Due to the net gain in the fiscal year ended December 31, 2018, our dividend declared per share for the periods is presented below on the date declared.

Dividend per Share

	Declared On 12/31/2013		Paid[1] 05/29/2014	
	R$	US$	R$	US$
Common	0.399210837	0.17043540	0.415794302	0.18689064
Preferred A	2.178256587	0.92996481	2,268742714	1,01975131
Preferred B	1.633692440	0.69747361	1,701557036	0,76481348

	Declared On 12/31/2014		Paid[1] On 6/30/2015		Declared On 12/31/2015		Paid[1] On 6/30/2016	
	R$	US$	R$	US$	R$	US$	R$	US$
Common	0.00	0.00	0.00	0.00	–	–	–	–
Preferred A	0.00	0.00	0.10384693436	0.033474715	–	–	–	–
Preferred B	0.00	0.00	0.10384693436	0.033474715	–	–	–	–

	Declared On 12/31/2016		Paid On 12/19/2017		Declared On 12/31/2017		Paid[1] 2018	
	R$	US$	R$	US$	R$	US$	R$	US$
Common	–	–	–		–	–	–	–
Preferred A	2.17825658673	0.66842291	2.38969340156	0.72672609	–	–	–	–
Preferred B	1.63369244005	0.50131718	1.79227005117	0.545044567	–	–	–	–

	Declared[2] On 12/31/2018		Paid[1] 2019	
	R$	US$	R$	US$
Common	0.81057158320	0.30094349	–	–
Preferred A	1.85151809872	0.47787278	–	–
Preferred B	1.38863857404	0.35840459	–	–

(1) Adjusted by the SELIC rate.
(2) Considering the net income verified in the fiscal year ended December 31, 2018, our management proposed the payment of R$1,250 million in dividends and the amount of R$2,291 million as Retained Special Dividend Reserve. This proposal was approved at our General Shareholders Meeting on April 29, 2019.
*Values shown in US$ are the average of the exchange rates of purchases and sales of the relevant date.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to our Company

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

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

We design our internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. The internal controls department works in partnership with the managers of our business to identify the processes that are under their responsibility and to implement controls to mitigate risks identified by the risk management department.

During the 2018 certification process, we and our independent auditor conducted independent tests and identified inconsistencies in our internal controls, which resulted in one material weakness included in our 2018 annual report filed on Form 20-F.

The material weakness identified was:

As in previous years, we did not maintain adequate controls regarding the preparation of our financial statements and related disclosures. The matters involved: (i) insufficient involvement of trained personnel on a timely basis, including at relevant subsidiaries; (ii) ineffective general information technology controls (GITC) regarding management and monitoring of privileged accesses; and (iii) ineffective management review and/or processes level controls over the financial reporting, where: (a) for continued operations, adoption of IFRS 9 and 15 standards on transmission operations; contingencies, fixed assets, impairments of assets and related accounts; and (b) for discontinued operations, contingencies; accounts payable; accounts receivable; revenue; taxes, and related accounts; were not designed or operating at a sufficient level of precision to identify material misstatements.

During the course of 2018, we attempted to remedy this material weakness by hiring a consulting firm to assist in the implementation and evaluation of 400 remedial steps designed by the managers of each respective process. These action plans were designed based on (i) controls classified as ineffective in the previous year, and (ii) tests carried out by our management. Our internal controls department is responsible for overseeing the implementation of these action plans and reports periodically to the Board of Directors and the Audit Committee.

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

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

We conduct our business mainly through our generation and transmission operating subsidiaries. In addition, we and our subsidiaries conduct some of our business through SPEs, which are created specifically to participate in public auctions for enterprises in the generation and transmission segments. Usually the SPEs are structured in partnership with other companies to exploit new energy sources and transmission lines. 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 transfers of earnings to us in the form of dividends, loans or other advances and payments. For the purposes of Rule 3-09 of Regulation S-X, for the years ended December 31, 2017 and 2016, only CTEEP was considered a material affiliate.

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

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

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

Due to the high level of financial leverage of our subsidiaries and the difficulties in obtaining financing mainly as a result of our reduced cash flow following the implementation of Law No. 12,783/13, our prior and current Business and Management Plans (*Plano Diretor de Negócios e Gestão*) 2019-2023 contemplated the sale of our shares in certain SPEs, in order to reduce our consolidated indebtedness and increase our cash flows. In order to facilitate the sale of these SPEs, we transferred the ownership of the SPEs from subsidiary level to our holding company. As we do not have the control of the administration of the SPE, we might face operational issues. We created a specific working group to oversee the sale of these SPEs. On September 27, 2018, we sold 26 of the 71 SPEs offered for sale. We expect to receive in aggregate approximately R$1.3 billion for the sale of the 26 SPEs by June 2019, reflecting an average premium of 2% in relation to the minimum price. This amount will be adjusted in accordance with the auction guidelines. The book value of the other 45 SPEs was R$1.75 billion as of December 31, 2018. We also expect that the conclusion of the sale operation, which depends on the approval of external agents, over which we have no control, will occur until the end of 2019.

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

generation and transmission in Brazil.

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

Through auctions on the B3 exchange, we auctioned our participations in (i) Cepisa and Ceal to Equatorial Energia, (ii) Eletroacre and Ceron to Energisa S.A., and (iii) Boa Vista Energia and Amazonas D to the Oliveira Energia & Atem Consortium. As various labor unions initiated proceedings to stop the sales of certain of the distribution companies prior to their auctions, we cannot assure you that similar bodies might not bring further legal actions against us, the distribution companies or the purchasers in due course.

In connection with the sale of our distribution companies, we agreed to assume debt owed by the distribution companies to Petróleo Brasileiro S.A. — Petrobras ("Petrobras") and certain of its subsidiaries, including Amazonas D (R$10.5 billion), Ceron (R$2.1 billion), Boa Vista Energia (R$0.3 billion) and Eletroacre (R$0.3 billion). In connection with the assumption of this debt, we agreed to pledge certain receivables to Petrobras as security for the debt.

We also agreed to assume R$0.9 billion of debt of Cigás, a supplier to Amazonas D.

In addition, we loaned these companies R$6 billion as of December 31, 2018, in return for receivables they pledged to us. However, there is no assurance that these receivables will be paid.

In exchange for the assumption of the debt, we are due to receive certain credits from the CCC Account. However, there is currently uncertainty as to the receipt of these credits since these credits are subject to validation by ANEEL and, to date, the amounts recognized are lower than those granted by the distribution companies.

For further details, see "Item 3.D Key Information—Risk Factors—Risks Relating to our Company—We may not fully receive the receivables from the CCC Account transferred during the sale process of our distribution companies."

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

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

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

On March 7, 2018, technical notes of ANEEL noted a credit of R$163 million in favor of Eletroacre, and a credit of R$1.6 billion in favor of Ceron, as of December 31, 2017. On April 16, 2018, ANEEL issued technical opinion No. 65/18 establishing that the final amount to be reimbursed to Boa Vista after the review is R$69.6 million (as adjusted to December 31, 2017). ANEEL also affirmed that, due to the "inefficiency" cost of Boa Vista's fuel, the Brazilian National Treasury should pay Boa Vista R$20 million, possibly subject to adjustment. This decision is subject to appeal and these amounts could increase as all three companies presented further requests to ANEEL. These amounts are already accounted for by us, on December 31, 2018. If we only consider the values already recognized by ANEEL, restated as of December 31, 2018, we should make an additional provision of R$997 million.

