on our business.

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. For example, the Brazilian Government's actions in the past to control inflation have included wage and price controls, depreciation of the *real*, controls over remittances of funds abroad and, intervention by the Central Bank to affect base interest rates.

In both 2018 and 2019 Brazil's growth rate was 1.1%. However, in 2020 the economy suffered a sharp contraction, of 4.1%, as a result of the restriction measures adopted to combat the COVID-19 pandemic. We cannot assure investors when Brazil's economy will recover its growth. Recessions can result in a material decrease in Brazil's fiscal revenues and may require stimulus measures from the government; 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. The continuation of the current scenario may lead the Brazilian Government to adopt countercyclical policies to attempt to reestablish the country's growth.

Our business, results of operations and financial condition may be adversely affected by changes in government policies, as well as other factors. Additionally, actions taken or not by the Brazilian Government in response to crises or situations of social or economic instability, such as the current COVID-19 pandemic, may cause changes, for example, in labor legislation or in the rules applicable to the Brazilian electricity sector. These may include other political, diplomatic, social, and economic developments which may affect Brazil or the international markets, liquidity of the domestic markets for capital and loans, and limits on international trade.

We have no control over and cannot predict what measures or policies the Brazilian Government may take in the future. Uncertainty on whether the Brazilian Government will make changes in policy or regulation may 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, adversely affecting our business, results of operations and financial condition.

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, such as the *Lava Jato* investigation. 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 administration may impact the overall stability, growth prospects and economic and political health of Brazil. The 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 the approval of these projects also relies on the support of the Brazilian Congress and not on the executive branch alone. The recent impasse between the Brazilian executive branch and the Brazilian Congress has generated uncertainties with respect to the implementation of the agenda of the current Brazilian Government, as well as changes in legislation, which may contribute to economic instability and increase the volatility and lack of liquidity of the Brazilian securities market. These uncertainties and volatility could harm 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. During 2018, the *real* further depreciated by 17%, ending the year at an exchange rate of R$3.8748 per U.S.$1.00. During 2019, the *real* further depreciated by 4%, ending the year at an exchange rate of R$4.0307 per U.S.$1.00. During 2020, the *real* further depreciated by 28.9%, ending the year at an exchange rate of R$5.1967 per U.S.$1.00. On April 23, 2021, the exchange rate between the real and the U.S. dollar was R$5.4787 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, 2020, 24.4% of our total consolidated financing, loans, and debentures of R$47,002 million was denominated in foreign currencies and our total consolidated indebtedness denominated in foreign currencies was R$11,459 million. 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.

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. If 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-/B (having been revised as stable in December 2020), Ba2 (stable) and BB- (negative) 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 PLD at the CCEE. The PLD is considered a short-term market price and it can be highly volatile, varying mainly depending on changes in hydrological conditions and in the levels of reservoirs of the hydroelectric plants of the Interconnected System. Our companies are exposed to hydrological risk for concessions which were not renewed by Law No. 12,783/13.

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.

In 2020, Law No. 14,052/20 amended Law No. 13,203/15, establishing new conditions for the renegotiation of the hydrological risk of power generation and proposing compensation for the hydroelectric generators participating in the Energy Reallocation Mechanism for the impacts caused by facts unrelated to the original conception of hydrological risk. These impacts include the displacement of hydroelectric generation by thermoelectric generation or by importing electric energy and the effects linked to the structuring hydroelectric plants, Santo Antonio, Jirau and Belo Monte, as well as to restrictions on the distribution of energy generated by the plants due to the delay in the transmission lines. As a result, ANEEL initiated Public Consultation No. 56/2020 to obtain subsidies for the improvement of the proposed regulation referred to in article 2 of Law No. 14,052/2020. ANEEL Normative Resolution No. 895/2020 was enacted, which establishes the methodology for calculating compensation to the holders of hydroelectric power plants participating in the MRE, which will occur by the possibility of extending the granting period, which will be limited to seven years.

In early March 2021, the CCEE presented the calculations for determining the extension of the concession. However, on March 30, 2021, ANEEL's Board of Directors accepted Furnas' appeal regarding REN 895/2020, which resulted in, at least, two immediate effects: (i) the need for ANEEL to issue a new REN amending the text of REN 895/20, which enables generation concessionaires to receive compensations for the years 2012, 2013 and 2014; and (ii) the postponement of the homologation of the GSF impact values. On April 13, 2021, ANEEL Normative Resolution No. 930/2021 was published, amending REN 895/2020. However, there is still no confirmation whether the deadlines provided for in REN 895/20 will be observed in the new recalculation procedure.

Additionally, 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.

With the publication of Provisional Measure No. 1,031, the possibility of granting new concessions for power generation for a period of thirty years was introduced. MP 1,031/21 covers the plants that have been extended under the physical guarantee quota regime (the plants renewed by Law No. 12.783/2013), the Itumbiara and Sobradinho plants, as well as the Tucuruí plant. 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 must 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, 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.

In addition, in 2020, Law No. 14,066/2020 was enacted, which updated Law No. 12,334/2010, which, among other things, increased obligations related to dam safety. These changes are intended to bring more security to the operation of the dams; however they can impose new financial risks since companies have to adapt to this new regulation.

In 2020, we approved our dam safety policy. This document is public and defines guidelines and responsibilities for all our subsidiaries regarding dams safety.

