Letter to Shareholders

Dear Fellow Shareholders,

As always, **the purpose of this letter is to reflect on our strategic progress and capital allocation effectiveness over the past year and describe our ambitions for the coming years**. We think our letters serve as a critical tool to provide a qualitative narrative to help understand our quantitative results and prospects. All statements, as well as those that we will report to you in the future, stem from drivers often difficult to quantify, namely the fundamental values by which we manage Eneva. This year's letter is slightly longer than usual as we wanted to take you on a longer journey up to 2030.

As we look to the chapter that comes after the pandemic, we are optimistic about the long-term prospects. **We operate in a market that is undergoing a multi-decade shift, from a centralized regulated environment to a more customer centric one, where technology and adaptability will become key enablers of successful strategies.** The long-term trend toward a more consumer centric energy market has accelerated, and we have the strategy, projects, capital, and momentum to capture the opportunity in front of us. We are seeing positive results from the work we were doing prior to and through the pandemic. **As we build our portfolio, customers will have the ability to choose from a vast combination of products and product attributes of accessible and reliable energy.**

We believe the world is at the beginning of a 30-year movement to net-zero carbon. This transition will affect virtually every business in every country. China, currently one of the largest generators of electricity from coal, has recently committed to being net-zero carbon across its entire economy before 2060. The new U.S. administration has committed to clean energy by 2035, and the EU, the U.K. and Canada are all accelerating their energy transitions. There is now no disputing that the world overall is moving from fossil fuels to lower carbon energy—renewables, nuclear energy and potentially hydrogen.

On the other hand, the ongoing global energy crisis, the stronger than expected winter weather, and the release of pent-up pandemic demand have sent nations scrambling to stockpile fossil fuels, a move that indicates a surge in global carbon dioxide emissions last year – in the opposite direction of the global trend. Another factor that could spur emissions growth is new skepticism over renewables in the face of the energy crisis. **Disruptions seen last year, in both the US and Europe, and the recent war in Ukraine have sparked the debate about the impact of the world's transition to cleaner power.**

In theory, what should happen is that fossil fuels should receive appropriate capital for the next 1-2 decades, until an alternative energy is competitive enough and widespread enough to be able to replace fossil fuels in their entirety. As such, any push to outsource all fossil fuels today with a green sector that is unable to pick up the baseload energy generation will lead to extremely difficult times.

We continue to believe that natural gas will play an important role in this energy transition, and potentially serve as a bridge to hydrogen – or many other alternatives that may surge, such as CO2 sequestration and underground storage, which is also developing and may play an important role in thermoelectricity generation with close to zero emissions. The early adopters of these emerging technologies may not only contribute to the energy landscape transition but may also develop competencies that will turn into new businesses not seen today. Rest assured, when we acquire or invest in new assets, we will be laser focused on the duration of cash flows, and we will operate them with their contributions to the transition to net-zero carbon in mind and with plans to ensure they continuously do better. **We believe the operating experience we have gained in operating carbon-intensive assets will make us better owners of many of these assets and support us in our mission to lead a fair and inclusive transition providing energy that generates value.**

2021 was an extraordinary year by any measures. We ended the year with the best quarter on record. Given the difficult environment and the amazing year, that says a lot for our business. Despite the turmoil and disruption, our capital allocation and business model showed through. We achieved **record EBITDA of R$ 2.3 billion (40% up from 2020)**, reached a **reserve replacement ratio (RRR) of 264% at the Parnaíba basin and added 1.3 Bcm of gas 2P reserves to our Azulão asset** (in Amazonas). It was also a year marked by the diversification of our portfolio through the **acquisition of Focus, positioning Eneva as the country's largest solar energy player with a growth portfolio of 3GW in renewables.** We were also successful in our bids in the energy capacity auction, **contracting 295MW of additional energy capacity in Amazonas** – thus expanding the R2W to another basin – and **re-contracting Parnaíba IV**. Those opportunities were powerfully presented to us this year, and I am proud of how we stepped up. We discuss these themes later in this letter.

We strive to make Eneva a place where our shareholders earn good returns on their capital and continue to want to provide us with the required capital (if needed) to make what we do possible. While we earned positive comprehensive earnings and cash-flows, and demonstrably increased the economic value of the company, our shareholders did not see those returns show up in the share price in 2021 – our share price decreased 9%, compared to -12% in the Bovespa index. That can be expected to happen from time to time due to overall market volatility. We make no attempt to predict how security markets will behave; successfully forecasting short term stock price movements is beyond our capabilities. In the longer run, however, we feel that many of our major investments are going to be worth considerably more money than we paid, and that investment gains will add significantly to the operating returns. If we were a private company, we would simply report our value calculation and the metrics behind it. You would likely have been thrilled. We were.

Given the challenging mixture of interest rate swings, inflationary pressures, and emerging opportunities in our current economy, making sound decisions related to capital structure has become more important than ever. **Our capital structure and balance sheet are tailored to keep the cost of capital low and to maximize capital availability for deployment in long term value creation opportunities.**

On the liability side, we manage our leverage to lower the cost and maximize availability of borrowing for future opportunities, while managing ROE not to fall too low from deleveraging. We have reached peak leverage levels of 3.4x net debt / EBITDA in 2Q21, starting its descent to reach 2.8x by end of 4Q21.

	2017	2018	2019	2020	2021
Net Debt / Ebitda	3,06x	2,35x	2,66x	3,28x	2,80x
Debt Spread (IPCA% +)	9%	8.2%	5.6%	4.3%	3.8%
ROE (%)	1.52%	15.40%	9.21%	13.78%	13.50%

Up until now the absence of dividend maximizes our ability to bear and rapidly pay down debt providing the needed flexibility to grow. **As our projects mature and we attain significant free cash flows in 2022 we will be able to pursue the "growth trilemma"** (see 2020 letter to Shareholders) and put in place a dividend policy. We will work towards leverage targets, achieved through (i) adherence to 4x net debt / EBITDA threshold in M&A; (ii) disciplined paydown following balance sheet stretches; and (iii) opportunistic buybacks to prevent excessive deleveraging.

