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CESP - Companhia Energética de São Paulo

Parent company and consolidated financial statements at December 31, 2020 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Shareholders
CESP - Companhia Energética de São Paulo

Opinion

We have audited the accompanying parent company financial statements of CESP - Companhia Energética de São Paulo (the "Company"), which comprise the balance sheet as at December 31, 2020 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of CESP - Companhia Energética de São Paulo and it subsidiary ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2020 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CESP - Companhia Energética de São Paulo and of CESP - Companhia Energética de São Paulo and it subsidiary as at December 31, 2020, and the financial performance and the cash flows for the year then ended, as well as the consolidated financial performance and the cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

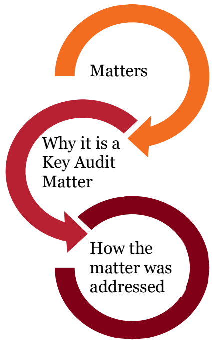
Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Parent Company and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

CESP - Companhia Energética de São Paulo

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the parent company and consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.



We planned and performed the December 31, 2020 audit on the basis that the operations of the Company and its subsidiary are similar to that in the prior year. Therefore, the key audit matters as well as our audit approach are consistent with those in the prior year.

Why it is a Key Audit Matter	How the matter was addressed in the audit
GSF - *Generation Scaling Factor* – Note 1.2.i	
Law 14,052 was enacted in September 2020 establishing new conditions for the renegotiation of the hydrological risk for electricity generation. Having evaluated the information available, the Company announced that it might obtain an extension of the concessions to offset amounts already disbursed. Management considers that, due to the circumstances described in the explanatory note, it is unable to determine with reasonable certainty the concession period extensions and the prior amounts to be offset and, consequently, quantify the effects on the 2021 financial statements.	Our audit approach considered, among others, the following audit responses: • Discussed with management to obtain an understanding of the circumstances. • Obtained and discussed the memoranda prepared by management that addresses the uncertainties for the determination, with reasonable certainty, of values and timing of rights to extend concessions. • Read the disclosures presented in the explanatory notes.
We decided to focus on this area in our audit due to the potentially significant effects on the Company's financial position and results of operations and the uncertainties inherent in estimating the timing of recognition of the compensation rights.	As a result of our audit procedures, we believe that the disclosures are consistent with the audit evidence obtained.

Why it is a Key Audit Matter	How the matter was addressed in the audit

Provision for litigation - Note 20

As of December 31, 2020, the Company has provisions to cover probable risk of loss in lawsuits of R$ 1,748,257 thousand. It also has tax, civil, environmental, labor and expropriation actions in progress for which no provisions were recorded in the financial statements as the risk of loss is classified as being possible or remote by management, under the advice of the Company's internal and external legal counsel.

Estimating provisions and contingent liabilities involves inherent uncertainties in determining the amounts and realization periods. Measurement of the contingent liabilities and a need for a provision requires management to exercise significant judgments to estimate the amounts of the obligations and the probability of outflow of funds.

This was considered a key audit matter due to: (i) the significance of the provisions and the contingent liability disclosures; (ii) the judgment needed to evaluate different doctrinal and jurisprudential interpretations in estimating the amounts and the probability of outflow of funds; and (iii) the significant impact on the Company's financial position and results of operations in the event the Company's position does not prevail for contingencies classified with a risk of loss as possible or remote.

Our audit approach considered, among others, the following audit responses:

- Evaluating the procedures for recognizing provisions and their consistency with the accounting policies and their respective disclosures.
- Assessing, with the support of our specialists, the consistency of criteria and assumptions for measuring, recognizing and classifying management's risk of loss from lawsuits, prepared on the advice of the Company's internal and external legal counsel.
- Obtaining confirmations directly from the legal advisors.
- Meeting with the Company's governance bodies to discuss the matter.

We believe that the criteria and assumptions adopted by management to determine the provision for lawsuits and contingencies and corresponding disclosures are consistent with the advice from internal and external legal counsel and other information obtained.

Why it is a Key Audit Matter	How the matter was addressed in the audit

Recoverability of fixed and intangible assets from concession contracts (impairment test) - Notes 11 and 12

On December 31, 2020, the Company presented fixed and intangible assets of R$ 5,956,429 thousand and R$ 1,509,895 thousand, arising substantially from investments in public concession infrastructure contracts.

We considered the impairment test of fixed assets and intangible assets to be a key audit matter due to the significance of the balance and complexity involved in determining recoverability. Significant judgments are required to estimate future cash flows, which include assumptions that are sensitive to macroeconomic and market conditions. Applying different judgments and assumptions could significantly affect reported balances in the financial statements.

Our audit approach considered, among others, the following audit responses:

- Discussed with management the approved and disclosed business plans.
- With the assistance of our specialists, evaluated management's policies and processes for preparation of analyses. Assessed the measures adopted for the approval, by the governance bodies, of the cash flow projections, as well as the analysis of the main assumptions used in the projections, such as the energy generation (MWh), contracted prices, discount rate, among others.
- Reviewed the sensitivity analysis for the projections under different intervals and scenarios.
- Analyzed the adequacy of the disclosures in the explanatory notes.

Based on our audit procedures, we consider that the impairment test assumptions used and the corresponding calculations made by management to be reasonable and the disclosures consistent with the information obtained.

Realization of income tax and social contribution tax credits - Note 8

At December 31, 2020, the Company and its subsidiary recorded assets for deferred income and social contribution tax losses and temporary differences of R$ 3,863,865 thousand. These assets were recorded based on management's assessment that sufficient taxable profits will be available to offset these credits in the future.

During 2020, the Company revisited its recoverability analyzes for these taxes, in light of Accounting Technical Pronouncement CPC 32

Our audit approach considered, among others, the following audit responses:

- Discussion of the approved and formalized business plans with management.
- With the assistance of our specialists, evaluated management's policies for preparation and approval by the governance bodies of the projections, as

Why it is a Key Audit Matter	How the matter was addressed in the audit
"Taxes on Profit". This review identified a further R$ 1,513,477 thousand expected to be realized within the foreseeable future and, consequently, the asset was increased by this amount. This was considered a key audit matter due to: (i) the inherent subjectivity of estimates used by management; (ii) the estimated period for realization of the tax assets; (iii) the risks that insufficient taxable profits will be available to recover the net deferred assets; and (iv) the significance of the amounts under analysis.	well as the analysis of the main assumptions used in the projections, such as energy generation (MWh), contracted prices, discount rate, among others. • With the assistance of our specialists, evaluated the tax base used to calculate deferred taxes and their adequacy, with reference to current tax legislation. • Analysis of the adequacy of the disclosures in the explanatory notes. Based on our audit procedures we consider the assumptions and processes adopted to be reasonable.

Assets subject to indemnity - Note 9

At December 31, 2020, the Company presented an "Assets subject to indemnity", net of provision for losses, of R$ 1,739,161 thousand arising from indemnities from the Três Irmãos, Ilha Solteira and Jaguari plant closed concession contracts. Although the Company has a claim in the courts for a higher indemnity amount, it has limited the asset recognition to the amount management considers to be undisputed. We considered this to be a key audit matter due to subjective nature of the estimates for determining the amount of the receivable, including the means of receipt, which may significantly affect the financial statements.	Our audit approach considered, among others, the following audit responses: • Understanding the history of the administrative process, analysis of the main normative resolution publications, ordinances, letters and technical notes of the regulatory body. • With the assistance of our specialists, evaluated the ongoing process underlying management's estimate in determining the undisputed amount. • Analysis of the adequacy of the disclosures in the explanatory notes. We believe that the criteria and assumptions adopted by management to determine the indemnification asset and related disclosures to be reasonable.

Other matters

Statements of Value Added

The parent company and consolidated Statements of Value Added for the year ended December 31, 2020, prepared under the responsibility of the Company's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added". In our opinion, these Statements of Value Added have been properly prepared in all material respects, in accordance with the criteria established in the Technical Pronouncement, and are consistent with the parent company and consolidated financial statements taken as a whole.

Other information accompanying the parent company and consolidated financial statements and the auditor's report

The Company's management is responsible for the other information that comprises the Management Report.

Our opinion on the parent company and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the parent company and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the parent company and consolidated financial statements

Management is responsible for the preparation and fair presentation of the parent company and consolidated financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's responsibilities for the audit of the parent company and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the parent company and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company and consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the parent company and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

CESP - Companhia Energética de São Paulo

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 11, 2021

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Carlos Eduardo Guaraná Mendonça
Contador CRC 1SP196994/O-2

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CESP – COMPANHIA ENERGÉTICA DE SÃO PAULO

INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2020 AND INDEPENDENT AUDITORS' REPORT.

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Individual and consolidated financial statements

Notes to the individual and consolidated financial statements

CESP - Companhia Energética de São Paulo
BALANCE SHEET
At December 31

In thousands of reais

	Note	Parent company 2020	Parent company 2019	Consolidated 2020	Consolidated 2019
ASSETS					
CURRENT					
Cash and cash equivalents	4	643.045	690.276	713.384	741.444
Derivative financial instruments	28.5		18.718		18.718
Acoounts receivable	5	213.276	198.930	272.817	198.930
Taxes recoverable		48.639	8.357	61.190	8.357
Dividends receivable		1.158			
Prepaid expenses		1.957	11.186	1.957	11.186
Other assets	6	69.484	93.153	69.509	93.153
		977.559	**1.020.620**	**1.118.857**	**1.071.788**
NON-CURRENT					
Long-term receivables					
Derivative financial instruments	28.5		21.225		21.225
Collaterals and judicial deposits	7	260.496	343.979	260.496	343.979
Deferred income tax and social contribution	8	3.933.797	1.877.412	3.954.680	1.877.412
Warehouse		6.023	7.611	6.023	7.611
Assets subject to indemnity	9	1.739.161	1.719.390	1.739.161	1.719.390
		5.939.477	**3.969.617**	**5.960.360**	**3.969.617**
Investments	10	31.176	51.102		
Fixed assets	11	5.956.429	6.305.943	5.956.429	6.305.943
Intangible assets	12	1.509.895	1.575.300	1.509.895	1.575.300
Right-of-use assets on lease agreements		6.323	7.106	6.323	7.106
		13.443.300	**11.909.068**	**13.433.007**	**11.857.966**
TOTAL ASSETS		**14.420.859**	**12.929.688**	**14.551.864**	**12.929.754**

	Note	Parent company 2020	Parent company 2019	Consolidated 2020	Consolidated 2019
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT					
Suppliers		7.430	8.824	7.475	8.849
Energy purchased for resale	13	15.416	35.755	76.109	35.755
Loans	14	18.220	3.002	18.220	3.002
Lease liabilities		1.700	1.584	1.700	1.584
Derivative financial instruments	28.5	58.936		95.084	
Future energy contracts	18			17.336	
Estimated obligations and payroll		22.479	21.497	23.387	21.497
Taxes payable		32.084	23.494	40.721	23.535
Sector charges	15	96.003	115.673	96.003	115.673
Dividends payable and interest on equity	23.6.3	581.919	606.176	581.919	606.176
UBO - Use of public assets	16	41.307	29.275	41.307	29.275
Social and environmental obligations	17	28.426	23.474	28.426	23.474
Other liabilities	21	22.898	88.038	22.906	88.038
		926.818	**956.792**	**1.050.593**	**956.858**
NON-CURRENT					
Loans		1.800.854	1.781.123	1.800.854	1.781.123
Lease liabilities	14	4.788	5.624	4.788	5.624
Derivative financial instruments		6.019		9.141	
Future energy contracts	28.5			4.108	
Sector charges	18	1.240	12.014	1.240	12.014
UBP - Use of public assets	15	114.057	158.355	114.057	158.355
Allowance for litigation	16	1.748.257	1.814.375	1.748.257	1.814.375
Social and environmental obligations	20	152.749	164.536	152.749	164.536
Post-employment benefits	17	2.412.379	836.995	2.412.379	836.995
Other liabilities	19	47.485	54.969	47.485	54.969
		6.287.828	**4.827.991**	**6.295.058**	**4.827.991**
TOTAL LIABILITIES		**7.214.646**	**5.784.783**	**7.345.651**	**5.784.849**
EQUITY	23				
Share capital		5.975.433	5.975.433	5.975.433	5.975.433
Capital reserves		1.929.098	1.929.098	1.929.098	1.929.098
Profit reserves		2.187.137	1.084.883	2.187.137	1.084.883
Deemed costs		(919.658)	(948.623)	(919.658)	(948.623)
Other comprehensive income		(1.965.797)	(895.886)	(1.965.797)	(895.886)
TOTAL SHAREHOLDERS' EQUITY		**7.206.213**	**7.144.905**	**7.206.213**	**7.144.905**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14.420.859**	**12.929.688**	**14.551.864**	**12.929.754**

Management's notes are an integral part of these individual and consolidated financial statements.

CESP - Companhia Energética de São Paulo
STATEMENT OF INCOME
Years ended December 31

In thousands of Reais, unless otherwise indicated

		Parent company		Consolidated	
	Note	**2020**	**2019**	**2020**	**2019**
Net revenue	24	1.424.960	1.571.296	1.917.248	1.571.296
Electricity service cost	25	(735.393)	(1.092.015)	(1.189.642)	(1.092.015)
Electricity cost		(297.438)	(667.717)	(751.687)	(667.717)
Operation cost		(437.955)	(424.298)	(437.955)	(424.298)
Gross profit		689.567	479.281	727.606	479.281
Operating income (expenses)	25				
General and administrative		(100.895)	(263.157)	(111.552)	(263.201)
Other operating income, net		218.138	267.282	196.672	267.282
		117.243	4.125	85.120	4.081
Operating profit before equity results and finance results		806.810	483.406	812.726	483.362
Results from equity investments					
Equity in the results of investees	10	4.874	102		
		4.874	102		
Net financial result	26				
Finance income		28.211	74.259	29.742	74.438
Finance expenses		(585.562)	(418.504)	(585.670)	(418.505)
Foreign exchange gains/losses, net			(2.809)		(2.809)
		(557.351)	(347.054)	(555.928)	(346.876)
Profit before income tax and social contribution		254.333	136.454	256.798	136.486
Income tax and social contribution	27				
Current		(13.458)		(24.639)	(32)
Deferred		1.487.887	1.026.560	1.496.603	1.026.560
Net income for the year		**1.728.762**	**1.163.014**	**1.728.762**	**1.163.014**
Basic earnings per thousand shares, in Reais		5,28	3,55	5,28	3,55

Management's notes are an integral part of these individual and consolidated financial statements.

CESP - Companhia Energética de São Paulo
STATEMENT OF COMPREHENSIVE INCOME
Years ended December 31

In thousands of reais

	Note	Parent company and Consolidated 2020	2019
Net income for the year		1.728.762	1.163.014
Other components of comprehensive income to be reclassified to income			
Operating hedge accounting	23.5	(64.159)	25.501
Operating hedge accounting - compensation	10	(23.618)	
		(87.777)	25.501
Other components of comprehensive income that will not be reclassified to prc			
Adjustment of post-employment benefits CPC 33 (R1)	19	(982.134)	(541.086)
Total comprehensive loss for the year		**658.851**	**647.429**

Management's notes are an integral part of these individual and consolidated financial statements.

CESP - Companhia Energética de São Paulo
STATEMENTS OF CHANGES IN EQUITY
Years ended December 31

In thousands of reais

	Note	Share capital (Note 23.1)	Capital reserves (Note 23.2)	Profit reserves (Note 23.3)	Additional dividends (Note 23.6)	Deemed cost (Note 23.4)	Other comprehensive income (Note 23.5)	Accrued profits	Total equity
Balances on January 1, 2019		5.975.433	1.929.098	554.588		(976.752)	(380.301)		7.102.066
Depreciation of deemed cost						28.129		(28.129)	
Net income for the year								1.163.014	1.163.014
Operational hedge accounting							25.501		25.501
Adjustment of post-employment benefits CPC 33 (R1)							(541.086)		(541.086)
Total comprehensive income for the year						**28.129**	**(515.585)**	**1.134.885**	**647.429**
Unclaimed dividends and interest on equity				1.290					1.290
Allocation of net income for the year									
Constitution of legal reserve				58.151				(58.151)	
Realization of unrealized profit reserve				(35.442)				35.442	
Minimum mandatory dividends								(597.543)	(597.543)
Additional dividends								(8.337)	(8.337)
Constitution of statutory profit reserve				101.259				(101.259)	
Profit retention				405.037				(405.037)	
Total contributions and distributions to shareholders				**530.295**				**(1.134.885)**	**(604.590)**
Balances as of December 31, 2019		**5.975.433**	**1.929.098**	**1.084.883**		**(948.623)**	**(895.886)**		**7.144.905**
Depreciation of deemed cost						28.965		(28.965)	
Net income for the year								1.728.762	1.728.762
Operational hedge accounting	23.5						(64.159)		(64.159)
Operational hedge accounting – compensation	10						(23.618)		(23.618)
Adjustment of post-employment benefits CPC 33 (R1)	19						(982.134)		(982.134)
Total comprehensive income for the year						**28.965**	**(1.069.911)**	**1.699.797**	**658.851**
Allocation of net income for the year	23.6								
Constitution of legal reserve				86.438				(86.438)	
Interest on shareholders' equity								(150.001)	(150.001)
Minimum mandatory dividends								(447.542)	(447.542)
Proposed additional dividends					252.622			(252.622)	
Constitution of statutory profit reserve				90.738				(90.738)	
Profit retention				672.456				(672.456)	
Total contributions and distributions to shareholders				**849.632**	**252.622**			**(1.699.797)**	**(597.543)**
Balances as of December 31, 2020		**5.975.433**	**1.929.098**	**1.934.515**	**252.622**	**(919.658)**	**(1.965.797)**		**7.206.213**

Management's notes are an integral part of these individual and consolidated financial statements.

CESP - Companhia Energética de São Paulo
STATEMENT OF CASH FLOWS
Years ended December 31

In thousands of reais

	Note	Parent company 2020	Parent company 2019	Consolidated 2020	Consolidated 2019
Cash flow from operating activities					
Profit before income tax and social contribution		254.333	136.454	256.798	136.486
Adjustments for non-cash items					
Depreciation and amortization	25	397.329	379.565	397.329	379.565
Write-off of fixed and intangible assets	11	541	1.348	541	1.348
Reversal of impairment provision for fixed assets	11.1	(7.589)	(120.405)	(7.589)	(120.405)
Equity in earnings	10	(4.874)	(102)		
Interest and indexation accruals and foreign exchange gains/losses	14.4	130.084	143.195	130.084	143.195
Appropriation of funding costs	14.4	18.123	3.141	18.123	3.141
Reversal of provision for litigation	20	(266.644)	(331.952)	(266.644)	(331.952)
Litigation provision additions and accruals	20	315.757	272.245	315.757	272.245
Court escrow deposits additions and accruals	7.3	(7.623)	(9.647)	(7.623)	(9.647)
Write-off of court deposits	7.3	86.936		86.936	
Provision (reversal) of social and environmental obligations	17	4.206	(14.835)	4.206	(14.835)
Hydrological risk renegotiation		7.511	15.021	7.511	15.021
Contingent asset adjustment - Ilha Solteira and Jupiá	25		230.040		230.040
Allowance for loan losses	25		(2.440)		(2.440)
Reversal of provision for recoverable value of warehouses	25	(66)	(8.053)	(66)	(8.053)
Reversal of the provision for PIS/COFINS on court deposits	25	(527)	(6.048)	(527)	(6.048)
Operational hedge accounting	28.5	71.514	685	116.295	685
Post-employment benefits	19	(489)	13.488	(489)	13.488
Adjustment to present value on post-employment benefits	19	59.622		59.622	
Adjustment to present value on social and environmental obligations	17	8.374	(11.040)	8.374	(11.040)
Adjustment to present value on UBP - Use of public assets	16	6.791	5.870	6.791	5.870
Adjustment to present value of lease		252	339	252	339
Future energy contracts	18			21.444	
		1.073.561	**696.869**	**1.147.125**	**697.003**
Decrease (increase) in assets					
Accounts receivable	5	(14.346)	41.872	(73.887)	41.872
Taxes recoverable		787	70.846	(4.926)	70.846
Warehouse		1.654	4.744	1.654	4.744
Prepaid expenses		1.718	(3.116)	1.718	(3.116)
Collaterals and court deposits	7.3	4.170	201.922	4.170	201.922
Derivative financial instruments	28.5		(1.990)		(1.990)
Other assets		2.332	19.176	2.307	19.176
Increase (decrease) in liabilities					
Suppliers		(1.394)	1.229	(1.374)	1.254
Energy purchased for resale	13	(20.339)	(132.067)	40.354	(132.067)
Derivative financial instruments	28.5	(63.827)		(105.123)	
Taxes payable		(7.073)	4.433	1.523	4.442
Post-employment benefit payments	19	(1.330)	(1.802)	(1.330)	(1.802)
Sectorial charges	15	(9.107)	(49.907)	(9.107)	(49.907)
Litigation payment	20	(115.231)	(224.734)	(115.231)	(224.734)
Social and environmental obligations	17	(9.642)	(16.966)	(9.642)	(16.966)
Payment of UBP - Use of public assests	16	(29.263)		(29.263)	
Estimated liabilities and payroll		982	(3.714)	1.890	(3.714)
Other liabilities		(72.097)	7.481	(72.089)	7.481
Cash generated from operations		741.555	614.276	778.769	614.444
Interest on loans, financing and debentures paid	14.4	(63.092)	(138.096)	(63.092)	(138.096)
Income tax and social contribution paid		(54.527)		(72.546)	
Net cash generated from operating activities		**623.936**	**476.180**	**643.131**	**476.348**
Cash flow from investing activities					
Investment acquisition	10		(51.000)		
Dividends received	10	24			
Fixed asset acquisitions	11	(10.479)	(6.582)	(10.479)	(6.582)
Acquisition of intangible assets	12	(2.842)	(2.505)	(2.842)	(2.505)
Grant payments	12		(1.398.703)		(1.398.703)
Net cash used in investing activities		**(13.297)**	**(1.458.790)**	**(13.321)**	**(1.407.790)**
Cash flow from financing activities					
Financing, net of funding costs	14.4	1.449.866	1.777.982	1.449.866	1.777.982
Settlement of loans, financing and debentures	14.4	(1.500.032)	(217.733)	(1.500.032)	(217.733)
Lease settlement		(1.567)	(1.085)	(1.567)	(1.085)
Dividends paid	1.2 (b)	(606.137)	(297.164)	(606.137)	(297.164)
Net cash generated (invested) in financing activities		**(657.870)**	**1.262.000**	**(657.870)**	**1.262.000**
Increase (decrease) in cash and cash equivalents		**(47.231)**	**279.390**	**(28.060)**	**330.558**
Opening balance of cash and cash equivalents		690.276	410.886	741.444	410.886
Closing balance of cash and cash equivalents		643.045	690.276	713.384	741.444

Management's notes are an integral part of these individual and consolidated financial statements.

