

CHESF 2020 Annual Report

EXECUTIVE SUMMARY



Eletrobras

Introduction

Our 2020 Annual Report presents Chesf stakeholders with relevant information on our actions, results, achievements and goals. The content was collected and organized based on global best practices in management and corporate sustainability reporting and aligned with our holding company Eletrobras as well as with all other companies in the group. We enhanced transparency in our report this year by highlighting EESG factors (referring to economic, environment, social and corporate governance)

We did not fail to supply electricity to any location during the pandemic

HIGHLIGHTS



Increased
R\$463 million
in generation revenue



Completed commissioning and started commercial operation

of the Pindaí wind farm, formed by the Pindaí I, II and III units – with 110 MW of generation capacity



Increased
R\$ 1.529 billion
in transmission revenues



Final favorable ruling in the Mendes Júnior lawsuit



Best Variable Portion (PV)
– historic record of 1.14% discount over Permitted Annual Revenue (RAP), lowest percentage charged for unavailability of basic network equipment



Significantly improved score in Corporate Sustainability Index (ISE B3) – from 65 to 74.7



Completed construction of the 112 km-long 230 kV transmission line between the Russas II and Banabuiú (CE) substations



Full transfer of the Hospital Nair Alves de Souza (HNAS), located in the city of Paulo Afonso (BA) to the public administration

About the report

Materiality: 17 selected material themes**

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. Research and Development + Innovation 2. Relationship with Suppliers* 3. Water 4. Social and environmental aspects in decision making 5. Cybersecurity and digital transformation 6. Human rights 7. Risk and crisis management 8. People management and development 9. Climate change | <ol style="list-style-type: none"> 10. Energy transition 11. Corruption and ethical management 12. Corporate governance 13. Community relations* 14. Energy supply 15. Financial Result 16. Health and safety and wellbeing* |
|---|---|

* topics included in 2020
 ** the last topic - Legal and regulatory compliance - is exclusive for Chesf

EESG journey

- Structure for corporate sustainability reporting reflecting interrelationship of EESG factors
- Report organized into four integrated pillars: Principles of Governance, Prosperity, People and Planet; each one covers company achievements, results, guidelines, indicators, goals and actions

Sustainability Management System

- Eletrobras Companies Sustainability Policy
- Executive Committee for Sustainability Management
- Corporate Sustainability Management Indicator System (IGS System)
- Value Creation Model
- Integrated Reporting
- Chesf Corporate Sustainability Committee

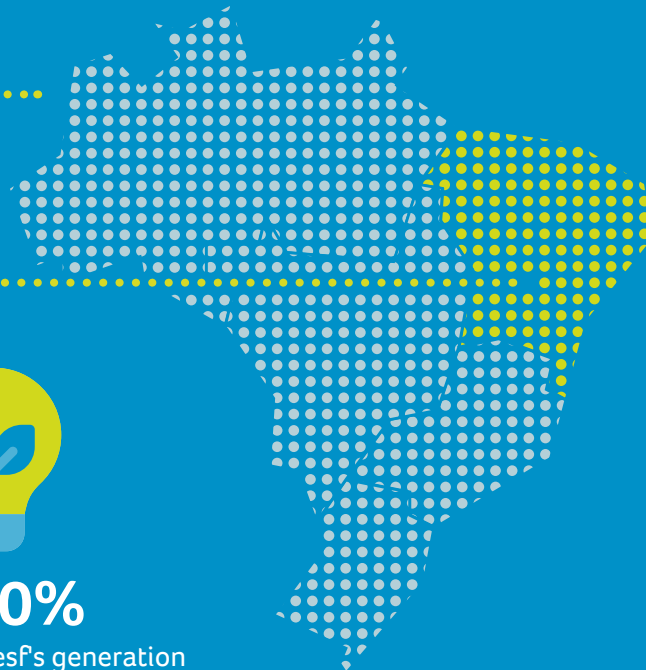


THE ELETROBRAS GROUP SUSTAINABILITY FRAMEWORK



*Adapted from the World Economic Forum Framework

Chesf is responsible for about **27%** of the installed generation capacity of all Eletrobras companies



WIND POWER

UEE – Casa Nova II, III e A (BA)



HYDROELECTRIC ENERGY

- UQS – Paulo Afonso IV (BA)
- PAF – Complex Paulo Afonso I, II and III (BA)
- ULG – Luiz Gonzaga (PE)
- USB – Sobradinho (BA)
- UBE – Boa Esperança (PI)
- UXG – Xingó (AL and SE)
- UAS – Apolônio Sales (AL)
- UCR – Curemas Power Plant (PB)
- UFL – Funil Power Plant (BA)
- UPE – Pedra Power Plant (BA)

10,347.43 MW¹
INSTALLED CAPACITY



100%

of Chesf's generation capacity comes from clean energy sources²



129 power **substations**⁴
12 power plant elevatory **substations**

HOW IS ALL THIS POWER TRANSMITTED?



