B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to our Company

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

As a result of our NYSE listing, we are subject to the U.S. Foreign Corrupt Practices Act (as amended), or FCPA, and the disclosure requirements under the U.S. Securities Exchange Act of 1934. In addition, we are subject to broad anti-corruption legislation that has recently become effective in Brazil.

In 2009, the Federal Police commenced an investigation called "*Operação Lava Jato*" (Operation Car-Wash, or the *Lava Jato* Investigations) which, according to official sources, investigates the existence of an alleged corruption scheme involving Brazilian companies acting various sectors of the Brazilian economy, including the oil and gas sector. Since 2014, the Brazilian Federal Prosecutor's focused part of the investigation on irregularities involving state owned companies' contractors and suppliers and uncovered a broad payment scheme that involved a range of participants. In addition to criminal charges in Brazil, the U.S. Securities and Exchange Commission ("**SEC**") and Department of Justice ("**DoJ**") have also commenced investigations in relation to *Operação Lava Jato* (although we are not aware of any SEC or DoJ investigation with respect to Eletrobras) and a group of plaintiffs in the United States have commenced a civil class action lawsuit against us under the U.S. Securities laws. In light of these actions, the Brazilian media and the CVM have begun to question some special purpose entity and other transactions between third party contractors and us referred to in *Operação Lava Jato*. Members of the news media associated us with *Operação Lava Jato*. For more detailed information please see "*Explanatory Note.*"

As a response to allegations of potential illegal activities appearing in the media in 2015 relating to companies that provide services to the Company's subsidiary Eletrobras Termonuclear S.A. – Eletronuclear, a subsidiary of Centrais Elétricas Brasileiras S.A., ("Eletronuclear") (specifically, "NTU Angra 3" nuclear power plant), and to certain SPEs that Eletrobras holds a minority stake, Eletrobras' Board of Directors, although not required to do so, hired the law firm Hogan Lovells US LLP on June 10, 2015 to undertake an independent internal investigation for the purpose of assessing the eventual existence of irregularities, including violations of the U.S. Foreign Corruption Practice Act (FCPA), the Brazilian Anticorruption Law and the Eletrobras code of ethics (the "Independent Investigation"). The independent investigation is subject to oversight by an Independent Commission (Comissão Independente para Gestão da Investigação), whose creation was approved by Eletrobras' Board of Directors on July 31, 2015. This Commission is composed of Ms. Ellen Gracie Northfleet, a former justice of the Brazilian Supreme Court, Mr. Durval José Soledade Santos, a former director of the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM), and Mr. Manoel Jeremias Leite Caldas, the representative of minority shareholders.

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

On April 29, 2015, the Federal Police commenced the “Radioactivity Operation” under the 16th phase of Operation “Lava Jato”, which resulted in the imprisonment of a former officer of our subsidiary Eletrobras Termonuclear S.A – Eletronuclear. This former officer was sentenced to 43 years of prison, by the judge of the 7th Federal Criminal Court, for passive bribery, money laundering, obstruction of justice, tax evasion and participation in a criminal organization. On July 6, 2016, the Federal Police commenced “Operation Pripyat”, in which the Federal Police served arrest warrants issued by the judge of the 7th Federal Court of the District of Rio de Janeiro against former officers, officers who had already been suspended by Eletrobras’ Board of Directors as well as other parties. Formal charges of corruption, money laundering and obstruction of justice were filed against such former officers by Federal Prosecutors on July 27th, 2016. Eletrobras is assisting the prosecution in these criminal proceedings. For more information concerning civil charges filed against us, please see “ – *We may incur losses and spend time and money defending pending litigation and administrative proceedings.*”

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

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

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

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

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

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

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

Pursuant to SEC regulations, our management, fiscal council and internal auditors, evaluate the effectiveness of our disclosure controls and procedures, including the effectiveness of our internal control over financial reporting. Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. As a result of our management's evaluation of the effectiveness of our disclosure, controls and procedures in 2015, our management determined that these controls and procedures were not effective due to material weaknesses in our internal controls over financial reporting. These material weaknesses included our lack of design and maintenance of effective operating controls over:

- an effective control environment, especifically regarding the lack of timely remedial actions related to previous years, including the proper execution of management review controls comprising completeness analysis, materiality threshold definition and accuracy determination of data to certain controls reviewed;
- adequate controls regarding the preparation of the financial statements and related disclosures, including related parties transaction reconciliation; monitoring controls regarding the financial situation and the related accounting reflects of the transactions made with suppliers (Furnas); and analysis, reconciliation and monitoring of consumed fuel (Amazonas);
- effective internal controls regarding the adequate monitoring of the investments in specif purpose entities (SPEs), as well as for the related parties transactions, including failure to identify and monitor the physical and financial execution of the relevant investment projects evaluated under the equity method, lack of technical and financial terms review related to construction contracts before the bid process, adequate analysis of the proposals made by suppliers and lack of evaluation and monitoring of progress and budget of projects;
- effective internal controls over the Risk, Corruption Prevention and Compliance Program, considering the requirements of the North American legislation (FCPA - Foreing Corrupt Practices Act) and also of the Brazilian legislation (Law 12,846/2013 - anti-corruption law);
- adequate internal controls that would avoid management override to the high level controls, including failure to communicate and to obtain adherence to the ethical values prescribed in the Company's code of conduct, and an ineffective whistleblower channel due to inadequate comprehensiveness controls;
- effective controls related to payments and capitalization of fixed assets, that would result in future economic benefits as well as the approvals related to internal controls over the capitalization process.

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

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

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

We have not been notified and are not aware that, as of the date of this annual report, we are being investigated by the SEC or DoJ in relation to *Operação Lava Jato*. However, the SEC and the DoJ may investigate us in relation to *Operação Lava Jato* and any allegations regarding a violation of the U.S. Foreign Corrupt Practices Act in the future. In connection with any potential future SEC or DoJ investigation, there can be no assurance that we will not be required to pay penalties or provide other financial relief, or consent to injunctions or orders on future conduct or suffer other penalties, any of which could have a material adverse effect on us.

On August 30, 2016, the company received a letter from the SEC in which it informed the company about the possibility of the SEC commencing de-registration proceeding because Eletrobras failed to timely file its annual reports on Form 20-F for 2014 and 2015 with the SEC. We believe that once we file our annual reports on Form 20-Fs for 2014 and 2015, the SEC will be less likely to commence de-registration.

Operação Lava Jato investigations are still ongoing and new information may be disclosed. As such, our estimates may be under or overestimated, which could thus lead to the need of resubmitting our financial statements and to a materially adverse impact in our operational income and financial status. This could impact the market value of our securities.