On the equity side, we have attracted a shareholder base that sees merit in our opportunistic M&A approach and entrusts management's ability to generate value over time. Creative and opportunistic funding decisions are made both in and out of the context of project finance and M&A: in anticipation of need for capital, we might engage in opportunistic capital market transactions to raise capital (including debt, equity, hybrids) and/ or lock financing when conditions are favorable, even in absence of immediate capital need.

Diversification among specialization creates value and resilience for Eneva. The world continues to change at an accelerating pace, and we do not know what lies ahead. We do know, however, that some businesses of today will not exist in the future, even if they are the very best at what they do. We need to be able to adapt and change our existing businesses to meet the needs of a changing world. We also need to continue to pursue accretive new business opportunities as we have since our Re-IPO, 5 years ago. To maximize the efficacy of capital allocation in our diversification strategy, we survey a broad range of investment opportunities. Our approach has been to make relatively few but high-quality transactions. Of course, with fewer transactions, knowledge and value per transaction must be exceptional. This is the case on our recent acquisition of Focus.

Focus Acquisition: Diversification among specialization

Evolution of the portfolio is one of the core principles of Eneva's capital allocation framework. As a first step we identify the financial characteristics (growth, cash generation and transformational M&A optionality) and strategic fit we desire the aggregate portfolio to exhibit. Each acquisition target is considered in terms of its ability to fulfill components of this criteria. These considerations, in conjunction with valuation, are the primary drivers of our portfolio evolution.

Focus' business can be divided in three main segments: energy trading, power generation and distributed energy. **The combination of assets enhances our asset backed trading business model and leverages Eneva's energy trading/commercialization capabilities in the free market, to reach 1.4 GW.** On power generation, **the implementation of Futura 1 would position ourselves as one of the leading companies in Brazil in the solar energy segment**, with further potential capacity increase and market consolidation (Futura 2 and Futura 3) of approximately 3GW – out of an expected regulated market capacity increase of 5.3GW (171%) until 2030. Focus acquisition also broadened our M&A opportunity set, creating competitive advantages to participate in renewables inorganic opportunities and to develop our own portfolio of projects.

From a strategic perspective the acquisition enables a diversification into consumer trends of green energy/ hydrogen and distributed energy production. With the potential long-term shift of energy into renewables we have to be ready to adapt as changes in consumer behavior, and the consequent energy transition phase, might happen faster than we expect.

Focus acquisition consisted in a deal structure with a cash component of R$715 million and 17 million in Eneva shares (at R$22 per share). One might question if we believe (and we do) that our market capitalization is below our intrinsic value and that we have the required balance-sheet capacity, why use shares? The reasons are twofold: 1) the equity component was equivalent to the minimum amount necessary to describe the transaction as an incorporation of shares, thus avoiding higher execution risks and additional costs; and 2) adherence to our 4x net debt / EBITDA threshold in M&As and cautiousness, especially considering dispatch uncertainties we foresaw in 2022 (which proved to be right as we now do not see any dispatch from our TPPs in the first half of the year).

Considering the acquisition price, revised timeline for project implementation and associated capex reviews, we anticipate delivering an expected return of approximately inflation plus 16% to shareholders. If we were to consider the potential upsides of re-leveraging (considering Eneva's lower cost of debt), tax shield and SG&A reductions we could easily boost returns to low 20s – without taking into consideration the implementation of Futura 2 and Futura 3 and potential cost of equity re-rating for Eneva. In short, we are very happy with the transaction and expect good prospects.

The Saga of Urucu: Commodity Cycles and Discipline in Capital Allocation

For more than a year we have engaged in negotiations with Petrobras regarding the acquisition of Urucu, and before we address the transaction and deal rationale let me take a step back and address two topics that will provide you with a better understanding of the outcome and our decision rationale: 1) commodity cycles; and 2) discipline in capital allocation.

In the past, commodity assets were generically unpopular in capital markets because of their cyclicality and analysts' inability to forecast short term results. Which meant they (the analysts) didn't look good! In reality, commodity assets provide a good return over the cycle. But sometimes you must wait a bit, and depending on the timing of the business cycle, forecasts become inflated, prices get bubbly, not enough rigorous analysis is carried out, and bad decisions are made.

We have always talked about our discipline in capital allocation. We are happy to pay a fair price. If it's fair, on a risk adjusted basis, then both buyer and seller get a sensible deal. On occasion, the price will inflate due to strong demand, at which point we will defeat. This was one of the reasons that we have walked-way from Urucu transaction – at least for now.

We have mentioned before that having the strength to walk away from a deal is helped by having choices. To give some perspective of quantum here, we have bid over R$ 20 billion on deals in the last two years. We look at lots of deals. We genuinely believe that the more deals you look at, the better deals you do. This gives you better perspective and less tendency to get wedded to a transaction. And there goes the discipline in capital allocation. With the current deal pipeline, we must be selective, i.e., we have to make choices.

We have always highlighted the importance of the acquisition of Urucu in the consolidation of our growth strategy in the north region of Brazil. If we were to be successful in the transaction, we would have access to a significant amount of onshore oil reserves, which, if monetized correctly, would enable the further development of infrastructure to monetize stranded gas reserves of approximately 16 Bcm related to Urucu asset.

Along negotiations of Urucu we had the opportunity of consolidating our knowledge about the asset, either through direct engagement with Petrobras or better understanding of current operations and geology. Also, as time went by, oil prices spiked by approximately 100%; **we developed alternative strategies for the monetization of Juruá field; and incurred in an increase in Azulão certified 2P reserves of 100% (at 7.1 Bcm) – with potential 3P reserves of 11,8 Bcm** –, compared to initial figures.

In economics, one of the first principles taught in Econ 101 is the understanding of opportunity costs. Opportunity costs represent the potential benefits an individual, investor, or a business misses out on when choosing one alternative over another. Because opportunity costs are, by definition, unseen, they can be easily overlooked. Understanding the potential missed opportunities when we choose one investment over another allows for better decision-making.