On March 19, 2019 ANEEL concluded its process of inspection and processing of the benefits reimbursed by the CCC Account to Amazonas D, for the period between July 30, 2009 and July 30, 2016, partially complying with the litigation and administrative processes filed by us and Amazonas D. Through Technical Note 60/2019-SFF-SFG-SRG/ANEEL, we should receive R$1,621.9 million (as of March 2019), from resources from the CCC Account. These credits were transferred by Amazonas D to us, during the privatization. Approximately R$1.3 billion of this amount was taken into account by ANEEL due to Provisional Measure No. 855/18. However, we believe that ANEEL's approval under the Provisional Measure is binding. Additionally, ANEEL will discuss the value of the "fuel inefficiency" with the Ministry of Economy that was calculated to be R$1,357.8 million (already accounted for), to be paid by the Brazilian National Treasury. There has been no decision on how the amount of the "fuel inefficiency" may be adjusted.

However, if it is adjusted by the SELIC rate, as is typical, the adjusted amount would be R$2,225.8 million (adjusted to September 2018). This amount to be paid by the Brazilian Government is also linked to Provisional Measure No. 879/19. However, this amount is not included in the Brazilian Government's budget, if this Provisional Measure is not converted into law, we could lose our right to this credit.

With respect to the second inspection period of the disbursements of payments from the CCC Account to Amazonas D, from July 2016 to April 2017, ANEEL, through Technical Note 60/19-SFF-SFG-SRG/ANEEL, stated that there was an excessive reimbursement from the CCC Account to Amazonas D, in the amount of R$1,723 million (as of March 31, 2019), which should be reimbursed to the CCC Account, and therefore deducted from the credits from the CCC Account approved by the Board of Directors of ANEEL for the period from July 2009 to June 2016. We filed an appeal with ANEEL on April 2, 2019 which is pending. If Provisional Measure No. 879/19 is not converted into law or any other Brazilian Government measure is provided, this reimbursement could increase by approximately R$350 million.

ANEEL has not yet disclosed new technical notes on the first inspection period for any reimbursements claimed by Eletroacre, Boa Vista Energia and Ceron.

ANEEL has published a schedule for the conclusion of its inspection process for the first period (June 2009 — June 2016) and will undertake a second inspection process (for Amazonas D only) (July 2016 — April 2017) in April 2019. For Eletroacre, Boa Vista Energia and Ceron, the inspection process should conclude in May 2019.

Accordingly, the amounts to be received from the CCC Account are dependent on ANEEL's discretion regarding the process of inspection and processing of the benefits to be reimbursed from the CCC Account. While management has recorded its best estimate, the termination of the discussions with ANEEL regarding the credits from the CCC Account is crucial for the provision of an amount to be received by us and our subsidiaries from the CCC Account.

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

If the amounts that are to be recognized by ANEEL are lower than those granted by the distribution companies or the Provisional Measure No. 879/19 is not converted into law, we may have to make new provisions or write-offs. In the case of Amazonas D, for example, in the process of privatization, credits of about R$4.1 billion were transferred by Amazonas D to us; however, to date, considering the current position of ANEEL and credits recognized by the Provisional Measure No. 879/19, we would receive only the partial value of approximately R$2.6 billion, which could result in the need for an accounting provision of approximately R$1.5 billion. Additionally, if there is no conversion of the Provisional Measure No. 879/19 into law, we may suffer losses related to the value of the inefficiency clause (R$2.2 billion for Amazonas D and R$0.02 million for Boa Vista Energia). These amounts are recorded in the consolidated assets as receivables, by historical amounts of R$1.3 billion and R$20 million, respectively. We may also lose the benefit of R$350 million in reimbursements with regards to an ANEEL requirement pertaining to pipeline transportation, concerning the second period of inspection of Amazonas D, as mentioned above. However, the establishment of Provisional Measure No. 879/19 extended the term of the provisions, delaying the possible loss of the benefit. Provisional Measures in Brazil have a sixty-day term, that can be renewed once for another sixty days. Therefore, when Provisional Measure No. 879/19 expires, we will once again face the risk of not being fully reimbursed.

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

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

We are also the managers of certain governmental programs (*Luz para Todos, Proinfa* and *Procel*). These programs are subject to the regulations of ANEEL and the MME and are subject to the supervisory bodies for the period we managed the sectorial funds.

From July 2009 to June 2016, ANEEL has examined into the electricity distribution companies that benefit from the CCC Account. For more information, see "Item 3.D—Risk Factors—Risks relating to the Company—We may not receive the full value of the receivables from the CCC Account transferred during the sale process of our distribution companies."

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

As managers of the CCC Account until April 2017, we questioned how the amounts were calculated and the methodology applied by ANEEL. However, ANEEL has not yet responded to our queries. Accordingly, we may be liable for possible failures in the management of the CCC Account, as well as other sectorial funds, in which could negatively impact our financial condition and reputation.

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

By agreeing to the renewal of our generation and transmission concessions, which were due to expire between 2015 and 2017, we agreed to receive certain payments as compensation for the unamortized undepreciated portion of our assets that relate to the renewed concessions. Based on the provisions of Law No.12,783/13, we have filed claims with ANEEL for our renewed transmission concessions, the RBSE assets and the RBNI assets. The indemnification relating to the RBNI assets was paid in instalments between 2013 and 2015 (at the historical value of approximately R$8.1 billion as of December 31, 2012). After analyzing the appraisal reports, ANEEL approved the compensation for RBSE assets for 2015 and 2016 (at the historical value of approximately R$17.7 billion as of December 31, 2012).

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

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

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

For the 2017/2018 cycle, ANEEL stipulated an additional RAP of RBSE assets for our subsidiaries of approximately R$7.8 billion, of which R$4.2 billion is related to the financial component and R$3.6 billion is related to the incorporation of the amount still undepreciated from the BRR.

Certain associations of energy consumers have argued that these adjusted obligations should not be passed on to consumers. On April 10, 2017, ANEEL partially adjusted the position of these associations as a result of a preliminary judicial injunction and reduced the additional RAP accordingly. As of the date of this annual report, ANEEL is contesting the preliminary injunction.

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

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

We cannot predict if further reductions will be made in the future. In the event of further reductions in RBSE payments or if consumers were to prevail, leading to a reduction in RAP, it could lead us to a write off, negatively impacting our financial condition and our results of operations.

Regarding the generation assets, our subsidiaries petitioned ANEEL for a complementary indemnification of approximately R$6.2 billion. However, ANEEL has not yet approved the indemnification amounts.

Accordingly, as part of ANEEL's regulatory agenda for 2018-2019, in January 2019 ANEEL commenced Public Hearing No. 03/19 regarding the revision of Normative Resolution No. 596/13, due to the need to adapt the regulations to define the remaining value of the indemnification for generation assets related to concessions renewed in accordance with Law No. 12,783/13. Accordingly, ANEEL has not confirmed what amounts, if any, will be paid to us this year. Currently the regulation sets forth that any indemnity, when determined and if paid, should be discounted from the amount of investments (GAG Melhoria) which is part of the tariff (Annual Generation Revenue (*Receita Anual de Geração*) (the "RAG")) of the specific hydroelectric plants. Public Hearing No. 03/19 refers the concept of renouncing the amount of indemnity to maintain the totality of the amount of GAG Melhoria. It should be noted

that the accounting practice applied in relation to GAG Melhoria may be revised whenever new facts and/or new estimates of associated expenses and/or revenues arise.

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

In Brazil, the regulatory model for transmission companies is based on the price/revenue cap model. According to this model, ANEEL establishes the revenues to be charged by the companies, which must consider any reasonable costs of capital, operation and maintenance. The transmission companies use the regulatory mechanisms which comprise the tariff review that occurs every five years, and the annual tariff readjustment, which is a monetary adjustment of the tariffs charged. These mechanisms depend on the concession agreement of each company. At the time of the tariff review, ANEEL's goal is to recalculate the costs for the efficient operation and maintenance of the system managed by the transmission company.

