Letter to Shareholders

Dear Fellow Shareholders,

As I write to you, we are still enduring an unimagined period marked by the deep and wide-ranging effects of the Covid-19 pandemic, an unprecedented event in our time. Great catastrophes, by their nature, lead us to live life in the moment as we seek to do everything we possibly can to protect and tend to the day-to-day needs of our families, friends, colleagues and communities. These periods also present new opportunities while accelerating transformational plans that were already in place.

Looking back on the last six years, Eneva has weathered unprecedented challenges — nothing compared to the current pandemic — that never stopped us from accomplishing some extraordinary things. Once again, you should know how grateful and proud I am of our more than 1,000 employees. I also want to thank my partners, Lino Cançado, Marcelo Habibe, Damian Popolo, Thiago Freitas and Renato Cintra, for the exceptional leadership they have demonstrated under the most difficult of circumstances. Of course, we have had differences and debates over time, but sharing similar values and a grounding common sense has helped us overcome most turbulent times.

The complexities we faced in 2020 certainly made it one of the most challenging years in our recent memory. Entering a crisis is not the time to figure out what you want to be. You must already be a well-functioning organization prepared to rapidly mobilize your resources, take your losses and survive another day for the good of all your stakeholders. **No matter the challenge, we manage our company consistently with principles that have stood the test of time.** I have written about these principles in past letters: i) the need for extremely talented and motivated team; ii) a sound balance sheet that allows us to invest in good times and in bad times; iii) clear, comprehensive and accurate risk assessment to let us make quick and accurate decisions on capital allocation; iv) a devotion to health & safety and communities; and; v) a continuous investing in technology to better cope with the significant changes we expect in the energy market.

We ended this year in a position of strength. **2020 was another strong year for Eneva, with the firm generating record revenues and net income as well as setting numerous other records across our lines of business. We earned R$ 1.0 billion in net profits on revenues of R$ 3.2 billion and an EBITDA of R$ 1.6 billion, reflecting a strong underlying performance**. We now have delivered record results in four of the last five years and are confident we will continue to do so in the future. We have increased our EBITDA by 9.8%, incurred in 8.6% reduction in operating cash-flows – due to a momentary decrease in accounts payable and increase in coal stocks –, and generally maintained the high efficiency of our TPPs – all while maintaining capital allocation discipline and a fortress balance sheet.

While we don't run the company worrying about the stock price in the short run, in the long run our stock price is a measure of the progress we have made over the years. **In 2020 we have delivered a total shareholder return of 42%, and looking back over the past four years, since Eneva´s Re-IPO, our stock has significantly outperformed the B3 Index and the IEE Index: 426%, compared to 55% and 96%, respectively.** This progress is a function of continual investments, in good and bad times, to build our capabilities and develop a strong asset base. These important investments drive the prospects of our company and position it to grow and prosper for decades.

We recognize that the nature of our business subjects us to continuous changes and we must be prepared to adapt. At Eneva, we have always taken a long-term view on our investments as well as our shared environment. To stay ahead of challenges, we will continue driving change within the company to build a sustainable business, fit for the future.

Our long-standing commitment to maintaining high corporate governance standards and sustainable practices underpins our approach to business. We are pleased to see increasing interest in environmental, social and governance issues in society, particularly among investors and regulators. Properly addressing these issues, which accelerated with the Covid-19 pandemic, requires vision and a commitment to manage with a long-term view, two things which have always been a hallmark of Eneva.

The Drums of Change: ESG and the Infinite Game

In 2018, Larry Fink, the founder, chairman and of CEO of Blackrock, caused a bit of stir in the business world when he wrote an open letter to CEOs, titled “A Sense of Purpose”. In the letter he urged leaders to build their companies with more idealistic goals than near-term financial gains. As Mr. Fink stated “Without a sense of purpose, no company either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and in the process, sacrifice investments in employee development, innovation and capital expenditures that are necessary to long term growth.” I couldn’t agree more.

In a watershed article from 1970, Milton Friedman, a Nobel Prize-winning economist, who is considered one of the greatest theorists of today’s form of capitalism, laid out the foundation for what is known as shareholder primacy. According to Friedman “In a free enterprise, private property system, a corporate executive is an employee of the owners of the business; ... there is one and only one social responsibility of business, to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game”. Here I partially (and respectfully) disagree.

I do not intend to have the intellectual arrogance to question Friedman’s view, but I share the belief of critics (despite of being a University of Chicago alumnus) that we need a new definition of the responsibility of business, that is better aligned with the idea that driving a company should encompass decisions considering an infinite game. When we engage in a finite game, we play the game to win a single or a specific number of rounds. The motivation to play an infinite game is completely different. Instead of only focusing on winning you have to think about keep playing. Friedman proposed that a business has a single responsibility: profit. We need to build on Friedman's definition with one that goes beyond profit and considers the dynamics and additional facets that drive business environment. Business, like any infinite pursuit, is a more powerful force when it is empowered for the people, by the people. Where Friedman's finite definition of the responsibility focuses on maximizing resources, a revised infinite definition also considers the will of the people and society.

Simon Sinek, in his book The Infinite Game, states that "any leader who wishes to lead in the infinite game must have a crystal clear just cause." According to him "A just cause is a specific vision of a future state that does not yet exist; a future state so appealing that people are willing to make sacrifices in order to help advance toward that vision."