Given that the investigations of *Operação Lava Jato* are still ongoing Eletrobras may have to make certain adjustments in certain lines of its financial statements in case the investigations lead to a discovery by Eletrobras of materially relevant differences between the accounted amounts in such lines.

Eletrobras' internal investigations on the allegations made under *Operação Lava Jato* intend to identify possible illegal payments and other illegal acts that may have occurred in projects in which the Company and its subsidiaries hold equity interest, either directly or through special purpose entities. One of the possible consequences of illegal payments would be the capitalization of undue amounts in the accounting entries relating to any effected projects resulting from illegal arrangements made with consortium of constructors, suppliers or other service renderers.

To determine the financial impact to be recognized in our consolidated financial statements, management took into consideration the conclusions reached and findings identified by the hired internal investigation and the conclusions reached and findings identified to date by the still ongoing public investigation called *Operação Lava Jato*.

However the investigations under *Operação Lava Jato* are still ongoing and the Federal Prosecutors Office may take a considerable amount of time to conclude its investigation new relevant information may come to light in the future, which could cause Eletrobras to further adjust certain line items.

The operational and financial results of the SPEs and consortia in which we invested may adversely affect our strategies, results of operations and financial condition.

We hold equity interests in a number of SPEs and consortia which were created specifically to participate in public auctions for concessions in the generation and transmission segments. We generally use SPEs when we enter into partnerships to explore new ventures. Given the significant decrease in generation and transmission tariffs in recent years and the current adverse macro-economic conditions in Brazil, the operational and financial results of these SPEs and consortia may be adversely affected. Further, as we do not control the management of these SPEs or consortia their management practices may not be aligned with ours, which could lead to sanctions or penalties being imposed on them. Any deterioration in the results of operations or financial condition of the SPEs or consortia or any sanctions or penalties imposed on them may have a negative effect on our results of operations or financial condition.

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

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

In mid-2014 our Board of Directors approved our compliance program (*Plano de Implementação do Programa de Compliance*), pursuant to (i) the Brazilian anti-corruption Law No. 12,846/2013, and (ii) the U.S. laws and regulations applicable to companies that have their securities listed on the NYSE, such as the FCPA. Pursuant to our policies, all of Eletrobras companies' employees, management, partners and third parties must follow all applicable anti-corruption laws and regulations, whether in Brazil or overseas. We implemented the compliance program at the Eletrobras group level and on December 22, 2014, our Board of Executive Officers approved our compliance manual (*Manual de* Compliance *à Política Anticorrupção*). Each of our subsidiaries nominated compliance managers and assistants (*Gerentes e Assistentes de Compliance*) which together form the compliance commission (*Comissão Diretiva de Compliance*) of Eletrobras' companies.

In December 2015, the company updated its Guidelines for Compliance with Anti-Corruption Policy. In August 2016 the Board of Directors created a Compliance Officer (*Diretoria de Conformidade*) to specifically address issues relating to risks, controls and corporate integrity. The Board elected Mrs. Lucia Casasanta to fill this new compliance role. Our Board of Executive Officers monitors the implementation of our compliance program by reviewing advances and setbacks.

We are implementing our compliance program as part of the "Eletrobras 5 Dimensions Program proposed by the then existing General Conttroller's office– CGU (*Controladoria-Geral da União*) for state-owned companies, in compliance with Decree 8,420/2015. Given the complexity of the new program, it may not be fully operational until early 2018. Our newly adopted practices will include: (i) the commitment of the company's Board of Officers to implement the compliance program, the creation of the new Compliance Officer role as well as the periodic reporting directly to the Board of Directors and to the Fiscal Council related to the ongoing compliance procedures; (ii) the development of a corruption risk assessment program to identify and protect the areas of a company in the energy sector which are most vulnerable to corruption; (iii) formal guidelines for compliance with our Anti-Corruption Policy , training of the employees, members of the management and of the Fiscal Council of the guidelines and integration of a of the Code of Ethics and Conduct Commitments, including formalizing procedures to mitigate the risk of corruption; (iv) implementation of an independent whistleblower channel and training our employees regarding our compliance procedure and the risks of corruption; and (v) annual internal audits to evaluate our compliance, including implementing due diligence for third parties and conducting background checks when appointing the members of their Board of Directors, Board of Officers and Fiscal Council.

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

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

The Brazilian Government enacted Law No. 12,783/2013, or Law No. 12,783, in order to regulate the terms and conditions for the renewal of concessions for the generation, distribution and transmission of electricity which were due to expire between 2015 and 2017. Law No. 12,783 provides that companies may, only once, renew their generation, transmission and distribution concessions for a further thirty years term, provided they accept certain conditions established by ANEEL, such as the revised tariffs to be calculated by ANEEL, and submitting to the agency's quality standards.

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

Further, the Brazilian Government enacted Law No. 13,182/2015 to regulate the terms for the renewal, for a further thirty years, of the generation concessions and including the Sobradinho, Itumbiara hydroelectric power plants. On November 3, 2015 Chesf renewed the concessions of the Sobradinho hydroelectric power plant and on January 7, 2016 Furnas approved the renewal of the concession of the Itumbiara hydroelectric power plant, but Furnas decision has not yet become effective. Up to this date the Itumbiara's auction to sell energy has not yet taken place, being this one of the conditions to affect the renewal of the concession. Recently, Law No. 13,299/2016,

enacted on June 21, 2016, amended certain provisions of Law No. 13,182/2015 with a view to make the sale of Itumbiara hydroelectric power plant's energy more favorable and, consequently, make the renew of Itumbiara concession effective. However, we cannot guarantee that the legality of Law No. 13,182/2015 and of Law No. 13,299/2016 will not be questioned, neither that all conditions needed to turn the renewal of the Itumbiara concession into an economically feasible project will be met.

With respect to the distribution of electric energy activity, on June 3, 2015, the Brazilian Government enacted Decree No. 8,461/2013, or Decree No. 8,461, that regulates the criteria for the renewal of distribution concessions pursuant to Law No. 12,783. The renewal of distribution concessions pursuant to Decree No. 8,461 requires that concession holders meet certain criteria for: (i) the quality of the distribution services provided, and (ii) the compliance with certain financial ratios.

During the Extraordinary General Meeting of Shareholders held on July 22, 2016, the shareholders approved not renew the concessions of Companhia Energética do Piaui - CEPISA; Companhia Energética de Alagoas - CEAL; Companhia de Eletricidade do Acre - ELETROACRE; Centrais Elétricas de Rondônia S.A - CERON; Boa Vista Energia S.A.; and Amazonas Distribuidora de Energia and that by December 31, 2017 Eletrobras will transfer the control of these distributions. The shareholders also approved that this distributions companies can be responsible for the distribution of public energy until December 31, 2017 if all the necessary funds for these companies to keeping their operations ongoing, perform maintenance and make new investments will be allocated by customer charges or government funding. The shareholders also approved to return, at any time, the distribution companies to Government control if control has not been transferred by December 31, 2017, or if the Federal Government, at any time, ceases to allocate resources to fund these companies or the tariff does not represent proper compensation. If Eletrobras returns these concessions, they will be subject to new bids in the future.