The opportunity cost of acquiring Urucu asset at Petrobras' ask price is the ability (and associated capital) to accelerate the exploration campaign and develop our reserves (already acquired) in Amazonas. Considering current commodity market conditions, prospects of our exploration campaign and time to market of gas reserves, this opportunity cost was too high! **Despite the alignment with the company strategy and the potential levers to be deployed, we foresee better ways of allocating our capital on a risk-adjusted basis.** According to our economic models, if we were to agree with the sellers price, there was only a 10% chance of oil production surpassing forecasted levels – i.e, 90% of production ending up lower than initially estimated – and a 5% chance of our intrinsic value surpassing the sellers price. It doesn't look like a fair deal.

Having said that, we believe that might be a better window opportunity in the future. According to Petrobras, the company expects to launch a new process for the sale of Urucu by the end of 2022 or beginning of 2023. A closing deal is not expected sooner than 2024, when asset oil production of Urucu will continue to decline through a steeper curve if revitalization investments are not carried out. Bearing in mind that our main interest was centered on the possibility of monetizing excess gas reserves and the fact that the value of the remaining oil reserves and forecasted production will be reduced, competition from pure oil producers should be lower, and we might have an even better buying opportunity. Although we try to be as quantitative as possible, not all of our important decisions can be made in the enviable, math-based way. Though data, analysis, and math play a role, the prime ingredient in some decisions is judgment.

We will continue to search for logical extensions of our present operations, and also for new operations which will allow us to continue to employ our capital effectively.

A Recap of 2021

It has been another year of dynamic, challenging conditions due to the pandemic. We have all faced enormous obstacles, some continuing, some just emerging. I'm very proud of how we delivered: pragmatic about the near-term challenges ahead, and resolute about what we can accomplish over the long term.

We enjoyed a very good year in 2021. Once again, the beginning of the rainy season arrived later than expected, indicating higher dispatch volumes for our thermal power plants (TPPs). In addition to **higher dispatch levels (72% in 2021 compared to 45% in previous year)**, net revenues were also positively impacted by an increase in CIF/ARA, higher Henry Hub prices and a depreciation of Brazilian reais against the US dollar. The indexation of our long-term contracts to IPCA (local inflation index) provides a natural hedge to inflation spikes and have also contributed to a **surge in net revenues of 58%, on a YoY basis.**

Our **EBITDA reached record levels of R$2.3 billion in 2021**, representing an **increase of 40% on a YoY basis.** A more diligent investor would claim that this result might have been even better if it were not for an increase of 56% in SG&A! Growing a business is exciting, and spending money is a way to fuel that growth. But if we can learn anything from the WeWork debacle, it is that spending strategically is the only way to scale sustainably. If you allocate capital unwisely, your short-term gains might falter over time, and the business could come tumbling down.

Knowing when to ramp spending up and down can be a difficult balancing act. You might increase your headcount, which not only means additional salaries, but also more real estate and tools to support new employees. Shortly after, you may realize that expenses are out of control, and you need to slow down spending. Then, it's time to grow again. Adjusting to fast-changing conditions is key. But prioritizing speed doesn't need to mean sacrificing robust control over spend. In fact, enabling proactive controls and real-time visibility can increase our agility.

We have full awareness of where we are spending, how we are spending, but even more important, why we are spending. Out of R$135 million increase in SG&A, approximately 46% resulted from maturity and disbursement of our long-term incentive plans – well spent money, considering the performance of our shares and the results delivered over the past three years. I see this more as an investment in human capital rather than an expense. M&A related expenses (legal and consulting services fees) accounted for another 14% of the increase and reflect the strong activity on our pipeline. Headcount increase, resulting from organic growth projects we have in our portfolio (Azulão-Jaguatirica and PV) and from a small "excess capacity" in our people pipeline, represented another 23% of the SG&A increase. Rest assured that we will maintain our philosophy of tight control of expenses, as in the end it is up to all of us to fight our unrelenting enemies—complacency, overconfidence, and conceit.

Our cash conversion rate decreased from 80% in 2020 to approximately 57% in 2021, as we ended the year carrying higher levels of coal stockpiles, expecting dispatch levels in 2022 to be similar to those observed in 2021 – an assumption that as of today we don't expect to happen. Operating earnings (NOPAT) amounted to a highly satisfactory 13.6% of end-of-year average shareholders' equity, reaching R$1.360 billion. Our return on equity remained at the same levels of 2020, at approximately 13.5%, positively impacted by higher equity turnover (at 60%) but negatively impacted by a decrease in net margins (from 31% to 23%; mainly impacted by higher effective tax rates).

Net profits reached R$1.173 billion, representing a YoY increase of 17%. We ended the year with a **cash position of R$1.7 billion and net debt/EBITDA ratio of 2.8x.** We disbursed R$ 480 million in loans from BNB and BASA for Parnaiba V and Azulão-Jaguatirica projects, further strengthening the company's cash position to fund ongoing investments. Our **free cash flows (FCF) reached R$737 million**, amidst total investments of R$1.7 billion, compared to FCF of R$ 613 million realized in 2020.

Capex execution of our two main capital projects remained on track – with minor adjustments considering the delays attributed to COVID matters. By the end of 2021 we had already executed 99% of Azulão-Jaguatirica project infrastructure, with Azulão gas field and LNG infrastructure being fully commissioned in November and Jaguatirica TPP CoD on February 2022. Despite the six months delay due to COVID related issues, we are extremely pleased with results produced, considering the complexity of project and the new business venues it provided us. Until December 2021 we had already sent more than 400 LNG cargos from Azulão, in Amazonas, to Jaguatirica, in Roraima. **As of today, we were the only company to deliver on the obligations of 2019 isolated system energy auction.** Regarding Parnaiba V, the project is on track with 91% of physical adherence and CoD expected for second half of 2022. We have already completed the retrofit activities for all boilers, the hydrostatic tests of boilers 32, 31 and 22 and the mechanical assembly of cooling tower.