In a meritocratic culture as ours, "winning" provides a temporary thrill of victory; an intense, but momentary, boost to our self-confidence. But none of us is capable to hold on indefinitely to the incredible feeling of accomplishment for the target we hit, promotion we earned, or tournament we won a year ago. Those feelings pass by. To get that feeling again, we need to try to win again. However, when there is a just cause, our days take on more meaning and feel more fulfilling. A just cause is about the future. It defines where we are going. It describes the world we hope to live in and will commit to help build.

Electricity generation sits at the heart of the transition to clean energy, making it fundamental to addressing climate change, limiting global warming and addressing stakeholders expanding ESG demands. Despite the growth and increasing cost competitiveness of renewables, decarbonization is likely to be a multiyear and multi-solution process proceeding at different rates around the world. We still need big breakthroughs in technologies that will allow us to supply the power grid with clean energy even during windless days, cloudy weather, and nighttime. Potentially, for instance, our path to a net-zero carbon electricity generation will also encompass carbon capture and storage (CCS), which separates and permanently stores CO_2 pollution from an energy plant's exhaust to keep it out of the atmosphere, and further development of grey and green hydrogen solutions. Investing in innovation is crucial to decarbonization.

Our view is that addressing greenhouse gas emissions by itself won't be enough, especially in the poverty-stricken regions where we operate. 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.** Recent studies in economics, political sciences and epidemiology have shown that unless economic inequality is reduced it will be extremely difficult to attain other sustainable development goals. The destruction of the environment, generally thought as a harm handed down by one generation to the next, also exacerbates social inequalities within generations. It therefore has the effect of strengthening preexisting imbalances. In pretty much all countries, the relationship between environmental inequalities and economic inequalities resembles a vicious circle. The injustice of environmental inequalities mechanically reinforces the injustice of socio-economic inequalities: deteriorating health due to pollution makes the situation of the most impoverished still more precarious and, as a consequence, worsens their position in relation to the rest of society.

We won't get to the bottom-line solution in the short-term, but we have to start with something. **We ended 2020 by launching what we call our Purpose Blueprint – the roadmap that will guide our company for the foreseeable future and help us deliver on our just cause: to provide reliable and accessible energy solutions to society, improving socio-economic welfare.**

The blueprint includes five "bold measures" intended to effectively pivot Eneva from a financial turnaround phase to a path of sustained growth that our stakeholders expect.

- **Commitment to Highest Standards of Ethics & Governance**: we commit ourselves to the most rigorous standards of ethics and corporate governance, working with all stakeholders to adopt the same practices
- **Enable a sustainable clean energy matrix**: we want to be the enablers of the replacement of more pollutant energy (i.e, diesel and coal) leading the transition into a clean and more reliable energy matrix
- **Prepare for the "energy of the future"**: engaging in research and development, evaluating and developing options for expansion in different energy sources to address climate change goals
- **Foster the development of local suppliers and communities**: we want to ensure the safety and sustainable development of communities in the locations where we operate, generating income and education opportunities in some of the country's most remote regions
- **Conservation of biodiversity and natural resources**: we commit to protect biodiversity in the ecosystems where we operate and use natural resources consciously, prioritizing efficiency and reducing the impact on the environment

In an environment of rising global temperatures and growing needs for energy, decarbonization becomes an even more relevant topic, not only in the development of our portfolio but also in considering the energy matrix transition scheme.

The implementation of Jaguatirica II TPP, in Roraima, is a good example of the role we are playing in this transition, as we are displacing generation from diesel engines and reducing CO2 emissions by 178,700 ton/ year. Along these lines, our combined-cycle projects in the Parnaiba complex will be adding 477 MW of generation capacity to the system – without additional gas consumption – reducing emissions equivalent to an open-cycle thermal power plant of 1,110,330 ton/year!

We are very much aware of the impacts from our activities on the environment and climate related issues. As so, we have set stricter internal limits – in comparison to regulated emissions targets and measures – to control emissions originating from our operations. **Through the GHG Protocol inventory of emissions, we managed to reduce emission intensity from our operations from 0.66 tCO2e/MWh to 0.60 tCO2e/MWh within a year.**

We will continue to grow responsibly by providing safe energy, creating jobs, income, and continuously monitoring the environmental impacts of our operations. **In order to enable this clean energy transition and guarantee the country's growth, we will continue to expand our business model.** We made a commitment to refrain from developing new coal-powered projects without compromising the assured energy under our current contracts. Alongside our stakeholders, we are driven to find more sustainable solutions that will not hinder the stability of the system but will accelerate the transition to a cleaner matrix.

The value and perpetuity of our business fundamentally depends on our ability to create and leverage synergies between technology and energy generation. We are continuously focusing on increasing the efficiency of our operations and fostering new opportunities for growth to reposition in the infinite game. The Brazilian ecosystem of energy start- ups has grown and is maturing quickly, requiring a more agile interface. **In order to engage start-ups more efficiently,**

we created Eneva Ventures in 2019: a vehicle for identifying and selecting start-ups aligned with our pillars of innovation and ongoing digital transformation. After an initial evaluation of over 1,000 companies, we selected seven start-ups and engaged with five of them. The goal for selected companies, among others, is to find solutions for the digitalization of our operations, electrification of transportation matrix, decarbonization of the industry, efficient replenishment of reserves, and decentralization of energy chain with the advance of the free market.