On August 3, 2016, the MME issued decrees Nos. 420, 421, 422, 424 and 425 naming, respectively, the Distributors Amazonas Energia, Eletroacre, Ceron, Cepisa, Ceal and Boa Vista as temporarily responsible for distributing public energy so as to assure the continuity of the service, in accordance with article 9, paragraph 1, of Law No. 12,783 of January 11, 2013.

According to these decrees, the Distributors will provide the indicated services, in a provisional manner, against payment of the proper compensation, until the effective transfer of control of the Distributors, or until December 31, 2017, whichever occurs first, in accordance with the terms provided in Decree MME 338 of July 26, 2016 and article 9 of Law No. 12,783/2013.

Under paragraph 4 of article 9 of Law No. 12,783/2013, during the temporary service provision period, the Distributors may apply the approved results of revisions and tariff adjustments, as well as borrow and receive funds from the CCC Account, the CDE Account and the RGR Fund, subject to Aneel's regulation.

However, as Eletrobras continues to be a majority stakeholder of the Distributors, it is not possible to ensure that the Company will successfully transfer the corporate control of all its Distributors by the end of 2017. Accordingly, Eletrobras may have to bear the costs related to the dissolution of the companies that might remain under its control. Those costs could include the termination of employees and other obligations. Furthermore, Eletrobras may have to pay expenses related to obligations the Distributors might have had before the commencement of the temporary service provision period or related to obligations in which Eletrobras is the guarantor.

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

In respect of our generation and transmission concessions, by agreeing to the renewal of the concessions, which were due to expire between 2015 and 2017, we accepted indemnification for the unamortized portion of our assets relating to those concessions. As of April 30, 2015, pursuant to Law No. 12,783/2013, we were awarded the total indemnification payments of R$ 15.2 billion. These indemnification payments relate to any generation and transmission assets that entered into operation after May 31, 2000, which consist of the so called Basic Network – New Installations – RBNI (*Rede Básica – Novas Instalações – RBNI, or the Basic Network*).

In 2014 we claimed indemnification from ANEEL (i) in relation to any transmission assets of the Basic Network, which became operational prior to May 31, 2000 and which have not yet been depreciated and/or amortized (RBSE) in accordance with Law No. 12,783 and ANEEL Resolution No. 589/2013; and (ii) for the modernization of any generation assets in accordance with Law No. 12,783 and ANEEL Resolution No 596/2013. Eletronorte, Eletrosul, Furnas and Chesf claimed indemnifications amounting to R$ 26.5 billion. ANEEL has acknowledged the requests for indemnification payments of R$ 1.007 billion made by Eletrosul, R$ 9 billion requested by Furnas and R$ 5,1 billion made by Chesf. The indemnification requested by Eletronorte is still being analyzed by ANEEL.

On April 20, 2016, MME enacted Instruction No, 120, which regulated the conditions under which the indemnifications in connection with the RBSE transmission assets shall be received and which established that the amounts homologated by ANEEL referring to these assets should be merged into the Regulatory Asset Basis (*Base de Remuneração Regulatória*). On December 2015, the amount of RBSE credits that had not yet been accounted for, however this has occurred in June 30, 2016 after the regulation issued under Instruction No, 120. As the Aneel may call a public hearing to discuss the accounting of the RBSE, new relevant information may come to light in the future, which could cause Eletrobras to further adjust certain line items, included the line items relating to Taxes. Also as the indemnification requested by Eletronorte is still being analyzed by ANEEL, its claim could be less than the value accounted, on June 30, 2016.

These amounts related to RBSE, once updated and paid, will be added to the Permitted Annual Revenues (“RAPs” - *Receitas Anuais Permitidas*) of the relevant projects, being recognized as from the 2017 review of tarrifs procedure, for an eight-year period. ANEEL has not yet defined the criteria for the indemnification of generation assets, which may be below the amount claimed by Eletrobras and which have not yet been accounted for by Eletrobras.

In respect of our distribution concessions, the Brazilian Government has not yet enacted rules or regulations for the indemnification of the unamortized portion of our assets relating to these concessions. Such rules or regulations, when enacted, may adversely affect the financial condition and results of operations of our distribution companies.

The value of the revised tariffs we calculated based on our expected expenses, costs and revenues may be lower than the tariffs we will eventually receive.

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

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

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

The Brazilian Government may renew any existing concessions that were not renewed pursuant to Law No. 12,783 and Law No. 13,182/2015, for an additional period of 30 years without the need to carry out a new public bidding process. If we request a renewal, the Brazilian Government may renew the concession on less favorable terms. This applies to approximately 33.6% of our generation assets and 8.03% of our transmission assets, other than Itaipu and our nuclear power plants, Angra I and Angra II.

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

The value of any government bonds received by us in exchange for our credits in Itaipu might be less than the value of such credits.

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

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

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

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

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

In order to finance the capital expenditures needed to meet our long-term growth objectives, we have incurred a substantial amount of debt. As our cash flow from operations in recent years has not been sufficient to fund our capital expenditures, debt service and payment of dividends, our debt has significantly increased since 2012. Our total debt (including accrued interest) increased by 17.3% to R$ 46,398 million as of December 31, 2015, compared to R$ 39,539 million as of December 31, 2014 and to R$ 32,476 million as of December 31, 2013. Our debt, net of cash, cash equivalents and marketable securities, increased by 11.1% to R$ 37,966 million as of December 31, 2015 compared to R$ 34,177 million as of December 31, 2014 and to R$ 22,590 million as of December 31, 2013. 57.1% of our existing debt (principal), or R$ 46.4 billion, will mature in the next five years. In order to meet out growth objectives, maintain our ability to fund our operations and amortize scheduled debt maturities, we will need to raise significant amounts of debt capital from a broad range of funding sources.

To service our debt after meeting our capital expenditure targets, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our available credit facilities, our cash and short-term financial investments balance and the incurrence of additional indebtedness. Following the downgrade of the sovereign, we lost our Fitch's, Moody's and Standard & Poor's investment grade ratings. Any further lowering of our credit ratings may have adverse consequences on our ability to obtain financing or may impact our cost of financing, also making it more difficult or costly to refinance maturing obligations. If, for any reason, we are faced with continued difficulties in accessing debt financing, this could hamper our ability to make capital expenditures in the amounts needed to maintain our current level of investments or our long-term targets and could impair our ability to timely meet our principal and interest payment obligations with our creditors, as our cash flow from operations is currently insufficient to fund such both planned capital expenditures and all of our debt service obligations. A reduction in our capital expenditure program or the sale of assets could significantly affect our results of operations and financial condition.