CESP - Companhia Energética de São Paulo
STATEMENT OF VALUE ADDED
Years ended December 31

In thousands of reais

		Parent company		Consolidated	
	Note	2020	2019	2020	2019
Generation of added value					
Gross Revenue	24	1.657.513	1.830.499	2.203.798	1.830.499
Allowance for loan losses	25		2.440		2.440
		1.657.513	1.832.939	2.203.798	1.832.939
Inputs	25				
Purchased energy		297.438	667.717	751.687	667.717
Third party services		33.313	46.429	34.540	46.433
Materials		1.296	4.571	1.676	4.571
Other operating costs		8.775	7.362	8.775	7.362
		340.822	726.079	796.678	726.083
Gross added value		1.316.691	1.106.860	1.407.120	1.106.856
Deductions					
Depreciation and amortization	25	397.329	379.565	397.329	379.565
Future energy contracts	18			21.444	
		397.329	379.565	418.773	379.565
Net added value generated		919.362	727.295	988.347	727.291
Transfers					
Financial income	26	28.211	74.259	29.742	74.438
Exchange gains/losses, net	26		(2.809)		(2.809)
Post-employment benefits	25	489	(13.488)	489	(13.488)
Equity in earnings	10	4.874	102		
Deferred income and social contribution taxes	27	1.487.887	1.026.560	1.496.603	1.026.560
		1.521.461	1.084.624	1.526.834	1.084.701
Other	25				
Provision for litigation		266.644	331.952	266.644	331.952
Write-off of court deposits		(63.284)		(63.284)	
Allowance (reversal) for social and environmental obligations		(4.206)	14.835	(4.206)	14.835
Reversal of impairment for fixed assets		7.589	120.405	7.589	120.405
Reversal of provision for realizable value of warehouses		66	8.053	66	8.053
Reversal (allowance) of PIS/COFINS on court deposits updates		527	6.048	527	6.048
Contingent asset adjustment - Ilha Solteira and Jupiá			(230.040)		(230.040)
Insurance		(5.966)		(5.966)	
Other net revenues		3.849	3.442	2.939	3.422
		205.219	254.695	204.309	254.675
Value added to distribute		**2.646.042**	**2.066.614**	**2.719.490**	**2.066.667**
Distribution of added value					
Personnel					
Work remuneration		75.225	217.407	83.277	217.426
Remuneration of key management personnel	25	8.765	6.900	8.765	6.900
		83.990	224.307	92.042	224.326
Funders and rents					
Interest and debt charges	26	130.084	142.715	130.084	142.715
Other financial expenses	26	455.478	275.789	455.586	275.790
Rentals	25	1.717	1.586	1.827	1.587
		587.279	420.090	587.497	420.092
Intrasectorial - Regulatory charges	24				
Financial compensation for the use of water resources - CFURH		51.389	48.801	51.389	48.801
Global Reversion Reserve - RGR		2.579	26.304	2.579	26.304
Research and development – R&D		15.098	15.631	15.098	15.631
Inspection fee for electricity services - TFSEE		4.930	3.999	4.930	3.999
		73.996	94.735	73.996	94.735
Taxes and social contributions					
Federal		171.931	164.348	237.109	164.380
Municipal	24	84	120	84	120
		172.015	164.468	237.193	164.500
Shareholders					
Realization of unrealized profit reserve			(35.442)		(35.442)
Interest on equity		150.001		150.001	
Minimum mandatory dividends		447.542	597.543	447.542	597.543
Proposed additional dividends		252.622	8.337	252.622	8.337
Depreciation of deemed cost		28.965	28.129	28.965	28.129
Constitution of legal reserve		86.438	58.151	86.438	58.151
Appropriations to statutory reserve		90.738	101.259	90.738	101.259
Profit retention		672.456	405.037	672.456	405.037
		1.728.762	1.163.014	1.728.762	1.163.014
Distributed added value		**2.646.042**	**2.066.614**	**2.719.490**	**2.066.667**

Management's notes are an integral part of these individual and consolidated financial statements.

MESSAGE FROM THE ADMINISTRATION

2020 was marked by the pandemic of the new coronavirus (Covid-19), having consequences for our lives and for the economy. CESP acted promptly in this scenario, adopting adequate preventive measures to preserve the health and the safety of all employees, as well as guaranteeing the continuity of the power generation service provision with excellence. The resilience of our customer portfolio, the agility to react to the new environment and the robustness of our capital structure were essential for us to mitigate the impacts caused by Covid-19.

The evolution of the pandemic placed the social-environmental issues and the need for an economy that is responsible for the future to the center of the discussions even more. In the Brazilian electric power sector, the energetic transition is part of the evolution towards a better and more aware country. This becomes a path of no return, which demands strategies and investments, while demanding the regulation of the sector to evolve quickly. CESP, a 100% renewable energy generation company, is an important part for the solution of this challenge.

As a highlight, in 2020, we took an important step in the maturity of our administration about ESG (Environmental, Social and Governance) aspects, by means of identification of the material topics and definition of the priority Sustainable Development Goals (SDGs). With the leaders' engagement and involvement, we created CESP's Sustainability Platform with three thematic lines: Environmental and Climate Proactivity, Local and Human Development, and Inclusive Growth. We also disclosed our Annual Report for the first time, the structure and the content of which were inspired by the Integrated Reporting principles of the International Initiative for Integrated Reporting (IRRC).

CESP constantly improves and promotes the adoption of the best Corporate Governance practices and is committed to the continuation of its operation in compliance with the principles of transparency, equity, accountability and corporate responsibility, aiming at the strengthening of the administration and governance structure with the purpose to solidify the pillars for the continuity of CESP and its businesses. In February 2021, we established the bases for the creation of the ESG Commission, with the purpose of supporting the Administration Board in the incorporation and the addressing of ESG topics in the process of strategic decision-making and business direction.

We have also advanced in our digital transformation agenda, reducing risks, automating processes and achieving quicker responses in the adoption of new technologies. Thus, we started our data/analytics journey, creating a culture of trust in the data-driven information.

In operational terms, one of the most important performance indicators, the average availability index of the power plants, reached a 95.7% average at the end of 2020, in a sustained increase trajectory, consistently, above the reference levels set by ANEEL, continuously demonstrating good operation and maintenance management, and, consequently, higher efficiency in the availability of the power plants.

In 2020, we continued to follow the strategy designed in the energetic balance management, allied to the planned seasoning of the physical guarantee, maintaining the management of our client portfolio. It is important to point out that in 2020, CESP took advantage of the opportunity windows in the market and purchased approximately 90% of the energy necessary for 2021.

Regarding the passive litigation, we continue with the strategy and the management of the judicial suits with legal and financial assistants to complement the work of our own team. We ended 2020 with a reduction, after the inflation adjustment, of BRL 2.9 billion in the total liability contingencies compared to the balance in December 2019, explained by the combination (i) judicial decisions favorable to CESP; (ii) judicial deals; (iii) revision of estimates according to the procedural evolution of the suits. These results are in line with our determination to take an increasingly assertive and strict approach to the reduction of this risk.

Our financial results reflect the diligence in the execution of our strategies, reaching a consolidated Adjusted EBITDA of BRL 1 billion in 2020, a 35% growth compared to 2019, reflecting the adequate management of the energetic balance and the discipline in costs and expenses.

The strong cash generation capacity of CESP puts us in a position of highlight in this context. In 2020, we generated BRL 743 million in operating cash flow after debt service, which represents a 73% cash conversion index.

As an indebtedness management strategy, in August 2020, CESP raised BRL1.5 billion by issuing the 12th Infrastructure debenture at a rate of IPCA + 4.30% p.a. and a 10-year term. With this operation, CESP's debt increased by 5 years in medium terms; however, keeping the average cost, in addition to improving the contract conditions, in order to make them adequate to the new credit profile of CESP.

The combination of strong cash generation and net income in 2020 enabled the proposal for distribution of receivables to the shareholders in the amount of BRL 850 million, being BRL 150 million by means of interest on capital (JCP) and BRL 700 million by means of dividends, representing a payout of 49% and a dividend yield of ~9%, with payment scheduled for April and September 2021.

Finally, we point out that CESP starts 2021 even more prepared to take advantage of the opportunities that will arise and committed to create and offer the best energy solutions, generating and sharing wealth in a sustainable way by means of transformation of the people and the society.

Thanks a lot, to all of you who are with us in this trajectory.

Mario Bertoncini

Chief and Investor Relations Executive Officer

Marcelo de Jesus

Financial Executive Officer

COMPANY PROFILE

CESP is a power generating company created in 1966 by the Government of the State of São Paulo upon the merger of 11 electric power companies from São Paulo.

On October 19, 2018, there was a new winner in the tender for CESP shares, Consórcio São Paulo Energia, constituted by VTRM Energia Participações S.A. ("VTRM") and SF Ninety Two Participações Societárias S.A. ("SF 92"), the result of the partnership between Votorantim Energia and the Canadian fund Canada Pension Plan Investment Board (CPP Investments). On December 11, 2018, after the signature of the Share Purchase and Sale Agreement with the State of São Paulo, CESP became a privately held company.

GENERATION PARK

CESP holds the concession of two hydroelectric power generation plants under a concession contract (HPP Porto Primavera – independent power production and HPP Paraibuna) with 16 generation units total, 1,627 MW power and 935 MW average physical energy guarantee.

The plants are installed in the water basins of the Paraná River, to the West of the State of São Paulo, and the Paraíba do Sul River, to the East of the State.

In May 2020, the concession for the Jaguari Hydroelectric Plant ended, and as deliberated in Meeting of the Administration Board of CESP, held on June 28, 2019, the company decided not to renew the concession for this power plant, which represented less than 2% of its total assured energy. In November 2020, Ordinance No. 409/2020 of the Ministry of Mines and Energy designated Furnas Centrais Elétricas S.A. as the responsible party for the provision of the electric power generation service at Hydroelectric Power Plant Jaguari as of January 1, 2021. CESP operated HPP Jaguari from June to December 2020 under quota regime.

CORPORATE GOVERNANCE

At CESP, the goal of Corporate Governance is to contribute to the creation of value for the Company´s shareholders and stakeholders, in compliance with the principles of transparency, equity, accountability and corporate responsibility, aiming at the strengthening of the administration and governance structure with the purpose to solidify the pillars for the continuity of CESP and its businesses.

Thus, the Company strongly believes that the adoption of the best Corporate Governance practices contributes to the success and the prosperity of all of its activities.

In this sense, CESP follows a set of rules that govern the relations between the Company, its shareholders and the financial market, as in the case of Level 1 Listing Regulation on Corporate Governance of B3 – Brasil, Bolsa, Balcão S.A. and all norms of the Securities and Exchange

Commission - CVM. Furthermore, CESP continually seeks to incorporate new Corporate Governance practices and conducts, even superior to those required by the B3 Level 1 Listing Segment.

CESP is also committed to the recommendations of the Brazilian Corporate Governance Code of the Brazilian Institute of Corporate Governance - IBGC, an important tool for administrators and investors to follow the Corporate Governance practices of the Brazilian companies.

SUSTAINABILITY

CESP is set in the energy sector as a solid company, with the commitment to incorporate the best corporate sustainability practices in its new management and business strategy, minimizing the social and environmental impacts of its operations. An important part of this strategy is based on the strict compliance with the legal requirements, as well as mapping and implementation of actions aligned with the Sustainable Development Goals (SDG) set by the United Nations (UN), and identification and prioritization of the material themes that reflect the most significant environmental, economic and social impacts of the Company and influence the stakeholders' decisions.

Respect for the environment is a fundamental value for CESP, which adopts actions for the identification of aspects and impacts pursuant to its activities based on programs and actions aimed at monitoring and control.

Aware of the importance of its social role, CESP is implementing a model of social action in line with the main guidelines on Corporate Social Responsibility. For this purpose, within the guidelines on the UN Sustainable Development Goals, it seeks to work with the communities surrounding the enterprises in a transparent and participatory way, aiming at the social and environmental empowerment and protagonism of these populations. For this purpose, the Participatory Social-Environmental Diagnosis was promoted, where spaces for dialogue with the local populations were created for the identification of topics and issues of interest to all in order to generate shared value.

In partnership with Instituto Votorantim, CESP promotes the Voluntary Challenge among its employees to support volunteering culture by means of promotion of social initiatives and the #ViaSolidária campaign, an action that aims to encourage the habit of donation to projects, which assist children and teenagers in vulnerable situations.

Furthermore, CESP works on 2 big projects outside of its concession area: Instituto Criança Cidadã – ICC (https://www.iccsp.org.br/) and Fundação Energia e Saneamento (http://www.museudaenergia.org.br/), in which it is a member of the Administration Boards and provides significant financial support.

OPERATIONAL PERFORMANCE

In 2020, the production of power by CESP power plants was in line with that verified in 2019 (increase of 3 MWm) and it was influenced by lower generation in the first half of the year caused by the reduction of the SIN load due to the effects of the COVID-19 pandemic and the water crisis that worsened in the second half of the year.

Regarding HPP Paraibuna and Jaguari, the production schedule of these power plants is done according to the control of the flow rate in the basin of the Paraíba do Sul River, upon definition by the ONS of the outflow from the cascade plants with the purpose to meet the hydraulic restrictions of the basin.

In 2020, the plants operated by CESP achieved an average availability index of 95.7%, a value higher than the 93.9% in 2019, continuously demonstrating the efficient management of the plant maintenance in 2020 and the good operational performance of the generation assets.

The availability index of CESP's power plants remains consistently higher than the reference values set by ANEEL, and in a trajectory of growth, demonstrating the quality of the operation and the maintenance of the operating assets, and the adequate management of the operational risks.

ECONOMIC FINANCIAL PERFORMANCE

OPERATING REVENUES

The Net Operating Revenues in 2020 totaled BRL 1.9 billion, increase by BRL 346 million (+22%) compared to 2019, mainly pursuant to:

- **Trading companies:** Increase by BRL 323 million mainly pursuant to: (i) the contract conditions previously agreed with the counter parties (sold power seasoning); (ii) balance settlement at CCEE in the amount of BRL ~57 million and (iii) the update of the contracts indexed to the American dollar.
- **Trading:** beginning of the trading operations by CESP Comercializadora, with revenues of BRL 112 million in 2020.
- **Distributors:** Increase by BRL 17 million pursuant to the contract adjustment clause.

These effects were partially offset by:

- **Derivative Instruments:** Expenses of BRL 117 million by the American dollar variation in the settlement of derivative financial instruments for protection of the exchange exposure of the contracts of the free market, indexed to the American dollar.

- **Short-term power:** Reduction of BRL 17 million due to the new energetic balance equalization strategy of the Company combined with optimized management of the receivables at CCEE pursuant to the systemic default.

OPERATING COSTS AND EXPENSES

The operating costs and expenses totaled BRL 1,104 million in 2020, the same level as the amount of BRL 1,088 registered in 2019. In both years, there were non-recurring or non-cash effects as described below:

Litigation provision reversal: In 2020, a provision reversal in the amount of BRL 267 million was done in line with the procedural strategy to reduce the contingent liability. In 2019, there was reversal in the amount of BRL 332 million.

Non-recurring effects: includes: (i) Voluntary Dismissal Program: In 2020, there was an impact of non-recurring expenses of BRL 15 million related to the remaining medical expenses of former employees, who joined the Voluntary Dismissal program ("PDV") of 2019 plus new agreements signed. In 2019, the expenses for PDV totaled BRL 111 million and include the two programs done in the year. (ii) Impairment: In 2020, the fixed asset impairment reversal was of BRL 8 million, compared to BRL 120 million registered in 2019. (iii) Contingent assets: adjustment of contingent assets of Ilha Solteira and Jupiá in the amount of BRL 230 million made in 2019, pursuant to the recognition of the amounts to be indemnified in the Company's balance sheet, according to MME ordinance 458/2015.

Non-cash effects: It includes depreciation/amortization, warehouse provisions and market marking of future power contracts. In 2020, the amount was of BRL 419 million, explained by the depreciation of BRL 397 million and the mark-to-market of future energy contracts of BRL 21 million. In 2019, the non-cash effects amounted to BRL 380 million, mainly explained by the value of depreciation and amortization in the year.

Judicial deposit write-off: In 2020, an expense of BRL 63 million was recognized related to the write-off of judicial deposits determined by the counter parties, identified in the judicial deposit conciliation process. It is worth pointing out that this accounting is a result of the progress in the process of strict analysis of the passive litigation and the judicial deposits corresponding to the suits.

Excluding the non-recurring and non-cash effects, the operating costs and expenses in 2020 amounted to BRL 882 million, an 8% increase compared to 2019, when BRL 834 million were reported.

Purchased power: Increase of BRL 62 million compared to 2019, mainly due to the purchase of energy for trading operations in the amount of BRL 83 million in 2020, which, when excluded, reduce the cost of energy purchase by 4%, demonstrating the assertive management in the equalization of the energetic balance, with an average purchase price of BRL 204 MW/h, 17% lower than in 2019 (BRL 247 MW/h).

Personnel and Administrators: In 2020, the expenses for personnel and administration reached BRL 77 million, a 32% reduction compared to 2019, due to the adjustment of the personnel structure with change in the professional profile together with the reformulation of targets, performance assessment, professional development and training.

Third parties' service, materials and rental: In 2020, it amounted to BRL 38 million, a 28% reduction compared to 2019, highlighting the focus on the cost discipline.

EBITDA

CONSOLIDATED EBIT / EBITDA - BRL thousand	2020	2019	Var. (%)
Net Profit	**1,728,762**	**1,163,014**	**49%**
Net IR and CSLL [1]	(1,471,964)	(1,026,528)	43%
Financial income	555,928	346,876	60%
= EBIT	**812,726**	**483,362**	**68%**
Depreciation / amortization	397,329	379,565	5%
EBITDA	**1,210,055**	**862,927**	**40%**
PDV	14,998	111,082	-86%
Reversal provision for litigation	(266,644)	(331,952)	-20%
Adjustment contingent assets - Jupiá and Ilha Solteira	-	230,040	n.m.
Judicial deposit write-off	63,284	-	n.m.
Impairment reversal	(7,589)	(120,405)	
Adjusted EBITDA	**1,014,104**	**751,692**	**35%**
Adjusted EBITDA margin	53%	48%	5 p.a.

The adjusted EBITDA amounted to BRL 1.014 million in 2020 with a 53% margin, a value 35% higher than 2019. The variations in the adjusted EBITDA can be explained mainly by the 22% increase in net income in 2020, mainly due to the start of the operations of CESP Comercializadora, with costs and expenses in 2020 at the same level as that of 2019.

FINANCIAL INCOME

The net financial income in 2020 recorded expenses of BRL 556 million compared to the expenses of BRL 347million in 2019. The variation can be explained mainly by:

Other financial expenses: Increase of BRL 113 million, mainly: (i) by the update of the actuarial liability balance (CPC 33) in the amount of BRL 60 million; (ii) by the payment of the early settlement premium of the 11th Debenture in the amount of BRL 11 million and proportional write-off of the funding cost in the amount of BRL 14 million, and (iii) adjustment to present value of the initial recognition of the provision for social and environmental obligations in 2019 with variation of BRL 19 million.

Financial revenues: Reduction by BRL 45 million pursuant to the lower level of CDI, which corrects the Company's investments.

Update of the litigation provision balance: Increase by BRL 43 million, pursuant to the update of the provision balance for litigation, mainly with IGP-M as the index.

Judicial deposit write-off: Expenses of BRL 24 million related to the reversal of the financial adjustment on judicial deposits determined by the counter parties.

Debt charges: Reduction of BRL 13 million, mainly due to the reduction of the interest appropriated in 2020, due to the decrease in the average CDI.

NET INCOME

The net income for 2020 showed a profit of BRL 1.7 billion, against a profit at BRL 1.1 billion in 2019. The main impact on the profit this year is the recognition of deferred IR/CSLL in the amount of BRL 1.5 billion.

Upon revocation of ICVM No. 371/2002, which limited the maximum term for realization of deferred tax assets to 10 years from the expectation of generating future taxable profits, the Company constituted the deferred tax (IR/CSLL) at BRL 1.5 billion, amount that contemplates 100% of the tax loss and the negative base from previous years, guaranteed by the accounting standard, which does not limit the period for realization of deferred taxes. It is important to point out that this was possible, once the realization of all deferred IR/CSLL will be done in the current concession period of HPP Porto Primavera.

INDEBTEDNESS

The gross indebtedness on December 31, 2020 was of BRL1.826 million compared to BRL1.791 million at the end of 2019.

As an indebtedness management strategy, in August, CESP raised BRL1.5 billion by issuing the 12th Infrastructure debenture at rate of IPCA + 4.30% p.a. and a 10-year term. The funding was made with the purpose to pre-pay partially the debentures issued within the 11th Issuance, which in turn, were issued with the purpose to fund the payment of the renewal grant of the concession of HPP Porto Primavera. With this operation, CESP´s debt increased by 5 years in medium terms; however, keeping the average cost, in addition to improving the contract conditions, in order to make them more adequate to the new credit profile of CESP. On December 31, 2020, the average term of the debt was of 7.8 years.

The position of cash and cash equivalents at the end of September 2020 was BRL 713 million against BRL 741 million in December 2019. The net debt on December 31, 2020 was BRL 1.216 million against BRL 1.010 million on December 31, 2019.

SHAREHOLDERS´ REMUNERATION

On a meeting on December 16, 2020, the Administration Board approved the proposal to distribute interest on equity (JCP) to the shareholders in the amount of BRL 150 million (ex-JCP date December 22, 2020), and on a meeting on February 11, 2021, the Board approved the proposal to distribute dividends to the shareholders in the amount of BRL 700 million (ex-dividend date will be on April 5, 2021). Thus, we achieved a payout of 49% on the net profit of 2020 and a dividend yield of ~9% for the three share classes of CESP.

CAPITAL MARKET

CESP has common shares ("CESP3") and preferred shares classes A and B ("CESP5 and CESP6", respectively) listed and traded on São Paulo Stock Exchange ("B3") and integrates Corporate Governance Level 1, valuing ethics the transparency in the relationship with the shareholders and other stakeholders of the Company. The Company´s shares are integrated in different indexes, among which, the Corporate Governance Index, in which the companies with differentiated corporate governance standards are listed, and Index Brazil 100, which gathers the shares most traded on B3.

On December 31, 2020, the preferred class B shares (CESP6), which represent 64.4% of the total capital stock of the Company, were quoted at BRL28.97. Since the beginning of this year, there is significant growth of the daily liquidity of the CESP6 shares, which show an average daily liquidity of BRL 51 million in the last quarter of 2020 (vs. BRL 35 million traded in the last quarter of 2019).

The common shares (CESP3), which represent 33.3% of the capital stock, were quoted at BRL 27.80. The preferred class A shares (CESP5), which represent 2.3% of the capital stock, were quoted at BRL 35.62 on December 31, 2020.

The market value of CESP on December 31, 2020 was BRL 9.4 billion compared to BRL 10.5 billion on December 31, 2019.

FREE CASH FLOW

The operating cash flow after debt service in 2020 was of BRL 743 million, which represents a cash conversion rate[2] of ~73%. The increase of BRL 48 million in relation to 2019 is mainly due to the reduction in the working capital pursuant to the higher PDV in 2019.