Patience as a virtue in the infinite game

"Long-term thinking is both a requirement and an outcome of true ownership." Jeff Bezos

Patience is a virtue, especially for long term investors in a capital-intensive business as ours. But today more than ever, patience is becoming a forgotten virtue. Our individualistic and materialistic society values ambition and action above all else. Waiting, even for a very short time, has become so unbearable that much of our economy is geared at eliminating "dead time". But the time value of the embedded option in waiting, in some cases, might be significantly large!

Patience can be regarded as a decision-making problem under uncertainties: eat up all the grain today, or plant it into the ground and wait for it to multiply. Unfortunately, human beings evolved not as farmers but as hunter-gatherers, and have a strong tendency to discount long-term rewards at extremely "high rates". I recently read about patience & short-sightedness in the Stanford marshmallow experiment, a series of studies on delayed gratification developed in the late 1960s and 1970s. Conducted on hundreds of 4 and 5-year-old children, the study involved a simple binary choice: eat this marshmallow or hold back for 15 minutes to be given a second marshmallow. Having explained this choice to a child, the experimenter left the child alone with the marshmallow for 15 minutes. Follow-up studies carried out over 40 years found that the minority of children who had been able to hold out for the second marshmallow went on to enjoy significantly better life outcomes. In 2012, researchers at the University of Rochester replicated the marshmallow experiment. But before doing so, they split the participating children into two groups, exposing the first group to unreliable experiences in the form of broken promises, and the second group to reliable experiences in the form of kept promises. What they found is that the children from the second group (exposed to reliable experiences) waited an average of four times longer than the children from the first group.

Being patient provides you with the ability to zoom out. From our brain perspective what you see (or sense) is truly what you get. A larger view of a situation or problem isn't always easy, but it's always helpful in recognizing that very few parts of our lives are uncomplicated and that decisions never happen in isolation. Like a good Dungeons & Dragons game (a roleplaying game for those less familiar!) everything we do informs what comes next (like an infinite game). Unlike this game though, we can't go back to the start and replay decisions. While it is harder, and requires more time, it is better to envision many options and implications prior to committing to one, rather than going into a series of decisions with only an eye to what is right in front of us. **The acquisition of Azulão field in Amazonas is a good example. From a narrow perspective it provided us the ability of replicating the R2W business model in a different region, but when we zoom out we can see beyond that: it provided us with the development of a new growth venue and monetization stream of our gas (and all the required capabilities associated to that). In two years, we have already become the largest SSLNG operator in the country!**

Some decisions require immediate attention, and I do recognize the benefits in sense of urgency and quick decision making – qualities that we value and encourage at Eneva. But it is amazing how short periods of separation from an idea or situation can either help us move forward or provide us with necessary perspective. The price of this time value option is tremendous.

The Rules of the Game: Adaptability and Trust

There's a temptation for all of us to blame failures on factors outside our control: "the enemy was ten feet tall," "we weren't treated fairly," or "it was an impossible task to begin with." There is also comfort in "doubling down" on proven processes, regardless of their efficacy. Few of us are criticized if we faithfully do what has worked many times before. But feeling comfortable or dodging criticism should not be our measure of success. There's likely a place in paradise for people who tried hard, but in the end we all want to succeed. And if that requires you to change, you should be able to adapt.

Only part of our transformation at Eneva was initially planned. Few of the plans that we did develop unfolded as envisioned. Instead, we evolved in rapid iterations, changing—assessing—changing again. Intuition and hard-won experience became the beacons, often dimly visible, that guided us through the fog and friction. Over time we realized that we were not in search of the perfect solution—none existed. The environment in which we found ourselves, a convergence of twenty-first-century factors and more timeless human interactions, demanded a dynamic, constantly adapting approach. For a company like ours, mainly built up by engineers, the idea that a problem has different solutions on different days might be fundamentally disturbing. Yet that is the case.

Fortunately, the common denominator of our team at Eneva is an almost mystical devotion to mission accomplishment. Efficiency remains important, but **the ability to adapt to complexity and continual change has become an imperative** – the Covid Pandemic and the rapid change in our industry dynamics are good examples. Did we do everything right at Eneva? Not by a long shot. We had plenty of stumbles, some very public, but we evolved a new way of working through incremental adaptation: trying new things, making mistakes, beginning again, and seeing good results. Ultimately, **we created a distinctive culture that supports adaptability and high performance.**

The organization we crafted, the processes we refined, and the relationships we forged and nurtured are stronger than ever but an organization must be constantly led or, if necessary, pushed uphill toward what it must be. Stop pushing and it doesn't continue, or even rest in place; it rolls backward.

Sustained authentic relationships are the foundation of all successful collaborative efforts. Cultivating trust intentionally, rather than passively, provides us the basis for **a culture in which we embrace a network principle of trust, not control.** When a network (i.e., organization) runs on trust, its potential for scaling impact drastically increases.

Building trust doesn't mean that people have to like each other or agree, but it does mean they have to be willing to engage in authentic and sometimes unpleasant conversations about the things that divide and challenge them. **The objective is to create trust for impact.** This specific type of trust enables us to hold the tension through difficult conversations, find a slice of common ground, and work together, despite organizational differences and personal disagreements. Especially in volatile, emerging contexts, trust for impact must be rooted not just in shared purpose, but also in shared values and a shared understanding of how to behave and treat each other when disagreements inevitably arise.