ANEEL is also responsible for determining the revenues to be charged by the generation companies with concession agreements in accordance with Law No. 12,783/13. The RAG is the amount that the generation companies are entitled to receive as consideration for supplying energy produced at hydroelectric plants. The RAG is calculated taking into account the regulatory costs of operation and maintenance of the hydroelectric plants, adjusted annually and reviewed every five years.

On February 8, 2018, ANEEL opened the second phase of the Public Hearing No. 16/17 for comments on the proposed rule regarding the periodic review of the RAG for hydroelectric plants subject to the physical guarantee and power quote regime (Law No. 12,783/13). The public hearing resulted in the publication of Resolution No. 818/18, which increased the RAG for these hydroelectric plants and established revenues based on a level of investments needed to ensure the provision of an adequate service (GAG Melhoria), the revenue for investments being R$1,034 million.

For transmission companies, the extended concession contracts provide for a tariff review for the 2018/2019 cycle. On July 31, 2017, ANEEL started the first phase of Public Hearing No. 41/17 to receive comments and suggestions related to the periodic review of the transmission assets RAP, specifically regarding the rules for the BRR and other income. On September 26, 2017, ANEEL started the second phase of this public hearing to receive comments and suggestions related to the rules regarding the Operating Costs (*Custos Operacionais*) and the Weighted Average Cost of Capital (*Custo Médio Ponderado de Capital*). However, ANEEL identified several issues that require further analysis and has not reached a conclusion yet. Accordingly, ANEEL published Resolution No. 2,408, of June 28, 2018, that postponed the revision of the tariff to June 2019 and established a provisional RAP which shall be adjusted when the definitive process is concluded in 2019, with retroactive effects to June 2018 and compensation in equal instalments until the next tariff review. As established by Resolution No. 2,408/18, applying the provisional tariff review reduced our RAP by R$516 million. On August 15, 2018 ANEEL started the third phase of this public hearing to receive comments and suggestions regarding the review of the RAP in light of operational costs and investment in minor improvements.

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

In March 2019, ANEEL commenced Public Hearing No. 09/19 to discuss a revision of the weighted average cost of capital ("WACC"). However, ANEEL has not yet published any official rules or regulations.

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

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

The Brazilian Government may renew any existing transmission concessions that were not renewed pursuant to Law No. 12,783/13 or Law No. 13,182/15, for an additional period of 30 years without the need to carry out a new public bidding process.

The Brazilian Government may renew any existing hydropower concessions under article 19 of Law No. 9,074/95, for an additional period of 30 years, and any thermal concessions that were not previously renewed, for an additional 20 years pursuant to Law No. 12,783/13 or Law No. 13,182/15, without the need to carry out a new public bidding process. The renewal may or may not be carried out by the Brazilian Government. Should the Brazilian Government decide to renew the concessions it may do so on less favorable terms. In relation to our generation assets, if the concession for our Tucuruí plant is renewed under the terms of the applicable law (considering the quota allocation system), our income from the Tucuruí plant will decrease significantly, affecting our results of operations.

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

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

The Itaipu Treaty, entered into between the Governments of Brazil and Paraguay, regulates the activities of the Itaipu Binacional hydroelectric plant and will terminate in 2023. The two countries have recently begun discussions on the revision of several clauses of the treaty, including Annex C, which regulates the financial basis of the plant.

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

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

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

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

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

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

The reduction of the physical guarantee for those plants could impact our revenues and expenses due to the need to purchase energy to comply with sale and purchase agreements already in effect. In relation to this matter, there is a smaller risk with plants that are governed by the quota allocation system.

There is a possibility of a reduction of the physical guarantee of the plants in respect of which the concessions were renewed according to Law No. 12,783/13, in values above the 10% limit. This could also affect Itaipu starting in 2023.

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

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

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

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

On August 21, 2017, the Brazilian Government proposed our capital increase which would dilute the government's ownership interest in our common voting shares, directly or indirectly, from 60.4% to less than 50%.

On January 22, 2018, the acting Brazilian President presented to the Brazilian Congress the bill for our capital dilution. The newly elected government is evaluating the prior proposals as well as new models for our proposed privatization which include the proposed capital dilution or the direct sale of interests in certain of our subsidiaries. We cannot predict which model will be selected and the consequences of the selected model.

Our further privatization could distract our management and result in less government support for us. Certain groups could challenge the proposal, which could lead to time consuming political and legal issues for us. In addition, it could increase our debt costs (due to the possibility that the Brazilian Government would control less than 50% of our common shares) and could constitute an event of default under our loans which, if not waived, could allow certain of our creditors to accelerate the debt. Also, the golden share proposed under one of the models may require the approval of the NYSE for our ADSs to remain listed on the NYSE. Under our outstanding bonds, we are required to make an offer to purchase the bonds at a price equal to 101% of their principal amount plus accrued and unpaid interest in case the government ceases to own directly or indirectly at least 51 percent of our voting share capital. We cannot assure that we will have sufficient financial resources at such time to make the change of control offer under the bonds, which could lead to an acceleration of the bonds, which in turn could trigger cross-default clauses under our outstanding loans. In addition, depending on the model chosen, we cannot assure you that there will be no dilution of the participation of minority shareholders that do not fully comply with any capital increase.

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

In 2018 and 2017, we invested R$4.6 billion and R$5.2 billion, respectively, in capital expenditures for expansion, modernization, research, infrastructure and environmental projects. For 2019, our budget includes R$5.7 billion in similar capital expenditures. As of December 31, 2018, we have undertaken studies that have shown we would need to invest approximately R$14 billion in capital expenditures per year if we want to maintain our current market share of 30.5% in the generation segment and 47.3% in the transmission segment. As we and our principal shareholder, the Brazilian Government, do not have resources available to make capital expenditures of that magnitude, the Brazilian Government is considering the alternatives described in "—We cannot predict the financial and operational consequences of the proposed capital dilution." that would allow us to raise enough capital to make the requisite investments. However, we cannot assure investors that the Brazilian Congress will approve any changes to our capital structure or business model and, accordingly, we might lose some of our market share in the generation and transmission segments.

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

The cash flow from our subsidiaries' operations in recent years has not been sufficient to fund our capital and operational expenditures, debt service and payment of dividends. The reduction of our subsidiaries' operational income was a direct consequence of the early extension of the concessions pursuant to Law No. 12,783/13. Accordingly, our debt has significantly increased since 2012.

As of December 31, 2018, 74.1% of our debt, totaling R$42,950 million, will mature in the next five years.

In order to meet our growth objectives, maintain our ability to fund our operations and amortize scheduled debt maturities, we have relied upon, and may continue to rely upon, a combination of cash flows provided by our operations, drawdowns under our credit facilities, our cash and short-term financial investments balance, the incurrence of additional indebtedness, the receipt of indemnifications for the concessions renewed pursuant to Law No. 12,783/13 and the sale of assets.

Bonds issued by us in the international market will mature in 2019 in the principal amount of US$1 billion (R$3.87 billion as of December 31, 2018) and in 2021 in the principal amount of US$1.75 billion (R$6.78 billion as of December 31, 2018). Depending on the liquidity of the financial markets and our credit risk classification, we may face difficulties refinancing that debt on favorable terms, which could increase the difficulty and the cost of refinancing those obligations.