Over the next few years, renewable energy generation (from wind and solar power) will continue to grow significantly. As a result, there will also be an increasing need for generation methods that makes the system reliable. For this reason, it is necessary to complement "natural batteries" with new sources, preferably those that are controllable, less polluting, and more competitive. Without these additions, the sustainability of the national integrated system would be at risk.

We believe our gas reserves can play that role. They have a flexible dispatch and can be used whenever the system requires. They also have lower costs compared to offshore gas reserves or imported liquefied gas and are cleaner than diesel or fuel oil options. **In conclusion, gas functions as a transition fuel, and plays a key role in system reliability with a cleaner, more competitive, and domestic solution.**

We want to continue to lead the development of projects that deliver safe, stable, and affordable energy to society, as well as support the transition and growth of renewable energy. We know the large-scale development of new energy storage technologies has significantly evolved within the last few years. Soon we will have solutions that complement gas and hydropower generation, which is the case for batteries. Old solutions, such as reversible hydroelectric power plants, could regain momentum due to the need for modulate load variations. This is why we study new business models, monitor regulatory changes required for implementation, and assess various possibilities to develop new solutions.

We have been investing in multiple ESG initiatives and have provided increased visibility on the topic through our sustainability report, issued last September. We take the matter serious and don't want to commit ourselves to specific KPI's and targets ahead of a thorough assessment on the key metrics that are directly linked to our strategy. The purpose blueprint and a clearly stated just cause are a big step in the right direction.

Our growth has happened fast. We've grown from R$ 3.5 billion in market capitalization in 2017 to more than R$ 20 billion now, increasing our generation capacity by more than 30% and expanding our business along the value chain. We're a bit like parents who look around one day and realize their kids are grown – you blink, and it happens. One thing that's exciting about our current scale is that we can put our inventive culture to work on moving the needle on sustainability and social issues.

Culture as a Driver of High Performance

The pressure investors can exert on companies to do things in the name of short-term objectives can be, and often is, devastating to the long-term prospects of the company. There is no such thing as constant growth, nor is there any rule that says high-speed growth is necessarily a great strategy when building a company to last. Where a finite minded leader sees fast growth as the goal, an infinite-minded leader views growth as an adjustable variable. Sometimes it is important to strategically adjust the rate of growth to help ensure the security of the long-term or simply make sure the organization is properly equipped to withstand the additional pressures that come with high-speed growth. Building a fit for purpose organization does not guarantee success but not having the right resources in place to cope with growth is a lead indicator of failure.

At Eneva's current scale, planting seeds that will grow into meaningful new businesses takes some discipline, a bit of patience, and a nurturing culture. Our established businesses are well-rooted young trees. They are growing, enjoy high returns on capital, and operate in growing market segments. These characteristics set a high bar for any new business we would start. But before we invest our shareholders' money in a new business, we must convince ourselves that the new opportunity can generate the returns on capital our investors expected when they invested in Eneva. And we must convince ourselves that the new business can grow to a scale where it can be significant in the context of our overall company and society needs.

There are some subtle traps that even high-performing large organizations can fall into as a matter of course, and we'll have to learn as an institution how to protect ourselves against them. One common pitfall for large organizations – one that hurts speed and inventiveness – is "one-size-fits-all" decision making.

Some decisions are consequential and irreversible or nearly irreversible and these decisions must be made methodically, carefully, slowly, with great deliberation and consultation. If you walk through and don't like what you see on the other side, you can't get back to where you were before. But most decisions aren't like that. They are changeable, reversible – they're two-way doors. If you've made a suboptimal decision, you don't have to live with the consequences for that long. You can reopen the door and go back through. The two-way doors decisions can and should be made quickly by high judgment individuals or small groups.

As organizations get larger, there seems to be a tendency to use the heavy weight irreversible decision-making process on most decisions. The end result of this is slowness, unthoughtful risk aversion, failure to experiment sufficiently, and consequently diminished performance. We'll have to figure out how to fight that tendency. We'll work hard to avoid it... and any other large organization maladies we can identify. **As we always said, we think big but want to nurture the culture of small and agile corporations.**

Thinking about the future made us reflect on the journey we have taken since our Re-IPO. Though we are proud of our past achievements, we are interested in what we can learn from them, and also what we can learn from our mistakes. **We found that our achievements have been underpinned by three main characteristics: our entrepreneurial spirit, our financial discipline and our effective trust network.** Using this as a starting point, we have gone on to define the firm´s culture.

Our objective is to build a great company, and great companies perform to the highest standards, are distinctive in what they do, act in a responsible way and seek renewal and change.

The values that we apply in delivering these objectives are:

- **Ambition & Humility:** We set high aspirations but remain grounded;
- **Curiosity & Focus:** We seek new ideas while prioritizing what matters;

- **Patience & Drive:** We take a long-term perspective but are relentless in getting things done;
- **Courage & Responsibility:** We take bold actions while being mindful of their consequences;
- **Trust & Grit:** We respect each other and take risks responsibly.