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

We are party to a number of international and Brazilian financing facilities as borrower and guarantor. The bonds we issued in the international capital markets and our existing credit facilities require that we comply with a number of financial and non-financial covenants, such as the provision of financial statements by certain dates and the provision of an unqualified audit report, among others. We may not be able to comply with such covenants, which could trigger certain events of defaults and, consequently, permit the relevant lenders to accelerate the loans, potentially allowing other lenders to rely on their cross-acceleration provisions. For example, in March 2015 we received waivers from certain lenders with respect to the qualified audit report as of and for the year ended December 31, 2015 included in our consolidated financial statements as of and for the year ended December 31, 2015 as filed with the CVM in Brazil. We cannot guarantee that the relevant lenders will grant us waivers for any breaches of our covenants in the future, and any covenant breach may result in circumstances that usually lead to defaults in other financing.

In addition, we are the guarantor of certain debentures issued by Teles Pires Participações S.A. As guarantor, we are required to comply with certain financial ratios. As of December 31, 2015, we did not comply with these ratios. We have renegotiated this guarantee with the holders and the holders granted a waiver on March 29, 2016 stating that they will not accelerate the debt for a period of 180 days. Since June 30, 2016, Eletrobras has complied with these financial ratios. However, any acceleration of any other guarantee, financing or security may adversely impact Eletrobras' financial status.

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

In respect of capital expenditures for expansion, modernization, research, infrastructure and environmental projects, in 2014 we disbursed R$ 11.4 billion and in 2015 R$ 10.4 billion. For 2016 our current budget provides for approximately R$ 13.9 billion of capital expenditures. We cannot assure you that we will be able to finance our proposed capital expenditure programs from either our cash flow or external resources. Moreover, as a state controlled company, we are subject to certain rules limiting our indebtedness and investments and must submit our proposed annual budgets, including estimates of the amounts of our financing requirements and sources of our financing, to the Ministry of Planning, Budget and Management and the Brazilian Congress for approval. Thus, if our operations do not fall within the parameters and conditions established by such rules and the Brazilian Government, we may have difficulty in obtaining the necessary financing authorizations, which could create difficulties in raising funds.

Further, as our credit rating is sensitive to any change in the Brazilian Government rating, which Moody's lowered on August 11, 2015 and further on December 9, 2015 and on February 25, 2016, Standard & Poor's lowered on March 24, 2014 and further lowered on September 9, 2015 and on February 17, 2016, reaffirmed on May 19, 2016, and which Fitch lowered on October 15, 2015 and further lowered on December 16, 2015 and on May 10, 2016. The two most recent downgrades in ratings by Standard & Poor's and Fitch resulted in a loss of the sovereign's investment grade. Accordingly, any further lowering of the Brazilian Government rating may have additional adverse consequences on our ability to obtain funding and/or our cost of funding.

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

We own a number of subsidiaries and invest in a number of affiliates and SPEs whose performance significantly influences our results.

We conduct our business mainly through our operating subsidiaries, including Eletronorte, CGTEE, Eletronuclear, Chesf, Furnas, Eletrosul, CEAL, Eletroacre, Amazonas Energia GT, Amazonas Energia D, CEPISA, CERON, Boa Vista Energia and, most recently, CELG-D. In addition, we and our subsidiaries invest in SPEs for the development of certain projects, such as the construction of our hydroelectric plants Santo Antonio and Jirau. For the purposes of Rule 3-09 of Regulation S-X, the SPEs that hold the Santo Antônio and Jirau projects are considered significant subsidiaries as of and for the year ended December 31, 2014. For the year ended December 31, 2015 the Rule 3-09 of Regulation S-X was not applicable. Our ability to meet our financial obligations is therefore related in part to the cash flow and earnings of our subsidiaries and SPEs and the distribution or other

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

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

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

The generation costs of the isolated system are partially covered by the CCC Account. As a result of the delay in the transfer of funds from the CCC Account to our distribution subsidiaries, they have incurred substantial debt with third party fuel suppliers. If there is a delay in ANEEL releasing funds from the CCC Account, our distribution subsidiaries are subject to penalties and interest, which are not covered by the CCC Account.

In December 2014, certain of our distribution subsidiaries renegotiated overdue amounts with third party fuel suppliers. These amounts totaled approximately R$ 8.6 billion, which have been already negotiated and formalized through instruments of acknowledgment of debt. These agreements benefited from security over receivables of the CCC Account and a corporate guaranty provided by us. Due to the on-going delay in funds being transferred from the CCC Account to us, we and our distribution subsidiaries contracted additional debt. The distribution subsidiaries jointly with Eletrobras are negotiating further agreements with third party fuel suppliers for debt incurred from December 2014 through the present date.

On account of the default by the subsidiary Amazonas Energia on gas invoices for the period from December 2014 through June 2015, and outstanding debits of 2016, in April 26, 2016 Petrobras filed a lawsuit demanding approximately R$ 1.7 billion.

Any further delay in funds being transferred from the CCC Account to us and our distribution subsidiaries may cause certain of our distribution subsidiaries to breach existing agreements and incur a substantial amount of debt with their third party fuel suppliers as these distribution subsidiaries do not generate sufficient cash flows to fund these obligations, thus adversely impacting their financial status and income.

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

We manage certain accounts and funds such as the CCC Account, the CDE Account and the RGR Fund. These funds are managed pursuant to rules and regulations enacted by ANEEL. Accordingly, ANEEL and other oversight bodies, such as the Federal Audit Courts (the "**TCU**") may not agree with how we interpret certain of the provisions for the management of these accounts and/or funds. Accordingly, we may be exposed to significant penalties for non-compliance with these rules. Further, we are subject to civil and criminal liability for the management of third party funds.

In January 2014, ANEEL commenced an administrative proceeding determining that we reimburse the RGR Fund the historical amount of approximately R$ 2 billion. We appealed against this decision. On May 10, 2016, ANEEL dismissed the first appeal and determined that we indemnify the RGR Fund for that amount. In June 2016 Law No. 13,299/2016 was enacted. As a result, we have filed a new appeal requesting compliance with the new law. On September 27, 2016, ANEEL partially granted Eletrobras' appeal. The company will reimburse the RGR fund in the amount of R$ 2,037.8 million (the historical amount of December 31, 2011). This amount will have to be adjusted by

an annual interest of 5% due in monthly installments between January 2017 and the year 2026. Eletrobras disagrees with the amount of the inflation adjustment and, consequently, it will appeal against this decision. We cannot assure you, however, that this new appeal will be granted.