In addition, in 2018 with the completion of the privatization process of the distribution companies Boa Vista Energia, Ceron and Eletroacre, we assumed part of their debts with Petrobras and BR Distribuidora, which may bring challenges in terms of refinancing. On December 31, 2018, the balance of these debts amounted to R$2,530 million, of which R$1,483 million was owed to Petrobras and R$1,047 million was owed to BR Distribuidora.

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

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

As a result of our New York Stock Exchange (the "NYSE") listing, we are subject to the FCPA and the disclosure requirements under the Exchange Act, as well as we are subject to Brazilian Anticorruption Law and the Law of Government-Controlled Companies.

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

In addition to criminal charges in Brazil, the SEC and the DoJ also commenced investigations in relation to the *Lava Jato* findings. Although no criminal charges have been brought against us as part of the *Lava Jato* Investigation, as a response to allegations of illegal activities appearing in the media in 2015 relating to companies that provided services to our subsidiary Eletronuclear (specifically, the Angra III nuclear power plant), and to certain SPEs in which we hold a minority stake, our Board of Directors, although not required to do so, hired the law firm Hogan Lovells US LLP ("Hogan Lovells") on June 10, 2015 to undertake an internal independent investigation (the "Independent Investigation") for the purpose of assessing the potential existence of irregularities, including violations of the FCPA, the Brazilian Anticorruption Law and our Code of Ethical Conduct and Integrity.

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

We and the Independent Committee closely monitored the investigations and cooperated with Brazilian and United States authorities, including the Brazilian Federal Courts (*Justiça Federal*); the MPF; the CVM; CADE; the Brazilian Federal Audit Court (*Tribunal de Contas da União*) (the "TCU"); and the Office of the Controller General (*Controladoria Geral da União*) (the "CGU"), the DoJ and the SEC, among others, and have responded to requests for information and documents from these authorities in instances where the Independent Investigation identified contracts where irregularities may have occurred. We evaluated those contracts and, when applicable, suspended or canceled them. We also took administrative measures in relation to employees and officers involved in the activities identified by the independent investigation, adopting, when applicable, the respective sanctioning procedure.

In April 2018, we presented the results of the Independent Investigation to our Board of Directors and the Independent Committee approved the results and subsequently concluded the Independent Investigation.

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

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

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

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

In 2018, we acceded to an agreement with the CGU and Odebrecht pursuant to which Odebrecht will reimburse us an aggregate amount of R$161.9 million for losses incurred in relation to projects in which we directly or indirectly participated which were uncovered in the *Lava Jato* Investigation. This amount was treated in the Consolidated Financial Statements for the year ended December 31, 2018 as financial assets receivable. The losses relating to the Santo Antônio and Belo Monte projects were already recorded as a result of the findings of the Independent Investigation.

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

Although our financial statements reflect our best knowledge of the facts, as the *Lava Jato* Investigation is ongoing and the MPF may take considerable time to conclude its investigations, new relevant information may come to light and if the findings lead to the identification of materially significant differences in the amounts recorded in our balance sheet, we may have to restate our financial statements, which may have a negative impact on the market value of our securities. Further, there may be further investigations related to *Lava Jato* and related proceedings, including, but not limited to, ongoing administrative actions related to Angra III and Belo Monte.

We have been investigating events allegedly incompatible with our ethics and integrity standards. Eventual failures to timely detect or remedy any events of this nature could subject us to sanctions and penalties.

We are enhancing our compliance program under our "Eletrobras 5 Dimensions Program" based on the guidelines for government-controlled entities issued by the CGU, in compliance with Decree No. 8,420/15. The program aims to comply with international corporate governance standards, laws and regulations, including the Sarbanes-Oxley Act of 2002, the FCPA, the Brazilian Anticorruption Law, the rules and guidelines published by the SEC, the CVM, the IBGC and the OECD, among others, and adopt the best management and corporate governance practices.

In addition, we recently improved the management and handling of complaints with the launch of a Consequences Policy (*Política de Consequências das Empresas Eletrobras*) and an external and independent ombudsman channel. We implemented several internal policies and behavior commitments, such as the update of our Code of Ethical Conduct and Integrity, the inclusion of ethics and integrity issues in our stakeholder's policies (such as suppliers and sponsors), and the reinforcement of our principles and standards of ethical behavior and professional conduct.

Despite our efforts to implement the "Eletrobras 5 Dimensions Program," we are subject to the risk that employees and management, whether of our companies or of the SPEs in which we hold equity interests, our contractors, or any person doing business with us may engage in fraudulent activity, corruption or bribery and fail to comply with our internal controls and procedures. Although we have a number of controls in place intended to identify, monitor and mitigate these risks, including contractual provisions requiring compliance with anti-corruption laws and performance of due diligence in the hiring and monitoring process of contractors, such controls may not be effective in all circumstances.

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

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

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

We are party to a number of international and Brazilian financing facilities as borrower or guarantor. The bonds we issued in the international capital markets and our existing credit facilities require that we comply with a number of financial and non-financial covenants, such as the provision of financial statements by certain deadlines and the provision of an unqualified audit report, among others. These agreements also require us to obtain previous creditors' waivers to perform some acts, such as the change of control or the sale of relevant assets.

For example, we act as guarantor of 49% of the first issuance of debentures by Teles Pires Participações S.A. issued in 2012, which requires us to comply with certain financial ratios. As we did not comply with these financial ratios, we had to obtain a waiver from the sole debenture holder waiving our compliance with these ratios through the end of 2018.

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

In addition, certain of the financing agreements for the development of our plants, some of which are guaranteed by us, contain acceleration clauses which could be triggered upon default. Any defaults or the acceleration of any financing agreements may also give other lenders the right to accelerate pursuant to cross-default provisions. Accordingly, acceleration of these financing agreements could adversely affect our financial condition and the results of our operations.

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

As a state-controlled company, we are subject to certain rules limiting our indebtedness and investments and must submit our proposed annual budgets, including estimates of the amounts of our financing requirements to the Ministry of the Economy and the Brazilian Congress for approval. Thus, if our operations do not fall within the parameters and conditions established by the Brazilian Government, we may have difficulty in obtaining the necessary financing authorizations, which could create difficulties in raising funds.

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

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

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

The PDNG 2019-2023 is structured along five Strategic Guidelines that demonstrate our purpose and ambition:

- Profitable Growth;
- Operational Excellence;
- Enhancement of Governance and Compliance;
- Sustainable Performance; and
- Appreciation of Personnel.

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

The implementation of the initiatives listed in the Business and Management Master Plan 2019-2023 is intended to bring benefits to the group, such as a lower financial leverage, higher operational efficiency and costs consistent with regulatory parameters, continuing the advances already achieved in the previous plan. However, the implementation of these projects requires significant operational and managerial changes in all of our group companies.

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

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

The Law No. 11,101/05 governs judicial recovery, extrajudicial recovery and liquidation proceedings and replaces the judicial debt reorganization proceeding known as *concordata* with judicial and extrajudicial recovery. The law also states that its provisions do not apply to government owned and mixed capital companies such as our subsidiaries and us. However, the Brazilian Federal Constitution establishes that mixed capital companies, such as us, which operate a commercial business, will be subject to the legal regime applicable to private corporations in respect of civil, commercial, labor and tax matters. Accordingly, it is unclear whether or not the provisions relating to judicial and extrajudicial recovery and liquidation proceedings of Law No. 11,101/05 would apply to us. Nevertheless, Law No. 12,767/12 provides that judicial and extrajudicial recovery do not apply to public entity concessionaires until the termination of those concessions.