Cultivating an effective and sustainable organizational network at Eneva requires dedicated effort and a long time-horizon. Participants change jobs, organizations shift priorities, external forces change, and problems evolve. **We constantly reaffirm our shared purpose, convene the right people, and cultivate trust as these are important drivers on our path to build Eneva 2030.**

Eneva 2030: An Ambition driven plan

Our focus on generating value is strongly correlated to being different. When we began our journey, we recognized that the market did not need another 'me too' competitor. Trying to compete against dinosaurs in the industry, Eneva, was a non-starter. How could we create something where we could be successful, where we could add value? Additionally, how could we leverage what was available to us in our origin at the Parnaiba Basin, in Maranhão? The first order of business was to strike out on our own - to 'go where they aren't', to build a sustainable business model where we could deliver reliable and sustainable energy to the grid and to those in more remote regions of our country. **By creating our own markets, developing onshore gas reserves, and developing a reliable "product", we have increased our competitiveness.**

As we consolidated our position and delivered on our promises time has come to set the next steps in our journey. Scaling up a business is like climbing a mountain. To use a simple analogy, many people dream of summiting Mount Everest (or its equivalent). Those who do it create a plan. Prepared with a set of inviolable rules and a passion for the journey, they head toward the summit. Along the way, they aim for a series of camps: intermediate waypoints normally marking significant changes in terrain. Then it's a matter of focusing on the next day and, more important, the first and subsequent steps, adjusting along the way as the mountain conditions dictate. Those who have made such personal journeys report that it's ultimately about staying acutely aware as you push to take just one more calculated step. It's the same for an organization.

Companies must continually transform themselves to adapt to dynamically changing market conditions. Their existence and purpose must continually be re-defined, re-affirmed, and re-articulated with a focus on timing and long-term purpose. Some companies too often restrict their target setting to a search for cost savings – not neglecting that! –, but they typically neglect opportunities to boost productivity, introduce pricing initiatives or develop new markets. There is a whole range of levers, and companies that set the most demanding targets tend to pull them all. Aspirational target setting tells the wider business that "we are open to doing things differently," bringing to the surface ideas that may have laid dormant for years or been shot down in the past.

As we look ahead, we foresee a very ambitious (and achievable) plan, with several opportunities that match our growth appetite to our competences, and identifying these opportunities is just the first step – perhaps the easiest one! Understanding how and when to tap them is key to succeed, and patience becomes a key virtue for successful execution.

Any organic growth program is by nature highly complex—it contains many interactive, interdependent, and diverse elements. Ours, with the embedded inorganic venues, is even more challenging. The greater the multiplicity, interdependence, and diversity, the greater the complexity. Our ability of dealing with uncertainty, of using decoupling and redundancy in decision making and of triangulating – i.e, attacking problems with different angles – increases our confidence on executing the plan.

At Eneva, we are guided by a set of core values and a purpose that has set an ambitious goal for 2030. We want to lead a fair and inclusive transition providing energy that generates value. Our vision is to grow to the right size to be the leader in long term value creation as an integrated energy company. And to deliver on our vision we have set six main streams of attack, or as we called them, our must win battles (MWB).

1. **Extend current assets' lifecycles and replicate R2W to other geographies**: The perpetuity of the Parnaiba complex has been assured by the continued success of our exploration efforts. With a **RRR higher than 250%, on average over the past 5 years, the foreseeable life of the asset has grown consistently.** We continue bullish on our exploration success over the coming years as the exploration area under concession is still significant and largely unexplored. The recent discoveries of Gavião Belo (GVBL) and the development discovery plan (PAD) of São Domingos has uncovered another potential cluster of fields located at approximately 100Km south of the Parnaíba TPP complex. But we don't rely on past results to forecast future exploration outcome.

   We will keep investing in the acquisition of seismic data, in new processing techniques, in successive drilling and on constantly revising our basin geological model to improve even further our understanding of the petroleum system. This would maintain our competitive advantage. And to further improve our exploration success rate, we are also developing a fit for purpose artificial intelligence framework (ALINE - Automated Learning Intelligence for Exploration), identifying hydrocarbons in subsurface structures based on seismic data from analogous gas fields.

   We are also evaluating options to extend even further the lifetime of our Parnaiba assets. By utilizing knowledge acquired over the past decade we can now infer that our source rock may hold significant amounts of unconventional resources. To test our hypothesis and evaluate the true potential of the source rock we have designed a dedicated exploration campaign. If it proves to be successful, Eneva might be sitting on gas resources much larger than current remaining 2P reserves. The success of the campaign would expand our options in Parnaíba beyond R2W, allowing different venues of gas monetization, including the acceleration of existing reserves consumption through different marketing channels – as unconventional development would backfill TPPs requirements if/when needed in the future.

   Another embedded option in the plan is associated to the construction of a pipeline connecting one of our gas hubs, in Sao Luiz, to Santo Antonio dos Lopes, where the Parnaiba complex is located. To exercise this option, we are progressing on licensing the pipeline and on acquiring commercial development rights of the LNG terminal in Sao Luiz.

   At the same time, we are taking the first steps to replicate and expand our R2W model into other regions. We have acquired 4 exploratory blocks in the Parana Basin, a vastly unexplored basin in the central region of Brazil, which shares some of the petroleum system characteristics we find in the Parnaiba. What makes it more prominent is that the source rock in the Parana basin not only holds a much higher total organic content (TOC) than its analogous but also presents more potential reservoir rocks than in Parnaiba. We are confident that we have good chances of unlocking great value from this acreage and expect to initiate a new seismic campaign in 2023 – to start drilling in 2025.

2. **Maximize reserve base and develop integrated solutions in the North Region**: We have already shown and delivered on the potential value in the North Region but there is much more to come. The acquisition of Azulão field and the development of Jaguatirica II proved us the need in the region for the modernization and diversification of the local energy matrix mix -- improving energy supply security and economic development. **The low population density, the lack of infrastructure, the predominance of diesel, and the continental-size area to be covered, create a unique challenge to develop economic-wise solutions. We are willing to face this challenge.**

   In the first quarter of 2022 we have started commercial operations of our Azulão-Jaguatirica project. Despite Covid-19 pandemic we managed to deliver one of the most challenging projects ever done by Eneva. It not only brings additional revenue streams and support the development of often regretted Brazilian regions, but also adds new competencies to the company.

   The prominent choice is to pursue the replication of our successful R2W business model, providing energy to both, the Brazilian interconnected and isolated systems. We believe that increased participation of dispatchable gas-fired power plants in the interconnected system will be required, especially considering the expected growth of intermittent resources on the Brazilian energy mix and the associated risk of water scarcity to climate risk. At the same time, in isolated systems, the conversion of diesel fueled generation to natural gas will have great impact on energy prices and environmental benefits to related communities.