On June 22, 2016 the Federal Government enacted Provisional Measure No. 735 removing the administration of all sectorial funds, including RGR Fund, the CDE Account, CCC (Oil Consumption Account - *Conta de Consumo de Combustível*) from our responsibility after January 1, 2017. The management of sector-based funds was thus transferred to CCEE. However, to date, any allegation of mismanagement of such funds could implicate us, which could adversely affect the condition of the company and its financial results.

We may be unable to fully implement our strategy.

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

- Implement an operational efficiency plan aimed at reducing costs, increasing revenues and improving the quality and reliability of our services;
- Expand our business in a sustainable and profitable manner;
- Improve our business model, corporate governance and management; and
- Improve our human resources allocation in light of the new regulations of the Brazilian energy sector.

We cannot guarantee that we will be able to accomplish these objectives in their entirety or successfully. Any impact on the main elements of our strategy may adversely affect our financial condition and results of operations.

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

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

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

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

Our subsidiary Eletronuclear, as an operator of nuclear power plants, is subject to strict liability under Brazilian law for damages in the event of a nuclear accident caused by the operations of nuclear power plants Angra I and Angra II. The Vienna Convention on Civil Liability for Nuclear Accidents, or the Vienna Convention, became binding in Brazil in 1993. The Vienna Convention provides that an operator of a nuclear installation, such as Eletronuclear, in a jurisdiction which has adopted legislation implementing the Vienna Convention, will be strictly liable for nuclear damages. In addition, Eletronuclear is also regulated by several federal and state agencies.

As of December 31, 2015, our Angra I and Angra II nuclear power plants were insured for nuclear risk in the event of a nuclear accident for the total amount, per power plant, of U.S.$500 million for material damages and of U.S.$286.7 million for civil liability. The Brazilian nuclear regulatory authority, or CNEN, has not established any additional safety requirement for the nuclear power plants as a result of the Fukushima accident in Japan. Eletronuclear complied with all the requests of CNEN regarding the lessons learned from the Fukushima accident, including the performance of “stress tests” developed for European reactors in accordance with the technical guidelines set forth by the European Commission. The location of our existing plants was also subject to an extensive reevaluation prior to the Fukushima accident as part of the licensing application for the construction of Angra III and the adequacy of the safety designs were confirmed at that stage.

The technology applied in Brazilian nuclear power plants and the design, incorporating additional safety features such as double emergency supply systems and alternatives for passive reactor cooling, should withstand accidents beyond the design basis. Nonetheless, Eletronuclear established a comprehensive program to evaluate and enlarge its existing safety margins and allocated approximately US$188 million to be applied towards this through to 2016. The program involves studies and improvements to the nuclear power plants to increase their safety. For example, we have diesel generators and pumps at the site for any emergency which may occur. The Fukushima accident did not affect nuclear power generation in Brazil; our current plants remain operational and our projects have not been affected.

However, Eletronuclear cannot guarantee that its insurance will be sufficient in case of a nuclear accident. Accordingly, our financial condition and results of operations may be affected if a nuclear accident were to occur.

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

Our distribution companies operate under challenging market conditions and historically, in the aggregate, have incurred losses.

Our distribution activities are carried out in the midwestern, northern and northeastern regions of Brazil and represented approximately 21.1% for 2014 and 31.8% for 2015 of our consolidated net revenue for the year ended December 31, 2014 and December 31, 2015. This percentage only reflects the net revenues of CELG-D for the final three-months of 2014, and not for the full year. Our distribution subsidiaries have historically incurred significant commercial losses due to, among others, illegal connections, tampering with electricity meters, as well as relatively high levels of default by consumers in those regions, which have adversely affected our consolidated results of operations.

We took several measures to reduce commercial losses and to renegotiate debts due by consumers in default with our distribution subsidiaries. However, the results of our distribution subsidiaries continue to be substantially affected by (i) adverse hydrological conditions which led to increased generation costs which were reflected in increased tariffs; higher tariffs, however, increased default rates and (ii) the contraction of the Brazilian economy, which reduced the demand for high tension power; accordingly, excess power was offered to the low tension power market, which is subject to greater illegal connections and customer defaults. Further, delays in the construction works for the expansion and modernization of the grid contributed to an increase in technical losses.

This was particularly exacerbated by unusually high temperatures and adverse hydrological conditions. Total losses increased by 1.07%, from 23.62% for the year ended December 31, 2014 to 24.69% for the year ended December 31, 2015. Customer default rates decreased by 0.9%, from 11.29% for the year ended December 31, 2014 to 10.39% for the year ended December 31, 2015.

In addition, the increase in tariffs, which contributed to the increase in our revenue (which increased by 46%, from R$ 11,456 million for the year ended December 31, 2014 to R$ 16,721 million for the year ended December 31, 2015) was insufficient to offset the greater costs incurred by our distribution subsidiaries. Further, delays in the transfer of funds from the CDE Account have substantially restricted the cash flows of our distribution subsidiaries, therefore impacting their investment and operational activities. Similar or other factors may occur in the future and might have adverse effects on our financial conditions.

During the Extraordinary General Meeting of Shareholders held on July 22, 2016, the shareholders approved not to renew the concessions of Companhia Energética do Piaui - CEPISA; Companhia Energética de Alagoas - CEAL; Companhia de Eletricidade do Acre - ELETROACRE; Centrais Elétricas de Rondônia S.A - CERON; Boa Vista Energia S.A.; and Amazonas Distribuidora de Energia and that by December 31, 2017 Eletrobras will transfer the control of these distributions, in compliance with Provisory Measure 735/2016. The shareholder salso approved that these distributions companies can be responsible for the distribution of public energy until December 31, 2017 if all the necessary funds for these companies to continue operating, perform maintenance and make new investments will be allocated by customer charges or government funding. The shareholders also approved to return, at any time, the distribution companies to Government control if control has not been transferred by December 31, 2017, or if the Federal Government, at any time, ceases to allocate resources to fund these companies or the tariff does not represent proper compensation. If Eletrobras returns such concessions, they will be subject to new bids in the future.

On August 3, 2016, the MME issued decrees Nos. 420, 421, 422, 424 and 425 naming, respectively, the Distributors Amazonas Energia, Eletroacre, Ceron, Cepisa, Ceal and Boa Vista as temporarily responsible for distributing public energy so as to assure the continuity of energy distribution.

According to these decrees, the Distributors will provide the indicated services, in a provisional manner, against payment of the proper compensation, until the earlier of the effective transfer of control of the Distributors, or until December 31, 2017.

During the temporary service provision period, the Distributors may apply the approved results of revisions and tariff adjustments, as well as borrow and receive funds from the CCC Account, the CDE Account and the RGR Fund, subject to Aneel’s regulation.