We believe that a substantial portion of our assets, including our generation assets and our transmission network, would be deemed by Brazilian courts to be related to providing an essential public service. Accordingly, these assets would not be available for liquidation

or attachment to secure a judgment. In either case, these assets would revert to the Brazilian Government pursuant to Brazilian law and our concession agreements. Although the Brazilian Government would in such circumstances be under an obligation to compensate us in respect of the reversion of these assets, we cannot assure you that the level of compensation received would be equal to the market value of the assets and, accordingly, our financial condition may be affected.

We may be liable for damages and have difficulty obtaining financing if there are accidents involving our subsidiary Eletronuclear.

Our subsidiary Eletronuclear, as an operator of nuclear power plants, is subject to strict liability under Brazilian law for damages in the event of a nuclear accident caused by the operations of nuclear plants Angra I and Angra II, pursuant to the Vienna Convention on Civil Liability for Nuclear Accidents.

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

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

We insure our nuclear plants against nuclear accidents. Angra I is insured for US$600 million (R$2.324 billion) and Angra II for US$3.0 billion (R$11.624 billion) as of December 31, 2018. Angra I has a maximum limited guarantee of US$450 million (R$1.743 billion) and Angra II of US$550 million (R$2.131 billion) to cover property and casualty damages, and both are insured for US$239.7 million (R$928.8 million) for civil liability for nuclear damage.

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

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

In 2009, our subsidiary Eletronuclear started the construction of a new nuclear plant, called Angra III. Construction stopped in 2015 due to allegations of potential illegal activities by companies that provide services to Eletronuclear in relation to Angra III. As of December 31, 2018, Eletronuclear had completed approximately 62.7% of the original project and invested R$10.9 billion in the project.

In 2018, we revised the total budget for Angra III, which now totals R$21.4 billion (of which R$14.4 billion is pending implementation) and changed the forecasted date for operation of Angra III to January 2026. For further information, see "Item 4. Information on the Company—Business Overview—Generation."

On October 9, 2018, the CNPE granted our request and approved the new reference price for the energy to be produced by Angra III setting it at R$480 per MWh, which is in accordance with international market standards. We believe that this new tariff will make Angra III a more attractive business opportunity for potential partnerships and will facilitate the renegotiation of our financial agreements. If we are not successful, we may be required to prepay a financing granted by BNDES to Eletronuclear (under which R$3.6 billion were outstanding as of December 31, 2018), as we are Eletronuclear's guarantors, or have difficulties repaying a loan granted by Caixa Econômica Federal (under which R$3.3 billion were outstanding as of December 31, 2018) which may lead us to make new provisions of impairments, in addition to other accounting liabilities which we may record, which could materially adversely affect our financial condition and the results of our operations. The CNPE is also working on a business model to enable us to find a private partner for this project. Eletronuclear is currently preparing a market sounding to be launched in the second quarter of 2019 to assess the attractiveness and viability of the business models currently under evaluation for this partnership. If we are not able to establish the partnership for the completion of this project, we may not have the financial capacity to complete this project.

As of December 31, 2018, the amount of impairments, accumulated and recognized on our balance sheet, totaled R$4.0 billion since due to the tariff revision, there was a complete reversal of cumulative onerous contracts (R$0.7 billion) and partial reversal of accumulated impairment (R$6.5 billion). We continue to monitor the estimates and the associated risks in determining the recoverable value of this project and, as new negotiations, new studies or new information are undertaken and require changes in the business plan of the projects, they will be updated to reflect such changes.

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

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor, tax and corporate claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us. We have established provisions for all amounts in dispute that represent a present obligation as a result of a past event and is probable there will be outflow of resources that embodies economic benefits to settle the referred obligation in the view of our legal advisors and in relation to those disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable. As of December 31, 2018, we provisioned a total aggregate amount of R$24.2 billion in respect of our legal proceedings, of which R$22.3 billion related to civil claims, R$1.6 billion to labor claims, and R$350 million to tax claims (See “Item 8.A Financial Information—Consolidated Financial Statements and Other Information—Litigation” and note 28 to our Consolidated Financial Statements).

Legal proceedings, if decided against us, could have a material adverse effect on our consolidated financial position, results of operations and cash flows in the future.

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

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

The Compulsory Loan on electricity consumption, instituted by Law No. 4,156/62 with the purpose of generating funds for the expansion of the Brazilian electricity sector, was abolished by Law No. 7,181/83, which fixed the date of December 31, 1983 as the final collection deadline.

In the first phase of this Compulsory Loan, closed with the enactment of Decree-Law No. 1,512/76, the collection of the tax reached several classes of energy consumers, and taxpayers’ credits were represented by bonds issued by the Company. Although we believe that we have no further liability to these bonds because they are expired, any legal interpretation that the bonds have not expired could adversely affect our financial condition and the results of our operations.

In the second phase, under the provisions of the Decree-Law, the Compulsory Loan was charged only to industries with monthly energy consumption of more than 2,000 kwh, and taxpayers’ credits were no longer represented by bonds held by the company. Most of these compulsory loan taxpayers’ claims have been converted into preferred shares, as authorized by law, at four general shareholders’ meetings, held in 1988, 1990, 2005 and 2008.

However, there is a remaining balance of compulsory loans not yet converted into preferred shares. The balance of the remaining Compulsory Loans, after the fourth conversion into shares, relates to credits from 1988 to 1994, is recorded in current and noncurrent liabilities, payable from 2008 at the rate of 6% per year to the date of their conversion into shares, plus monetary adjustment based on the variation of the IPCA-E - Special Extended Consumer Price Index, corresponding, on December 31, 2018, to R$493.1 million (R$501.1 million on December 31, 2017), of which R$477.5 million are noncurrent assets (R$458.9 million on December 31, 2017).

In addition, there is litigation related to the Compulsory Loans challenging the criteria for monetary adjustment of the book-entry credits on electricity consumption, which were determined by the legislation and applied by us, as well as the application of inflationary adjustments arising from the economic plans implemented in Brazil.

The matter was decided by the STJ, but is currently subject to appeal to the Federal Supreme Court (STF). While this appeal is pending, we and the claimants have agreed on the method to calculate the amounts owed.

The most relevant issue concerns the time gap of the application of interest rates of 6% per year. Based on the current STJ precedent, the SELIC rate applied to the difference of monetary restatement (if any), as there are charges for judicial debts (monetary restatement is applied from the date of maturity and default interest is applied from the date of determination). In addition, we believe that consideration must be given to the five-year time limit for payment of compensation interest, as of the date of the lawsuit filing. We make provisions for these claims in accordance with this understanding, substantiated in Special Appeal 1003955/RS.

Despite our understanding, on February 27, 2019, the STJ re-opened a judgment of the *Embargo de Divergência em Agravo* in Special Appeal No. 790288/PR to reconsider the applicable period for remunerative interest. The claimant argues that the credits arising from the judicial decisions from differences in inflationary adjustments should apply continuously at 6% per year from the 143rd

Extraordinary General Meeting on June 30, 2005.

Of the ten judges, four have voted against our position, two in favor, and four have yet to deliver their decisions. If the claimants prevail in this judgment, we believe it is fact specific and may not be applicable to other Compulsory Loan litigation. Therefore, we have not changed our provision relating to Compulsory Loan litigation. In addition, any outcome of the current reconsideration by the STJ may be subject to appeal.

However, if there is a change in the ruling of the STJ against us, specifically referring to the application of remunerative interest after the conversion meeting, the estimate of the provision, now recognized by Management, may change.

As of December 31, 2018, we had provisioned R$17.9 billion to cover losses arising from unfavorable decisions relating to these lawsuits. Despite our efforts to reduce losses related to these lawsuits, we cannot ensure that we will succeed, and if we are not successful, it could adversely affect our financial condition and our results of operations.