Our E&P assets in the region provide us with a unique opportunity to create innovative solutions – to think outside the box again and keep challenging ourselves. Considering the right attributes of physical uncertainties and competitive pricing in our exploration activity, we want to explore the unknown and think about alternatives to monetize our gas at different volumes and cost levels, thus creating a bundle of products.

As part of the resulting equation, the results of the drilling campaign for the development of Azulão proved the field to be much larger than initially thought and offers an excellent opportunity to replicate our R2W strategy. We have also acquired three new exploratory blocks surrounding the Azulão field and the first results of the exploration campaign were quite promising as we have already hit at least one new discovery in 2021 and will continue the campaign throughout 2022 – with an extended test on the discovery well and drilling another 4 prospects.

The additional reserves and resources from Azulão and surrounding areas allowed Eneva to start the development of Azulão 1GW Thermoelectric complex, which will consist of two gas turbines with 295MW capacity and a steam turbine with 320MW capacity. As highlighted before, we have already won an energy auction in 2021 and contracted the first phase of this ambitious project. In 2022 we expect to contract the second gas turbine and close the cycle with an additional 320MW steam turbine.

On the possibility of exploring the unknown, **we want to expand our business model beyond R2W and consolidate our position in the north region**. **We have already become the largest LNG producer in country**, with a cryogenic plant sitting atop of Azulão field. **We have also become the largest LNG hauler and distributor in Brazil**, with almost 20 loads per day of LNG shipped through 1.000 Km from Azulão to Jaguatirica. With this newly acquired capability, we are studying a set of new business possibilities in the small-scale LNG channel - we estimate approximately 1,8MM m3/day of potential demand in the North region, considering isolated systems´ generation, industrial and transportation segments. We are also accelerating our strategy to commoditize on shore gas and distribute it to different market segments, such as large-scale LNG, fertilizers and petrochemical sectors. With that in mind we acquired the Juruá field in the Solimões basin, west of Manaus. This field contains approximately 21 bcm of 2C gas resources. Juruá reminds us of Azulão challenge 3 years ago when monetization of those reserves seemed an almost an unrealistic task. With the knowledge acquired through the implementation of Azulão-Jaguatirica, we have already developed a few solutions to monetize the gas and create value from an asset that has been dormant for the past 40 years!

3. **Develop infrastructure Gas Hub(s)**: Our growth ambitions consider the optionality embedded in the development of gas hubs along the Brazilian coast. **The combination of imported LNG and on-shore gas provides us with the flexibility to source gas in the local market at competitive prices, replacing current suppliers and developing a new portfolio of clients** (industrial, transportation and power projects) – such strategy improve the economics of building the required infrastructure to develop gas hubs.

   São Luís gas hub presents a unique opportunity to explore our competitive advantage of sourcing on-shore gas – considering our current reserve base in Parnaíba – and combining it with imported LNG. The state of Maranhão energy matrix still experiences significant dependence on fuel oil consumption – implicating in higher prices and emissions – thus presenting a great replacement opportunity for Eneva, with a total market capacity of up to 1.7 MM m3/d of gas equivalent by industries, and a maximum consumption of 2 MM m3/d of gas equivalent by the power sector. This pent-up demand, added to current (and future) Parnaíba complex gas requirements, provides us with the opportunity to implement a multi-sourcing strategy, delivering our product at extremely competitive prices and according to customers' needs. This multi-sourcing strategy also implicates in the construction of a gas pipeline connecting São Luís to the Parnaíba Complex, ensuring the perpetuity of existing assets and the ability to expand our potential market.

Macaé Gas Hub, in Rio de Janeiro, holds a distinctive appeal. Rio de Janeiro is expected to be the main doorway to massive pre-salt gas production – the so called "gas supply shock" by Finance Minister Paulo Guedes. Although these volumes could be a game changer for the Brazilian gas/energy markets, they also add some complexity to the system. The gas production from pre-salt is mostly associated to oil production, i.e., gas production will be mostly driven by oil economics. As a result, associated gas production is generally inflexible and must flow in such a way that it maximizes oil revenue streams, thus resulting in unstable production levels with potentially large daily fluctuations. These characteristics significantly reduce the ability of associated gas producers meeting demand requirements from the Brazilian electricity sector and are the reason why imported LNG is still the main fuel used in gas TPPs in the country.

The TEPOR LNG terminal, in Macaé, can supply gas for the expansion of the electrical system while assisting in managing the increased intermittency in dispatch. Our development strategy is based on three pillars: (i) competitive access to the gas molecule through a combination of either imported LNG and/or domestic pre-salt; (ii) building infrastructure development – mainly a LNG terminal, a gas processing plants and offshore routes; and (iii) demand development, either through new and existing gas-fired power plants, industries, LDCs and off-grid. In addition, as side businesses, we also see other upside opportunities such as LPG/C5+ commercialization, development of an oil trans-shipment terminal and support services to offshore operations.

4. **Commercialize energy resources and develop new business models**: The world energy environment is radically changing, and consumers are getting a central role in this stage. **We need to be prepared and adapt to this fast-changing environment, improving our commercialization capabilities in both natural gas and power markets.**

   The Brazilian gas market is at an early stage of liberalization, and the less active involvement of the incumbent's role is fundamental for the development of new opportunities. The new gas law and other associated regulations were extremely relevant steps to incentivizing the entry of new players into the market, either by using existing infrastructure or providing the ability to sell gas to unregulated industrial consumers. As so, we see good opportunities at both off-grid and on-grid gas markets. The off-grid commercialization initiatives are directly related to our previously addressed efforts in the North Region and in Maranhão. The on-grid opportunities are associated to demand development of over 20 MM m3/d from our prospective client base, leveraged by the opportunity to develop Macaé gas hub, and thus ensuring national scale operations. With our combined expertise in the gas and power markets we will be able to provide customized products and solutions to our customers at more competitive prices.