CAPEX

In 2020, Capex amounted to BRL 16 million, destined mainly to the acquisition of equipment for hydroelectric power plants.

AWARDS AND CERTIFICATIONS

Several market recognitions attest to the quality of the management and the operations of our Company. For the second consecutive year, we won the Great Place to Work - GPTW seal and entered GPTW's ranking as one of the best companies to work for.

AUDITORS

In compliance with CVM Instruction 381, dated January 14, 2003, CESP clarifies that the company PricewaterhouseCoopers provided only auditing services to this Company in the accounting year of 202

In thousands of Reais, unless otherwise indicated

1. General considerations

1.1 Operations

CESP - Companhia Energética de São Paulo ("CESP" or "Company") is a publicly-held corporation headquartered in the city of São Paulo; its controlling shareholder is VTRM Energia Participações S.A. ("VTRM"). It operates together with its subsidiary CESP Comercializadora de Energia S.A. ("CESP Comercializadora") (Note 1.2 (a)) and their main activities are the planning, construction and operation of generation systems and the sale of electricity. Other complementary operational activities include afforestation, reforestation and fish farming, as a means of protecting the environment which has been modified by the construction of its reservoirs and facilities.

The Company's shares are traded on B3 S.A. - Brasil, Bolsa, Balcão ("B3") and, since July 28, 2006, have been traded on B3's Corporate Governance Level 1. Company's Management seeks to continuously improve the provision of information, in accordance with the best market practices.

The Company is included in the Broad Brazil Index, the Brasil 100 Index, the Electricity Index, the Corporate Governance Stock Index, the Differentiated Corporate Governance Index, the Differentiated Tag Along Stock Index and the Public Utility Index.

The Company currently has two hydroelectric generation plants that operate under the pricing regime and one under the quota regime (Note 1.2 (d)), totaling 1,627 MW of installed capacity and 935 average MW of physical energy guarantee.

Following the execution of a concession contract for the Hydroelectric Power Plant Engenheiro Sérgio Motta (Porto Primavera) ("HPP Porto Primavera"), which extended the concession to 2049, the Company was reclassified from a public service concessionaire for electricity generation to an independent producer of electric energy. Its activities continue to be regulated and supervised by the National Electric Energy Agency ("ANEEL"), under the Ministry of Mines and Energy ("MME"). The operation of its plants is integrated with the National Operator of the Electric System ("ONS"). Gross plant production output as determined by ONS, is as below:

					Gross production in MWh (*)
					2020
Mills	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Accumulated**
Porto Primavera	2,387,980	2,016,725	2,115,856	2,130,403	8,650,964
Paraibuna	23,401	74,572	135,665	100,568	334,206
Jaguari	3,007	19,510	47,289	10,981	80,787
Total	**2,414,388**	**2,110,807**	**2,298,810**	**2,241,952**	**9,065,957**

					Gross production in MWh (*)
					2019
Plants	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Accumulated**
Porto Primavera	2,302,154	2,009,596	2,079,903	2,252,664	8,644,317
Paraibuna	22,718	56,530	125,780	110,271	315,299
Jaguari	2,710	7,070	31,676	8,497	49,953
Total	**2,327,582**	**2,073,196**	**2,237,359**	**2,371,432**	**9,009,569**

(*) Data related to power and energy volumes were not audited by the independent auditors

1.2 Main events that occurred during the year 2020

a) CESP Comercializadora's activities start

In January 2020, CESP Comercializadora began trading in the energy market, with the objective of optimizing management of CESP's energy balance, improving management of hydrological and market risks and enhancing the commercial strategy of the Company (Note 32).

b) Dividend payment

On March 30, 2020, Management's proposal for the payment of dividends for the year ended December 31, 2019, for R$ 605,880, was approved by the Annual General Meeting. These were paid in Brazilian Reais in two installments, the first of which for R$ 409,375 and settled on April 22, 2020, and the second for R$ 196,505 distributed on October 22, 2020. The dividends were paid considering the shareholding positions on B3's on April 2, 2020, through to the close of the trading day. The Company's shares were traded “ex-dividends” as of April 3, 2020.

The Company made a supplemental distribution of R$ 257 related to dividends from previous years which had been provisioned on December 31, 2019.

c) Effects of the pandemic caused by the new Coronavirus (COVID-19)

In March 2020, the World Health Organization (“WHO”) declared a worldwide pandemic due to the new Coronavirus (“COVIDCOVID-19”). The Company and its subsidiary have been taking every preventive and risk mitigation measure consistent with the guidelines established by Brazilian and international health authorities, aiming to protect, as far as possible, the wellbeing and safety of employees, family members, partners and its communities, assuring the continuity of its operations and business.

Since power generation is an essential activity, the Company follows contingency protocols to maintain the operations of its hydroelectric plants, whilst preserving the health of its professionals, their safe transportation to workplaces, by creating a work environment assuring social distancing and by providing protective equipment. At December 31, 2020, approximately 82% employees have been deployed to work from home.

A potentially significant risk to the Company and its subsidiary from COVID-19 may arise from customer defaults and counterparty risks in energy purchase and sale contracts. To mitigate risks, the Company and its subsidiary maintains regular contact with its main commercial partners. The accounts receivable position of the Company and its subsidiary as of December 31, 2020, including doubtful accounts, are closely monitored by Management to assure the quality and solvency of the assets. Despite the economic downturn caused by the pandemic, there have been no significant changes in client defaults and few contractual renegotiations have been required to preserve the original value of contracts.

The Company and its subsidiary have also evaluated their main vendor and supplier contracts and concluded that, despite the pandemic, the contractual obligations are still being fulfilled and there is no evidence or formalization of insolvency or interruptions to supply chains.

The Company's energy matrix balance was adjusted in 2020 and the Company is well positioned to meet potentially adverse effects from the GSF (Generation Scaling Factor) and changes in energy market prices. The Company currently has a satisfactory cash position and has no major financial obligations falling due in the coming years.

The Company and its subsidiary have experience no material detrimental effects from COVID-19 on their operations nor impacts on settlement of rights and obligations. However, operational risks affecting employee and third part wellbeing, and risks of legal and market restrictions may arise still from COVID-19, and, therefore, estimating potential future effects which may arise is not possible.

d) Temporary operation of the Jaguari HPP

On May 19, 2020, MME published Ordinance No. 218/2020, which determined CESP to be the provisional operator of the Jaguari Hydroelectric Power Plant (“UHE Jaguari”), under the physical guarantee quota regime, as of May 21, 2020, until such time as a new concession is granted to a successful bidder in an auction to be carried out by the Federal Government. Jaguari HPP (physical guarantee of less than 2% of the Company's total assured energy) will continue to operate in accordance with all applicable rules, including those related to the generation of energy under a quota regime. ANEEL approved the Annual Initial Generation Revenue ("Initial RAG") of the Jaguari HPP for the cycle ended on December 31, 2020, which resulted in annual net revenue of R$ 9,032, adjusted annually for inflation after the end of each cycle, for the next cycle.

On November 2020, the Ministry of Mines and Energy's Ordinance 409/2020 awarded Furnas Centrais Elétricas S.A. as the Jaguari Hydroelectric Power Plant operator for electric power generation from January 1, 2021. CESP operated Jaguari HPP, from June to December, under quota system (Note 9.2.3).

e) I-REC Certificates

In June 2020, the Company was authorized to issue International Renewable Energy Certificates (I-RECs) which certifies the traceability of environmentally clean energy. The certificates can be issued in accordance with the physical guarantee of the Porto Primavera HPP, each I-REC being equivalent to 1 MWh. In December 31, 2020, the income earned from I-REC, recognized as other income in the result, was not material.

f) TUST homologation

Homologatory Resolution No. 2,726 of July 14, 2020, established the value of the Tariffs for the Use of the Electricity Transmission System ("TUST"), components of the National Interconnected System in effect from July 1, 2020 to 30 September 2021. The new tariff applied to the Porto Primavera HPP is R$ 8.721/kW, an increase of 13.4% in relation to the tariff of the previous cycle (R$ 7.693/kW) (Note 25.1 - Use of the power grid).

g) Issuance of debentures

On August 21, 2020, the Company raised R$ 1,500,000 through the 12th issue of simple debentures, not convertible into shares. The funds raised through the placement were for partial payment of the 11th issue of simple debentures, which, in turn, were issued on December 19, 2018 in order to finance the payment of the concession renewal grant of the Porto Primavera HPP, as well as related expenses. The debentures mature in ten years to be amortized in three consecutive annual installments with a seven-year grace period (Note 14.2).

h) Distribution of interest on equity

On December 16, 2020, the Company approved the proposal to distribute interest on equity ("JCP"), as part of to the minimum mandatory dividend, in the gross amount of R$ 150,001 (data ex-JCP December 22, 2020), related to the year ended on December 31, 2020 (note 23.63). The gross amount per share is R$ 1.82454519 for preferred shares A and R$ 0.42648549 for preferred shares B and common shares, with payment is scheduled for April 2021, on a date coinciding with the next dividend payment, to be defined by the Shareholders' Meeting.

i) GSF (*Generation Scaling Factor*)

Law No. 14,052, published on 09/09/2020, amended Law No. 13,203, dated 12/08/2015, to set new conditions for renegotiation of the hydrological risk of electric power generation, providing that the generation companies will be compensated by means of extension of the concession period for their grants due to the surge of non-hydrological risks, which negatively influenced the GSF (Generation Scaling Factor or MRE Adjustment Factor of the Marketing Rules) after 2012, upon the aggravation of the water crisis. The events classified as non-hydrological risks are mainly listed by the hydroelectric enterprises called "structurers" (HPP Belo Monte, Jirau and Santo Antônio), related to the anticipation of physical guarantees and transmission restrictions, in addition to generation out of the order of merit. The extension of the grant is limited to 7 years, conditioned to waiver to any lawsuits or to the right to argue issues related to the Power Reallocation Mechanism - MRE by the eligible agents, and there is no provision for payment of risk premium.

Upon extension of the concession period for the hydroelectric generation plants, once they are not subject to IFRIC 12 (ICPC 01) - Concessions, the Granting Authority compensates the companies by granting a non-financial right, in the form of extension of the concession period, for the recovery of costs incurred since 2012, recognized by the law as expenditure capital.

During the regulation process by ANEEL (see schedule below), which ended with the publication of Normative Resolution No. 895/2020 ("Resolution"), upon request by ANEEL, CCEE made preliminary calculations of the estimated time of grant extension of the eligible agents, according to the initial premises of the opening of the public inquiry, disclosed on the Agency's website on October/2020. The results for CESP power plants were:

i. HPP Paraibuna: 9 months (approximately)

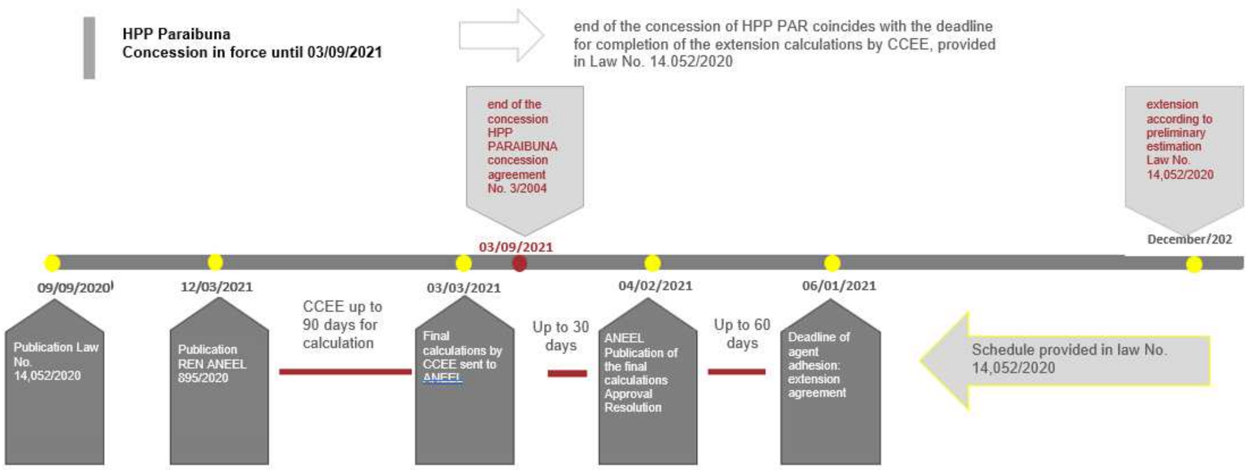
ii. HPP Porto Primavera: 7 years

Given factors considered for the initial calculation of CCEE were altered to some extent by ANEEL in the approval of the final version of the regulation, which is in force today and subsidizes the calculations, which, on this date, are under elaboration by the Chamber. Furthermore, some factors for the correct calculation of the grant extension are not known to the Company, mainly regarding the effects caused by HPP Belo Monte, Jirau and Santo Antônio (the so-called "structurer plants"), restrictions pursuant to the non-completion of line and installation works for the outflow of HPP Belo Monte by transmission companies. In this regard, it is worth mentioning that, according to the Company's concession period, this input data, verified by the National Electrical System Operator - ONS and Energetic Research Company – EPE, and sent directly to the Chamber to be considered in the calculation and the processing of the final compensation values, without public disclosure or disclosure to the agents, is relevant for the determination of the estimated total grant extension time and the determination of the cost recovery.

Therefore, a safe estimation by the administration is impracticable, and we shall wait for CCEE to provide and make the final calculations, considering all parameters given by the Resolution, of compensation applicable to the agents holding hydropower plants participating in MRE, with grant in force on the date of publication of the Law.

By the date of disclosure of this Financial Statement, there was no confirmation that the calculations had already been completed by CCEE and sent to ANEEL. This stage is expected to occur by 03/03/2020, and ANEEL will disclose it by 04/02/2020, upon the beginning of the adhesion by the agents. In possession of the disclosed figures, the Administration will submit to approval by the Administration Board for adhesion and registration of the regulatory asset. It is worth mentioning that the CESP does not have a lawsuit whose object is exemption from, or mitigation of hydrological risks related to MRE, nor has it any obligation in relation to the subject matter.

Thus, we conclude that the previous calculation published by CCEE in October/2020 does not consider all parameters given by the Resolution, and thus, the registration will be made as of the disclosure of the extension by ANEEL, scheduled for 04/02/2021, according to the schedule below:



Finally, regarding HPP Paraibuna, ANEEL sent Official Letter No. 36/2021 to the CESP on 01/27/2021 proposing adherence to a specific regime for extension of the concession period, according to Law No. 14,052/2020, upon signature of an addendum to the concession contract providing anticipation of the extension by 6 months, since, by that date, all stages for the effective extension will probably not be completed. According to Official Letter 49/2021, the CESP shall manifest itself about the intention to extend the term, about the possible extension of the concession under quota regime and about the agreement with the terms proposed in Technical Note 43/2021, part of Official Letter 36/2021, until 02/12/2021, according to the subsequent event.

2. Presentation of individual and consolidated financial statements and summary of accounting practices

The individual and consolidated financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, in effect on December 31, 2020, which includes the pronouncements issued by the Accounting Pronouncements Committee ("CPCs") and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and "IFRIC" interpretations. The financial statements present all information significant to the individual and consolidated financial statements, consistent with information used by management in the performance of its duties.

The Company's Board of Directors approved the issue of the individual and consolidated financial statements on February 11, 2021.

2.1 Consolidation

The Company obtained authorization from ANEEL to operate as an Electric Energy Trading Agent within the scope of CCEE, through CESP Comercializadora (Note 1.2 (a)). Upon commencing its energy trading operations in January 2020, the Company also discloses its consolidated financial statements.

The Company consolidates CESP Comercializadora as it holds 100% of its voting capital and has control over the company, that is, it is exposed or is entitled to variable returns from its involvement with the investee and has the capacity to direct its relevant activities.

Transactions, balances and results of transactions between the subsidiary and the Company are eliminated.

2.2 Main accounting judgments and sources of uncertainty in estimates

The Company makes estimates regarding the future based on assumptions. Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events, considered reasonable under the circumstances. Revisions to estimates are recognized prospectively.

By definition, accounting estimates will rarely be equal to the respective actual results. The estimates and assumptions that present significant risk, with the probability of causing a relevant adjustment in the book values of assets and liabilities for the next fiscal year, are included in the respective notes:

G/L account	Explanatory Note
Accounts receivable	5
Deferred income and social contribution taxes	8
Fixed assets	11
Intangible assets	12
Social and environmental obligations	17
Future energy contract	18
Post-employment benefits	19
Allowance for litigation	20
Revenue	24
Costs and expenses	25

2.3 Functional Currency and Presentation Currency

The Company's functional and presentation currency is the Brazilian Real/Reais (R$).

3. Changes in accounting practices and disclosures

The Company analyzed the amendments to the accounting standards described below issued by the IASB applicable as of January 1, 2020 and did not identify no significant effects on its reported operating and accounting policies.

3.1 IFRS 3/CPC 15 - “Business combination”

The changes affect the definition of business.

3.2 IFRS 16/CPC 06 (R2) - "Leases"

A practical expedient for the renegotiation of rental contracts due to COVID-19; the effects were immaterial.

4. Cash and cash equivalents

4.1 Accounting policy

Cash, bank deposits and other highly net short-term investments present original maturities are less than three months, are readily convertible into a known amount of cash and are subject to an insignificant risk of change in value.

4.2 Composition

Cash and cash equivalents comprise cash in bank accounts, government securities and financial institutions, with remuneration linked to the interbank deposit rate.

		Parent company		Consolidated	
	Average rate of remuneration	2020	2019	2020	2019
Cash					
Demand bank deposits		1,473	286	1,579	317
Financial investments					
Bank Deposit Certificates - CDBs	101.27% of the CDI	469,680	630,744	539,913	681,881
Financial Treasury Bills – LFTs (a)	102.92% of the CDI	155,079		155,079	
Financial bills - private securities	103.50% of CDI	16,813		16,813	
Compromised operations			55,390		55,390
Investment funds			3,856		3,856
		641,572	689,990	711,805	741,127
		643,045	**690,276**	**713,384**	**741,444**

(a) Investments in Treasury Financial Bills mature on March 1, 2021, and are immediately convertible into cash.

5. Accounts receivable

5.1 Accounting policy

Arise from the sale of electricity or the provision of services in the normal course of the activities. They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method less expected losses from doubtful accounts.

The methodology for calculating estimated losses on loan losses is based on historical credit loss experience, adjusted based on recent observable data to reflect current and future effects and conditions, when applicable.

5.2 Composition

	Parent company		Consolidated	
	2020	2019	2020	2019
Consumers				
Industrial	42,167	79,314	117,632	79,314
Resellers				
Trading Agents	31,215	45,871	48,709	45,871
Marketing agents - related parties (Note 22)	40,980	3,931	7,562	3,931
Energy auctions	58,360	61,380	58,360	61,380
Supply under quota system	2,953	2,036	2,953	2,036
	175,675	192,532	235,216	192,532
(-) Allowance for loan losses	(6,208)	(6,208)	(6,208)	(6,208)
	169,467	186,324	229,008	186,324
Free energy/CCEE				
Free Energy (RTE) (b)	13,712	13,712	13,712	13,712
Short-term energy (CCEE) (c)	43,809	12,606	43,809	12,606
	57,521	26,318	57,521	26,318
(-) Allowance for loan losses	(13.712)	(13.712)	(13.712)	(13.712)
	43.809	12.606	43.809	12.606
	213,276	**198,930**	**272,817**	**198,930**

(b) Consumers and resellers

At December 31, 2020, the Company and its subsidiary's top ten customers represent 70.67% of the total receivables portfolio (71.30% on 12/31/2019).

(c) Free energy - Extraordinary Tariff Recomposition (RTE)

On August 26, 2010, ANEEL issued Order No. 2517, which established the definitive amounts of Free Energy to be transferred between Distributors and Generators, signatories to the General Electric Sector Agreement; the balance at historical value, on December 31, 2020 and 2019 is R$ 13,712 and is provisioned and under litigation.

(d) Short Term Energy - CCEE

This represents the monthly change, from the balance sheet prepared for CCEE for commitments assumed by the Company with its market and other CCEE Agents versus the effective behavior of each member of the system, the amount of which is presented net of obligations with CCEE. In the year ended December 31, 2020, the Company sold R$ 55,296 (R$ 72,235 on 12/31/2019) related to non-contracted energy (revenue), available for sale under the scope of the CCEE (Note 24).

5.3 Accounts receivable maturities

	Parent company		Consolidated	
	2020	2019	2020	2019
Due	213,276	198,930	272,817	198,930
Overdue for more than 360 days	19,920	19,920	19,920	19,920
	233,196	**218,850**	**292,737**	**218,850**

Securities overdue for more than 360 days are provisioned as estimated losses.

6. Other assets

	Parent company		Consolidated	
	2020	2019	2020	2019
Current				
Sundry credits	31,301	31,301	31,301	31,301
(-) Estimated loss with non-performing loans (a)	(31,301)	(31,301)	(31,301)	(31,301)
Project orders - R&D (b)	52,685	82,793	52,685	82,793
Advances to Vivest (Note 22)	12,536	8,824	12,536	8,824
Transfer to receive Nexa (Note 22)	3,482		3,482	
Other	781	1,536	806	1,536
	69,484	**93,153**	**69,509**	**93,153**

(a) Balance refers mainly to the assignment of employees, through reimbursement, to the State Department of Finance, Transport, Department of Water and Electricity - DAEE and other bodies of the State of São Paulo, the Company's former controlling shareholder.

(b) Expenditures applied in Research and Development ("R&D") are recorded in assets and, once the project is concluded and approved by ANEEL, offset against a specific liability account (Note 15 (a)).

7. Collateral and court deposits

7.1 Accounting policy

These refer to guarantees provided, associated with legal proceedings, and are presented at historical value plus interest and indexation accruals.

7.2 Composition

	Parent company and consolidated	
	2020	2019
Court escrow deposits (a)		
Civil actions	163,476	171,625
Labor claims	37,340	93,729
Tax actions	11,642	29,940
Environmental actions	43,040	43,963
Other court deposits	3,267	3,181
	258,765	342,438
Deposits		
Linked deposits - CCEE	1,731	1,277
Linked deposits - ANEEL		264
	1,731	1,541
	260,496	**343,979**

(a) The reduction in court deposits reflects various several processes concluded during the year, as well as the replacement of court deposits with other types of guarantee allowed by law.

7.3 Changes in account balances

						Parent company and consolidated
	2019	Additions	Update	Converted/Raised	Write-offs	2020
Court deposits (a)						
Civil actions	171,625	142	4,026	(461)	(11,856)	163,476
Labor claims	93,729	5,854	2,133	(8,913)	(55,463)	37,340
Tax actions	29,940		438	(849)	(17,887)	11,642
Environmental actions	43,963		919	(112)	(1,730)	43,040
Other court deposits	3,181	10	76			3,267
	342,438	6,006	7,592	(10,335)	(86,936)	258,765
Deposits						
Linked deposits - CCEE (b)	1,277	423	31			1,731
Linked deposits - ANEEL	264	1		(265)		
	1,541	424	31	(265)		1,731
	343,979	**6,430**	**7,623**	**(10,600)**	**(86,936)**	**260,496**

8. Deferred income and social contribution taxes

8.1 Accounting policy

Income tax and social contribution expenses for the year comprise current and deferred income tax and social contribution. Income tax and social contribution are recognized in the statement of income, except to the extent that they are related to items recognized directly in equity. In this case, tax and social contribution are also recognized in equity or in Other comprehensive income.