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 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); and
- closures or temporary stoppages at our facilities for the generation and transmission of electricity as a result of the COVID-19 outbreak.

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.

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, 2020, 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 agreements or that our concession agreements will not be terminated in the future, which could have an adverse impact on our financial condition and the results of our operations.

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 (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 CGT Eletrosul. In October 2018, CGT Eletrosul contracted insurance for the project in the amount of R$163.8 million. There is an administrative procedure at ANEEL discussing whether to impose a penalty on CGT Eletrosul. The amount under discussion is approximately R$331.4 million. As of December 31, 2020, we have provisioned R$52.1 million with respect to this fine, classified as probable. The difference between R$331.4 million and R$52.1 million is classified as a possible risk.

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.

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, and sustainability of transmission. The changes under study may require legal or regulatory modifications. In 2020, the Brazilian Government enacted the Provisional Measure No. 998/20, (converted into Law No. 14.120/2021), seeking to strengthen the opening of the Free Market for the sale of electricity and, among other measures, introduced significant improvements in the efforts to modernize the electricity sector led by the Brazilian Government. Any of these 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 from home, we had to reinforce communications, requiring us to update our staff about the applicable rules for the use of information and corporate systems.

We are subject to strict 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 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.

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.

The failure to comply with these environmental laws and regulations can result in administrative and criminal penalties, irrespective of the recovery of damages or indemnification payments for irreversible damages in the context of civil proceedings. Administrative penalties may include summons, fines, temporary or permanent bans, the suspension of subsidies by public bodies and the temporary or permanent shutdown of commercial activities. With regard to criminal liability, individual transgressors are subject to the following criminal sanctions: (i) custodial sentence—imprisonment or confinement; (ii) temporary interdiction of rights; and (iii) fines. The sanctions imposed on legal entities are: (a) temporary interdiction of rights; (b) fines; and (c) rendering of services to the community. The penalties relating to the temporary interdiction of rights applicable to legal entities can correspond to the partial or total interruption of activities, the temporary shutdown of establishment, construction work or activity and the prohibition of contracting with governmental authorities and obtaining governmental 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 mismanagement of our projects and/or ventures can lead to us not obtaining/ or losing our licenses, leading to adverse operational, financial, and reputational impacts.

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 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.

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.

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

In the performance of our core activities, whether in the construction or operational phase, as well as in our administrative activities and partnerships with suppliers and other agents, we may be indirectly connected to human rights violations due to factors such as: (i) logistical challenge to monitor and due diligence our wide range of suppliers and partners; (ii) direct and indirect operations taking place in areas of political instability, socioeconomic vulnerability and lack of robust social security and human rights protections; (iii) projects (such as large hydroelectric dams) that may involve the delicate process of relocating local communities; (iv) interactions with vulnerable groups around our operations; and (v) corporate demographic profile and organizational culture that do not emphasize diversity and equality. Our exposure to this risk was evidenced by the Government Pension Fund of Norway's decision in May 2020 to place Eletrobras on its investment exclusion list due to alleged human rights violations at Belo Monte hydropower plant, a joint venture of which Eletrobras holds a 49.98% stake.

Even though we and our companies seek to be in compliance with the regulations and best practices in relation to human rights, and to inhibit practices that may lead to human rights violations at Eletrobras and our partners, we may not be able to avoid certain financial and reputational impacts derived from indirect human rights violations. Acts or perceived violations of human rights could materially negatively impact our financial condition and results of operations.

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

The effects of climate change, including the change in rainfall, flow and wind patterns, the increase in the frequency and intensity of extreme events and regulatory changes can directly affect our generation and transmission activities, which can lead to financial impacts, loss of competitiveness, risk of divestment and reputational damage. Additionally, we do not have insurance coverage for some of these risks related to certain weather conditions or manmade or natural disasters.

Climate change is a priority and a strategic focus for us, as it can impact the continuity of our business. In order to minimize these impacts, we monitor and manage our greenhouse gas emissions, develop and encourage studies related to future scenarios arising from climate changes and the adaptation of our businesses to these changes, and seek to prioritize renewable energy projects that contribute to the transition to a low carbon economy. However, if we fail or are late to adapt to this new global scenario, our operations and financial results may be adversely affected.

If we fail to address issues related to the health and safety at work of our employees and the facilities where we conduct our activities, our results and operations may suffer negative impacts.

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

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

In addition, since March 2020, the COVID-19 pandemic has greatly increased the risk to the health of employees of all companies. With the national and international travel restrictions implemented in connection with Brazil, there were delays in our routine maintenance and construction works in progress. However, we had no impact on our corrective maintenance and priority works. Given the need to preserve the health of our employees, we established operational crisis and construction management committees to set protocols in order to safely carry out the work, leading to regularization of the construction works and preventive maintenance. Additionally, it should be noted that the operation of our systems has not been impacted.

The monitoring of our employees was reinforced during this period through Occupational Health and Safety protocols in order to reduce the risk of spread of COVID-19. However, if these measures are not sufficient to mitigate the risk and the number of contaminated employees in the same operating unit is high, our operations and financial results may be adversely affected.

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

Additionally, in accordance with the Brazilian Corporate Law if we post net income for the year which is characterized, in whole or in part, as not having been financially unrealized, according to the parameters defined in this law, management may choose to create a reserve of unrealized profits. 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.