   The power sector is at a different and more evolved stage. The expansion of the Brazilian power sector has historically relied on the development of regulated markets, through energy auctions, in which we have successfully participated. But the dynamics of the market is rapidly changing, with the fast development of the unregulated market. The reduction in costs, still mostly associated with direct subsidies, encouraged growth in this market, but mostly through renewable sources. Our view is that this market will continue to grow and play an important role as additional sources of cash flows for our projects in new capacity auctions (as it was the case for Azulão I). On top of that, our increased involvement in unregulated markets also provides a diversification of revenues streams, which is currently highly concentrated in the regulated market (at approximately 90%) – additional risks but also increased upside if we do it right. Focus' acquisition also enables us to create a more balanced portfolio, aggregating renewables and trading intelligence to our competences, and significantly increasing our customer base -- adding more than 1,600 clients to our portfolio.

5. **Develop a renewable energy portfolio and foster low carbon technologies**: Although we strongly believe that natural gas will play a longer and more relevant role in the energy transition, we don't have the denial that like anything that holds as "transitional", will, at some point in time, be replaced.

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one most adaptable to change." Darwin

We will not try to predict the future or define when the transition will happen, but we will adapt and be prepared for it. For the foreseeable future, the future will be unforeseeable. You can be fairly certain that there will be uncertainty. You can be confident that events will overtake our plans, and that actions of others will require response. And we are pretty sure that if we don't recognize the need to adapt, then it will be difficult to make changes. Over the past few years, we have evaluated many business opportunities in the renewables arena but have always been constrained by the opportunity cost of capital allocation from expected returns. We were (and still are) conservative on our assumptions and agnostic to wind and solar P50 certifications. As per our first letter to shareholders, growing for the sake of growth doesn't add value, and our decisions are based on a risk adjusted basis.

We have recently found the sweet spot for our debut in the segment through the acquisition of Focus, combining a premium asset at attractive returns with good growth options. We have already positioned ourselves with one of the largest solar projects under construction in Latin America and with the possibility of expanding to become one of the largest solar sites in the world – scale in this segment makes a huge difference in returns, as it significantly decreases cost of equipment acquisition and O&E expenses.

Focus' acquisition was the first coordinated step in our long-term strategy to diversify our portfolio – adding renewable sources, including hydro power generation, at attractive risk-returns ratios. Our renewables pipeline adds up to 15 GW in opportunities to be developed in solar, wind, distributed generation, and hydropower, providing an efficient diversification component in our cash-flows. Recent studies show that corporate diversification is a key determinant of a firm's precautionary cash balance, and thus a value maximizer. Diversified firms hold approximately 50% less cash than specialized firms operating in a single segment (see Duchin, 2010; Subramaniam et al., 2011). In addition to the diversification benefits, we also want to use our trading capabilities to maximize value on energy sales in the unregulated market resulting from our renewables portfolio. With our balance sheet and trading capabilities we do believe that, over time, there will be significant arbitrage opportunities to be earned, respecting our internal risk policy and guidelines.

The development of low carbon technologies will be addressed in the last topic.

6. **Build an agile and fit for purpose organization:** In Eneva's structure, a light-touch headquarter makes all capital allocation decisions and provides central support in specific areas to the operating units (refer to 2018 Letter to Shareholders for a better understating of our decision-making process). We proactively manage the landscape and constituents of the operating units in conjunction with inorganic evolution of the portfolio to efficiently balance (i) strategic flexibility, and (ii) the benefits of scale and capability exchange.

   Like all things in life, success depends on having the right people involved. They need an organization that supports them and an entrepreneurial approach, with accountability, clear roles and responsibilities, and the freedom to make key decisions. It suits some people but not all. People in Eneva do behave more like owners (see 2020 Letter to Shareholders on values and partnership) than employees, and I think that has helped to generate our spirit of entrepreneurship. We want them to think beyond their job description, and this will drive the right behaviors and the required agility to grow.

   An agile culture creates an environment supported by core values, practices, and behaviors that enable all levels of our organization to quickly adapt to strategic, cultural, and many other changes required to succeed in our plan. The importance of investing in culture and change in our journey to agility cannot be overstated (see 2020 Letter to Shareholders). Agile is, above all, a mind-set. Without the right mind-set, all other parts of an agile operating system (processes, structure and technology) can't be in place.

   Being agile is a must for the implementation of a successful digital transformation (perhaps the fuzziest term in the business world). There is no single playbook for meeting the digital age for all businesses. Some services that were entirely physical couldn't survive the forces of disruptive digitalization. For example, the entire video and rental industry in the US went obsolete when Netflix burst on the scene.

When we talk about digital transformation, we mean two things at the highest level: transforming the core, which is taking what we do today and leveraging technology to do it better, faster, cheaper, more effectively. And, we talk about new business building, which is stepping out of the core and creating something that didn't exist. Typically, business-building is a much more radical step for companies because many executives who are very good at running a large company, don't have the experience of building something and scaling it. In my view, culture is the most important issue here and we have a solid one. A great culture in a company that knows how to build something ground up will eventually land on a great idea and scale a great business.

However, ensuring our long-term business survivability asks for a scaled approach where the entire company adopts agile ways of working, not only separate parts of it. The idea is to enable us to adapt to a changing environment more quickly and effectively, continuously improve, innovate at a faster rate, and thus better meet customer requirements – key elements for Eneva 2030.

Our commitments to society and the planet

2021 was marked by increased transparency of our environmental footprint and replication of our social corporate responsibility (CSR) methodology into new regions. We ended 2021 by adhering to the 10 Principles of the UN Global Compact, demonstrating our commitment to 9 out of 17 Sustainable Development Goals (SDGs).