Current and deferred income tax and social contribution charges are calculated based on tax laws enacted, or substantially enacted, at the balance sheet date. Management periodically evaluates its positions assumed in the calculation of taxes on income and social contribution in light of interpretations of applicable tax regulations. Supplementary provisions are recorded, when appropriate, based on estimated amounts due.

Deferred income tax is recognized on temporary differences on the balance sheet dates between the amounts of recorded assets and liabilities recognized in the individual and consolidated financial statements and the corresponding tax bases used to calculate taxable income, including the balance of tax losses. Deferred tax liabilities are generally recognized on all taxable temporary differences and deferred tax assets are recognized on all deductible temporary differences, only when it is probable that the Company will have sufficient future taxable income against which to recover the temporary differences. The recovery of the balance of deferred tax assets is reviewed at the balance sheet dates; when it is no longer probable that future taxable profits will be available to allow the recovery of the entire asset, or part of it, the asset balance is adjusted to the amount that is expects it to be recovered.

Deferred income tax assets and liabilities are shown net in the balance sheet when there is a legal right and the intention to offset and when related to the same tax authority.

8.2 Composition

At December 31, 2020, deferred tax assets from income tax loss carryforwards, negative deferred social contribution basis and temporary differences are supported by financial projections prepared by management within the concession period; these are reviewed annually.

Projections which are limited by end of concession horizons utilize billing assumptions based on the electric energy deliveries (MWh) at prices contracted with distributors through energy auctions, contracts for the supply of energy to free consumers, stable operating expenses and reduction of financial expenses, in determining available future taxable profits.

At December 31, 2020, the Company and its subsidiary carried out impairment tests for deferred tax balance. With the revocation of ICVM No. 371/2020, in August 2020, which limited the maximum ten-year period for realizing the deferred tax asset based on the expectation of generating future taxable profits, the Company and its subsidiary started to use as an estimate the concession period for its plants.

The estimate used for the analyzes is the Strategic Planning (PE) approved by the Board of Directors, which demonstrates that the Company will generate taxable profits up to the end of the concession in excess of the total amount of tax credits. It is possible to observe that the tax losses and negative basis are fully recovered until 2037.

The financial projections were based on pre-established assumptions and, as a result, there was an increase in projected offsets for tax credits compared to the end of the prior year. Accordingly, management recorded an additional asset of R$ 1,513,477 (R$ 1,039,635 in 2019) for deferred income and social contribution taxes (Note 27.2).

						Parent company
		Active		Liabilities (b)		Active Net (ab)
	2020	2019	2020	2019	2020	2019
Income tax and social contribution						
Recorded amounts						
Effect on results (a)						
Tax loss and negative bases	1,040,974	157,324			1,040,974	157,324
Court deposit additions and accruals			66,781	53,488	(66,781)	(53,488)
Litigation provision	594,407	489,663			594,407	489,663
Allowance for impairment - CPC 01	508,951	127,870			508,951	127,870
Regulatory asset provision	461,031	341,722			461,031	341,722
Operational hedge accounting	2,170			444	2,170	(444)
Other provisions	84,960	52,689	5,801		79,159	52,689
	2,692,493	1,169,268	72,582	53,932	2,619,911	1,115,336
Effect on Other comprehensive income (b)						
Operational hedge accounting	19,915			13,137	19,915	(13,137)
Deemed cost of fixed assets (Note 23.4)	473,762	490,451			473,762	490,451
Post-employment benefits	820,209	284,762			820,209	284,762
	1,31,.886	775,213		13,137	1,313,886	762,076
Total recorded (a- b)	**4,006,379**	**1,944,481**	**72,582**	**67,069**	**3,933,797**	**1,877,412**
Off-book amounts						
Effect on results						
Tax loss and negative bases		888,506				888,506
Court deposit additions and accruals				13,897		(13,897)
Litigation provision		127,224				127,224
Allowance for impairment - CPC 01		386,319				386,319
Regulatory asset provision		119,309				119,309
		1,521,358		**13,897**		**1,507,461**
	4,006,379	**3,465,839**	**72,582**	**80,966**	**3,933,797**	**3.384.873**

						Consolidated
		Active		Liabilities (b)		Active Net (ab)
	2020	2019	2020	2019	2020	2019
Income tax and social contribution						
Recorded amounts						
Effect on results (a)						
Tax loss and negative bases	1,040,974	157,324			1,040,974	157,324
Court deposit additions and accruals			66,781	53,488	(66,781)	(53,488)
Litigation provision Allowance for litigation	594,407	489,663			594,407	489,663
Allowance for impairment - CPC 01	508,951	127,870			508,951	127,870
Regulatory asset provision	461,031	341,722			461,031	341,722
Operational hedge accounting	3,355			444	3,355	(444)
Future energy contracts	7,291				7,291	
Other provisions	85,200	52,689	5,801		79,399	52,689
	2,701,209	1,169,268	72,582	53,932	2,628,627	1,115,336
Effect on other comprehensive income (b)						
Operational hedge accounting	32,082			13,137	32,082	(13,137)
Deemed cost of fixed assets (Note 23.4)	473,762	490,451			473,762	490,451
Post-employment benefits	820,209	284,762			820,809	284,762
	1,326,053	775,213		13,137	1,326,053	762,076
Total recorded (a + b)	**4,027,262**	**1,944,481**	**72,582**	**67,069**	**3,954,680**	**1,877,412**
Off-book amounts						
Effect on result						
Tax loss and negative bases		888,506				888,506
Court deposits additions and accruals				13,897		(13,897)
Litigation provision		127,224				127,224
Allowance for impairment - CPC 01		386,319				386,319
Regulatory asset provision		119,309				119,309
		1,521,358		13,897		1,507,461
	4,027,262	**3,465,839**	**72,582**	**80,966**	**3,954,680**	**3,384,873**

8.3 Realization of the deferred income tax and social contribution balance

The results of the Company and its subsidiary's financial projections, based on forecast realization of the principal temporary differences, is as follows:

								Parent company
	2021	2022 and 2023	2024 and 2025	2026 and 2027	2028 and 2029	2030 and 2034	After 2035	Total
Tax loss and negative bases	47.495	109.797	83.336	133.406	145.184	190.148	331.608	1.040.974
Court deposits additions and accruals	(11.131)	(22.260)	(22.260)	(11.130)				(66.781)
Litigation provision	99.067	198.136	198.136	99.068				594.407
Allowance for impairment - CPC 01	17.550	35.100	35.100	35.100	35.100	87.750	263.251	508.951
Regulatory asset provision	65.862	131.723	131.723	131.723				461.031
Operational hedge accounting	2.170							2.170
Other provisions	53.942	7.391	7.311	7.009	3.506			79.159
	274.955	**459.887**	**433.346**	**395.176**	**183.790**	**277.898**	**594.859**	**2.619.911**

	2021	2022 and 2023	2024 and 2025	2026 and 2027	2028 and 2029	2030 and 2034	After 2035	Consolidated Total
Tax loss and negative bases	47,495	109,797	83,336	133,406	145,184	190,148	331,608	1,040,974
Court deposits additions and accruals	(11,131)	(22,260)	(22,260)	(11,130)				(66,781)
Litigation provision	99,067	198,136	198,136	99,068				594,407
Allowance for impairment - CPC 01	17,550	35,100	35,100	35,100	35,100	87,750	263,251	508,951
Regulatory asset provision	65,862	131,723	131,723	131,723				461,031
Operational hedge accounting	3,355							3,533
Future energy contracts	7,291							7,291
Other provisions	54,182	7,391	7,311	7,009	3,506			79,399
	283,671	459,887	433,346	395,176	183,790	277,898	594,859	2,628,627

Nondeductible depreciation of the deemed cost increment is recorded over the estimated useful life, limited to the concession period of the Porto Primavera HPP.

9. Assets subject to indemnity

9.1 Accounting policy

The Company filed a lawsuit challenging the amount offered by the Granting Authority for indemnity upon return of Três Irmãos, Ilha Solteira and Jupiá HPPs concession assets. Pursuant to CPC 25 Provisions, Contingent Liabilities and Contingent Assets, in 2013 and 2015, the Company adjusted the recorded amount of the asset to reflect only the undisputed amount of the respective UHEs, without affecting its rights to continue claiming the full amount through the courts. In December 2020, upon terminating the provisional operation of HPP Jaguari, the Company reclassified the residual value of the corresponding fixed assets to “Assets subject to indemnity”.

9.2 Composition and Changes in account balances

Provisional Measure (“MP”) No. 579/12, later converted into Law No. 12,783, of January 11, 2013, permitted the Federal Government, as a grantor, to extend electricity generation concessions. In relation to the Company's activities, the Federal Government offered to early renew, in January 2013, the Ilha Solteira and Jupiá HPP concessions, originally terminating on July 7, 2015. The same treatment was provided for the Três Irmãos UHE concession, the first concession period of which had already expired in November 2011.

Because of the conditions offered by the granting authority, the Company, consistent with its bylaws, decided for the non-renewal of the concessions. Accordingly, the Company continued to operate the Ilha Solteira and Jupiá plants, until the final term of the concession, on July 7, 2015. HPP Três Irmãos continued to operate in accordance with the regulations of the Granting Authority (below).

Following the State of São Paulo’s expression of interest to the Federal Government to operate the Jaguari HPP, the Company formalized its decision to the Federal Government (MME/ANEEL) not to renew the Jaguari HPP concession. The Company continued to comply with its responsibilities as a concessionaire until expiration of Concession Contract No. 003/2004 on May 20, 2020. From that date, Company operated Jaguari HPP on a provisional basis under the physical guarantee quota regime through to December 31, 2020. Upon publication of Portaria/MME no. 449, of November 13, 2020, Furnas Centrais Elétricas S/A was granted the right to operate the Jaguari HPP concession for electricity generation from January 1 2021 (Note 1.2 (d)).

					Parent Company and Consolidated	
					2020	2019
	Três Irmãos	Ilha Solteira	Jupiá	Jaguari	Total	Total
Composition of the asset subject to indemnity						
Assets subject to indemnity	3,529,080	2,165,858	642,318	19,771	6,357,027	6,337,256
Adjustment for impairment		(1,657,484)	(337,826)		(1,995,310)	(1,995,310)
Contingent asset adjustment	(1,811,718)	(506,346)	(304,492)		(2,622,556)	(2,622,556)
Total provisions	(1,811,718)	(2,163,830)	(642,318)		(4,617,866)	(4,617,866)
Assets subject to indemnity (net)	**1,717,362**	**2,028**		**19,771**	**1,739,161**	**1,719,390**

				Parent Company and Consolidated	
				2020	2019
	Três Irmãos	Ilha Solteira	Jupiá	Total	Total
Composition of contingent asset adjustment					
Regulatory asset	(547,520)	(508,374)	(304,492)	(1,360,386)	(1,360,386)
Deemed cost	(1,264,198)			(1,264,198)	(1,264,198)
MME Ordinance No. 458		2,028		2,028	2,028
Contingent asset adjustment	**(1,811,718)**	**(506,346)**	**(304,492)**	**(2,622,556)**	**(2,622,556)**

9.2.1 Usina Três Irmãos

Following a number of legal measures related to the Três Irmãos HPP, operated by the Company, MME determined that ANEEL would hold an auction to award the Três Irmãos Plant concession on March 28, 2014. The determination was formalized through MME Ordinance No. 214/13.

Following the new auction for the operation of the Três Irmãos HPP, through Interministerial Ordinance No. 129/14, issued jointly by MME and the Ministry of Finance ("MF"), the indemnity due to the Company was determined with "reference to prices in June 2012, for the Três Irmãos Hydroelectric Power Plant, considering the accumulated depreciation and amortization from the date of commencement of the facilities (November 1993), until March 31, 2013". The indemnity amount was set at R$ 1,717,362 (base date June 2012), to be paid in seven years.

On July 9, 2014, the Company contested the proposed Interministerial Ordinance No. 129/14 indemnity amount as it did not reflect the remaining (reversible) concession assets not yet depreciated and/or amortized, through April 7, 2014, upon non-renewal of the concession. The Federal Government withheld payment of the amount in the Ordinance, despite, in opinion of the management, it not being disputed, alleging payment is conditioned to a declaration by the Company to the effect that it is satisfied full settlement has been made for the return of reversible assets.

Accordingly, pursuant to CPC No. 25, the Company, in January 2013 recorded an impairment adjustment adjusting the assets to R$ 1,811,718 (for the non contested amount) to reflect the non disputed amount of indemnity proposed by the granting authority.

Currently, the issue is being discussed at the courts, and is in the evidence collection phase.

9.2.2 Ilha Solteira and Jupiá plants

The Company operated the Ilha Solteira and Jupiá HPPs until the end of the concession on July 7, 2015. On October 1, 2015, Ordinance MME 458 was published, which defined R$ 2,028 as being the indemnity for the return of reversible assets of the Ilha Solteira Plant, "considering the accumulated depreciation and amortization from the date of entry into operation of the facilities and until June 30, 2015". For the Jupiá HPP, the Federal Government concluded that no indemnity was payable.

The Company filed a lawsuit contesting the determination of the indemnity values set by the Federal Government, claiming an amount calculated on the inflation indexed value of the asset base. A lower court partially upheld the claim whereupon both parties filed appeals. Only CESP's appeal was partially granted in the second instance, resulting in both parties filing third instance appeals, which are currently awaiting judgment.

Because of the contingent nature of the asset, pursuant to CPC No. 25, the Company recorded an impairment provision of R$ 810,838 (Ilha Solteira - R$ 506,346 and Jupiá - R$ 304,492), of which R$ 230,040 recognized during the year of 2019, under "Other operating income, net" related to modernization and improvement according to ANEEL Resolution No 596/2013.

9.2.3 Jaguari Plant

On May 19, 2020, MME published Ordinance No. 218/2020, which defined CESP as the provisional operator of the UHE Jaguari, under the physical guarantee quota regime, as of May 21, 2020, until such time as a new concession was awarded by the Federal Government ((Note 1.2 (d)). On November 13, 2020, MME published Ordinance No. 409/2020, which appointed Furnas Centrais Elétricas S.A. responsible for the provision of the Electricity Generation Service generated by Jaguari HPP as from January 1, 2021. Accordingly, the Company reclassified the residual value of fixed assets of R$ 19,771 on December 31, 2020 (Note 11.3) of the Jaguari HPP to the "Assets subject to indemnity" and awaits the definition of the indemnity values to be fixed by the Federal Government.

10. Investments

10.1 Accounting policy

Investees, including subsidiaries, are recorded on the equity method in the Company's individual statements.

a) Impairment of investments

Investments are tested annually for impairment and recorded at cost less impairment losses, which are not reversed. The investment amount is allocated to a Cash Generating Units (CGUs) for the purpose of impairment testing.

b) Composition

							Parent company	
	Information on December 31, 2020			BALANCE		Income equity method		
Investments evaluated by the equity method	**Net worth**	**Net income (loss) for the year**	**Percentage of voting and total participation (%)**	**2020**	**2019**	**2020**	**2019**
Subsidiaries							
CESP Comercializadora de Energia S.A.	31,176	4,874	100.00	31,176	51,102	4,874	102
				31,176	**51,102**	**4,874**	**102**

c) Changes in account balances

		Parent company
	2020	**2019**
Opening balance on 1/1/2020	51,102	
Acquisition of investment		1,000
Capital increase in investee		50,000
Dividends received	(24)	
Equity	4,874	102
Deemed cost of derivative financial instruments (Note 23.5)	(23,618)	
Minimum mandatory dividends	(1,158)	
Closing balance on 12/31/2020	**31,176**	**51,102**

d) Investee information

Summary financial information of the subsidiary follows:

Balance Sheet - CESP Comercializadora S.A.	**2020**	**2019**
Asset		
Current	175,873	51,102
Non-current	20,883	
Total assets	**196,756**	**51,102**
Liabilities		
Current	158,349	
Non-current	7,231	
Net equity	31,176	51,102
Total liabilities and shareholders' equity	**196,756**	**51,102**

Statement of income - CESP Comercializadora S.A.	2020	2019
Net Revenue	772,063	
Electricity service cost	(734,023)	
Gross profit	38,040	
Operating expenses		
General and administrative	(10,658)	(44)
Other operating income, net	(21,467)	
	(32,125)	(44)
Net financial result	1,423	178
Profit before income tax and social contribution	7,338	134
Income tax and social contribution		
Current	(11,180)	(32)
Deferred	8,716	
Net income for the year	**4,874**	**102**

11. Fixed assets

11.1 Accounting policy

a) Fixed assets

These are stated at historical acquisition or construction cost less accumulated depreciation. Subsequent costs are added to the asset's carrying amount or recognized as a separate asset, as appropriate, when there is a likelihood of associated future economic benefits and the cost of the item can be measured reliably.

When significant components of fixed assets are replaced, these are recognized as individual assets with specific useful lives and depreciation. Likewise, when significant programmed maintenance is carried out, the cost is recognized in the book value of the fixed assets, if the recognition criteria are met. All other repair and maintenance costs are expensed in the statement of income, when incurred.

Depreciation is calculated using the straight-line method, based on annual rates which are periodically reviewed by Management. The rates are consistent with these in the sector and reflect the economic useful life of the assets linked to the concession infrastructure. The residual values and economic useful lives of the assets are reviewed at the end of each fiscal year and the effect of any changes in estimates is accounted for prospectively.

b) Social and environmental costs

These refers to the environmental costs related to the Porto Primavera HPP Operating License, associated with monitoring conservation activities in areas adjacent to the HPP facilities. The best estimate for future disbursements was prepared, discounted to present value and recorded against fixed assets. These costs are amortized over the term of the operating license (ten years).

c) Impairment of assets

Fixed assets are reviewed when there is objective evidence of non-recoverable losses, or when events or significant changes in circumstances indicate that the carrying amount may not be recoverable. When there is a loss, resulting from situations in which the book value of the asset exceeds its recoverable value, it is charged to income for the year.

11.2 Composition

				Parent Company and Consolidated	
				2020	2019
	Average annual rates%	Total cost	Accumulated depreciation	Net	Net
In operation					
Land	3.3%	273,286	(15,903)	257,383	267,453
Reservoirs, dams and drainage	2.0%	8,069,195	(3,862,236)	4,206,959	4,376,995
Buildings, civil works and improvements	2.3%	2,085,415	(1,503,146)	582,269	632,413
Machinery and equipment	2.9%	2,077,833	(1,295,860)	781,973	879,058
Vehicles	5.4%	6,119	(4,662)	1,457	1,778
Furniture and utensils	3.9%	3,015	(996)	2,019	468
Environmental costs	10.0%	148,162	(31,486)	116,676	142,142
		12,663,025	**(6,714,289)**	**5,948,736**	**6,300,307**
In progress					
Buildings, civil works and improvements		1,541		1,541	1,541
Machinery and equipment		4,143		4,143	2,831
Other		2,009		2,009	1,264
		7,693		**7,693**	**5,636**
		12,670,718	**(6,714,289)**	**5,956,429**	**6,305,943**

11.3 Changes in account balances

							Parent Company and Consolidated	
	2019	Additions	Write-offs	Activations	Transfers	Depreciation	Impairment reversal	2020
In operation								
Land	267,453		(441)		(64)	(9,565)		257,383
Reservoirs, dams and drainage	4,376,995				7,459	(185,084)	7,589	4,206,959
Buildings, civil works and improvements	632,413		(40)	1,294	(461)	(50,937)		582,269
Machinery and equipment	879,058		(53)	5,455	(26,704)	(75,783)		781,973
Vehicles	1,778					(321)		1,457
Furniture and utensils	468		(7)	1,673	(1)	(114)		2,019
Environmental costs	142,142		(9,773)			(15,693)		116,676
	6,300,307		**(10,314)**	**8,422**	**(19,771)**	**(337,497)**	**7,589**	**5,948,736**
In progress								
Buildings, civil works and improvements	1,541							1,541
Machinery and equipment	2,831	8,239		(6,927)				4,143
Other	1,264	2,240		(1,495)				2,009
	5,636	**10,479**		**(8,422)**				**7,693**
	6,305,943	**10,479**	**(10,314)**		**(19,771)**	**(337,497)**	**7,589**	**5,956,429**

Transfers are for Jaguari HPP assets, made at the end of the concession (Note 9.2.3)

	2018	Additions	Write-offs	Activations	Depreciation	Impairment (provision) reversal	2019
						Parent Company and Consolidated	
In operation							
Land	309,281		(38)		(6,356)	(35,434)	267,453
Reservoirs, dams and drainage	3,842,287			111	(197,058)	731,655	4,376,995
Buildings, civil works and improvements	955,412		(144)		(27,060)	(295,795)	632,413
Machinery and equipment	1,244,302		(588)	3,110	(87,745)	(280,021)	879,058
Vehicles	2,104				(326)		1,778
Furniture and utensils	1,008		(451)		(89)		468
Environmental costs		157,936			(15,794)		142,142
	6,354,394	**157,936**	**(1,221)**	**3,221**	**(334,428)**	**120,405**	**6,300,307**
In progress							
Reservoirs, dams and drainage	69			(69)			
Buildings, civil works and improvements		1,541					1,541
Machinery and equipment	2,152	3,696	(1)	(3,016)			2,831
Other	2	1,345	(28)	(55)			1,264
	2,223	**6,582**	**(29)**	**(3,140)**			**5,636**
	6,356,617	**164,518**	**(1,250)**	**81**	**(334,428)**	**120,405**	**6,305,943**

11.4 Deemed cost

As permitted by Technical Pronouncement CPC 37 (IFRS 1) and ICPC 10, the Company adopted the deemed cost model for generation plant infrastructure, adjusting the opening balances on the transition date on 01/01/2009 by their values estimated by independent appraisers.

The net effect of adopting the deemed cost model for plant resulted in an increase in fixed assets of R$ 3,553,278, a corresponding deferred income tax and social contribution liability of R$ 1,208,115 (at 34%) and an increase in shareholders' equity of R$ 2,345,163. The balance is subject to depreciation through a direct charge to equity.

11.4.1 Changes in account balances

	Fixed assets	Deferred taxes	Net worth
	Parent Company and Consolidated		
Opening balance at 1/1/2009	**3,553,278**	**(1,208,115)**	**2,345,163**
Accumulated achievements	(4,992,352)	1,698,566	(3,293,786)
Closing balance on 12/31/2019	**(1,439,074)**	**490,451**	**(948,623)**
Realization in the year (depreciation)	38,149	(14,137)	24,012
Reclassification of Jaguari HPP assets	7,505	(2,552)	4,953
Closing balance on 12/31/2020	**(1,393,420)**	**473,762**	**(919,658)**

11.5 Asset impairment testing

Management prepares annual internal studies to assess the recoverability of the Company's generating complex assets from future operations, based on the future cash flow from operations and the adjusted net book value indemnity at the end of the concession, if applicable.

a) Assumptions used in the impairment test

The recoverable value of fixed assets was determined using the value in use model. This requires an economic evaluation using the discounted cash flow method applied to future revenues and expenses arising from the use of fixed assets during their useful life and up to the end of concessions. This cash flow are determined at the level for each plant (CGU), being the smallest identifiable group of assets that generate cash inflows and outflows.