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

Pursuant to Laws No. 108/01 and No. 109/01 and the rules of the pensions plans themselves, we and our subsidiaries may be required to make contributions to the pension plans of our current and former employees. If there is a mismatch in the reserves of the pension plans and the amount of resources available to the plans, in case these plans are defined benefit plans, we (as sponsors) and the pension plan beneficiaries may be required to contribute to the pension plan to re-establish its balance, as provided by the specific regulations established by the regulatory body National Superintendency of Complementary Pensions (*Superintendência Nacional de Previdência Complementar*)(the “Previc”).

During the year ended December 31, 2018, the pension plans that we and our subsidiaries sponsor recorded a deficit of R$3.0 billion. We and our subsidiaries made contributions to our respective pension plans which amounted to R$294.9 million for the year ended December 31, 2018.

The implementation of a remediation plan may result in the payment of extraordinary contributions by the participants and sponsors, in order to restore the balance of the plan. These amounts could be subject to litigation by the participants, due to a possible disagreement regarding the amounts. Such payments may materially adversely affect our cash flow in the long term.

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

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

Our insurance policies may be insufficient to cover potential losses.

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

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

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

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

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

Our thermal plants operate on coal, natural gas and/or oil and our nuclear plants rely on processed uranium. In each case, we are entirely dependent on third parties, sometimes monopolies, for the provision of these raw materials. In the event that supplies of these 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.

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

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

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

As further discussed in “Item 4. Information on the Company—B. Business Overview—International Activities—Venezuela,” Eletronorte has a 20-year contract, with us as the Guarantor, from July 15, 2001 to purchase electric power from Venezuela. The relations between Corpoelec and us are limited to the commercial agreement made to supply energy to Roraima, which is disconnected from the Interconnected Power System. The demand of Boa Vista, the capital of Roraima, is 233 MW, less than 0.4% of the demand of the Interconnected Power System. However, since the imposition of sanctions on Venezuela, Eletronorte has faced difficulties paying the invoices to Corpoelec. The economic and political situation in Venezuela has become more unstable in recent months and Brazil has agreed, together with the United States, other Latin American and European countries, to recognize Juan Guaidó, the President of the National Assembly of Venezuela, as the legitimate president of Venezuela, although Nicolás Maduro generally still holds power over the country and the military. Given the fluidity of the current political situation and the sanctions and other actions that the United States has imposed on the Maduro regime in support of Mr. Guaidó, as well as the humanitarian challenges facing Venezuela and the frequency of power outages, we may face criticism and reputational damage given our relationship with Corpoelec in light of the current complex and sensitive environment in Venezuela.

Risks Relating to Brazil

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

Several members of the federal government and the Brazilian legislative branch have faced allegations of corruption. As a result, some politicians, including senior federal officials and congressmen, resigned or have been arrested. Currently, sitting and former elected officials and other public officials in Brazil are being investigated for allegations of unethical and illegal conduct identified during *Lava Jato* Investigation being conducted by the MPF.

In August 2016, Brazil’s Vice President at the time Michel Temer, was named the new President of Brazil following the impeachment of Dilma Rousseff for breach of the Fiscal Responsibility Law. Throughout 2017, Acting President Temer was accused of passive corruption, criminal organization and obstruction of justice by the Attorney General’s Office, however, those complaints were barred by the chamber of deputies. Recently, there have been reports about the alleged influence of former Acting President Michel Temer on our subsidiary Eletronuclear, through its current CEO, Leonam dos Santos Guimarães, which we have been investigating. See “Item 3.D Key Information—Risk Factors—Risks Relating to our Company—Violations of the FCPA and the Brazilian Anticorruption Law may materially affect us and may expose us and our employees to criminal and civil claims and sanctions.”

The outcome and potential results of the ongoing investigations are unknown and may have adverse impacts in the market’s perception about the Brazilian economy’s future, influencing consumer’s and investors’ trust. The uncertainties caused by the revelations of possible corruption scandals continue to negatively impact GDP growth, as well as volatility in the stock market, the strength of the *real* and prices of securities issued by Brazilian issuers. Therefore, if new allegations against Brazilian government officials arise, we cannot predict the outcome of any such allegations or their effect on the Brazilian economy and on us.

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

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

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

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

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

Any of these events may lead to timely interventions by the Brazilian Government over monetary, credit, foreign exchange and other policies to influence the Brazilian economy. For instance, recently the Central Bank has established through the Monetary Policy Committee (*Comitê de Política Monetária*) the basic rate of interest in order to achieve the inflation goals determined by the National Monetary Council (*Conselho Monetário Nacional*) (the "CMN"). We have no control over, and cannot assume, which other measures or policies the Brazilian Government may take in the future to balance the Brazilian economy.

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

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

The Brazilian federal government frequently intervenes in the country's economy and occasionally makes significant changes to monetary, credit, exchange, fiscal, regulatory and other policies to influence Brazil's economy. The Brazilian Government's actions to control inflation have in the past included wage and price controls, depreciation of the *real*, controls over remittances of funds abroad, intervention by the Central Bank to affect base interest rates and other measures.

In 2015, the economy contracted by 3.9% and further contracted by 3.6% in 2016. In 2017, the economy rebounded, growing by 1%. The growth continued in 2018 and by December 31, 2018 the growth rate was 1.1%. We cannot assure investors that Brazil's economy will resume its growth in the future. Another recession could result in a material decrease in Brazil's fiscal revenues, or a significant depreciation of the *real* over an extended period of time could adversely affect Brazil's debt/Brazilian Gross Domestic Product ("GDP") ratio, which could have a material adverse effect on public finances and on the market price of our securities. Additionally, S&P may further downgrade Brazil's rating in the event the Brazilian Congress does not approve a pending pension plan proposal.

Uncontrolled inflation, large exchange variations, social instability and other political, economic and diplomatic events, as well as the Brazilian Government's response to those events, could also negatively affect our business and our strategy. Our business, results of operations and financial condition may be adversely affected by changes in government policies, as well as other factors including, without limitation:

- expansion or contraction of the global or Brazilian economy;

- economic and social instability;
- changes in labor regulations;
- fluctuations in the exchange rate;
- inflation;
- changes in interest rates;
- fiscal policy;
- political elections;
- other political, diplomatic, social and economic developments which may affect Brazil or the international markets;
- liquidity of the domestic markets for capital and loans;
- development of the electricity sector;
- controls on foreign exchange and restrictions on remittances out of the country; and/or
- limits on international trade.

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

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

Brazilian politics have historically affected the performance of the Brazilian economy, and past political crises have affected the confidence of investors and the public, generally resulting in an economic slowdown and volatility of securities issued by Brazilian companies. The impeachment of President Dilma Rouseff, and attempts to remove her successor, President Michel Temer, as well as wide-scale protests throughout Brazil focused on economic and political reform, have led to a climate of growing uncertainty. Brazilian presidents have substantial power to determine public policy, as well as to introduce measures affecting the Brazilian economy and the operations and financial results of companies such as ours. The conviction of former President Luiz Inácio Lula da Silva and ongoing judicial appeals has further increased political and economic instability. In addition, Mr. Temer’s presidency was marked by significant economic and political turmoil resulting from, among other factors, the continued emergence of political corruption scandals, political gridlock, a slow economic recovery, mass strikes, general discontent among the Brazilian population and foreign trade disputes.