However, as Eletrobras continues to be a majority stakeholder of the Distributors, it is not possible to ensure that the Company will successfully transfer the corporate control of all its Distributors by the end of 2017. Accordingly, Eletrobras may have to bear the costs related to the dissolution of the companies that might remain under its control. Those costs could include the termination of employees and other obligations. Furthermore, Eletrobras may have to pay expenses related to obligations the Distributors might have had before the commencement of the temporary service provision period or related to obligations in which Eletrobras is the guarantor. Also, if the Provisory Measure 735/2016 is not converted into law within sixty days after having been enacted (period that can be extended fpr another sixty days), or if the law which is enacted as a consequence of the provisory measure amends any provision of the Provisory Measure 735/2016, Eletrobras could not have the adequate conditions to transfer the corporate control of all its Distributors by the end of 2017 and, therefore, Eletrobras may have to bear the costs related to the dissolution of these companies.

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

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor, tax and corporate claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. We have established provisions for all amounts in dispute that represent a probable loss 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, 2014, we provisioned a total aggregate amount of approximately R$ 13.1 billion in respect of our legal proceedings, of which R$ 236 million were related to tax claims, R$ 11.9 billion were related to civil claims and R$ 943 million were related to labor claims. As of December 31, 2015, we provisioned a total aggregate amount of approximately R$ 14.1 billion in respect of our legal proceedings, of which R$ 12.5 billion were related to civil claims and R$ 1 billion were related to labor claims. (See “Item 8.A, Consolidated Financial Statements and Other Information – Litigation” and note 31 to our consolidated financial statements).

Our subsidiary Chesf is a defendant in a proceeding filed by Companhia Brasileira de Projetos e Obras and Mendez Júnior in respect of certain amendments to the construction agreement of the Xingó plant. An appeal is currently before the Brazilian Superior Court of Justice. One of the main issues relates to the application of a factor for monetary restatement. If the court decides against Chesf, it may have to pay up to R$ 1 billion to the plaintiffs. Furthermore, the Federal Court of Recife, in the state of Pernambuco, has blocked, in August 2016, R$ 497.2 million of Chesf’s assets in connection with this ongoing litigation.

In the event that claims involving a material amount and for which we have no provisions were to be decided against us, or in the event that the losses estimated turn out to be significantly higher that the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition and results of operations. In addition, our management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on our core business. Depending on the outcome, certain litigation could result in restrictions in our operations and have a material adverse effect on certain of our businesses.

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

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

The plaintiffs have not specified an amount of damages they are seeking, although such amount, when specified, could be material to us. On April 15, 2016, we filed a motion to dismiss the second amended complaint, which was fully briefed and then submitted to the Court on June 17, 2016. The motion remains under consideration by the Court; oral argument has been requested but not yet scheduled. Eletrobras retained US legal counsel and is defending itself vigorously against the allegations made in these lawsuits. There has been no substantive decision as to the claim or specific definition as to the amounts involved. These legal proceedings could have a material adverse effect on the Company’s consolidated financial position, results of operations and cash flows in the future.

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

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

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

As of December 31, 2015 consumers have filed 5,216 lawsuits against us questioning the monetary adjustments, understated inflation and interest calculations related to the repayment of the compulsory loans. Of those lawsuits, 1,834 have been decided against us and are currently being enforced during 2015. In the third quarter of 2015, the STJ issued decisions defining the parameters for the method to calculate such executions, accepting some of the claims made by Eletrobras, although not entirely, causing adjustments to the calculation methods adopted by Eletrobras and the risk classification of these claims and consequent difference in the provision for contingencies. The total amount involved in these lawsuits is unadjusted for monetary restatement and required expert assessment to be estimated reliably. The total amount paid by Eletrobras in the outstanding lawsuits is approximately R$ 6.1 billion. In the course of enforcement proceedings, we have been required to pledge certain of our assets, consisting mainly of preferred shares held by us in other electricity sector companies. As of December 31, 2015 we have provisioned in our consolidated financial statements filed with CVM the amount R$ 9.3 billion to cover losses arising from unfavorable decisions on these lawsuits.

We are also involved in approximately 2,100 lawsuits related to the repayment of the compulsory loans, in which consumers seek to exercise the option to convert their credits presented by bonds payable to the bearer. These bonds are called “*obrigações da Eletrobras*” and are subject to expiration, which has already passed. Although we believe that we have no further liability in respect of these bonds because they are expired, any legal interpretation that the bonds have not expired could adversely affect our results of operations and financial condition.

Judgment may not be enforceable against our directors or officers.

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

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

Pursuant to Supplementary Law No. 108/2001 and Supplementary Law No. 109/2001, we are required to make contributions to the pension plans of our current and former employees. If there is mismatch in the reserves of the pension plans and the amount of resources available to the plans, we (as sponsors) and the pension plan beneficiaries must contribute to the pension plan to re-establish the plan’s balance.

In 2015, the pension plans that we and our subsidiaries sponsor recorded a deficit of R$ 1.9 billion. In 2014, the deficit was R$ 2.2 billion. We contributed R$ 421.9 million and R$ 525.0 million to these pension plans in 2014 and 2015, respectively. Various pension plans which we sponsor are engaged in discussionswith PREVIC (*Superintendência Nacional de Previdência Complementar*), the pension plan supervisory body, to reduce or eliminate these plans’ deficits. If these discussions determine that the deficits need to be partially or fully reduced, they will require the pension plan beneficiaries and their sponsors, such as us, to make extraordinary contributions. The terms of these contributions, which will be agreed among the beneficiaries and sponsors, may be substantial and could adversely affect our results of operations and financial condition.

Our insurance coverage may be insufficient to cover potential losses.

Our business is generally subject to a number of risks and hazards, including industrial accidents, labor disputes, unexpected geological conditions, changes in the regulatory environment, environmental hazards and weather and other natural phenomena. Additionally, we and our subsidiaries are liable to third parties for losses and damages caused by any failure to provide generation, transmission and distribution services.

Our insurance covers only part of the losses that we may incur. We are currently in the process of renegotiating our insurance policies at a group level to ensure uniform coverage and adequate protection for all our operations. Nevertheless, we believe that we maintain insurance in amounts that are adequate to cover material damages to our plants caused by fire, general third-party liability for accidents and operational risks. If we are unable to renew our insurance policies from time to time or losses or other liabilities occur that are not covered by insurance or that exceed our insurance limits, we could be subject to significant unexpected additional losses.