The impairment calculation methodology considers:

(i) Future cash flow from operations, discounted to present value, for each plant (CGU), considered as the lowest level of cash generation. This flow covers the remaining period of each of the concessions held by the Company, without including an extension or renewal period for the Paraibuna plants.

(ii) The future cash indemnity amount at the end of the concessions is discounted to present value. Management adopted as a premise, for accounting purposes only, that the minimum indemnity amount to be received from the Federal Government, upon reverting the assets, is the residual value of the assets at deemed cost depreciated through to the end of the Paraibuna plant concession. In the case of the Porto Primavera plant, the concession contract does not provide for compensation at the end of the concession in 2049, consequently, no cash inflows were considered.

The discount rate used in the cash flow calculation was 6.99% pa (7.09% pa in 2019), considered by management to be compatible with the market.

The main assumptions used in the impairment test are the GSF (Generation Scaling Factor) and the energy price.

b) Results of the impairment test

After determining the recoverable amount of each CGU, the Company compared this with the book value of the respective plants. For UHE Porto Primavera the results showed that the accumulated losses recorded up to 2019 (R$ 1,511,782) would be recovered.

Accordingly, the Company recorded an impairment reversal of R$ 7,589 (R$ 120,405 in 2019), recorded in income for the year under the item “Other operating income, net”.

	Parent Company and Consolidated		
			2020
Power plant:	Fixed and intangible book value	Fair value	Impairment reversal
Porto Primavera HPP	7,396,316	7,403,905	7,589
Paraibuna HPP	29,674	29,674	
	7,425,990	**7,433,579**	**7,589**

	Parent Company and Consolidated		
			2019
Power plant:	Fixed and intangible book value	Fair value	(Impairment)/ Reversal
Porto Primavera HPP	7,505,947	7,626,891	120,944
Paraibuna HPP	40,612	40,612	
Jaguari HPP	22,669	22,130	(539)
	7,569,228	**7,689,633**	**120,405**

The impacts on the projected scenarios due to the variation the main assumptions used in the impairment test is as below:

Sensitivity analysis	Parent Company and Consolidated		
GSF	**-2 p.p.**	**Current**	**+2 pp**
Impairment reversal	(77,274)	7,589	92,452
Energy price	**-R$ 5.00/MWh**	**Current**	**+ R$ 5.00/MWh**
Impairment reversal	(139,194)	7,589	154,372

12. Intangible

12.1 Accounting policy

a) Hydrological risk renegotiation

Hydrological risk corresponds to the relationship between the volume of energy that is generated by the plants that are part of the Energy Reallocation Mechanism (“MRE”) and their total physical guarantee. The physical guarantee of the plants that make up the MRE is added to the energy generated. If the volume of electric energy generated is less than the physical guarantee, hydroelectric plants must cover the difference.

On August 18, 2015, MP No. 688 was published, which provides for the renegotiation of the hydrological risk of electricity generation, providing for the participation only of generators participating in the MRE (voluntary) and distributors (compulsory) and involving portions of the physical guarantee energy of the generating agent, referring to the amounts of the contracts of the Regulated Contracting Environment (“ACR”) and the Free Contracting Environment (“ACL”).

The Company entered the Porto Primavera HPP contracts into the renegotiation of the Hydrological Risk in the ACR for the 1st and 2nd New Energy Auction (“Botox”) and the 4th Existing Energy Auction (closed in 2016).

The impact of hydrological displacement in 2015, related to contracts in the ACR environment was R$ 161 million and, using the ANEEL criteria, the reimbursement was R$ 103 million as follows:

- “Botox” contract: postponement of payment of the risk premium for four years and six months (payment from July/2020);
- Existing Energy Contract: postponement of the payment of the risk premium for one year and extension of the concession period for the Porto Primavera HPP for 53 days. During this period, the plant's physical guarantee will be contracted in a regulated environment and without GSF risk.

The accounting effects were recorded in 2015, as follows:

			2015
Hydrological risk renegotiation	**Prepaid expenses**	**Intangible**	**CCEE Energy Purchase Reduction**
Current			
230 MWm contract	15,021		(15,021)
Contract 120 MWm	9,134	26,134	(35,268)
	24,155	26,134	(50,289)
Non current			
230 MWm contract	52,575		(52,575)
	76,730	**26,134**	**(102,864)**

b) UBP – Use of the public assets

Corresponds to the values established in the concession contracts related to the rights develop hydroelectric power generation potential (onerous concession), under a Use of Public Asset (UBP) contract.

The accounting registers record the concession contract when signed, regardless of the disbursement schedule established in the contract. The initial registration of this liability (obligation) and intangible asset (concession right) corresponds to the values of future obligations brought to present value.

The amortization of intangible assets is calculated using the straight-line method over the remaining term of the concession. The financial liability is updated by adjusting to present value as a result of the passage of time and reduced by payments made.

12.2 Composition

				Parent Company and Consolidated	
				2020	**2019**
	Average annual rates %	**Total cost**	**Accumulated amortization**	**Net**	**Net**
In operation					
Software and license to use	4.9%	26,446	(19,576)	6,870	11,724
Hydrological risk renegotiation (a)	8.1%	26,134	(10,251)	15,883	18,101
UBP - Use of public good (b)	3.3%	171,966	(10,419)	161,547	177,468
Grant	3.3%	1,398,703	(78,279)	1,320,424	1,365,678
		1,623,249	(118,525)	1,504,724	1,572,971
In progress					
Software and use license		5,171		5,171	2,329
		5,171		5,171	2,329
		1,628,420	**(118,525)**	**1,509,895**	**1,575,300**

12.3 Changes in account balances

					Parent Company and Consolidated	
	2019	Additions	Write-offs	Transfers	Amortization	2020
In operation						
Software and license to use	11,724			208	(5,062)	6,870
Hydrological risk renegotiation	18,101			(208)	(2,010)	15,883
UBP – Use of the public good	177,468		(9.794)		(6,127)	161,547
Grant	1,365,678				(45,254)	1,320,424
	1,572,971		**(9.794))**		**(58,453)**	**1,504,724**
In progress						
Software and license to use	2,329	2,842				5,171
	2,329	**2,842**				**5,171**
	1,575,300	**2,842**	**(9.794))**		**(58,453)**	**1,509,895**

					Parent Company and Consolidated	
	2018	Additions	Write-offs	Activations	Amortization	2019
In operation						
Software and license to use	15,880		(3)	731	(4,884)	11,724
Hydrological risk renegotiation	20,166			23	(2,088)	18,101
UBP – Use of the public good		181,760			(4,292)	177,468
Grant		1,398,703			(33,025)	1,365,678
	36,046	**1,580,463**	**(3)**	**754**	**(44,289)**	**1,572,971**
In progress						
Software and license to use	754	2,505	(95)	(835)		2,329
	754	**2,505**	**(95)**	**(835)**		**2,329**
	36,800	**1,582,968**	**(98)**	**(81)**	**(44,289)**	**1,575,300**

The balance of activations in the 2019 relate to transfers made from the “In progress - Software and use license” class from intangible assets to the “Machinery and equipment” class of fixed assets.

13. Energy purchased for resale

	Parent company		Consolidated	
	2020	2019	2020	2019
Energy purchased for resale	15,416	33,634	73,897	33,634
Energy purchased for resale - Related parties (Note 22)		2,121	2,212	2,121
	15,416	**35,755**	**76,109**	**35,755**

Refers to contracts for energy purchased for resale, to balance the energy balance for the year, given the physical guarantee of the Company's HPPs.

14. Loans, financing, and debentures

14.1 Accounting Policy

These are initially recognized at fair value, net of transaction costs incurred, and subsequently stated at amortized cost. Any difference between the amounts raised (net of transaction costs) and the total amount payable is recognized in the statement of income during the period in which the loans and financing are open, using the effective interest rate.

14.2 Composition

	Annual financial charges	Charges	Current Main	Non current Main	Total
					Parent Company and Consolidated 2020
National currency					
Debentures - 11th issue (a)	CDI + 1.64% pa	293	(484)	298,067	297,876
Debentures - 12th issue (a)	IPCA + 4.30% pa	23,425	(5,014)	1,502,787	1,521,198
		23,718	**(5,498)**	**1,800,854**	**1,819,074**

	Annual financial charges	Charges	Current Main	Non current Main	Total
					Parent Company and Consolidated 2019
National currency					
Debentures - 11th issue (a)	CDI + 1.64% pa	2,969		1,781,123	1,784,092
Eletrobrás (RGR and IRD)	Fixed Rate 5% and 8% pa		33		33
		2,969	**33**	**1,781,123**	**1,784,125**

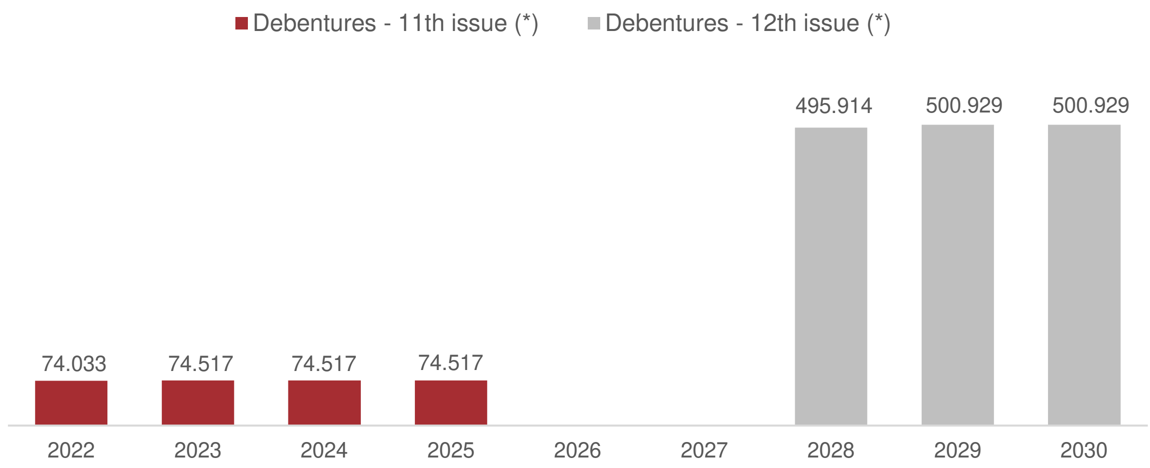
(a) On August 21, 2020, the Company raised R$ 1,500,000 through the 12th issue of simple non-convertible debentures (Note 1.2 (g)). The debentures mature in 10 years from the date of issue (on August 15, 2030) unless an early maturity clause in the deed is triggered, the amortization will occur in three consecutive annual installments in 2028, 2029 and 2030. The nominal unit value is inflation indexed by the accumulated variation of the Broad Consumer Price Index ("IPCA"), plus interest on the nominal unit value corresponding to 4.30% per year, based on 252 working days, paid in the months of February and August each year.

The cost of issuing the debentures was R$ 50,134 and is allocated to income on a monthly basis over a 10-year contract term.

The use of proceeds was destined for partial payment of the 11th issue of simple debentures, in the amount R$ 1.499.999, this settlement generated disbursement by the Company of R$ 11,326 as a premium for early settlement, in addition to the appropriation of funding costs of R$ 14,465, both recognized in the financial results.

On December 31, 2020, the Company evaluated the conditions contained in its debt contracts and concluded that it was in compliance with the contractual indices.

14.3 Maturity schedule of loans, financing and debentures principal of non-current liabilities



(*) Balances presented net of funding costs.

14.4 Transactions in loans, financing, and debentures

	Parent Company and Consolidated	
	2020	2019
Opening balance	1,784,125	215,636
Funding	1,500,000	1,800,000
Funding costs	(50,134)	(22,018)
Interest and commissions	130,084	139,848
Funding cost appropriations	3,658	3,141
Exchange gains/losses		3,347
Appropriation of funding costs - Settlement of the 11th issue of debentures	14,465	
Amortization of principal amount	(1,500,032)	(217,733)
Interest amortization	(63,092)	(138,096)
Closing balance	**1,819,074**	**1,784,125**

15. Sectorial charges

	Parent company and consolidated	
	2020	2019
Current		
Global Reversion Reserve - RGR	149	137
Financial Compensation for the Use of Water Resources - CFURH	8,580	8,459
Inspection fee for electricity services - TFSEE	620	2,377
Quotas for R&D - FNDCT	969	1,316
R&D Quotas - MME	490	282
R&D - Projects (a)	65,699	87,036
Charges for the use of the electricity grid	19,496	16,066
	96,003	115,673
Non current		
R&D - Projects (a)	1,240	12,014
	1,240	12,014
	97,243	**127,687**

(a) Balance of resources to be invested in Research and Development ("R&D") projects, accruing SELIC charges. Investments in R&D are recorded as assets (Note 6) and upon project completion are recognized as settlement of the obligation.

16. Use of public good

16.1 Accounting policy

In accordance with the Concession Contract for the Use of Public Assets for Electricity Generation No. 01/2019 - ANEEL, which regulates Porto Primavera HPP, the Company has an obligation to pay 2.50% UBP on gross revenue for five years.

The amount of UBP is originally recognized as a financial liability (obligation) and as an intangible asset (right to use a public asset), which corresponds to the amount of total annual expenses over the period of the contract discounted to present value of future payment cash flows.

The concession began to operate on April 15, 2019 and is effective for a period of 30 years. The UBP payment is monthly beginning from the 13th month after contract inception.

16.2 Composition

	Parent Company and Consolidated							
	2020				2019			
	Intangible assets (Note 12)	Liabilities			Intangible assets (Note 12)	Liabilities		
		Current	Non current	Total		Current	Non current	Total
Power plant:								
Porto Primavera	161,547	41,307	114,057	155,364	177,468	29,275	158,355	187,630
	161,547	**41,307**	**114,057**	**155,364**	**177,468**	**29,275**	**158,355**	**187,630**

16.3 Changes in account balances

	Parent Company and Consolidated				
	Asset	Liabilities			
	Intangible assets (Note 12)	UBP	(-) Adjustment to present value	2020	2019
Opening balance	177,468	212,308	(24,678)	187,630	181,760
Amortization	(6,127)				
Adjustment to present value			6,791	6,791	5,870
Revaluation of disbursement flow	(9,794)	(15,097)	5,303	(9,794)	
Sale off		(29,263)		(29,263)	
Closing balance	**161,547**	**167,948**	**(12,584)**	**155,364**	**187,630**

17. Social and environmental obligations

17.1 Accounting policy

The socio-environmental costs related to the Operating License ("LO") No. 121/2000 of the Porto Primavera HPP renewed in 2018 are related to monitoring and conservation activities in areas adjacent to the HPP facilities, including reforestation and social programs. The best estimate is made for future disbursements discounted to present value and recorded against fixed assets. These costs are amortized over the term of the operating license (ten years).

An environmental liability is recognized when there is an obligation for environmental costs not yet disbursed, provided that it meets the recognition criteria as an obligation. This liability is defined as being a present obligation of the Company that arose from past events. These obligations are related to the Conduct Adjustment Terms ("TAC") signed with the Public Ministry and which are not contained in the conditions of the Operation License.

17.2 Composition

	Parent Company and Consolidated	
	2020	2019
Current		
Environmental license	22,901	19,297
Conduct adjustment term (TAC)	5,525	4,177
	28,426	23,474
Non current		
Environmental license	114,632	127,010
Conduct adjustment term (TAC)	38,117	37,526
	152,749	164,536
	181,175	**188,010**

17.3 Changes in account balances

	Asset	Liabilities			
Parent Company and Consolidated	Property, plant, and equipment (Note 11)	Allowance for social and environmental obligations	(-) Adjustment to present value	2020	2019
Opening balance	142,142	234,573	(46,563)	188,010	72,915
Initial registration - environmental license					157,936
Revaluation of disbursement flow - environmental license	(9,773)	(12,937)	3,164	(9,773)	(14,835)
Revaluation of disbursement flow - TAC		4,206		4,206	
Depreciation	(15,693)				
Payments		(9,642)		(9,642)	(16,966)
Adjustment to present value			8,374	8,374	(11,040)
Closing balance	**116,676**	**216,200**	**(35,025)**	**181,175**	**188,010**

18. Future energy contracts

The Company's subsidiary carries out future sales operations traded on an active market which meet the definition of financial instruments as they are settled in energy and readily convertible into cash. Such contracts are recorded in the balance sheet at fair value, on the date they are entered into, and revalued at fair value on the balance sheet date, with a corresponding entry to operating income.

The fair value of these financial instruments is estimated based, in part, on price quotes published in active markets, insofar as such observable market data exist, and, in part, by the use of valuation techniques, which consider: i) prices in the purchase and sale operations; (ii) supply risk margin and (iii) projected market price in the availability period. Whenever the fair value at initial recognition for these contracts differs from the transaction price, a gain or loss of fair value is recognized in Other operating income (expenses), net.

	Consolidated 2020					
	Active		Liabilities (b)		Net (a-b)	
	Current	Non current	Current	Non current	Current	Non current
Future energy contracts	103,139	25,297	120,475	29,405	(17,336)	(4,108)

	Consolidated 2020
Opening balance on 1/1/2020	
Organization	(149,880)
Recognition:	128,436
Closing balance on 12/31/2020	**(21,444)**

19. Post-employment benefits

The Company sponsors health care and retirement plans for its employees and former employees and their respective beneficiaries in order to supplement the benefits provided by the official social security system. Vivest (formerly the CESP Foundation) is the entity responsible for administering the benefit plans sponsored by CESP.

The benefit plans were constituted in the form of a defined benefit plan (DB) and a defined contribution plan (DC). CESP's most significant BD benefit plan is the BSPS (Supplementary Proportional Settled Benefit) created in 1997.

19.1 Accounting policy

The amounts of actuarial commitments related to the DB plan (contributions, costs, liabilities, and/or assets) are calculated annually by an independent actuary with a base date that coincides with the end of the year and are recorded as provided for in CPC 33 (R) / IAS 19 – Employee Benefits.

The liability recognized in the balance sheet in relation to defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets.

Actuarial gains and losses are recorded directly in shareholders' equity under "Other Comprehensive Income". These actuarial gains and losses are calculated at the end of each year based on the independent actuary's report.

19.2 Differences between PREVIC and CPC 33 methodologies

The comparison of the calculation methodologies according to CPC 33 and the PREVIC methodology - CNPC Resolution no. 30/2018 and PREVIC Ordinance no. 300, of 04/12/2019, is shown below:

Methodology	Report CPC 33 (R1)	PREVIC
Actuarial Liability Calculation Methodology	The projected unit credit actuarial method was used to determine the present value of the plan obligation.	The aggregate actuarial method was used to determine the present value of the plan obligation.
Asset definition methodology	The Fair Value of Assets is used, considering the assets marked to the market.	The book value of the asset used in the trial balance is used.
Discount Rate Definition Methodology	Rate defined based on long-term securities (NTN-Bs) positioned on 12/31/2020	Rate defined based on the corridor established by PREVIC in Ordinance PREVIC no. 337/2020

A comparison of actuarial hypotheses (Vivest and CESP) is also presented for the two methodologies for measuring actuarial liabilities:

Hypotheses	Report CPC 33 (R1)	PREVIC
Annual discount rate	6.56% pa (3.21% pa real)	4.84% per year
Long-term annual inflation rate	3.25% per year	3.75% per year
Real Salary Growth	4.28% pa (1.00% pa real)	1.00% per year
Real Growth of the Reference Unit	3.69% pa (0.43% pa real)	0.43% per year
General Mortality	AT-2000 Basic, segregated by sex	AT-2000 Basic, segregated by sex
Disability Mortality	Male AT-1949	Male AT-1949
Entry into Disability	Weak Light reduced by 30%	Weak Light reduced by 30%
Turnover	ExpR_2012 aggravated by 50%	ExpR_2012 aggravated by 50%
Entry into Retirement	Length of Service with Social Security - Men: 35 years old/Women: 30 years Time of membership in the plan - 15 years	Length of Service with Social Security - Men: 35 years old/Women: 30 years Time of membership in the plan - 15 years
Family Composition	90% married and male spouses 4 years older than wives	Age of participants according to Vivest Register

Considering the above hypotheses, CESP's actuarial liability, calculated based on CPC 33, is R$ 2,412,379, while the liability calculated by Vivest based on the PREVIC methodology is R$ 888.467.

19.3 CESP migration plan and deficit settlement

The deficit settlement determined in the actuarial valuation regulated by PREVIC is carried out independently among the sub-plans, applying to each of them the determinations of CNPC Resolution No. 30/2018.

In order to mitigate the current and future risks of the plan, the process of settlement and migration of the Plan PSAP/CESP B1 was submitted to PREVIC for approval on January 11, 2021.

Upon approval of the settlement process, the benefits already accumulated in the plan are preserved and future accumulation ceases. Accordingly, there will no longer be new contributions to benefit formation in the Defined Benefit (BD) and Variable Contribution (CV) subplans of PSAP/CESP B1. It is important to note that this process does not impact the benefits that are paid to retirees and pensioners under the plan, whose acquired right is preserved.

Migration is the opportunity for participants to transfer their resources from PSAP/CESP B1 to the CESP CD Plan. Although the settlement occurs only for active participants, the migration to the CESP CD Plan will be open to all participants in the PSAP/CESP B1 Plan. It is important to note that the migration will be voluntary and will only occur during the migration period, which will be established after the approval of the process by PREVIC. Participants who do not choose to migrate will remain under the rules and conditions of PSAP/CESP B1.

The final amount of any deficit will be recalculated by the PREVIC methodology after the conclusion of mitigation measures, such as, for example, the optional migration of participants from the defined benefit plan to the defined contribution plan.

19.4 Statement of liabilities to be recorded in accordance with CPC 33 (R1) / IAS 19

Based on the actuarial valuation prepared by an independent actuary on December 31, 2020, following the criteria determined by CPC 33 (R1) / IAS 19, the composition of assets and liabilities related to the coverage of defined benefit plans - BD is as follows:

19.4.1 Actuarial assumptions

			2020			2019
	BSPS	BD	CV	BSPS	BD	CV
Premises:						
Rate used for discounting the present value of actuarial liabilities	6.56%	6.56%	6.56%	7.16%	7.16%	7.16%
Expected rate of return on plan assets	6.56%	6.56%	6.56%	9.00%	9.00%	9.00%
Actual rate used for discounting the present value of actuarial liabilities	3.21%	3.21%	3.21%	4.00%	4.00%	4.00%
Salary growth rate	AT	4.28%	4.28%	AT	5.88%	AT
Long-term inflation rate	3.25%	3.25%	3.25%	3.80%	3.80%	3.80%
Turnover rate			Vivest Experience			Vivest Experience
Mortality table			AT 2000 segregated by sex			AT 2000 segregated by sex
Disability entry table			SOFT LIGHT REDUCED BY 30%			SOFT LIGHT REDUCED BY 30%
Disability mortality table			AT - 1949			AT - 49
Number of participants:						
No. of active participants	58	145	137	69	163	150
No. of inactive participants - retired without disability	4379	1916	1015	4,440	1,901	997
Number of inactive participants - retired due to disability	156	69	26	166	71	28
Number of inactive participants - pensioners	1154	205	75	1,103	193	65

19.4.2 Actuarial valuation

In the actuarial valuation of the plans, the projected unit credit method was adopted. The net assets of the benefit plans are valued at market values (mark to market).