In defining our culture this way, we believe we capture the strength of our historic entrepreneurial spirit, the trust in building effective networks and our financial discipline. Of course, what matters more than these words is how we translate them into the actions that we take each day. We achieve this by appointing directors and leaders who share our purpose and values and establishing a governance that aligns those behaviors with actions.

The one characteristic I find extremely important for our long-term success is the lack of complacency. That combined with openness, a lack of pomposity and a down to earth approach are key enablers to deliver on our promises. One key learning from our past successes and mistakes is that the behaviors our leaders exhibit are as important as their skills and knowledge. **We look for people who embody our values, who are results oriented, who fight complacency especially during periods of success and who are always aware of what they do not know.** We are grateful to the leaders who have been part of our history and look forward to working with those who will accompany us in the future.

Trust is a relevant component in our culture. As difficult as it is to build and maintain trust within organizations, it's critical. If people trust each other and their leaders, they'll be able to work through disagreements. They'll take smarter risks. They'll work harder, stay with the company longer, contribute to better ideas, and dig deeper than anyone who has a right to ask. If they don't trust the organization and its leaders, though, they'll disengage from their work and focus instead on rumors, politics, and updating their résumés. As a team we know this because we have seen it happen before. Having had the chance of working in big corporations we are aware of the wrong incentives and behaviors resulting in the lack of trust.

But trust within organizations, ours, isn't easy to pin down. It's hard to measure, even in a quick-and-dirty way. And suppose you could measure it perfectly; the truth is that no company would ever get a perfect score. Organizations and people are too complicated for that. Nor is it easy to define the trustworthy leader. Some exude emotional intelligence; others appear to be rather boring, and extremely consistent bureaucrats. And, being human, even the best of them occasionally make mistakes that erode trust. **But trust is the crucial ingredient in Eneva's organizational effectiveness. Building it, maintaining it, and restoring it when it is damaged, is at the top of our agenda.**

In sum, the past years success is the product of a talented, smart, trustful, hard-working group, and as I mentioned before, I take great pride in being a part of this team. **Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Eneva's success.** It's not easy to work here. But we recognize that we are working to build something important, something that matters to our stakeholders, something that we can all tell our grandchildren about. Such things aren't meant to be easy but bring an enormous sense of ownership and pride. We are incredibly fortunate to have this group of dedicated leaders and associates whose sacrifices and passion build Eneva.

Thinking about Owners not only executives: Eneva's Partnership Program

At Eneva, we try to be as logical about compensation as about capital allocation. In setting compensation, we like to hold out the promise of large carrots, but make sure their delivery is tied directly to results. For 2020 we have set 10 corporate goals and deployed them into 110 managerial and 229 individual goals across the different levels of the company – all of them with owners, deliverables, and targeted completion dates, following the SMART concept (Specific, Measurable, Attainable, Relevant and Time-bound).

The product of this money's-not-free approach is definitely visible within the company. We recognize that it has become fashionable at public companies to describe almost every compensation plan as aligning the interests of management with those of shareholders. **At Eneva, alignment means being a partner in both directions, not just on the upside.** Many "alignment" plans flunk this basic test, being artful forms of "heads I win, tails you lose."

To go a step further, and permeate the culture ownership, we have to think about owners, or partners, not only executives. Hundreds of partnerships have been formed worldwide during the past two decades. Some of them lasted only a short period; others have been operating a long time. **A successful partnership enhances the impact and effectiveness of decisions through combined and more efficient use of resources; promotes innovation; and is distinguished by a strong commitment from each partner.**

In its essence, a partnership is about aligning incentives and sharing values and culture. These are the cornerstones in the partnership program we designed at Eneva, which has been approved by the Board of Directors in early 2021. The culture component has already been thoroughly addressed in this letter, but it is important to highlight the **key principles and values which we stand for**:

i. **We focus on efficient capital allocation.** Our experience shows that if we allocate capital well, we will maximize shareholder value and social-welfare.

ii. **Our assets are people, capital and reputation.**

iii. **We take great pride in the professional quality of our work.** We have uncompromising determination to achieve excellence in everything we do. Although we may be involved in a wide variety of activities, and committed to grow our business, we would, if it came to choose, rather be the best than biggest.

iv. **We stress creativity and imagination in everything we do.** While recognizing that we are in industries of centenaries activity we constantly strive to find a better solution to problems. We pride ourselves on having pioneered some of the practices and techniques that have become benchmark in the industry.

v. **We make an unusual effort to identify and recruit the very best person for each position.** Although our activities are capital intensive and measured in billions of dollars, we select our people one by one.

vi. **We offer people the opportunity to move ahead.** Advancement depends on people's ability, performance and collaboration to the company's success, without regard to race, color, age, creed, gender or national origin.

vii. **We stress teamwork and collaboration in everything we do.**

viii. **The dedication of our people to the company and the intense effort they give their jobs are greater than one find in most other organizations.** We think this is an important part of our success.

ix. **We have a tremendous genuine curiosity**, as we constantly strive to anticipate the changing needs of our stakeholders and to develop new services to meet those needs.

x. **Integrity and honesty are at the heart of our business.** We assure our people maintain high ethical standards in everything they do.