Jair Bolsonaro became Brazil’s president on January 1, 2019. It is unclear if and for how long the political divisions in Brazil that arose prior to the elections will continue under Mr. Bolsonaro’s presidency and the effects that any such divisions will have on Mr. Bolsonaro’s ability to govern Brazil and implement reforms. Any continuation of such divisions could result in congressional deadlock, political unrest and massive demonstrations and/or strikes, including strikes that materially adversely affect our operations. It is also unclear what changes the new government will make to the electricity sector and if it is considering our potential further privatization.

In addition, uncertainty over whether the acting Brazilian government will have the political power or will to implement other needed policies or regulations affecting the country in the future may also contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies.

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

In the past, the Brazilian Government implemented several economic plans, using different exchange control mechanisms to control the large volatility of the Brazilian currency. After a period of stability after 1999, the *real* returned to volatility against the U.S. dollar

during the global financial crisis of 2008, in 2014 and 2015 and more recently in the middle of 2017. During 2015, the *real* depreciated by 32%, ending the year at an exchange rate of R$3.9048 per U.S.$1.00. During 2016, the *real* appreciated by 20%, ending the year at an exchange rate of R$3.2591 per U.S.$1.00. During 2017, the *real* depreciated by 2%, ending the year at an exchange rate of R$3.3080 per U.S.$1.00. During 2018, the *real* further depreciated by 17.1%, ending the year at an exchange rate of R$3.8748 per U.S.$1.00. On April 26, 2019, the exchange rate between the *real* and the U.S. dollar was R$3.9353 per U.S.$1.00. There is no guarantee that the *real* will not depreciate, or appreciate, in relation to the U.S. dollar in the future.

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

As of December 31, 2018, 23.19% of our total consolidated indebtedness of R$54,373 million was denominated in foreign currencies. As of December 31, 2018, our total consolidated indebtedness denominated in foreign currencies was R$12,608 million and 98.06% of this debt was denominated in U.S. dollars. As of December 31, 2017, 25.0% of our total consolidated indebtedness of R$45,122 million was denominated in foreign currencies. As of December 31, 2017, our total consolidated indebtedness denominated in foreign currencies was R$11,148 million and 97.7% of this debt was denominated in U.S. dollars.

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

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby limiting the availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets. More recently, inflation rates were 3.75% in 2018, 2.95% in 2017, 6.29% in 2016, 10.67% in 2015, 6.41% in 2014, 5.91% in 2013 and 5.84% in 2012, as measured by the IPCA.

While the current inflation rate is at historical lows for the past number of years, Brazil may experience high levels of inflation in the future. The Brazilian Government may introduce policies to reduce inflationary pressures, which could have the effect of reducing the overall performance of the Brazilian economy. Some of these policies may have an effect on our ability to access foreign capital or reduce our ability to execute our future business and management plans.

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

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

The Brazilian tax authorities have frequently implemented changes to tax regimes that may affect us and ultimately the demand of our customers for the products we sell. These measures include changes in prevailing tax rates and enactment of taxes, both temporary and permanent. Some of these changes may increase our tax burden, which may increase the prices we charge for the products we sell, restrict our ability to do business in our existing markets and, therefore, materially adversely affect our profitability. There can be no assurance that we will be able to maintain our projected cash flow and profitability following any increases in Brazilian taxes that apply to us and our operations. In addition, we currently receive certain tax benefits. There can be no assurance that these benefits will be maintained or renewed. Also, given the current Brazilian political and economic environment, there can be no assurance that the tax benefits we receive will not be judicially challenged as unconstitutional. If we are unable to renew our tax benefits, such benefits may be modified, limited, suspended, or revoked, which may adversely affect us. Moreover, certain tax laws may be subject to controversial interpretation by tax authorities. In the event that tax authorities interpret tax laws in a manner that is inconsistent with our interpretations, we may be adversely affected. Additionally, changes in accounting policies as a result of the adoption of new standards under IFRS may lead to incomparability of financial statements or to potential adverse effects on our financial results.

Any further downgrading of Brazil's credit rating could adversely affect the price of the ADS and our cost of funding in the capital markets.

Credit ratings affect investors' perceptions of risk and, as a result, the trading value of securities and yields required on future issuances in the capital markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of

factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the prospect of changes in any of these factors. Rating agencies began the classification review of Brazil's sovereign credit rating in September 2015 and as a consequence, Brazil lost its investment grade condition by the three main rating agencies. In January 2018, S&P lowered its long-term rating for Brazil's sovereign credit from BB to BB-, with a stable outlook, citing less timely and effective reform policymaking. In March 2017, Moody's Investors Service, Ind., or Moody's, affirmed its Ba2 rating but changed its outlook from negative to stable, citing stabilization of macroeconomic conditions, signs of recovery in the economy, falling inflation rates and a clearer fiscal outlook as reasons for the change. In February 2018, Fitch Ratings Inc., or Fitch lowered its long-term rating for Brazil's sovereign credit from BB to BB-, with a stable outlook. As a result, Brazil's rating continues to be below investment grade with all three major rating agencies and consequently the trading prices of securities of the Brazilian debt and equity markets is negatively affected. A prolongation of the Brazilian Government inability to gather the required support in the Brazilian congress to pass additional specific reforms, along with further economic recession could lead to further ratings downgrades. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, negatively affect our rating which is aligned to the sovereign rating. This may increase our future cost of issuances in the capital markets and adversely affect the price of the ADS.

Risks Relating to the Brazilian Power Industry

We are subject to impacts related to the hydrological conditions.

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

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

This situation led to judicial claims by the affected parties, including our subsidiaries, to minimize the losses with GSF degradation. This led to the publication of Law No. 13,203/15, which established the conditions for the renegotiation of the hydrological risk. The conditions were different for physical guarantee installments committed in contracts within the Regulated Market (*Ambiente de Contratação Regulada*) ("ACR") and those negotiated within the Free Contracting Environment (*Ambiente de Contratação Livre*) ("ACL").

For the instalments contracted within the ACR, the renegotiation of the hydrological risk was allowed with its transference to the consumers in exchange of the payment of a risk premium by generators who adhered the renegotiation. For the ACL, there is the possibility of renegotiation in consideration of contracting hedge. Our subsidiaries have adhered to the renegotiation of hydrological risk in ACR, except for Chesf due to certain characteristics of its Sobradinho plant. As for the amounts negotiated in the ACL, the option was not to renegotiate the risk.

Among the measures under discussion to improve the legal framework of the electricity sector, initially embodied in Public Hearing No. 33/17 ("CP-33"), is the discussion of a special regime for the plants, aiming to promote a better allocation of risk.

Currently, it is up to consumers to pay for the hydrological risk of power plants that have had concessions renewed through Law No. 12,783/13 by making a complementary payment for the use of more expensive thermoelectric plants. CP-33 proposes that the hydrological risk is assumed by those who acquire energy from the generation companies in specific auctions, rather than by the consumers.

Unfavorable hydrological conditions that result in a reduction of the supply of electricity to the market could cause, among other things, the implementation of broad electricity conservation programs, including mandatory reductions in electricity consumption or the imposition of special taxes or charges on the sector to finance the costs of production of new thermal power plants, which usually have higher costs when compared to hydroelectric power plants.

Accordingly, ANEEL has enacted Resolution No. 792/2017 in order to establish a mechanism intended to compensate large consumers, especially in the industrial sector, if they reduce energy demand in periods of high costs in the energy sector. This mechanism will allow the National System Operator ("ONS") to suspend the dispatch of the thermal plants with the most expensive

generation costs, making the average cost of power lower and also increasing the reliability of the electrical system, especially at times of greater demand. This Resolution provides that this mechanism will be tested until June 30, 2019.