19.4.2.1 BSPS Plan - Coverage in effect until December 31, 1997

The Defined Benefit cover for a Benefit Settled on 12/31/97, therefore covering only participants enrolled up to that date, and which was based on coverage of 100% of the final average salary. Responsibility for actuarial insufficiencies is exclusive to Sponsor CESP.

19.4.2.2 BD Plan - Coverage in effect after December 31, 1997

The Defined Benefit cover based on 70% of the final average salary for those enrolled after 12/31/97 and proportional accumulated service time after 12/31/97 for those enrolled up to this date. Responsibility for actuarial weaknesses is in accordance with current legislation, which currently refers to the proportion of contributions made to the plan between Sponsor on the one hand and participants (including those assisted) on the other, which results in less than 50% as the responsibility of Sponsor CESP, since the sponsored records are included among the participants.

19.4.2.3 CV Plan – Coverage in effect after December 31, 1997

An additional supplement will be granted concurrently with the other benefits and will be based on the participant's total retirement account balance, multiplied by a conversion factor, which will depend on the participant's option. The options for receiving income are:

1. Lifetime monthly income without continuation to beneficiaries;
2. Lifetime monthly income with continuation to beneficiaries;
3. Monthly income for a certain period, which may be 10.15 or 20 years;
4. Monthly income in percentage of the balance of 0.10% to 2.00%

The participant can choose to receive up to 25% of the account balance in a single payment, as long as the remaining balance does not generate an income below 10% of the CESP reference unit.

19.4.3 Calculation and changes in balances

Analysis	BSPS	BD	CV	Total
Effect on the defined benefit obligation if:				
Discount rate is reduced by 0.5%	7,495,295	1,204,009	183,301	8,882,605
Discount rate is increased by 0.5%	6,823,460	1,065,727	162,506	8,051,693

Projected cash flows	BSPS	BD	CV	Total
Estimated sponsor's contributions to the plan for the following year		944	456	1,400
Estimated employee contributions to the plan for the following year		2,574		2,574
Expected benefit payments for plans:				
2021	530,888	60,010	10,783	601,681
2022	540,115	62,280	11,005	613,400
2023	548,744	64,887	11,299	624,930
2024	556,531	67,917	11,563	636,011
2025	563,220	70,272	11,871	645,363
2026 to 2030	2,873,813	391,730	63,358	3,328,901

	BSPS		BD		CV	
Fair value of benefit plan assets	2020	2019	2020	2019	2020	2019
Assets						
Available	551	516	144	157	113	109
Receivable	1,362	413	1	(16)		
Investment (*)	5,307,713	5,059,700	996,570	955,525	136,631	148,267
	5,309,626	5,060,629	996,715	955,666	136,744	148,376
Liabilities						
Obligations	(140,943)	(241,064)	(4,556)	(6,200)	(754)	(642)
Non-pension funds	(3,656)	(1,508)				
CD account balances					(28,259)	(28,642)
Fair value	5,165,027	4,818,057	992,159	949,466	107,731	119,092

a) Reconciliation of assets and liabilities

	Parent Company and Consolidated	
	2020	2019
Net actuarial liability amount	8,449,397	6,665,813
Fair value of plan assets	(6,037,018)	(5,866,462)
Effect of the limit for recognition of defined benefit assets		37,644
Total net liabilities	2,412,379	836,995

b) Statement of actuarial liabilities

	Parent Company and Consolidated			
				2020
	BSPS	BD	CV	Total
Initial balance of the present value of the bonds on 1/1/2020	5,623,274	911,823	130,716	6,665,813
Current service cost (c)		(667)	178	(489)
Interest on actuarial obligation (c)	388,022	63,703	9,082	460,807
Contributions from participants		2,468		2,468
Benefits paid by the plan	(436,391)	(50,100)	(8,099)	(494,590)
Actuarial gains (losses) (d)	1,570,715	204,151	40,522	1,815,388
Closing balance of the present value of the obligations on 12/31/2020	7,145,620	1,131,378	172,399	8,449,397
Initial balance of fair value of plan assets on 1/1/2020	(4,818,057)	(949,467)	(98,938)	(5,866,462)
Interest on plan assets (c)	(330,368)	(66,705)	(6,807)	(403,880)
Contributions from participants		(2,468)		(2,468)
Sponsor contributions		(905)	(425)	(1,330)
Benefits paid by the plan	436,391	50,100	8,099	494,590
Income from plan assets (d)	(282,933)	21,585	3,880	(257,468)
Closing balance of the fair value of plan assets on 12/31/2020	(4,994,967)	(947,860)	(94,191)	(6,037,018)
Opening balance of irrecoverable surplus on 1/1/2020		37,644		37,644
Interest on irrecoverable surplus (c)		2,695		2,695
Change in irrecoverable surplus during the year (d)		(40,339)		(40,339)
Effect of the limit for recognition of defined benefit assets				
Total net actuarial liabilities	**2,150,653**	**183,518**	**78,208**	**2,412,379**

	Parent Company and Consolidated			
				2019
	BSPS	BD	CV	Total
Initial balance of the present value of the bonds on 1/1/2019	4,352,006	788,672	70,131	5,210,809
Current service cost		10,465	3,196	13,661
Interest on actuarial obligation	374,491	69,568	6,081	450,140
Contributions from participants		5,998	607	6,605
Benefits paid by the plan	(417,648)	(41,902)	(7,386)	(466,936)
Actuarial gains/losses	1,314,425	79,022	58,087	1,451,534
Closing balance of the present value of the obligations on 12/31/2019	5,623,274	911,823	130,716	6,665,813
Initial balance of fair value of plan assets on 1/1/2019	(4,557,451)	(828,191)	(76,057)	(5,461,699)
Interest on plan assets	(392,981)	(73,172)	(6,739)	(472,892)
Contributions from participants		(5,998)	(607)	(6,605)
Sponsor contributions		(2,091)	(251)	(2,342)
Benefits paid by the plan	417,648	41,902	7,386	466,936
Income from plan assets	(285,273)	(81,917)	(22,670)	(389,860)
Closing balance of the fair value of plan assets on 12/31/2019	(4,818,057)	(949,467)	(98,938)	(5,866,462)
Opening balance of irrecoverable surplus on 1/1/2019	205,445	39,519	5,926	250,890
Interest on irrecoverable surplus	18,490	3,557	533	22,580
Change in irrecoverable surplus during the year	(223,935)	(5,432)	(6,459)	(235,826)
Effect of the limit for recognition of defined benefit assets		37,644		37,644
Total net actuarial liabilities	**805,217**		**31,778**	**836,995**

c) Effects on income for the year

			Parent Company and Consolidated	
				2020
	BSPS	BD	CV	Total
Current service cost		(667)	178	(489)
Interest cost on the obligation	388,022	63,703	9,082	460,807
Expected return on plan assets	(330,368)	(66,705)	(6,807)	(403,880)
Expense/(Revenue) on the "asset ceiling"		2,695		2,695
(Revenue)/estimated expense for the financial year	**57,654**	**(974)**	**2,453**	**59,133**

d) Changes in Other Comprehensive Income

			Parent Company and Consolidated		
				2020	2019
	BSPS	BD	CV	Total	Total
Actuarial loss on liabilities evolution, including routine settlements	1,532,613	200,965	38,666	1,772,244	497,655
Actuarial loss from changes in assumptions	(351,499)	(75,934)	(10,002)	(437,435)	953,878
Asset yield (higher)/less than net interest recognized	(282,933)	21,585	3,880	(257,468)	(389,860)
Changes in the effect of the limit for asset recognition in the period		(40,339)		(40,334)	(235,825)
Changes in OCI during the year	**898,181**	**106,277**	**32,544**	**1,037,002**	**825,848**

e) Expenditure / (Revenue) estimated for 2021

			Parent Company and Consolidated	
				2021
	BSPS	BD	CV	Total
Current service cost		1,564	188	1,752
Interest cost on the obligation	451,340	72,250	10,982	534,572
Expected return on plan assets	(310,257)	(60,327)	(5,867)	(376,451)
(Revenue) / estimated expense for the year	**141,083**	**13,487**	**5,303**	**159,873**

20. Allowance for litigation

20.1 Accounting policy

The Company has administrative and judicial proceedings at different levels of courts and administrative spheres for labor, tax, civil, and environmental nature. The Company's management, under the advice of its legal advisors and based on analyzes carried out internally, set up provisions claims with risk of loss classified as probable.

Provisions for losses classified as probable, are recorded provided that: (i) there is a present obligation (legal or non-formalized), arising from past events; (ii) it is probable that there will be an outflow of funds to settle the obligation; and (iii) the amount of the obligation can be reliably estimated. No provisions are made for contingencies related to litigations with risk of loss classified as possible or remote; disclosures are provided for possible and remote risk of loss contingencies. The risk estimates attributed to lawsuits are based on management's assessment, under the advice of its internal and external legal counsel.

Provisions are measured at the present value of expenses that must be required to settle the obligation, reflecting current market assessments of the time value of money and the specific risks of the obligation. Variations in the estimated provisioned amounts are charged to income.

20.2 Composition and changes in balances

As of December 31, 2020, litigation provisions for cases classified as probable risks of loss are shown below.

					Parent Company and Consolidated
	2019			Changes	2020
	BALANCE	Update	Provision/(Reversal)	(-) Payments	BALANCE
Labor	138,597	16,923	(1,925)	(40,207)	113,388
Tax	5,435	489	(1,261)	(144)	4,519
Environmental	443,627	38,339	(465,622)	(2,157)	14,187
Civil	1,226,716	260,006	202,164	(72,723)	1,616,163
	1,814,375	**315,757**	**(266,644)**	**(115,231)**	**1,748,257**

					Parent Company and Consolidated
	2018			Changes	2019
	BALANCE	Update	Provision/(Reversal)	Payments	BALANCE
Labor	247,663	19,928	(67,746)	(61,248)	138,597
Tax	5,828	501	(487)	(407)	5,435
Environmental	189,136	27,022	228,769	(1,300)	443,627
Civil	1,713,535	224,794	(492,488)	(219,125)	1,226,716
	2,156,162	**272,245**	**(331,952)**	**(282,080)**	**1,814,375**

Change in the provision for litigation for the year ended December 31, 2020, reflect: (i) definitive decisions favorable to CESP; (ii) court settlements; (iii) thorough review of the cost contingency attributed to strategic cases; and (iv) new demands received by the Company and correction of the litigation balance, inflation indexed using the IGPM, partially offsetting reductions made in the period.

For remote risk of loss contingencies, the Company opted to maintain its historically practice of disclosing the total amount of lawsuits corresponding to this type of contingency. However, remote risks may include claims which are clearly unrealistic and do not necessarily reflect the amount management expects to be settled in the event its defense does not prevail.

20.3 Labor, tax, environmental and civil provisions and court deposits

						Parent company and consolidated
			2020			2019
Nature	Court deposits (Note 7)	Provisioned amount	Net total	Court deposits (Note 7)	Provisioned amount	Net total
Labor	(37,340)	113,388	76,048	(93,729)	138,597	44,868
Tax	(11,642)	4,519	(7,123)	(29,940)	5,435	(24,505)
Environmental	(43,040)	107,026	63,986	(43,963)	443,627	399,664
Civil	(163,476)	1,523,324	1,359,848	(171,625)	1,226,716	1,055,091
	(255,498)	**1,748,257**	**1,492,759**	**(339,257)**	**1,814,375**	**1,475,118**

20.4 Contingencies with a risk of loss

Such contingencies arising from litigation, judicial or administrative, are as follows:

				Loss Expectation
Nature	Likely	Possible	Remote	Total
Labor	113,388	51,672	6,742	171,802
Tax	4,519	453,415	146,369	604,303
Environmental	107,026	165,839	550,985	731,011
Civil	1,523,324	2,242,308	4,845,164	8,703,635
Total as of December 31, 2020	**1,748,257**	**2,913,234**	**5,549,260**	**10,210,751**
Total as of December 31, 2019	**1,814,375**	**2,528,446**	**7,062,373**	**11,405,194**

The main lawsuits are summarized below:

20.4.1 Labor claims

The Company has a total of 193 labor claims filed as probable loss, which are provisioned, in addition to 73 lawsuits with a possible risk of loss. A lawsuit was filed in April 2013 by the Labor Prosecutor's Office of the 15th Region, in the District of Teodoro Sampaio/SP, alleging that the Company had hired third-party outsourced services for its core activities required to be performed by payrolled employees under the by public tender contract. As of December 31, 2020, the estimated amount for possible loss of the lawsuit is R$ 19,950, (R$ 18,519 on December 31, 2019) and the lawsuit is at the appeal stage.

20.4.2 Tax actions

The Company has130 tax lawsuits totaling R$ 453,415 in 130 with an expected loss considered as possible on December 31, 2020 (R$ 402,116 on December 31, 2019). The main proceeding contest the Company's credit rights from non-cumulative PIS and COFINS payments from 12/2004 to 11/2005.

The Company's credit right arises from the improper payment of PIS and COFINS in any non-cumulative regime on revenues from electricity contracts with a predetermined price, signed before 10/31/2003 and, therefore, subject to the cumulative regime pursuant to art. 10, XI, of Law 10.833/2003. The amount of the lawsuit is estimated at R$ 233,013 on December 31, 2020 (R$ 190,107 on December 31, 2019).

20.4.3 Environmental actions

The Company is a party to actions of an environmental nature, usually related to remedial measures for environmental damage, mainly arising from the environmental impact of its projects.

The Company is currently involved in 543 environmental lawsuits for which the likelihood of an unfavorable outcome is considered possible. The main lawsuit was filed by the District of Selviria in January 2008 and is currently being investigated. The estimated amount of the lawsuit at December 31, 2020 is R$ 90,753 (73,700 on December 31, 2019).

20.4.4 Civil actions

a) Fishermen's actions

Ongoing lawsuits against the Company brought by professional fishermen, in particular in the Porto Primavera HPP region, claiming compensation for alleged losses and damages resulting from the filling of the plant reservoir. The total amount under discussion representing a possible risk of loss at December 31, 2020 was R$ 1,414,144, for a total of 172 lawsuits (R$ 1,188,469 on December 31, 2019).

b) Ceramic pottery actions

Ongoing actions against the Company proposed by ceramic potters that allegedly affected when the Porto Primavera HPP reservoir was formed. As of December 31, 2020, the total amount under discussion representing a possible risk of loss at December 31, 2020 was R$ 268,627 for 42 cases (R$ 103,385 on 12/31/2019).

c) Contractual default and other actions

Ongoing actions against the Company for on claims for indemnity for contractual default and other matters related to the plants that are part of its generating complex. The total amount under discussion representing a possible risk of loss at December 31, 2020 was R$ 559,537 for 267 lawsuits (R$ 477,718 on December 31, 2019).

d) Expropriation actions

There are 13 ongoing lawsuits against the Company discussing indemnities for expropriation of areas related to the formation of reservoirs that are or have been managed by the Company. The total amount discussed in the lawsuits with probable and possible risk of loss at December 31, 2020 was R$ 120,061 (R$ 47,416 on December 31, 2019).

21. Other liabilities

	Parent company		Consolidated	
	2020	2019	2020	2019
Current				
Vivest (Note 22)		564		564
Extrajudicial agreement State of MS	6,5941	5,440	6,594	5,440
Judicial agreement – expropriation balances payable		57,346		57,346
Provision for services	5,368	8,940	5,368	8,940
Miscellaneous advances	2,860	5,157	2,860	5,157
Provision for education fund expenses	5,240	6,001	5,243	6,001
Other	2,836	4,590	2,841	4,590
	22,898	88,038	22,906	88,038
Non current				
Extrajudicial agreement State of MS	39,894	38,078	39,894	38,078
Global Reversion Reserve – RGR (amortization/reversal)	4,937	13,709	4,937	13,709
PIS/COFINS provision on court deposits updates	2,655	3,182	2,655	3,182
	47,486	54,969	47,485	54,969
	70,384	143,007	70,391	143,007

22. Related party transactions

22.1 Accounting policy

Transactions with related parties are carried out by the Company observe usual market prices and conditions and, therefore, do not generate any undue benefit to counterparties or losses to the Company.

22.2 Composition

			Parent company					
			2020					
			Asset		Liabilities			Income
Companies	**Note**	**Nature of the operation**	**Current**	**Non Current**	**Current**	**Non Current**	**Net Worth**	**Revenue (expense)**
Votener – Votorantim Comercializadora de Energia Ltda.	5	Purchase and sale of energy	7,562					79,800
CESP Comercializadora de Energia S.A.	5	Purchase and sale of energy	33,418					307,672
Nexa Recursos Minerais S.A.	6	Other assets	3,482					
PSR Soluções e Consultoria em Energia Ltda.		Service providers						(68)
Compart Serviços e Assessorias Ltda.		Service providers						(415)
Instituto Votorantim		Donations						(1.665)
VTRM Energia Participações S.A.		Dividends payable			229,213			
Votorantim S.A.		Shared services						(3,460)
Vivest	6	Post-employment benefits	12,536					489
Banco Votorantim S.A.		Financial investments and derivative financial instruments	85,044		2,831		1,869	(37,565)
			142,042		232,044		1,869	344,788

			Consolidated					
			2020					
			Asset			Liabilities		Income
Companies	Note	Nature of the operation	Current	Non Current	Current	Non Current	Net Worth	Revenue (expense)
Votener – Votorantim Comercializadora de Energia Ltda.	5	Purchase and sale of energy	7,562		2,212			53,888
Nexa Recursos Minerais S.A.	6	Other assets	3,482					
PSR Soluções e Consultoria em Energia Ltda.		Service providers						(68)
Compart Serviços e Assessorias Ltda.		Service providers						(415)
Instituto Votorantim		Donations						(1.665)
VTRM Energia Participações S.A.		Dividends payable			229,213			
Votorantim S.A.		Shared services						(3,610)
Vivest	6	Post-employment benefits	12,536					489
Banco Votorantim S.A.		Financial investments and derivative financial instruments	85,044		25,548	1,579	17,904	(56,249)
			108,624		**256,973**	**1,579**	**17,904**	**(7,630)**

			Parent company and consolidated					
			2019					
			Asset			Liabilities		Income
Companies	Note	Nature of the operation	Current	Non Current	Current	Non Current	Net Worth	Revenue (expense)
Votener – Votorantim Comercializadora de Energia Ltda.	5	Purchase and sale of energy	3,931		2,121			31,838
Votorantim S.A.		Shared services			517			(1,719)
Eletrobras – Centrais Elétricas Brasileiras S.A.	14	Loans			33			(115)
Vivest		Post-employment benefits	8,824		564			(13,488)
Banco Votorantim	6	Derivative financial instruments	8,408	5,743			8,890	682
			21,163	**5,743**	**3,235**		**8,890**	**17,198**

22.3 Remuneration of key Management personnel

The remuneration of the Company's Management in 2020, which includes the Board of Directors, Statutory Board, and Audit Committee, was R$ 8,765 (R$ 6,900 on 12/31/2019), of which R$ 6,728 is related to fixed compensation and variable (R$ 5,902 on 12/31/2019) and R$ 2,037 on social charges (R$ 998 on 12/31/2019). Management's remuneration was below the amount approved by the Shareholders' Meeting in 2019.

23. Net worth

23.1 Share capital

The paid-in capital of R$ 5,975,433 is divided into 109,167,801 common shares (CESP3), 7,386,323 class A preferred shares (CESP5) and 210,948,549 class B preferred shares (CESP6). The share capital may be increased, according to the bylaws, up to the maximum limit of R$ 17,926,300, upon resolution by the Board of Directors.

The Company's main shareholders, as of December 31, 2020, are as follows:

							Parent Company and Consolidated	
							Number of shares – In units	
	Common	%	Preferred Class A	%	Preferred Class B	%	Total	%
Shareholders								
VTRM Energia e Participações S/A	102,091,755	93.52			28,928,300	13.71	131,020,055	40.01
	102,091,755	93.52			28,928,300	13.71	131,020,055	40.01
Other								
(-) Treasury stock	25,980	0.02	84,515	1.14	2,560		113,055	0.03
Outstanding shares	7,050,066	6.46	7,301,808	98.86	182,017,689	86.29	196,369,563	59.96
	7,076,046	6.48	7,386,323	100.00	182,020,249	86.29	196,482,618	59.99
	109,167,801	100.00	7,386,323	100.00	210,948,549	100.00	327,502,673	100.00
Share capital paid up by shares in R$ thousand	**1,991,815**		**134,767**		**3,848,851**		**5,975,433**	

23.1.1 Share rights

(a) Class A preferred shares have the following characteristics:

- Priority in the reimbursement of capital, without the right to a premium in the event of liquidation of the Company;
- Priority non-cumulative annual dividend of 10%, calculated on the value of paid-in capital represented by class A preferred shares, to be apportioned equally;
- Right to appoint, together with the class B preferred shares, a member of the Audit Committee and respective alternate, chosen by the holders of the shares, in a separate vote;
- Right to participate in capital increases, resulting from the capitalization of reserves and profits, under the same conditions as common shares and class B preferred shares; and
- They will be irresistible.

(b) Class B preferred shares have the following characteristics

- Tag-along right to receive an amount per share corresponding to 100% of the amount paid per share to the selling controlling shareholder in the event of disposal of the Company's control;
- Right to participate on equal terms with the common shares of the distribution of the mandatory dividend attributed to such shares under the terms of these bylaws;
- Right to appoint, along with class A preferred shares, a member of the Audit Committee and respective alternate, chosen by separate vote;
- Right to participate in capital increases resulting from the capitalization of reserves and profits, under the same conditions as common shares and class A preferred shares;
- The shares have no right to vote and will not acquire this right even in the event of non-payment of dividends; and
- They are non-reimbursable.

(c) Each common share will correspond to one vote in the resolutions of the General Meeting, except in the case provided for in Paragraph One in relation to the election of members of the Board of Directors.

(d) As provided for in article 5 of the Company's Bylaws, the shareholders, subject to the legal provisions and the conditions provided for, may convert (I) class A preferred shares into common shares and class B preferred shares and (II) common shares into preferred shares class A and class B preferred shares, in both cases, as long as paid in. The Company's class B preferred shares are not convertible.