Cultures self-propagate. Winston Churchill once said, "You shape your houses and then they shape you." That wisdom applies to businesses as well. Bureaucratic procedures beget more bureaucracy, and imperial corporate palaces induce imperious behavior (as one humorist put it, "You know you're no longer CEO when you get in the back seat of your car and it doesn't move."). **As long as we – executives and partners – treat shareholders capital as if it were our own, Eneva's managers are likely to be careful with it as well.**

On incentives alignment, agency theory suggests that managerial mischief may occur when the interests of owners and managers diverge, and that a solution to this agency problem is an alignment between owner and agent interests through agent compensation and equity ownership. As so, **we have designed a stock ownership guideline – as part of our partnership program – whereas key executives of Eneva commit to hold a significant share of their compensation over time through an equity stake in the company.**

Through the ownership requirement each partner is expected to acquire, and continue to hold during the term or his or her employment with the company, ownership of Eneva' stock having a value equal to the multiple of his or her annual base salary indicated in the table below, based upon seniority.

Position	Annual Salary Multiple
Chief Executive Officer	6x
Executive Directors	4x
Directors	3x
General Managers	1x

As highlighted before we are true believers of short-term incentive plans, with well defined metrics and KPIs, as they serve an important purpose: communicate a company's priorities and provide incremental annual feedback on performance. However, any analysis of compensation's alignment with shareholders that focuses on annual bonus and doesn't include the overwhelming influence of long-term incentives and stock ownership is incomplete.

Considering the nature of our business, our capital allocation philosophy and our long-term commitment to society, holding a partnership program is a key element for the success of business.

General Acquisition Behavior and Growth Strategy

We have made few acquisitions since 2017 and **our focus has been on organic growth, adding approximately 613MW in additional capacity with high double digits real returns. However, not engaging in an M&A transaction doesn't mean that we don't have a strong pipeline and a good deal flow; quite the opposite — over the past years we've evaluated all deals across the whole spectrum of the energy sector.** We like to see our M&A team not as an investment bank (IB) unit, with the sell side bias, but as an M&A boutique within the company. Conventional wisdom says that, typically, 70-80% of acquisitions fail. Forecasts become inflated, prices get superficial and not enough rigorous analysis is carried out. The main reason for failure, though, is that the buyer wants too much.

We have built a strong balance-sheet, with strong cash generation and sizable cash position. A fat wallet, however, is the enemy of superior investment results. Though there are as many good businesses as ever, it is useless for us to make purchases that are inconsequential in relation to Eneva's capital. (as Charlie Munger, Warren Buffet's partner, reminds us, "If something is not worth doing at all, it's not worth doing well"). We should spend time and effort in asset purchases only if we believe that such investment can significantly increase marginal returns in our portfolio.

Our acquisition decisions have been, and will always be, aimed at maximizing real economic benefits, not at maximizing either managerial domain or reported numbers for accounting purposes. We suspect that there are two big motivations — traps that we do not expect to fall for — in most high-premium takeovers:

i. Animal spirits usually prevail within management and relish increased activity and challenge. **At Eneva the corporate pulse never beats faster when an acquisition is in prospect.**
ii. Most organizations measure themselves, or are measured by others, and compensate their managers far more by the yardstick of size than by any other yardstick. **We will continue to focus on value.**

Some years back I saw a CEO of a big corporation unintentionally describe the pathology of many big deals. He was explaining to his directors why he wanted to acquire a certain company. After droning rather unpersuasively through the economics and strategic rationale for the acquisition, he abruptly abandoned the script. With a naughty look, he simply said: "Ok, fellas, all the other kids have one."

Having the strength to walk away from a deal is helped by having choices. This provides us a better perspective and less tendency to get wedded at a transaction. Of course, you have to deal with the frustration of losing a deal, but far more important is to have the discipline to know when to walk away, avoiding non-accretive decisions.

The AES Tiete transaction is a very good example where we avoided the trap. Back in March 2020, after almost a year of careful analysis and in-depth studies, we sent an unsolicited proposal for a combination of assets with AES Tiete. The transaction, if successful, would result, for AES Tiete shareholders, in an immediate 10% premium, a relevant amount of cash on-hands and the option to take part in a well-diversified energy powerhouse.

Just a few days after our proposal the Covid-19 crisis reached Brazil at full steam. Despite the difficulties raised by the crisis, among them a less liquid capital markets, we continued to perceive value in the transaction. After the refusal of our first offer from AES Tiete management team, we decided to reformulate a new proposal, offering more premium and a higher equity content.

We also engaged with BNDES, AES Tiete's second largest shareholder at the time, who perceived value in the transaction and decided to launch a formal process in order to divest its position. At this point there were two potential bidders in the process: Eneva and AES Corp.

The end-game is well known: considering BNDES risk-aversion positioning, the development bank prioritized the cash component in AES Corp proposal and decided to sell half of his position up-front in cash, with the formal commitment from AES Tiete to do a follow-on in the capital markets in 2021 and provide an exit for the remaining stake of the bank.

After getting involved in such a complex deal for almost six months, involving the Brazilian Exchange (B3), the local SEC (CVM), and many other stakeholders, it was natural to end-up in long debates about how far we should persist the deal. We are happy that we sticked to your approach and did not let the animal spirits nor the yardstick size syndromes prevail.