Risks Relating to Brazil

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

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

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

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

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

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

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

The Brazilian currency has experienced high degrees of volatility in the past, which after a relatively long period of stability, became extremely volatile again in 2014 and 2015. The Brazilian Government has implemented several economic plans, and has used a wide range of foreign currency control mechanisms. Nevertheless, the exchange rate between the real and the dollar reached R$ 3.90 to U.S.$1.00 on December 31, 2015, R$ 2.66 to U.S.$1.00 on December 31, 2014 and R$ 2.34 to U.S.$1.00 on December 31, 2013.

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

As of December 31, 2014, approximately 30% of our consolidated indebtedness (of R$ 39,539 million), which amounted to R$ 11,878 million, was denominated in foreign currencies, of which R$ 11,484 million (or approximately 29% of our consolidated indebtedness) was denominated in U.S. dollars. As of December 31, 2015, approximately 33% of our consolidated indebtedness (of R$ 46,398 million), which amounted to R$ 15,283 million, was denominated in foreign currencies, of which R$ 14,851 million (or approximately 32% of our consolidated indebtedness) was denominated in U.S. dollars.

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

Members of the federal government and the Brazilian legislative branch have faced allegations of political corruption. As a result, a number of politicians, including senior federal officials and congressmen, resigned or have been arrested. Currently, elected officials and other public officials in Brazil are being investigated for allegations of unethical and illegal conduct identified during *Operação Lava Jato* being conducted by the Office of the Brazilian Federal Prosecutor.

Furthermore, in December 2015, the opening of impeachment proceeding was authorized against President Dilma Rousseff alleging non-compliance with the fiscal responsibility law. On April 17, 2016, the lower house of the Brazilian legislature voted to allow the Senate to commence the impeachment proceeding of President Dilma Rousseff. On May 12, 2016, the upper house of the Brazilian legislature determined that the impeachment proceeding was admissible and, accordingly, commenced an impeachment trial. During the 180-day trial period, the Vice-President of Brazil acted as President. On August 10, 2016, the Senate approved the report of its special impeachment committee which recommended that President Dilma Rousseff should be brought to trial by the upper house of the Brazilian legislature. On August 31, 2016, President Dilma Rousseff was found guilty, losing her mandate and Vice-President Michel Temer took office for the remainder of the term of January 1, 2019. In September 2016 the result of the impeachment proceedings was appealed to the Supreme Court of Brazil (*Supremo Tribunal Federal*). The court has not ruled on this appeal.

The outcome of the appeals concerning the impeachment proceeding, as well as on-going political demonstrations in respect of the impeachment process and the corruption allegations against senior politicians led, and may lead, to further political instability and a further decline in confidence by consumers and foreign direct investors in the stability and transparency of the Brazilian government, and may continue to have a material adverse effect on Brazil's economic growth. This in turn may have a material negative impact on our businesses. Political demonstrations in respect of the corruption-related issues discussed above have affected the Brazilian economy and investors' perceptions about Brazil. For example, mass street protests, which have been taking place since mid-2013 and recently took place on March 13, 2016 across an estimated 150 cities in Brazil, demonstrate the public's dissatisfaction with corruption and certain political measures, and represent a potential risk to the Brazilian political and economic outlook.

The potential outcome of *Operação Lava Jato* and the appeals concerning the impeachment proceeding is unknown and have had an adverse impact on general market perception of the Brazilian economy. In respect of *Operação Lava Jato* the conclusion or further allegations of illegal conduct could have additional adverse effects on the Brazilian economy. The President of Brazil has powers to indirectly appoint the majority of our directors. Accordingly, any change in the Brazilian government could lead to changes in our management. We cannot predict whether the outcome of *Operação Lava Jato* and the impeachment proceeding will lead to further instability or whether new allegations against Brazilian government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations nor their effect on the Brazilian economy and, consequently, our results of operations.

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

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

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

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

Risks Relating to the Brazilian Power Industry

We are subject to impacts related to the hydrological conditions.

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

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

As Brazil experience an unusually severe drought between 2012 and 2015, its energy generation was below its expected levels. Following the enactment of Law No. 12,783, only generation companies which hold concessions which were not renewed pursuant to its terms and are due to expire remain exposed to this risk. As some of our subsidiaries hold concessions due to expire we and our subsidiaries are exposed to this risk. Accordingly, in the event that there are unfavorable hydrological conditions our results of operations and financial condition may be affected. As this risk is systemic, and even though we are currently adopting strategies to reduce the impact of this risk, we cannot guarantee that this risk will be completely mitigated or avoided.

In addition, we act as commercial agent of the energy generated by Itaipu in the regulated market making available the total volume of energy agreed to the quota holders. Accordingly, the hydrological risks cannot be mitigated. Although there are expenses associated with the commercialization of energy, these expenses are only indemnified in the subsequent year, which significantly impacted our cash flows. However, following the enactment of Decree No. 8,401/2015, after considering the MRE, the Itaipu generation hydrological risk must be assured by distribution concessionaires when defining the tariffs, and not in the subsequent year. Accordingly, from 2015 onwards we will no longer bear expenses related to Itaipu hydrological risks. However, we cannot guarantee that we will not incur expenses relating to power generated by Itaipu. We depend on approval from the relevant regulatory authorities to increase tariffs for the power generated, despite the fact that we have the right to certain indemnification payments pursuant to Law No. 8,401/2015, as discussed above.

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

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

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

As of December 31, 2014 and 2015, we believe we were in compliance with all material terms of our concession agreements. However, we cannot assure you that we will not be penalized by ANEEL for a future breach of our concession agreements or that our concessions will not be terminated in the future. In the event that ANEEL were to terminate any of our concessions before their expiration date, the compensation we recover for the unamortized portion of our investment may not be sufficient for us to recover the full value of our investment and, accordingly, could have a material adverse effect on our financial condition and results of operations.

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

Law No. 12,767/2012 permits ANEEL to intervene in electric power concessions considered part of the public service in order to guarantee adequate levels of service as well as compliance with the terms and conditions under the concession contract, regulations and other relevant legal obligations.

If ANEEL were to intervene in concessions as part of an administrative procedure, management would have to present a recovery plan to correct any violations and failures that gave rise to the intervention. Should the recovery plan be dismissed or not presented within the timelines stipulated by the regulations, ANEEL may, among other things, expropriate or forfeit the concession, reallocate our assets or adopt measures which may alter our shareholding structure.

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

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

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

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

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

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

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

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

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

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

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

For example, the Ministry of Environment required us to fulfill 34 steps related to health and safety and the environment in order to receive a permit for operation of our Belo Monte project. We see increasing health and safety requirements as a trend in our industry. Moreover, private individuals, non-governmental organizations and the public have certain rights to commence legal proceedings to obtain injunctions to suspend or cancel the licensing process. In addition, Brazilian Government agencies could take enforcement action against us for any failure to comply with applicable laws. Such enforcement action could include, among other things, the imposition of fines, revocation of licenses and suspension of operations. Such failures may also result in criminal liability, irrespective of our strict liability to perform environmental remediation and to indemnify third parties for environmental damage. We cannot accurately predict the effect that compliance with enhanced environmental, health or safety regulations may have on our business. If we do not secure the appropriate permits, our growth strategy will be significantly adversely affected, which may materially adversely affect our results of operations and our financial condition.