23.2 Capital reserves

	Parent Company and Consolidated	
	2020	2019
Remuneration of Fixed Assets in progress – Equity	**1,929,098**	**1,929,098**

Remaining amount of credits resulting from the capitalization of the remuneration on own resources used during the construction of the fixed assets, calculated until December 31, 1998, applied to the works in progress.

23.3 Profit reserve

	Parent Company and Consolidated	
	2020	2019
Legal reserve	258,189	171,751
Statutory reserve	597,544	506,805
Profit retention	1,078,783	406,327
Additional dividends	252,622	
	2,187,137	**1,084,883**

(a) The Legal Reserve is constituted through appropriation of 5% of adjusted annual net income, up to the limit of 20% of the capital;

(b) The statutory Reserve may be constituted through appropriation of up to 20% of the balance after the mandatory dividends of 10% of the share capital have already been calculated, as decided by the General Meeting, limited to 10% of the capital;

(c) The remaining retained earnings balance is not require to be appropriated to other reserves for the payment of dividends.

23.4 Deemed cost

Pursuant to ICPC 10, on January 1, 2009, the net effect of the change in fixed assets (increases/decreases) from adoption of the deemed cost model was recorded, net of income and deferred social contribution, in shareholders' equity (Note 12.4). Depreciation charged to "Retained earnings" and any write-off of the adjustment to fair value of fixed assets is recognized in profit or loss.

		Parent Company and Consolidated	
	Fixed assets	Deferred taxes	Net worth
Opening balance on 1/1/2019	(1,479,926)	503,174	(976,752)
Realization in the year (depreciation)	40,852	(12,723)	28,129
Closing balance on 12/31/2019	(1,439,074)	490,451	(948,623)
Realization in the year (depreciation)	38,149	(14,137)	24,012
Write-off of Jaguari HPP assets	7,505	(2,552)	4,953
Closing balance on 12/31/2020	**(1,393,420)**	**473,762**	**(919,658)**

23.5 Other comprehensive income

Upon adoption of CPC 33 (R1) – Employee benefit, actuarial gains and losses are recognized in equity.

The portion of the gain or loss resulting from hedge instruments determined to be effective is recognized directly in Other comprehensive income (Note 28.5)

23.5.1 Changes in account balances

	Parent Company and Consolidated	
	2020	2019
Opening balance	(895,886)	(380,301)
Operational Hedge Accounting		
Allowance for operational Hedge Accounting	(97,211)	38,638
(-) Deferred IRPJ and CSLL	33,052	(13,137)
Allowance for Hedge Accounting – compensation (Note 10)	(23,618)	
	(87,777)	25,501
CPC 33 (R1) adjustment for the year	(982,134)	(541,086)
Closing balance	**(1,965,797)**	**(895,886)**

23.6 Proposal to allocation results

According to the Company's Bylaws, if there is sufficient distributable net income, shareholders are entitled to a mandatory annual dividend corresponding to 10% of the capital. Additionally, according to the bylaws, it is incumbent upon the Board of Directors to declare, is so determined, the payment of interest on own capital and interim dividends.

When calculating adjusted net income for the purpose of distributing dividends, the following are considered: i) the amount allocated to Legal Reserve and ii) the realization of the surplus value of the assets determined on the date of transition to international accounting standards, recorded in the caption Adjustment of Equity Valuation, in Equity.

Tax legislation allows companies to pay Interest on Equity, within certain limits, to shareholders and treat these payments as a deductible expense for purposes of calculating income tax and social contribution. This distribution, attributed to the mandatory dividends to be paid by the Company, is treated for accounting and corporate purposes as a deduction from shareholders' equity in a similar way to dividends. Income tax at source is withheld at the rate of 15%, and paid by the Company when the interest is credited.

Interest on Equity payable was calculated limited to the Long Term Interest Rate – TJLP under the terms of Law No. 9,249/95, complemented by subsequent legal provisions. As of December 31, 2020, R$ 150,001 of interest on equity was recorded in financial expense, in accordance with tax legislation. For the purposes of these financial statements, this interest is reversed and being presented as a deduction from Shareholders' Equity, charged to the retained earnings account.

Dividends and interest on equity not claimed within three years prescribe and are reverted to shareholders' equity.

For the year ended December 31, 2020, the mandatory annual dividend of R$ 447,542 is being proposed in addition to the Interest on Equity of R$ 150,001, totaling the amount of R $ 597,543, provisioned in liabilities, and also, distribution of additional dividends in the amount of R $ 252,622, highlighted in shareholders' equity.

Based on the Company's cash flow projection and in line with the objective of continuing the strategy of reducing litigation, in addition to maintaining a capital structure appropriate to its strategic planning, management proposes to allocate the remaining balance of net income for the year ended December 31, 2020, of R$ 672,456 to the Profit Retention Reserve, supported by the capital budget, whose approval will be submitted to shareholders, pursuant to article 196 of Law 6,404/76 and subsequent amendments.

23.6.1 Calculation

	Parent Company and Consolidated	
	2020	**2019**
Net income for the year	1,728,762	1,163,014
(-) Legal reserve – 5%	(86,438)	(58,151)
(-) Deemed cost	(28,965)	(28,129)
(+) Reversal of the unrealized profit reserve		35,442
Adjusted profit for the year (Balance for distribution of dividends)	**1,613,359**	**1,112,176**
(-) Interest on shareholders' equity	(150,001)	
(-) Mandatory dividends (10% of the share capital)	(447,542)	(597,543)
(-) Additional dividends		(8,337)
(=) Balance of retained earnings	**1,015,816**	**506,296**
(-) Statutory reserve (Expansion – Art 33. IV Bylaws)	(90,738)	(101,259)
(-) Additional dividends	(252,622)	
(-) Retained earnings	(672,456)	(405,037)
(=) Balance		

23.6.2 Earnings per share

	Parent Company and Consolidated	
	2020	**2019**
Net income for the year (a)	1,728,762	1,163,014
Number of shares (b)	327,503	327,503
Earnings per share (a / b)	**5.2786**	**3.5512**

The Company does not have equity instruments or contracts with a dilutive effect, therefore, diluted earnings per share for the years 2019 and 2020 are equal to the basic earnings per share as above.

23.6.3 Dividends and interest on equity per share

	Parent Company and Consolidated			
	2020		2019	
	Dividends and interest on equity	Dividend and interest on equity per share	Dividends	Dividend per share
Common shares – ON	283,374	R$ 2.5963	201,962	R$ 1.8500
Class A preferred shares – PNA	19,112	R$ 2.5963	13,665	R$ 1.8500
Class B preferred shares – PNB	547,678	R$ 2.5963	390,253	R$ 1.8500
	850,164		**605,880**	

The difference between the number of shares in the calculation of earnings per share and dividends per share refers to treasury shares.

	Parent Company and Consolidated						
	2020						
	Interest on equity			Dividends			Dividends and interest on equity
	Number of shares (a)	Gross interest on equity per share	Total	Number of shares (b)	Dividend per share	Total	Total
Common shares – ON	109.168	R$ 0,4265	46.558	109.142	R$ 2,1698	236.816	283.374
Class A preferred shares – PNA	7.386	R$ 1,8245	13.477	7.302	R$ 0,7717	5.635	19.112
Class B preferred shares – PNB	210.946	R$ 0,4265	89.965	210.946	R$ 2,1698	457.713	547.678
	327.500		**150.001**	**327.390**		**700.164**	**850.164**

(a) Persons registered as shareholders of the Company in the Salary Adjustment Date of December 21, 2020 will be entitled to interest on equity.

(b) Number of shares outstanding in the Salary Adjustment Date of December 31, 2020.

24. Revenue

24.1 Accounting policy

Revenue is shown net of taxes, returns, rebates and discounts. The Company and its subsidiary recognize revenue when: (i) the amount of revenue can be measured reliably; (ii) it is probable that future economic benefits will flow to the entity; and (iii) specific criteria have been met for each of the Company's activities.

The Electricity Commercialization Process takes place according to parameters established by Law no. 10.848/04, by Decrees no. 5.163/04 and 5.177/04 (which instituted the CCEE), and by Normative Resolution ANEEL no. 109/04, which instituted the Electricity Commercialization Convention.

The commercial relations between the Agents participating in the CCEE are governed predominantly by medium and long-term energy purchase and sale contracts, and all contracts signed between the Agents within the scope of the SIN must be registered with the CCEE. The Company operates in the following electric energy segments:

a) Free market – Free consumers – Industrial

Sale of energy at freely negotiated prices and conditions to free consumers – large end consumers who chose not to purchase energy from local distributors, and with whom the Company and its subsidiary have supply contracts.

b) **Free market – Trading agents**

Refers to the direct sale of energy to trading companies under freely negotiated contracts.

c) **Regulated market – Energy auctions – Distributors**

In this segment, the Company and its subsidiary sell energy to Distribution concessionaires, through auctions organized by the Granting Authority through medium and long-term supply contracts.

d) **Short-term energy**

CCEE records the differences between the quantities of energy produced, consumed and contracted. Positive or negative differences are settled and valued at the Balance Liquidation Value – PLD.

The quantities processed under the Energy Reallocation Mechanism are part of the Short-Term Market, a mechanism for sharing the hydrological risks associated with the SIN's electro-energy optimization, so that the energy that an MRE member fails to produce is carried out by another agent and volumes are remunerated by the energy optimization tariff, sufficient to cover variable costs.

24.2 Electricity Trading Agreements in the Regulated Environment – CCEAR's and price updates (unaudited)

The Company has contracts with 33 distributors for the supply of energy, as a result of the auctions held. These contracts have a price update clause (inflation indexed to the IPCA), applied on the distributors' readjustment dates by ANEEL, as follows:

		Parent Company and Consolidated		
Readjustments in 2020		**Products and Prices R$/MWh**		**Yearly adjustment (%)**
Concessionaires	**Adjustment Month**	**2009 to 2038**	**2010 to 2039**	
Energisa Borborema	February	258.81	243.92	4.19
Ampla and CPFL Jaguari	March	259.45	259.45	4.00
Light	March	259.45	259.45	4.00
Celpe, Coelba, Coelce, Cosern, CPFL Paulista, Energisa MS, Energisa MT, and Energisa SE	April	259.63	244.70	3.30
Cemig	May	258.83	243.95	2.40
Copel and RGE	June	257.85	243.02	1.88
Eletropaulo, Energisa Sul-Sudeste, and Energisa TO	July	258.52	243.65	2.13
Celesc, Celpa, Cemar, EDP ES, Elektro Redes, and Energisa PB	August	259.45	244.53	2.31
Ceal	September	260.07	245.12	2.44
CEB, CELG, CPFL Piratininga, and EDP SP	October	261.73	246.68	3.14
CEEE	November		248.81	3.92
CEPISA	December	266.34	251.02	4.31

		Parent Company and Consolidated		
Adjustments in 2019		**Products and Prices R$/MWh**		**Yearly adjustment (%)**
Concessionaires	**Adjustment Month**	**2009 to 2038**	**2010 to 2039**	
Energisa Borborema	February	248.39	234.11	3.78
Ampla and CPFL Jaguari	March	249.46	235.12	3.89
Light	March	249.46	235.12	3.89
Celpe, Coelba, Coelce, Cosern, CPFL Paulista, Energisa MS, Energisa MT, and Energisa SE	April	251.33	236.88	4.58
Cemig	May	252.77	238.23	4.94
Copel and RGE	June	253.09	238.54	4.66
Energisa South-Southeast	July	234.58	221.09	4.17
Celtins and Eletropaulo	July	234.58	221.09	3.00
Celesc, Celpa, Cemar, EDP ES, Elektro Redes, and Energisa PB	August	253.60	239.02	3.22
Ceal	September	253.88	239.28	3.43
CEB, CELG, CPFL Piratininga, and EDP SP	October	253.78	239.18	2.89
CEEE	November		239.42	2.54
CEPISA	December	255.33	240.65	3.28

24.3 Energy sold

The table below presents energy sold in the period, as well as the quantity and values of its distribution by consumption class and commercial environment:

						Parent company
		MWh (*)		R$ Thousand		R$/MWh (Average) (*)
	2020	2019	2020	2019	2020	2019
Free market						
Free Consumers – Industrial	1,980,166	4,003,535	410,534	785,746	207.32	196.26
Trading Agents	3,784,043	2,664,651	754,809	487,660	199.47	183.01
	5,764,209	6,668,186	1,165,343	1,273,406	202.17	190.97
Regulated market						
Energy auctions – Energy distributors	2,020,320	2,015,034	498,445	481,588	246.72	239.00
Short-term energy			55,296	72,235		
	2,020,320	2,015,034	553,741	553,823	246.72	239.00
	7,784,529	**6,683,220**	**1,719,084**	**1,827,229**	**220.83**	**210.43**

						Consolidated
		MWh (*)		R$ Thousand		R$/MWh (Average) (*)
	2020	2019	2020	2019	2020	2019
Free market						
Free Consumers – Industrial	3,758,315	4,003,535	833,822	785,746	221.86	196.26
Trading Agents	3,888,157	2,664,651	810,435	487,660	208.44	183.01
Trading operations	720,384		112,152		155.68	
	8,366,856	6,668,186	1,756,409	1,273,406	209.92	190.97
Regulated market						
Energy auctions – Energy distributors	2,020,320	2,015,034	498,445	481,588	246.72	239.00
Short-term energy			55,296	72,235		
	2,020,320	2,015,034	553,741	553,823	246.72	239.00
	10,387,176	**8,683,220**	**2,310,150**	**1,827,229**	**222,40**	**210,43**

(*) Information not audited by the independent auditors.

24.4 Net Revenue

Reconciliation between gross revenue for tax purposes and net revenue presented in the statement of income:

	Parent company		Consolidated	
	2020	2019	2020	2019
Gross revenue				
Energy Recipes				
Free Consumers – Industrial	410,534	785,746	833,822	785,746
Trading Agents	754,809	487,660	810,435	487,660
Trading operations			112,152	
Energy auctions – Energy distributors	498,445	481,588	498,445	481,588
Short-term energy	55,296	72,235	55,296	72,235
	1,719,084	1,827,229	2,310,150	1,827,229
Derivative financial instruments (Note 28.5)	(71,514)	685	(116,295)	685
Supply under quota regime – HPP Jaguari	7,190		7,190	
Other income	2,753	2,585	2,753	2,585
	(61,571)	3,270	(106,352)	3,270
	1,657,513	1,830,499	2,203,798	1,830,499
Deductions from revenue				
Quota for the global reversal reserve – RGR	(2,579)	(26,304)	(2,579)	(26,304)
Research and development – R&D	(15,098)	(15,631)	(15,098)	(15,631)
Service tax – ISS	(84)	(120)	(84)	(120)
PIS on operating revenues	(28,268)	(29,316)	(37,900)	(29,316)
COFINS on operating revenues	(130,205)	(135,032)	(174,570)	(135,032)
Financial Compensation for the Use of Water Resources - CFURH	(51,389)	(48,801)	(51,389)	(48,801)
Electricity Service Inspection Fee – TFSEE	(4,930)	(3,999)	(4,930)	(3,999)
	(232,553)	(259,203)	(286,550)	(259,203)
Net Revenue	**1,424,960**	**1,571,296**	**1,917,248**	**1,571,296**

25. Costs and expenses

	Electricity cost	Operation cost	General and Administrative Expenses	Other operating income (expenses), net	Total
					Parent company
					2020
Nature of costs and expenses					
Depreciation and amortization		(389,287)	(7,965)	(77)	(397,329)
Sector charges	(148,858)				(148,858)
Purchased energy	(148,580)				(148,580)
Reversal of provision for litigation (Note 20)				266,644	266,644
Write-off of court deposits				(63,284)	(63,284)
Personnel		(24,738)	(35,489)		(60,227)
VDP – Voluntary Dismissal Program		(3,578)	(11,420)		(14,998)
Third party services		(10,151)	(23,162)		(33,313)
Allowance for social and environmental obligations (Note 17)				(4,206)	(4,206)
Insurance			(5,966)		(5,966)
Post-employment benefits			489		489
Rentals		(618)	(1,099)		(1,717)
Materials		(808)	(488)		(1,296)
Administrators			(8,765)		(8,765)
Reversal of impairment provision (Note 11)				7,589	7,589
Reversal of provision for reduction to realizable value of warehouses				66	66
Reversal of provision for PIS/COFINS on update of court deposits				527	527
Other (expenses) and revenues, net		(8,775)	(7,030)	10,879	(4,926)
Total	**(297,438)**	**(437,955)**	**(100,895)**	**218,138**	**(618,150)**

	Electricity cost	Operation cost	General and Administrative Expenses	Other operating income (expenses), net	Total
					Parent company
					2019
Nature of costs and expenses					
Depreciation and amortization		(371,319)	(7,875)	(371)	(379,565)
Sector charges	(126,606)				(126,606)
Purchased energy	(541,111)				(541,111)
Reversal of provision for litigation (Note 20)				331,952	331,952
Personnel		(21,580)	(84,745)		(106,325)
VDP – Voluntary Dismissal Program		(9,883)	(101,199)		(111,082)
Third party services		(13,245)	(33,184)		(46,429)
Reversal of provision for social and environmental obligations (Note 17)				14,835	14,835
Insurance				(3,550)	(3,550)
Post-employment benefits			(13,488)		(13,488)
Rentals		(46)	(1,540)		(1,586)
Materials		(2,985)	(1,586)		(4,571)
Administrators			(6,900)		(6,900)
Reversal of impairment of fixed assets (Note 11)				120,405	120,405
Contingent asset adjustment – Ilha Solteira and Jupiá (Note 9)				(230,040)	(230,040)
Reversal of the difference in RGR shares between 2018 and 2017				23,152	23,152
Reversal of provision for reduction to realizable value of warehouses				8,053	8,053
Reversal of provision for PIS/COFINS on update of court deposits				6,048	6,048
Other expenses, net		(5,240)	(12,640)	(3,202)	(21,082)
Total	**(667,717)**	**(424,298)**	**(263,157)**	**267,282**	**(1,087,890)**

					Consolidated
					2020
	Electricity cost	Operation cost	General and Administrative Expenses	Other operating income (expenses), net	Total
Nature of costs and expenses					
Depreciation and amortization		(389,287)	(7,965)	(77)	(397,329)
Sector charges	(148,858)				(148,858)
Purchased energy	(602,829)				(602,829)
Reversal of provision for litigation (Note 20)				266,644	266,644
Write-off of court deposits				(63,284)	(63,284)
Future energy contracts (Note 18)				(21,444)	(21,444)
Personnel		(24,738)	(43,541)		(68,279)
VDP – Voluntary Dismissal Program		(3,578)	(11,420)		(14,998)
Third party services		(10,151)	(24,389)		(34,540)
Allowance for social and environmental obligations (Note 17)				(4,206)	(4,206)
Insurance			(5,966)		(5,966)
Post-employment benefits			489		489
Rentals		(618)	(1,209)		(1,827)
Materials		(808)	(868)		(1,676)
Administrators			(8,765)		(8,765)
Reversal of impairment provision (Note 11)				7,589	7,589
Reversal of provision for reduction to realizable value of warehouses				66	66
Reversal of provision for PIS/COFINS on update of court deposits				527	527
Other (expenses) and revenues, net		(8,775)	(7,918)	10,857	(5,836)
Total	**(751,687)**	**(437,955)**	**(111,552)**	**196,672**	**(1,104,522)**

					Consolidated
					2019
	Electricity cost	Operation cost	General and Administrative Expenses	Other operating income (expenses), net	Total
Nature of costs and expenses					
Depreciation and amortization		(371,319)	(7,875)	(371)	(379,565)
Sector charges	(126,606)				(126,606)
Purchased energy	(541,111)				(541,111)
Reversal of provision for litigation (Note 20)				331,952	331,952
Personnel		(21,580)	(84,764)		(106,344)
VDP – Voluntary Dismissal Program		(9,883)	(101,199)		(111,082)
Third party services		(13,245)	(33,188)		(46,433)
Reversal of provision for social and environmental obligations (Note 17)				14,835	14,835
Insurance				(3,550)	(3,550)
Post-employment benefits			(13,488)		(13,488)
Rentals		(46)	(1,541)		(1,587)
Materials		(2,985)	(1,586)		(4,571)
Administrators			(6,900)		(6,900)
Reversal of impairment of fixed assets (Note 11)				120,405	120,405
Contingent asset adjustment – Ilha Solteira and Jupiá (Note 9)				(230,040)	(230,040)
Reversal of the difference in RGR shares between 2018 and 2017 (Note 12)				23,152	23,152
Reversal of provision for reduction to realizable value of warehouses				8,053	8,053
Reversal of provision for PIS/COFINS on update of court deposits				6,048	6,048
Other expenses, net		(5,240)	(12,660)	(3,202)	(21,102)
Total	**(667,717)**	**(424,298)**	**(263,201)**	**267,282**	**(1,087,934)**

25.1 Purchased energy and sector charges

	Parent company		Consolidated	
	2020	2019	2020	2019
Purchased energy				
Short-term energy	(23,229)	(88,588)	(23,229)	(88,588)
Renegotiation of hydrological risk award	(20,156)	(15,021)	(20,156)	(15,021)
Energy purchased for resale	(105,195)	(437,502)	(476,040)	(437,502)
Trading operations			(83,404)	
	(148,580)	(541,111)	(602,829)	(541,111)
Use of the power grid				
Charges for use of the electricity grid	(148,858)	(126,606)	(148,858)	(126,606)
	(148,858)	(126,606)	(148,858)	(126,606)
	(297,438)	**(667,717)**	**(751,687)**	**(667,717)**

26. Financial income

26.1 Accounting policy

a) Financial income (expenses)

Financial income mainly refers to financial investment income, arrears on sales of electricity, updating deposits linked to litigation and changes in fair value or interest on other financial assets. Interest income is recognized in the statement of income using the effective interest method. Financial expenses include debt charges, exchange variation and indexation/interest on loans, financing, debentures, and other financial liabilities. Borrowing costs, not capitalized, are recognized in the statement of income using the effective interest method.

b) Exchange variation

Foreign currency transactions are initially recognized in the functional currency, using the spot exchange rate between the functional currency and the foreign currency, on the date of the transaction, over the amount in foreign currency.

At the end of each reporting period, monetary items in foreign currency are converted using the closing exchange rate. Exchange rate variations arising from the settlement of monetary items or from the conversion of monetary items at rates different from those at which they were converted when initially measured, during the period or in previous individual and consolidated financial statements, are recognized in the statement of income in the period in which they occur.