In some large companies, it might be difficult to grown new businesses from tiny seeds because of the patience and nurturing required. **At Eneva we are unusually supportive of small business with big potential (after all that's how we started), and firmly believe that's a driver of building competitive advantage.**

Our recent exploration & production asset acquisitions provide good evidence of how we nurture our business: i) new exploration acreage around Azulão and the Paraná Basin; ii) acquisition of Juruá field in ANP's recent bidding round; and iii) the advancement in the acquisition of Urucu asset from Petrobras' divestment process. Added to the continuous success in the exploratory campaigns in Parnaiba basin, these recent acquisitions will result in a significant large amount of natural gas resources under the company operatorship. **These resources are located in regions that are currently poorly served by infrastructure (pipelines) and are mostly not reached by the national electricity grid. Such constraints generate a unique opportunity for Eneva´s to bridge the gap and transform the region.**

We have also pioneered the small-scale LNG value chain in the north of Brazil with the implementation of the Azulão-Jaguatirica project. The replication of this value chain, backed by significant gas resources, will enable Eneva to supply cleaner, more effective and competitive fuel to a large variety of clients across the country, accelerating the energy transition. **But we want to go a step further. We want to deliver complete energy solutions to our clients: be it electricity in an isolated system, customized solutions for industrial processes, or even the conversion of heavy equipment for fluvial and land transportation.** Early marketing studies indicated a wide potential for these applications, and we are positioning ourselves as the partner of choice on energy supply solutions. In addition to double digit expected returns, once implemented, these solutions will also result in significant regional development, providing new opportunities for local communities and contributing to reduce environmental impact.

In addition to that, **Petrobras' ongoing divestment process presents another great set of opportunities to leverage our competencies.** Recognized as a best in class on shore E&P operator, we are well positioned for the acquisition of selected mature fields in Petrobras' divestment process as several of these assets still hold considerable amounts of recoverable hydrocarbons, including natural gas, GLP, condensate and oil, in addition to access to infrastructure. Considering that the majority of these assets lacked sustaining capex in the recent years, Eneva´s competencies come well on hand to redevelop the fields and boost short term production, improving cash flows and accessing stranded gas. This additional natural gas production and processing facilities will further improve our ability to implement Eneva´s small scale LNG (SSLNG) energy solutions businesses.

A good first step in that direction is the Urucu pole, which contains large amounts of proved remaining reserves of natural gas, GLP, condensate and light oil, combined with the infrastructure to produce these products. Under Eneva´s view, the potential is far greater, with a plan to boost field output, and consequentially natural gas production, which in turn will be used to fuel our SSLNG and energy solutions business line. Additionally, the existing infra structure can also be used to integrate the Juruá field into the production system and further extend the asset lifecycle. These opportunities, together with some other value propositions, are already mapped and will further improve asset value and return to the invested capital.

A Recap of 2020 Results

It was an atypical year, even when setting aside the effects of the pandemic. The beginning of the rainy season arrived later than expected, and water reservoirs began the year at historically lower-than-average levels – indicating high dispatch volumes for our thermal power plants (TPPs), which were operating at full capacity in January and remained so until the end of February.

Looking back to the beginning of 2020, we foresaw a year with reasonable economic growth, higher levels of energy consumption, and consequently, the need for increased thermal power dispatch to guarantee reliable power supply. However, the onset of Covid-19 significantly changed our base case scenario, resulting in a year over year reduction in energy consumption on Brazil of almost 12% in April. It was not until July that we started to observe a pick-up in demand.

A material drop in the country's energy demand would lead to very low thermal dispatch levels, negatively impacting our cash flows. At that point, considering we were executing the largest ever capex plan in our brief history, we had to adapt and replan.

In times of change we must adapt, quickly develop ways to effectively respond to the unknown unknowns and be prepared for the worst. General Pericles (461 to 429 B.C.), a prominent and influential Greek Statesman, led the Athenian army during its golden age, building one of the greatest empires in history. In one of his speeches, when questioned about the secret for succeeding in countless battles, even when against stronger adversaries, he stated: “The key is not to predict the future, but to prepare for it”.

To prepare we have to adapt. Imagine a crisis that forces your company’s employees to change the way they work almost overnight. Despite initial fears that the pressure would be too great, we discovered that this new way of working could result in a long-term optimal solution. **We then changed our processes; implemented tougher health & safety procedures; reviewed expenses priorities; and improved monitoring and forecasting.** Our managers experienced a learning curve in leading teams virtually as they built social capital and in maintained cohesion without the benefit of informal coffee, lunch, or corridor chats. As we contemplated returning to the workplace, we understood that a new set of skills emerged for this transition, with more mobility and increased efficiency in more transactional activities. **However, we also quickly concluded that, considering the nature of our business and the complexity of our projects, there is an enormous amount of value derived from a face-to-face working environment –**

with all the safety procedures in place. We were probably one of the first companies to adopt the “back-in-the-office” concept. Despite the remote location of most of our operations, we were successful in controlling contagion in our assets, maintaining productivity and supporting stakeholders in addressing Covid-19 related challenges.