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

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

Our generation plants have large structures such as dams and floodgates which are used in water storage and reservoir level control. Such structures contain complex engineering works that have to comply with several technical and safety standards. Specific laws and regulations provide safety guidelines for these structures, such as Law No. 12,334/10, which established the National Dams Safety Policy (*Política Nacional de Segurança de Barragens*), and ANEEL Resolution No. 696/15, which establishes the methodology for risk classification of the dams, the safety standards and annual inspections of dams.

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

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

Following a recent Brazilian legal precedent, a court could find a parent entity such as us liable for environmental damages without needing to demonstrate a lack of resources at the subsidiary level, as further described in "Item 4. Information on the Company—B. Business Overview—Environmental—General."

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

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

- the difficulty to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor and social unrest;
- interruptions by weather and hydrological conditions;
- unforeseen engineering and environmental problems;
- construction delays, or unanticipated cost overruns;
- the unavailability of adequate funding;
- expenses related to the operation and maintenance not fully approved by ANEEL; and
- communities based near our facilities.

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

Furthermore, the implementation of projects we have in the transmission sector has suffered delays due to the difficulty to obtain the necessary government permits and approvals.

If we experience any of these or other unforeseen risks, we may not be able to generate and transmit electricity in amounts consistent with our projections and we may face heavy fines or other regulatory penalties, which may have a material adverse effect on our financial condition and the results of our operations.

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

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

If ANEEL were to intervene in concessions as part of an administrative procedure, we would have to present a recovery plan to correct any violations and failures that gave rise to the intervention. Should the recovery plan be dismissed or not presented within the timelines stipulated by the regulations, ANEEL may, among other things, recommend to the MME the expropriation and the concession loss, reallocate our assets or adopt measures which may alter our shareholding structure, including in relation to possible changes in the shareholding control of the companies involved. For instance, the intervention in the energy distribution concessionaries from the Rede group involved the implementation of a recovery plan which resulted in the change in their shareholding control to Energisa group.

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

As of December 31, 2018, we believed that we were in compliance with all the terms and conditions with respect to substantially all of our operation assets. However, we cannot guarantee that we will not be penalized by ANEEL for a future violation of our concession contracts or that our concession contracts will not be terminated in the future, which could have an adverse impact on our financial condition and the results of our operations.

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

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

Concessions may be terminated early through expropriation, forfeiture, or mandatory transfer of control by the concessionaire. Granting authorities may expropriate concessions in the interest of the public as expressly provided for by law, in which case granting authorities carry out the service during the concession period. A granting authority may declare the forfeiture of concessions after ANEEL or the MME conduct an administrative procedure and declare that the concessionaire (a) did not provide proper service for more than 30 consecutive days and did not present any acceptable alternative to ANEEL or to the 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. Law No. 13,360/16 sets forth that the concessionaire can submit a change of control plan as an alternative to the termination of the concessions.

Penalties are set forth in ANEEL Resolution No. 63/04, 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.

For example, the MME declared the termination of the transmission concession agreement No. 01/15, entered into with Eletrosul. In October 2018, Eletrosul invested R$163.8 million in the project. ANEEL fined the company R$292.3 million. We have provisioned R$45.9 with respect to this fine.

Accordingly, in relation to the regulatory issues, we may contest any expropriation or forfeiture and will be entitled to receive compensation for our investments in expropriated assets that have not been fully amortized or depreciated. However, the indemnity payments may not be sufficient to fully recover our investments. In these cases, our financial condition and the results of our operations may be adversely affected.

A new regulatory framework is currently being discussed under Public Consultation No. 33/17, Bill No. 1, 917/15, and Ordinance No. 187/2019, in order to develop proposals for the modernization of the energy sector involving the expansion of options for consumers without prejudicing the security of the system, increasing competition in order to lower energy prices, readjusting the distribution costs, reducing subsidies and increasing appreciation of benefits, suspension of the quota allocation system of the concessions renewed by Law No. 12,783/13, dividing grant resources with consumers, decarburizing the energy matrix, incorporating new technological arrangements, increasing the financial strength of the market, protecting low-income consumers, and reducing litigation risks and limits for contracting energy in the Free Market, as further described in “Item 4. Information on the Company—Possible New Regulatory Framework.” All of these regulatory changes may cause material adverse effects on our financial condition and results of operations.

Failures in our information technology systems, information security systems and telecommunications systems and services or discontinuity in our SAP ERP implementation project, can adversely impact our operations and reputation.

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

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

We and our subsidiaries have not experienced any incidents that compromised our information, corporate systems or operational facilities. We currently do not have insurance coverage specific to cyber risk. We are aware that the costs we may incur to eliminate or address any security vulnerabilities before or after a cyber-incident could be significant. We also understand that we are responsible, as provided in the Brazilian General Law of the Protection of Data (*Lei Geral de Proteção de Dados*) (LGPD), for any improper handling of personal data. Our remediation efforts may not be successful and could result in interruptions, delays or cessation of services that may impede our critical functions.

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

Our operations are subject to comprehensive federal, state and local safety, health and environmental legislation as well as supervision by agencies of the Brazilian Government that are responsible for the implementation of such laws. Among other things, these laws require us to obtain environmental licenses for the construction and operation of new facilities or the installation and operation of new equipment required for our business. The rules about these subjects are complex and may be changed over time, making the ability to comply with the requirements more difficult or even impossible, thereby precluding our continuing, present or future generation, transmission and distribution operations. In particular, the environmental legislation is currently under review by the Brazilian Congress and we cannot predict whether any changes to such legislation that the Brazilian Congress approves will have a negative impact on us.

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

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

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

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

The lack of control and compliance with the requirements and deadlines imposed by the competent authorities can cause significant penalties for us in terms of loss of revenue, fines, stoppages and damages to our reputation and image. For the parties responsible for the projects, the penalties can be determined in civil, administrative and criminal proceedings. See “Item 3.D Key Information—Risk Factors—Risks Relating to Brazil—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.”

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

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

Accordingly, we seek to prevent any breach of environmental law and regulations, including those that may result in administrative and criminal penalties. However, we cannot assure you that our environmental impact studies will be approved by the relevant regulatory agencies, that public opposition will not result in delays or modifications to any proposed project or that laws or regulations will not change or be interpreted in a manner that could materially adversely affect our operations or plans for the projects in which we have an investment. We believe that concern for environmental protection is also an increasing trend in our industry. Although we consider environmental protection when developing our business strategy, changes in environmental regulations, or changes in the policy of enforcement of existing environmental regulations, or our inability to comply with those regulations, could materially adversely affect our financial condition and the results of our operations.

Risks Relating to our Shares and ADS

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

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

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

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

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

The Brazilian securities market is influenced by economic and market conditions in Brazil, as well as in other countries, including the United States, European Union and emerging countries. Despite the significant different economic conjecture between these countries and Brazil, investors' reactions to events in these countries may have a relevant adverse effect on the market value of Brazilian securities, especially those listed on the stock exchange. Crisis in the United States, European Union or emerging countries may reduce investors' interest in Brazilian companies, including us. For example, the prices of shares listed on B3 have been historically affected by fluctuations of the American interest rate as well as the variations of the main indexes for North-American shares. Events in other countries and capital markets may adversely affect the market price of our shares to the extent that, in the future, it could difficult or prevent access to capital markets and investment financing on acceptable terms.

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

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

Exchanging ADS for the underlying shares may have unfavorable consequences.

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

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

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

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

If we realize a net profit in an amount sufficient to make dividend payments, as a rule, at least the mandatory dividend is payable to holders of our preferred and common shares. However, we may not pay mandatory dividends, even in the case of profits, if we declare an inability to pay, as occurred for the year ended December 31, 2018. In this case, mandatory dividends must be retained in a special