	Parent company		Consolidated	
	2020	2019	2020	2019
Financial income:				
Income from financial investments	20,476	64,345	22,070	64,532
Update of the balance of court deposits	7,623	15,025	7,623	15,025
Other financial income	1,184	344	1,195	344
(-) PIS and COFINS on financial results	(1,072)	(5,455)	(1,146)	(5,463)
	28,211	74,259	29,742	74,438
Financial expenses:				
Debt charges:				
Brazilian Reais	(130,084)	(135,187)	(130,084)	(135,187)
Foreign currency		(7,528)		(7,528)
	(130,084)	(142,715)	(130,084)	(142,715)
Update of the balance of allowance for litigation	(315,757)	(272,245)	(315,757)	(272,245)
Updating the balance of post-employment benefits	(59,622)		(59,622)	
Write-off of court deposits	(23,652)		(23,652)	
Appropriation of funding costs - Settlement of the 11th issue of debentures	(14,465)		(14,465)	
Loan prepayment premium	(11,326)	(230)	(11,326)	(230)
Adjustment to present value on social and environmental obligations	(8,374)	11,040	(8,374)	11,040
Adjustment to present value on UBP - Use of public good	(6,791)	(5,870)	(6,791)	(5,870)
Update on court settlements	(9,066)	(2,556)	(9,066)	(2,556)
Other charges	(6,425)	(5,928)	(6,433)	(5,928)
	(455,478)	(275,789)	(455,586)	(275,790)
	(585,562)	(418,504)	(585,670)	(418,505)
Exchange variations, net		(2,809)		(2,809)
Financial income	**(557,351)**	**(347,054)**	**(555,928)**	**(346,876)**

27. Income tax and social contribution – result

27.1 Accounting policy

The Company calculates the Income Tax and Social Contribution identifying temporary or permanent differences provided for in the legislation.

27.2 Reconciliation of tax expense with nominal rate

The income tax and social contribution expense in the statements of income for the years ended December 31 are reconciled to the statutory nominal rates as follows:

	Parent company		Consolidated	
	2020	2019	2020	2019
Profit before income tax and social contribution	254,333	136,454	256,798	136,486
Nominal rate	34%	34%	34%	34%
IRPJ and CSLL calculated at the nominal rate	(86,473)	(46,394)	(87,311)	(46,405)
Adjustments for calculating effective IRPJ and CSLL				
Effect of IRPJ and CSLL on permanent differences				
Interest on equity benefit	51,000		51,000	
Equity	1,657	35		
Tax incentive	1,769		1,804	
Other permanent differences, net	(7,001)	(7,219)	(7,006)	(7,205)
	47,425	(7,184)	45,798	(7,205)
Effect of IRPJ and CSLL on items without constitution of deferred taxes				
Tax loss and negative bases		(96,075)		(96,075)
Other temporary (net) differences		136,578		136,578
		40,503		40,503
Deferred tax on impairment test (Note 8)	1,513,477	1,039,635	1,513,477	1,039,635
Calculated IRPJ and CSLL	**1,474,429**	**1,026,560**	**1,471,964**	**1,026,528**
Income tax and social contribution expense				
Current	(13,458)		(24,639)	(32)
Deferred	1,487,887	1,026,560	1,496,603	1,026,560
	1,474,429	**1,026,560**	**1,471,964**	**1,026,528**

28. Financial instruments and risk management

The Company's business mainly comprises the generation of energy for sale to large consumers and traders (free market) and public utility companies that distribute electricity (regulated market). As of December 31, 2020 and 2019, the market values of the main financial instruments were close to book values, as shown below:

	Parent company		Consolidated	
	2020	2019	2020	2019
Financial assets	-		-	
Valued at amortized cost				
Cash and cash equivalents (Note 4)	643,045	690,276	713,384	741,444
Accounts receivable (Note 5)	213,276	198,930	272,817	198,930
Assets subject to indemnity (Note 9)	1,739,161	1,719,390	1,739,161	1,719,390
	2,595,482	2,608,596	2,725,362	2,659,764
Valued at fair value through Other comprehensive income				
Derivative financial instruments (Note 28.5) – Level 2		39,943		39,943
		39,943		39,943
	2,595,482	**2,648,539**	**2,725,362**	**2,699,707**
Financial liabilities	-		-	
Valued at fair value through profit or loss				
Loans, financing and debentures (Note 14)	1,819,074	1,784,125	1,819,074	1,784,125
Future energy contracts (Note) – Level 2			21,444	
	1,819,074	1,784,125	1,840,518	1,784,125
Valued at fair value through Other comprehensive income				
Derivative financial instruments (Note 28.5) – Level 2	64,955		104,225	
	64,955		104,225	
	1,884,029	**1,784,125**	**1,944,743**	**1,784,125**

The disclosure of measurements of the fair value of assets valued at fair value through Other comprehensive results follows the following measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2 – Information, in addition to quoted prices, included in level 1 that are adopted by the market for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
Level 3 – Inputs for assets or liabilities that are not based on data adopted by the market (that is, unobservable inputs).

28.1 Financial leverage ratio and maturity of liabilities

	Parent company		Consolidated	
	2020	2019	2020	2019
Loans, financing and debentures (Note 14)	1,819,074	1,784,125	1,819,074	1,784,125
Lease liabilities	6,489	7,208	6,488	7,208
Cash and cash equivalents (Note 4)	(643,045)	(690,276)	(713,384)	(741,444)
Derivative financial instruments (Note 28.5)	64,955	(39,943)	104,225	(39,943)
Net debt (a)	**1,247,472**	**1,061,114**	**1,216,403**	**1,009,946**
Adjusted EBITDA (b)	1.008.188	751.736	1.014.014	751.692
Financial leverage ratio (a)/(b)	**1,24**	**1,41**	**1,20**	**1,34**

Financial liabilities of the Company and its subsidiary through maturity are presented below:

						Parent company
						Earnings
	2021	2022 and 2023	2024 and 2025	2026 and 2027	2028 to 2030	Total
As of December 31, 2020						
Loans, financing, and debentures (Note 14)		87,722	139,004	64,488	1,527,860	1,819,074
Derivative financial instruments (Note 28.5)	58,936	6,019				64,955
	58,936	**93,741**	**139,004**	**64,488**	**1,527,860**	**1,884,029**
As of December 31, 2019						
Loans, financing, and debentures (Note 14)	3,002	446,854	884,269	450,000		1,784,125
	3,002	**446,854**	**884,269**	**450,000**		**1,784,125**

						Consolidated
						Earnings
	2021	2022 and 2023	2024 and 2025	2026 and 2027	2028 to 2030	Total
As of December 31, 2020						
Loans, financing and debentures (Note 14)		87,722	139,004	64,488	1,527,860	1,819,074
Derivative financial instruments (Note 28.5)	95,084	9,141				104,225
	95,084	**96,863**	**139,004**	**64,488**	**1,527,860**	**1,923,299**
As of December 31, 2019						
Loans, financing and debentures (Note 14)	3,002	446,854	884,269	450,000		1,784,125
	3,002	**446,854**	**884,269**	**450,000**		**1,784,125**

28.2 Exchange rate risk

The Company has exposure to its operating results arising from energy sales contracts linked to the US Dollar rate. This exposure is mitigated through hedge operations (Note 28.5).

28.3 Interest rate/inflation risk

This risk arises from the possibility that the Company may incur losses due to fluctuations in interest rates and inflation, which increase the financial expenses related to loans, financing and debentures raised. The Company has not entered into derivative contracts to hedge against this risk, but it continuously monitors market interest rates in order to assess the need to replace the type of its debts.

	Parent company and consolidated	
Liabilities linked to rates	**2020**	**2019**
Flat rate		33
CDI	297,876	1,784,092
IPCA	1,521,198	
	1,819,074	**1,784,125**

Company's risk of contracting fixed rates with an interest spread, arises if floating interest rates increase the financial expenses related to the liability.

28.4 Credit risk

The risk arises from the possibility that the Company may incur losses resulting from the difficulty in receiving amounts billed to its customers. This risk is assessed by the Company as low, considering: (i) for receivables arising from regulated market revenue – the concentrated number of its customers, the existence of contractual guarantees, as they are concessionaires of public energy distribution services under federal supervision, even subject to the intervention of the concession, and because there is no history of significant losses in the realization of its receivables; and (ii) for receivables arising from free market revenue – the concentrated number and business size of its customers, prior credit analysis and the existence of contractual guarantees of at least two months of billing.

In addition, derivative financial instruments and financial investments (cash allocation) create exposure to credit risk of counterparties and financial issuers. The Company has a policy of working with issuers assessed by rating agencies: Fitch Ratings, Moody's or Standard & Poor's, with a national rating equal to or better than A (or A2), or rating on a global scale equal to or better than BBB- (or Baa3). For cases where issuers do not meet the minimum credit risk ratings, criteria approved by the Board of Directors are applied as an alternative.

As of December 31, 2020, the Company's management believes that there are no situations of exposure to credit risk that could significantly affect its future operations and results.

28.4.1 Credit quality of financial assets

The table below reflects the credit quality of issuers and counterparties in cash and cash equivalents and derivative financial instruments.

				Local rating
		Parent company		Consolidated
	2020	2019	2020	2019
Cash and cash equivalents				
AAA	420,924	389,057	491,221	440,225
AA+	79,988	172,195	79,988	172,195
AA	57,078	128,147	57,120	128,147
AA-	85,047		85,047	
No rating	8	877	8	877
	643,045	690,276	713,384	741,444
Derivative financial instruments				
AAA		9,442		9,442
AA		16,350		16,350
AA-		14,151		14,151
		39,943		39,943
	643,045	730,219	713,384	781,387

Ratings resulting from local and global ratings were taken from rating agencies (Standard & Poor's ("S&P"), Moody's, and Fitch Ratings). The standard ratings for S&P and Fitch Ratings are presented above.

28.5 Derivative financial instruments

28.5.1 Accounting Policy

The Company has an NDF program – Non Deliverable Forward in US Dollars (sale of foreign currency), in the over-the-counter mode, with the objective of protecting up to 95% of foreign exchange exposure until December 2021. This exposure arises from energy sales contracts with an adjustment clause linked to the US Dollar rate.

Derivatives are initially recognized at fair value on the date that a derivative contract is entered into and are subsequently measured at fair value. Derivatives are contracted only for risk mitigation purposes and not as speculative investments. When derivatives do not meet the hedge accounting criteria, they are classified as held for trading and accounted for at fair value through profit or loss.

The derivatives contracted by the Company are considered as cash flow hedges, related to a highly probable anticipated transaction (revenue from energy sales). The effective portion of changes in fair value is recognized in equity in the "Other comprehensive income" and is subsequently reclassified to income in the same period in which the expected protected cash flows affect the statement of income. Gains or losses related to the ineffective portion are immediately recognized in income for the period

28.5.2 Internal and operational controls over contracting financial operations

In order to manage the risks associated with each strategy and each negotiation with financial institutions, all financial transactions are approved by the Executive Board and may be subject to prior approval by the Board of Directors, under the conditions established in the Company's bylaws. The Company documents, at the beginning of the hedge operation, the relationship between the hedge instruments and the items protected by hedge, as well as its objectives and risk management strategy for carrying out hedge operations. The Company also documents its assessment, both at the beginning of the hedge and on an ongoing basis, whether the derivatives used in hedge transactions and accounted for as hedge accounting are highly effective in offsetting changes in the fair value or cash flow of hedged items.

28.5.3 Composition

								Parent company
	Principal		Unit	Fair value as of December 31, 2019	Impact on operating income	Δ Fair value Other comprehensive income	Realized loss	Fair value as of December 31, 2020
	2020	2019						
Software								
Hedge of energy sales operations								
Non Deliverable Forward	74,000	231,000	USD Thousands	39,943	(71,514)	(97,211)	(63,827)	(64,955)
	74,000	**231,000**		**39,943**	**(71,514)**	**(97,211)**	**(63,827)**	**(64,955)**

								Consolidated
	Principal		Unit	Fair value as of December 31, 2019	Impact on operating income	Δ Fair value Other comprehensiv e income	Realized loss	Fair value as of December 31, 2020
	2020	2019						
Software								
Hedge of energy sales operations								
Non Deliverable Forward	122,000	231,000	USD Thousands	39,943	(116,295)	(132,996)	(105,123)	(104,225)
	122,000	**231,000**		**39,943**	**(116,295)**	**(132,996)**	**(105,123)**	**(104,225)**

28.6 Valuation of financial instruments

The Company's main financial assets and liabilities as of December 31, 2020 are described below, as well as the criteria for their valuation/evaluation:

a) Cash and cash equivalents

They comprise cash, bank accounts, and financial investments. The market value of these assets does not differ from the amounts shown in the Company's balance sheet.

b) Accounts receivable

Free Energy and Short Term Energy: these credits basically derive from free energy during the rationing period and transactions carried out within the scope of the current Electric Energy Trading Chamber – CCEE and were recorded and valued based on the information made available, based on current prices during the year at CCEE. There were no transactions related to these credits or charges that could affect their classification and valuation on the date of these individual and consolidated financial statements.

c) **Investments**

They are initially recorded at acquisition cost, being subsequently evaluated using the equity method. A provision is recorded to reduce to market value, when required or applicable.

d) **Loans, financing, and debentures**

The Company has assets and liabilities measured at fair value through profit or loss, and other financial liabilities not measured at amortizable value, which can be compared to the market funding values.

In the specific operations of the electricity sector, subsidized financials and renegotiation, unmatched in the market and with little liquidity, the Company assumed that the market value is represented by the respective book value, due to the existing uncertainties present in the variables that should be considered in the creation of a pricing model.

The estimate of the market value of financial instruments was prepared using a pricing model, applied individually for each transaction, taking into account future payment flows, based on contractual conditions, discounted to present value at rates obtained through market interest curves. The market value of a security, therefore, corresponds to its maturity value (redemption value) brought to present value by the discount factor (referring to the security's maturity date) obtained from the DI Pré Bovespa curve for the 11th issue Debenture and the IPCA Bovespa yield curve for the 12th issue Debenture, as follows:

	Parent Company and Consolidated	
		2020
	Book value	Fair value
Loans, financing, and debentures – National currency		
Debentures – 11th issuance	297,876	313,651
Debentures – 12th issuance	1,521,198	1,540,603
	1,819,074	**1,854,253**

e) **Derivative financial instruments**

The fair value of derivative financial instruments is determined by calculating their present value through yield curves on the closing dates. The curves and prices used in the calculation for each group of instruments are developed based on data from B3, Central Bank of Brazil, and Bloomberg, interpolated between the available maturities.

The present value of forward contracts (NDF) is estimated by discounting the nominal value multiplied by the difference between the future price on the reference date and the contracted price.

f) **Future energy contracts**

CESP Comercializadora carries out energy purchase and sale transactions (Note 18), which are traded in an active market and meet the definition of financial instruments, as they are settled in energy, and readily convertible into cash. Such contracts are accounted for as derivatives under IFRS 9/CPC 48 – Financial instruments and are recognized in the balance sheet at fair value, on the date the derivative is entered into, and revalued at fair value on the balance sheet date.

28.7 Sensitivity analysis statement

The main risk factors that affect the pricing of financial instruments in cash and cash equivalents, future energy contracts, loans, financing and debentures and derivative financial instruments are the exposure to the fluctuation of the US Dollar and CDI interest rates and US Dollar coupons. The scenarios for these factors are prepared using market sources and specialized sources, following the Company's financial policies.

The scenarios as of December 31, 2020, are as below:

Scenario I – Market curves and quotations of December 31, 2020, according to the base scenario defined by management for March 31, 2021;

Scenario II – Stressing market curves by ~25% in at December 31, 2020;

Scenario III – Stressing market curves ~50% at December 31, 2020.

					Parent company					
					Impacts on the result					
					Scenario I		Scenarios II & III			
Risk factors	**Cash and cash equivalents**	**Principal of loans, financing and debentures**	**Principal of derivative financial instruments**	**Unit**	**Yield curves 12/31/2020**	**Results of scenario I**	**-25%**	**-50%**	**+25%**	**+50%**
Interest rates										
BRL-CDI	641,572	300,293	384,556	BRL thousands	1 bps	18	(1,608)	(3,215)	1,608	3,215
BRL-IPCA		1,569,669		BRL thousands	-81 bps	3,628	9,221	18,441	(9,221)	(18,441)
Exchange rates										
American dollar			74,000	USD thousands	0.54%	(175)	9,094	18,187	(9,094)	(18,187)

			Parent company					
			Impacts on comprehensive income					
			Scenario I		Scenarios II & III			
Risk factors	**Principal of derivative financial instruments**	**Unit**	**Yield curves 12/31/2020**	**Results of scenario I**	**-25%**	**-50%**	**+25%**	**+50%**
Interest rates								
BRL-CDI	384,556	BRL thousands	1 bps	458	1,085	2,182	(1,073)	(2,135)
Dollar coupon	74,000	USD thousands	-36 bps	1,727	(761)	(1,526)	758	1,512
Exchange rates								
American dollar	74,000	USD thousands	0.54%	(1,660)	86,268	172,535	(86,268)	(172,535)

						Consolidated					
						Impacts on the result					
						Scenario I		Scenarios II & III			
Risk factors	**Cash and cash equivalents**	**Principal of loans, financing and debentures**	**Principal of derivative financial instruments**	**Future energy contracts**	**Unit**	**Yield curves of 12/31/2020**	**Results of scenario I**	**-25%**	**-50%**	**+25%**	**+50%**
Interest rates											
BRL-CDI	711,805	300,293	633,997		BRL thousands	1 bps	22	(1,941)	(3,882)	1,941	3,882
BRL-IPCA		1,569,669			BRL thousands	-81 bps	3,628	9,221	18,441	(9,221)	(18,441)
Exchange rates											
American dollar			122,000		USD thousands	0.54%	(275)	14,290	28,580	(14,290)	(28,580)
MTM of electricity											
Fair value				21,444	BRL thousands		(21,444)	60,068	77,248	(60,068)	(77,248)

								Consolidated
								Impacts on comprehensive income
				Scenario I				Scenarios II & III
Risk factors	**Principal of derivative financial instruments**	**Unit**	**Yield curves of 12/31/2020**	**Results of scenario I**	**-25%**	**-50%**	**+25%**	**+50%**
Interest rates								
BRL-CDI	633,997	BRL thousands	1 bps	689	1,676	3,369	(1,658)	(3,298)
Dollar coupon	122,000	USD thousands	-36 bps	2,767	(1,218)	(2,441)	1,212	2,419
Exchange rates								
American dollar	122,000	USD thousands	0.54%	(2,751)	142,966	285,931	(142,966)	(285,931)

29. Business risks

The most significant business risks in the Company's understanding are:

29.1 Hydrological risk and GSF (Generation Scaling Factor)

The Company's electricity generation depends directly on hydrological conditions, since its entire generating complex is hydroelectric. The Company's main hydroelectric plant, HPP Engenheiro Sérgio Motta (Porto Primavera), which represents 94% of its physical guarantee for sale, is concentrated in the drainage basin of the Paraná River basin, in the western region of the State of São Paulo and operates a run of water model.

The Guaranteed Power Output of the system represents the maximum amount of energy to be supplied in permanent condition to a given supply guarantee criterion. The respective Guaranteed Power Output of each plant corresponds to the energy ceiling authorized to sell through contracts.

The risks of water scarcity due to rainfall conditions are cyclical; these occurrences have aggravated in recent years. According to the regulation currently in force in the electricity sector, part of this scarcity is covered by the Energy Reallocation Mechanism – MRE, an instrument that shares the risks of insufficient energy generation among all hydraulic plants that comprise this mechanism, capturing the differences in seasonality of flows in the several hydrographic basins, in order to try to neutralize the financial impact associated with the hydrological risk arising from the centralized dispatch that characterizes the SIN – National Interconnected System.

When the sum of the generation of the plants belonging to the MRE is insufficient to supply the sum of the guaranteed power outputs of these undertakings, the so-called GSF – Generation Scaling Factor less than 1 occurs, financially impacting these plants by the ratio between their physical guarantee and the amount actually generated, valued at PLD – Balance Liquidation Value and paid monthly. For this reason, the GSF may affect the Company's results and its financial condition, as well as the generation of future cash flow.

On the other hand, when the generation of these plants exceeds the guaranteed power outputs, the MRE agents benefit from the so-called "secondary energy", which is also remunerated to the PLD.

In order to mitigate the financial impacts of hydrological risk on hydraulic generation in the SIN, the Federal Government published Provisional Measure No. 688/2015, later converted into Law No. 13,203/2015, presenting a renegotiation agreement for this risk, with retroactive effects to 2015.

The Company, after in-depth studies and analyzes, filed with ANEEL the application to join the renegotiation of the hydrological risk in the ACR – Regulated Contracting Environment, in which 350 average MW contracted in 2016 and 230 average MW contracted from 2017 to 2028 are at risk covered for GSF. Regarding the ACL – Free Contracting Environment, the decision was not to join, due to unattractive conditions, including the other sectorial agents (Note 12.1 (a)).

29.2 Risk of non-renewal of concessions

The Company holds the concession for two hydroelectric plants, whose maturities which mature as below:

HPP	Maturity
Paraibuna	09/03/2021
Engº Sérgio Motta (Porto Primavera)	14/04/2049

30. Insurance (unaudited)

The Company and its subsidiary have civil liability policies for executives and directors in force, in addition to property risk and general liability insurance. Such policies have coverage, conditions and limits, considered by management to be adequate to cover the inherent risks of the operation.

31. Long-term commitments

The Company has the following long-term future commitments considered significant:

	Parent company and consolidated						
	2021	2022	2023	2024	2025	After 2026	Total
Inspection Fee for Electric Energy Services (TFSEE)	5,235	5,078	5,084	5,084	5,084	116,943	142,509
Tariff for Use of the Transmission and Distribution System (TUST and TUSD)	185,726	197,441	197,441	197,441	197,441	4,541,149	5,516,641
Financial Compensation for the Use of Water Resources (CFURH)	48,301	46,601	46,601	46,756	46,756	1,075,392	1,310,407
Connection charges	126	141	143	143	143	3,293	3,989
Energy purchase agreements	459,832	35,395	9,489	6,795	4,710	7,343	523,565
	699,221	**284,656**	**258,759**	**256,220**	**254,135**	**5,744,119**	**7,497,111**

32. Segment information

The Company's subsidiary started operating in 2020 dedicated to the sale of energy (Note 1.2 (a)). The Company's management and its subsidiary evaluated the criteria of CPC 22 Information by segment and concluded that there is only one operating segment. The Company manages its main businesses as a single operating segment, consisting of the activities of generation and sale of electricity generated by its assets or purchased for resale for the management of its energy portfolio. The Company and its subsidiary have centralized management and all of their decision-making is based on consolidated reports, which in the year 2020 concentrated 99.86% of net sales revenues.

33. Subsequent event

The Administration Board of the Company, at a meeting held on 02/11/2021, approved (i) the agreement with the terms proposed in Official Letter 36/2021, to sign a term of addendum to Concession Contract No. 3/2004 for provision of temporary extension of the concession of HPP Paraibuna by 6 months; upon adherence to the “Term of Acceptance of Concession Extension Period and Withdrawal and Waiver to the Right to Argue the Exemption from, or Mitigation of Hydrological Risks related to the Power Reallocation Mechanism - MRE” and signing of a new term of addendum with a definite term, after disclosure of the final calculations by ANEEL; and (ii) the submission of a statement to ANEEL, informing that the Company is not interested in continuing the request for 30-year extension of the concession of HPP Paraibuna, which, thus, is to be finished at the end of the definitive extension due to the compensation provided in Law nº 14,052/2020, according to note 1.2 (i) in Main Events. The Company will send its statement to ANEEL by 02/12/2021.