In all, even considering the unexpected, we ended-up with steady cash-flows and zero delinquency rates, thus maintaining our financing capabilities and securing the ongoing construction of the Parnaiba V and Azulão-Jaguatirica projects, and the continuity of our growth strategy. In the end, the worst-case scenario did not materialize but we came out stronger:

i. **Our thesis that our regulated energy sales contracts are robust even under stress market conditions was confirmed**, as we had zero default and no requests to engage in contract renegotiations.
ii. **The timeline of our projects under construction suffered minimal delays.**
iii. **Debt capital markets remained open to companies with sound balance sheets.** Not only were we able to maintain a cost-competitive funding plan for the existing projects but also put in place an active liability management strategy to refinance more expensive debt held in our balance sheet.
iv. **We kept the commitment to our exploratory campaigns in the Parnaíba and Amazonas basins**, as these are one of the key value drivers of our long-term strategy and ended-up with **additional certified reserves of 3.25 Bcm and 2.24 Bcm in both regions, respectively.**

We presented an **EBITDA of R$ 1.60 billion**, compared to R$ 1.46 billion reached in 2019, representing a **YoY growth of 9.8%.** Overall, we were capable of maintaining fixed costs below inflation rates and improve variable margins – as a result of higher variable revenues and average spot prices.

As one might recall, in 2019 we highlighted, as part of our strategy, a revamp in our energy trading business. Our investment has started to pay-off! **In 2020, EBITDA from our trading unit reached R$ 35 million, on net revenues of R$ 490 million and with 1.2 GWm of energy traded volume.** This compares to an EBITDA of R$ 1 million in 2019, on net revenues of R$ 413 million. We maintained our conservative approach to Eneva Comercializadora with a maximum VaR of R$ 4 million through the year. **With a stockholder’s equity of R$ 40 million and an average VaR for the period of R$ 1.8 million, Eneva Comercializadora presented a risk-return ratio of 22x!** As the energy and gas markets become increasingly more open and less regulated, we continue to believe that positioning of our trading unit will be fundamental to fulfil the demand of a prosumer market.

The year was also marked by a strong sign of trust on the management team and by a statement of long-term commitment to the company’s prospects when, in an innovative positioning for the Brazilian capital markets, **three of the country’s largest and most prestigious long-only asset managers (Atmos, Dynamo and Velt), decided to combine their equity stake under a minority shareholder’s agreement.** According to the agreement allows the establishment of an independent, agile and articulated block of shareholders which will act to benefit Eneva's best long-term best interest. Furthermore, Atmos, Dynamo and VELT believe that **the creation of this block of shareholders reinforces their support for Eneva's management to continue executing its strategies with a long-term vision.** We feel very honored by such positioning and expect to deliver on our promises, as we did over the past years, and continue to deliver shareholders value.

In December, we were **successful in another bidding round** (permanent offering) sponsored by the Oil & Gas Regulatory Agency (ANP) and **acquired i) three blocks in the Amazonas basin; ii) the Juruá field in the Solimões; and iii) four blocks in the Paraná basin – this one in a partnership with Enauta.** Through this increased acreage we have now expanded our presence in the four most important Brazilian onshore basins (Parnaíba, Amazonas, Solimões and Paraná) and **moved forward with the backbone of our strategy: access to the gas molecule.**

Our **reserve replacement ratio reached 241%**, continuing the positive trend observed in past years. In the Azulão field after drilling and testing the production wells, our 2P gas reserves increased by 2.24 BCM, or 62% YoY. **Our total 2P reserves in the Parnaiba and in Amazonas now accounts for 31.8 BCM, a 15% increase compared to 2019 figures.** Exploration campaign efforts continues at full steam with a total capital allocation of R$ 82 million in our exploration campaign. In the Parnaiba basin we acquired another 5,000 Km of 2D seismic – which has been processed and interpreted – generating prospects and targets for new exploratory wells to be drilled in 2Q21. In the Amazon basin, prospects were also identified, and an exploratory drilling campaign will resume in 4Q21 extending through the first half of the following year.

Sustaining capex reached R$ 189 million, mainly destined to Itaqui (R$ 22 million) major overhaul and the HGPs of Parnaíba I, II e III turbines – which amounted to approximately R$ 110 million. We have also allocated R$ 90 million in the development of cluster connections and R$ 1.9 billion in growth projects.

As part of our financial restructuring, in 2019 we started a **sizable liability management program** aiming at i) exchanging approximately R$ 4 billion of high cost and short duration debt; and ii) targeting full leverage structures for the capital raising of Parnaíba V and Azulão-Jaguatirica projects.

Over the following 18 months we have delivered on our promises. We extended terms, reduced costs and settled project financing structures withheld with BNDES that prevented our coal subsidiaries from paying dividends to the holding. Considering our growth strategy, avoiding cash-trap structures is extremely important to prevent liquidity bottlenecks. With the solutions implemented cash circulates more efficiently among subsidiaries, enabling the acceleration of dividend payments from Pecém II and Itaqui as early as 2021.

We have also issued another R$ 1.0 billion of infrastructure debentures and an additional R$ 1.8 billion from Banco do Nordeste and Banco da Amazonia to finance Parnaíba V and Azulão-Jaguatirica projects. Both projects were fully financed with third party capital, with a weighted average cost of debt below inflation + 2.75% and an average payment term of approximately 10 years. We now hold a comfortable short-term debt position that supports the debt financing of our Capex commitment for our projects and enable us to use our excess cash generation to reinvest in attractive projects and/or distribute dividends.