We understand that climate change is one of society's greatest challenges. It is also one of the greatest risks to the future of our business. Solving it requires all of us to act with great urgency. We may be only one player, but we want to influence many more and inspire collective action. **To enforce our ambition, we are committing to reduce to 0.39 tCO2e/MWh our greenhouse gas emission intensity of our gas-powered generation portfolio by 2030 (vs. 0.45 tCO2e/MWh in 2020), envisioning to achieve net zero for all our operations by 2050 – even as our business continues to grow.**

The global race towards decarbonization is underway and emission-related data has become a key component to focusing decarbonization efforts. Companies that don't provide transparent data may be at risk of losing their investments. For the first time, we published our GHG emission inventory concerning scopes 1, 2 and 3, following the highest reporting standards (Gold), by the Brazilian GHG Protocol Program. We have also taken another important step and joined the CDP. Although not yet mandatory, carbon emission disclosure is becoming more important for companies and their suppliers as a voluntary vehicle for greater transparency. It not only helps companies identify and tackle growing risks, but also aligns with regulatory and policy changes and meets investor and customer demand for organizations to be more sustainable. On that front we still have room for improvement as we have scored C for the CDP Climate Change, below sector performance of B, and for Water Security we scored B, aligned to sector average.

Our assets are mainly based in the North of Brazil, in a region that has a significant share of its municipalities disconnected from the national energy grid, and primarily relies on energy supply from more intensive fossil fuel sources, such as diesel. Today, there are still 1 million people in the Legal Amazon who have no access to energy. Our view is that addressing greenhouse gas emissions by itself won't be enough, especially in the poverty-stricken regions where we operate – these regions have some of Brazil's lowest socioeconomic indexes and the highest rates of deforestation. We must play a bigger role. Perhaps one of the greatest challenges ahead of us is how to balance the need to eliminate carbon emissions with socio-economic advancement. **Research shows that improvements in social welfare also boost more sustainable co-living with the environment. We see ourselves as taking a leading role in promoting this virtuous cycle and are already working hard to replace diesel by natural gas in these isolated systems.**

We kicked-off our reforestation program, “Programa Reflorestar”, with an initial effort to recover 60 ha of degraded areas in the state of Maranhão – on top of 500 ha that we already preserve, as part of our Legal Reserves. Our work with local families on nature-based solutions for agriculture development led to 23 tons of organic food production. HortCanaã and Nova Demanda – our flagship projects – impacted 148 families, increasing by three times their associated income

As part of our strategic plan we have set ambitious ESG targets for 2030 and beyond: https://eneva.com.br/en/sustainability/esg-actions-and-commitments/

1. **Reduce our emissions with clear targets for each of our business lines;**
2. **Improve the Social Progress Indexes in the municipalities where we operate and double the number of impacted people;**
3. **Contribute to consolidating 500,000 ha of protected areas in the Legal Amazon region.**

Our aspiration to reach net zero by 2050 (scope 1,2 and 3 for gas generation and scope 1 and 2 for E&P) is not an easy path. Scope 1 and 2 emissions represent the majority of our total emissions, which puts an even higher pressure on us. But we are not in denial that mitigation and adaptation methods are now part of business as usual.

Energy efficiency and renewables are central pillars, but additional technologies are needed to achieve net-zero emissions. Five technology value chains contribute about half of the cumulative CO2 savings: technologies to widely electrify end-use sectors (such as advanced batteries); carbon capture underground storage (CCUS); hydrogen and hydrogen-related fuels; and bioenergy.

We know there will be no one silver bullet answer, but Eneva has made a pledge to invest R$ 500 MM by 2030 to double down on carbon underground storage (CCUS) and other energy efficiency techniques and support policies to establish a local carbon credit market.

In power generation, CCUS technologies can capture CO2 emissions from a power plant and store or use them, preventing the greenhouse gases from contributing to climate change. However, CCUS has historically been too expensive to be viable, and deployment remains far off track. Enter the Allam Cycle: a novel natural gas power plant design that can theoretically capture 100 percent of emissions while being cost- and efficiency-competitive with advanced natural gas plants that have no carbon capture capability. The cycle captures all CO2 emissions and diverts a pure output stream into a pipeline for sale or storage, while avoiding most or all water costs. If successfully deployed at scale, the technology could provide cost-competitive, reliable, and clean load-following electricity. A 50-megawatt (MW) demonstration plant was built in Texas, and we are developing an R&D project in partnership with 8 Rivers to evaluate the possibility of implementing a pilot plant in Parnaíba. If it proves to be economically viable then the Parnaiba complex, or any place where we hold our R2W business model, would be the perfect fit to divert the CO2 into our reservoirs.

Hydrogen is another stream in which we are allocating time and capital. Hydrogen energy is very versatile, as it can be used in gas or liquid form, be converted into electricity or fuel, and there are many ways of producing it. There is more hydrogen in the universe than any other element—it’s been estimated that approximately 90 percent of all atoms are hydrogen. But hydrogen atoms do not exist in nature by themselves. To produce hydrogen, its atoms need to be decoupled from other elements with which they occur— in water, plants or fossil fuels. How this decoupling is done determines hydrogen energy’s sustainability and economics, and as of today we are still far from developing economic scale feasibility for energy generation.

As mentioned, hydrogen can be produced through the electrolysis of water, leaving nothing but oxygen as a byproduct. Electrolysis employs an electric current to split water into hydrogen and oxygen in an electrolyzer. If the electricity is produced by renewable power, such as solar or wind, the resulting pollutant-free hydrogen is called green hydrogen. The rapidly declining cost of renewable energy is one reason for our interest in green hydrogen, as we build the optionality (if scalability becomes a reality) to develop a new capability, and potentially an additional line of business, in the foreseeable future – a direct link between MWB5 and to our portfolio rationale.

Final Remarks

Thank all of you for maintaining a long-term commitment to the enduring and timeless values we articulate at Eneva. Our explicit creed that embraces hard work, a zealous pursuit of excellence, collaboration, sense of humor, and honesty and fairness, never goes out of style. The only things that can stop our truly fabulous future are arrogance, ego and vanity. Bigger and more promising companies than Eneva have been reduced to rubble by those easily acquired diseases.

Thanks to an improved competitive position, a team with demonstrated ability to execute well, and the investments we have made over the last years, as we turn to 2022 I am optimistic about the path to reach our aspirations for 2030 and the growth of our intrinsic value per share.

We appreciate and embrace all who share our dream. We believe that no matter what changes the future may hold, the world will always need an organization like Eneva that provides sustainable and reliable energy.

Pedro Zinner