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

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

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

The construction, expansion and operation of facilities and equipment for the generation, transmission and distribution of electricity involve many risks, including:

- the inability to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor unrest;
- social unrest;
- interruptions by weather and hydrological conditions;
- unforeseen engineering and environmental problems;
- increases in electricity losses, including technical and commercial losses;
- construction and operational delays, or unanticipated cost overruns;
- issues related to the sale of energy;

- the unavailability of adequate funding; and
- expenses related to the operation and maintenance segment cannot be fully approved by ANEEL.

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

As a further example, we and our subsidiaries Chesf and Eletronorte are currently in conflict with the other shareholders of Norte Energia S.A. in relation to the Belo Monte project. The conflict relates to the interpretation of certain provisions of the shareholders' agreement of Norte Energia S.A. in relation to the sale of power on the Free Market. In 2016 the shareholders of Norte Energia S.A. filed an arbitration proceeding against Eletrobras to dispute the reading of a section of that compay's shareholders' agreement. The section under dispute established a right of first refusal to enter into a purchase and sale agreement of 20% of the average secured power generated by Belo Monte and which was destinated to the Free Market (ACL). Notwithstanding the ongoing arbitration procedure the shareholders have been endeavoring to reach a consensus to enter into such Free Market agreements, which, once executed by the shareholders and submitted to BNDES, would allow the release of to R$ 2 billion. This amount has already been contracted with the bank and will be credited to the company by BNDES once it receives a copy of the purchase and sale agreement duly executed by all parties. If the reading of the disputed section of the shareholders' agreement and the respective arbitration award are disfavorable to Eletrobras its financial status and operational income may be adversely impacted.

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

Risks Relating to our Shares and ADS

The New York Stock Exchange commenced procedures to delist our ADS. We cannot assure that the SEC will not move forward with the procedure to cancel our registration.

As a result of our failure to timely file this Annual Report on Form 20-F with the SEC, the NYSE informed us that we were not in compliance with the NYSE's continued listing requirements under the timely filing criteria outlined in Section 802.01E of the NYSE Listed Company Manual and that we were subject to the procedures set forth in the NYSE's listing standards related to late filings. Under the NYSE rules we were given an additional six months to file our 2014 annual report on Form 20-F with the SEC, subject to up to an additional six-month extension in the discretion of the NYSE. The NYSE granted us the further six-month extension until May 18, 2016 to file our delinquent report. Because Eletrobras has been unable to file its 2014 and 2015 annual reports on Form 20-F, the NYSE suspended trading in its ADS in May 2016 and commenced delisting proceedings. Although Eletrobras does not dispute that its ADS cannot currently be traded on the NYSE due to the filing delinquency, it has requested that the NYSE exercise its discretion to defer an ultimate delisting decision. In June 2016, the Brazilian Minister of Finance and Minister of Mines and Energy sent letters to the NYSE explaining the importance to the Brazilian government of an NYSE listing for Eletrobras. A hearing regarding the NYSE's delisting proceedings has been scheduled for October 13, 2016.

The listing standards of the NYSE provide the NYSE with broad discretion regarding delisting matters. One of the factors described in the NYSE's listing standards that could lead to a company's delisting is its failure to make timely, adequate and accurate disclosures of information to our stockholders and the investing public.

Although we are filing our 2015 annual report on Form 20-F and our 2014 annual report on Form 20-F on this date, we cannot assure that, in the discretion of the NYSE, our ADS will not be delisted, or that they will resume trading on the NYSE. If our ADS were to be delisted, there could be no assurance whether or when it would again be listed for trading on the NYSE or another U.S. exchange. Further, the market price of our ADS might decline and become more volatile, and our ADS holders may find that their ability to trade in our ADS would be adversely affected. In addition, institutions whose charters do not allow them to hold securities in unlisted companies might sell our ADS, which could have a further adverse effect on the price of our ADS and underlying shares.

On August 30, 2016, the company received a letter from the SEC in which it informed the company about the possibility of having its registration cancelled because Eletrobras failed to file its annual reports on Form 20-F for 2014 and 2015 with the SEC. Even though the company is filing its annual reports on Form 20-F for 2014 and 2015 on the date hereof, we cannot assure that the SEC will not move forward with the procedure to cancel our registration. In the event we are no longer registrant, our ADS could not trade over our exchanged in the United States.

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

In accordance with the Brazilian Corporate Law and our by-laws, holders of the preferred shares, and, by extension, holders of the ADS representing them, are not entitled to vote at our shareholders' meetings, except in very limited circumstances. This means, among other things, that a preferred shareholder is not entitled to vote on corporate transactions, including mergers or consolidations with other companies. Our principal shareholder, who holds the majority of common shares with voting rights and controls us, is therefore able to approve corporate measures without the approval of holders of our preferred shares. Accordingly, an investment in our preferred shares is not suitable for you if voting rights are an important consideration in your investment decision.

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

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

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

Sales of a substantial number of shares, or the belief that this may occur, could decrease the prevailing market price of our common and preferred shares and ADS by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of our common and preferred shares, and of the ADS, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue shares or ADS in the future at a time and a price that we deem appropriate and for you to sell your securities at or above the price you paid for them. Our controlling shareholder, the Brazilian Government, may decide to capitalize us for a variety of reasons therefore diluting existing shareholders and ADS holders.

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

The Brazilian securities market is influenced by economic and market conditions in Brazil, as well as in other countries, including the United States, European Union and emerging countries. Despite the significant different economic conjecture between these countries and Brazil, investors' reactions to events in these countries may have a relevant adverse effect on the market value of Brazilian securities, especially those listed on the stock

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

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

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

Exchanging ADS for the underlying shares may have unfavorable consequences.

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

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

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

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

If we realize a net profit in an amount sufficient to make dividend payments, dividends are payable to holders of our preferred and common shares. If we incur net losses or realize net profits in an amount insufficient to make dividend payments, our management may recommend that dividend payments be made using the statutary profit reserve after accounting for the net losses for the year and any losses carried forward from previous years. 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 legal reserve and capital reserve accounts.

Additionally, in accordance with the Brazilian Corporate Law Law 6,404/1976, if Eletrobras posts 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, the management may choose to incorporate a reserve of unrealized profits, thus not declaring dividends. Also, according to the legal criteria, the amount of profits allocated to this reserve shall be paid to the shareholders in the period when the profit which is subject to this retention be financially realized.