Finally, in the last business day of the year, B3 confirmed the **inclusion of ENEV3 in the Ibovespa index**. This was a long-awaited achievement that crowns Eneva the hard work of our team and success of our strategy in the years since our Re-IPO.

After a year when we overcame the unknown, we enter 2021 stronger and more confident that we are on the right path. We are in a different position as one of the few companies (or perhaps the only one) that has distinguished expertise in the energy and E&P sector, positioned in a sector that is at the epicenter of a regulatory (re)evolution (New Law of Gas), with a robust balance sheet and a notable team qualified to make quick decisions.

Goals for 2021

We take our performance management and goal setting process very seriously. Taken as a whole, the set of goals is indicative of our fundamental approach. We can't assure you that we'll meet all this year's goals. However, we can assure you that we'll continue to obsess over capital allocation as we have strong conviction that this approach – in the long term – is every bit as good for owners as it is for all our stakeholders.

In 2021 we have set five major goals: i) maintain our reserve replacement ratio of at least 100% and further develop our exploration portfolio in Parnaiba and Amazonas Basin; ii) conclude the implementation of Azulão and Jaguatirica II projects and execute the bottoming of the cycle of Parnaiba I (Parnaiba V project); iii) expand along the gas-to-power and SSLNG value chains; iv) enhance our marketing capabilities; and v) disclose long-term commitments to a more sustainable future and develop ESG KPIs to track our progress in achieving our goals.

i) Reserve replacement ratio and exploration portfolio – the most value-added strategy to maintain our competitive advantage and expand our business model is to find and develop more reserves. **We have set a target of drilling 12 wells, out of which 2 will be in Amazonas Basin and 10 will be in Parnaíba Basin.** This continuous annual investment in exploration is crucial to guarantee the long-term objective of expansion along the gas-energy value chain.

ii) Implementation of Parnaiba V and Azulão-Jaguatirica projects – as we said before we believe the delivery of these projects will definitely set the stone on our execution capability. Despite the pandemic, we continue to follow our plan with **the COD of Parnaiba V in the 1st quarter of 2022 and Azulão-Jaguatirica in the 4th quarter of 2021.**

iii) Expand along the gas-to-power value-chain – We have taken significant steps in the partnership with originators to develop and build a TPP complex. Depending on market conditions we expect to exercise the optionality to expand along the gas-to-power value chain with the two scheduled energy auctions for year. In addition to that, throughout 2020 we have engaged with potential clients to commercialize SSLNG and/or provide energy solutions for them. This is a promising market, where we see many companies moving forward on the substitution of oil by gas on their production chain. In the north of Brazil it can achieve a capacity of more than 13 million m3/day. **The target is to close at least one commercial contract this year and start the rollout the business model as we enhance our marketing capabilities in the north and northeastern regions.**

iv) Enhance our marketing capabilities – The dynamics of the energy market is changing and will continue to change even faster. Climate change issues will keep pushing for increased use of variable energy — wind, sun or waves, for example — with increased need of backup power plants to bridge the gap of unattainable energy demand.

Before grid scale renewables came to live, slow and steady always won the race. There was not much competition in the electricity business (mostly based on long term contracts with assured capacity) and a protection in law that made each utility a master of its realm. **We expect a shift in customer profile, from the "Grid" to prosumers, and we are preparing ourselves to positioning in this free market environment, delivering energy solutions to our clients and society.** Developing our marketing capabilities will help ourselves to better respond to market changes and go a step further in our just cause. We want to possess the ability to generate, disseminate, and respond to market information in a better way and will make the required organizations changes to put us in that place.

v) Disclose long-term commitments to a more sustainable future and develop ESG KPIs to track our progress in achieving our goals – Climate change is a shared global challenge and energy is at the heart of any solution. We need to address this challenge by investing in innovations that will help power the world with carbon-free energy. At the same time, we must find ways to deliver affordable and reliable energy and foster economic growth in our communities so they can live healthier lives and find a path out of poverty. **We are committed to aligning our long-term growth strategy with targets that will balance environmental and socio-economic development goals.** We intend to set clear roles and responsibilities at different stages of the ESG management process to make sure comprehensive action plans are put in place and the tracking data is accurate and reliable.

In closing, consider this important point: a different set of major shocks is sure to occur in the next decade. We will neither try to predict these nor to profit from them. If we can identify businesses similar to those we have invested in the past, external surprises will have little effect on our long-term results. Imagine the cost to us, then, if we had let a fear of unknowns cause us to defer or alter the deployment of capital. Indeed, we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist.

In this turbulent global economy, **our fundamental approach remains the same. Stay heads down, focused on the long term and obsessed over capital allocation.** Long-term thinking levers our existing abilities and lets us do new things we couldn't otherwise contemplate. It supports the failure and iteration required for a successful result in the infinite game, and it frees us to pioneer in unexplored spaces. Seek instant gratification – or the elusive promise of it – and chances are you'll find a crowd there ahead of you. **Long-term orientation interacts well with ESG best practices and the path ahead of us. Our approach permits us to work patiently for multiple years to deliver a solution that will contribute to a cleaner and reliable energy matrix.**

As always, we at Eneva remain grateful to our stakeholders for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement. Many, many thanks.

Pedro Zinner