99% referring to hydro sources

3 wind farms
R&D projects for generation of **solar power**



more than 23,000 km

of transmission lines³

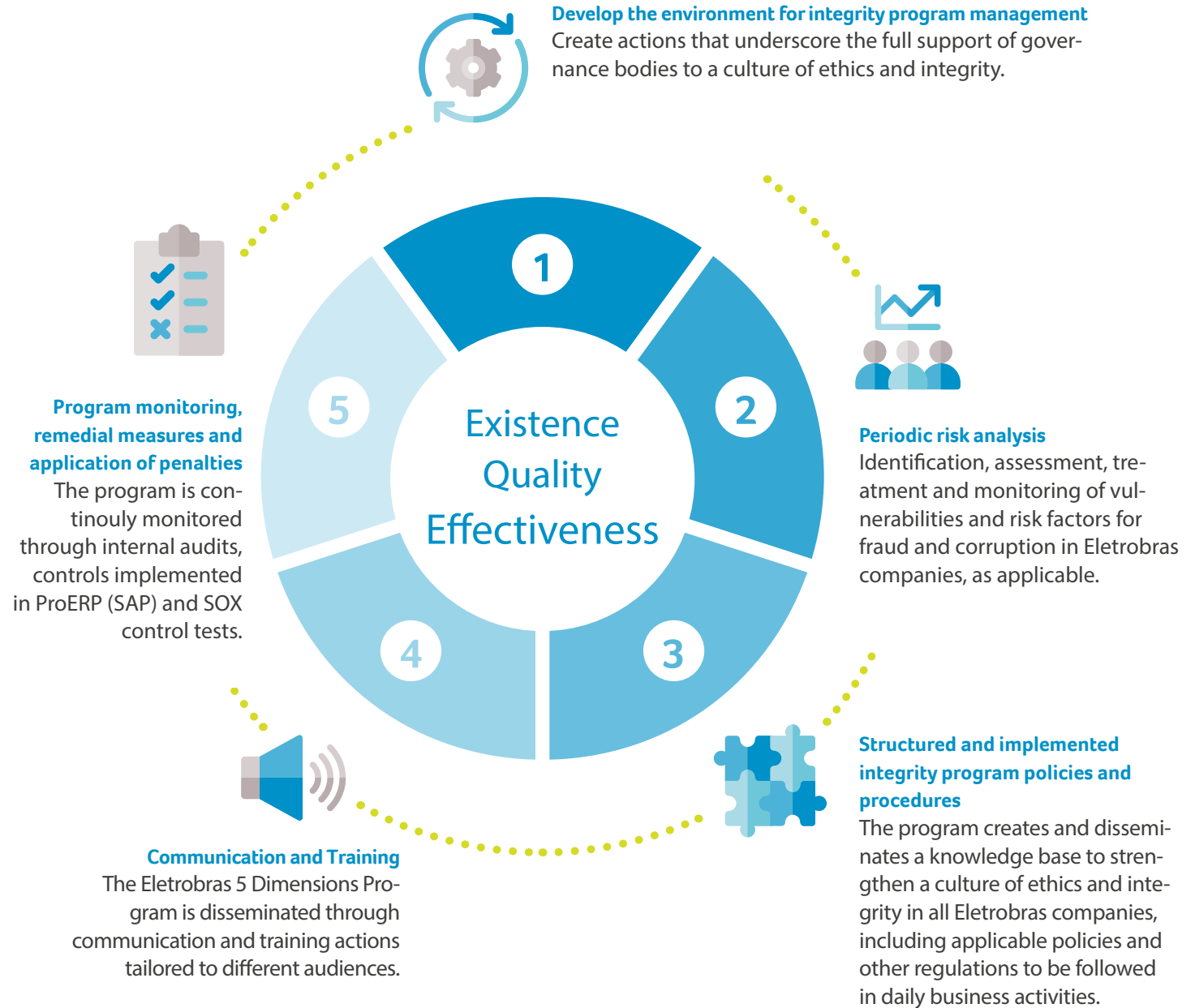
1 Refers to corporate power plants
2 Considering water and wind sources
3 Includes corporate lines and SPEs of all voltage levels
4 Including substations of other transmission companies in which Chesf holds a stake

Governance

“We celebrate the integrated leap in governance at Chesf other Eletrobras companies during 2020.” We created or revised a series of policies regarding issues ranging from court settlements and appointments for management positions to sponsorship, dam safety, communication and engagement with our stakeholders.”

(Fabio Lopes Alves, Chesf President; and Elvira Baracuh Cavalcanti Presta, Chairwoman of the Chesf Board of Directors)

All companies in the Eletrobras group follow the 5 Dimensions Program, which describes the constant flow of actions necessary for full compliance with laws and regulations.



Prioritized risks

| X | PRIORITIZED RISKS | PRIORITY |
|----|---|-----------|
| 1 | Energy Trading | Corporate |
| 2 | Accounting and financial statements | Corporate |
| 3 | Human rights | Corporate |
| 4 | Litigation management | Corporate |
| 5 | Fraud and Corruption | Corporate |
| 6 | SPE business management | Corporate |
| 7 | Socio-environmental management of power plants | Corporate |
| 8 | Operation and Maintenance (O&M) in Generation | Corporate |
| 9 | Operation and Maintenance (O&M) in Transmission | Corporate |
| 10 | Works on Generation assets | Corporate |
| 11 | Works on Transmission assets | Chesf |
| 12 | Regulatory asset pricing | Chesf |
| 13 | Sectoral regulation in Generation | Corporate |
| 14 | Sectoral regulation in Transmission | Corporate |
| 15 | Information Security | Corporate |
| 16 | People Management | Chesf |

Voluntary commitments

- UN Global Pact
- UN Guiding Principles on Business and Human Rights
- Women's Empowerment Principles (UN Women)
- Gender and Race Equality Program
- Network for Combating Sexual Violence against Children and Adolescents in the state of Pernambuco
- Na Mão Certa Program ("On the Right Track", Childhood Brasil)
- Sustainable Development Goals (SDGs)
- Eletrobras Declaration of Commitment on Climate Change
- Open Letter from the private sector in support of carbon pricing in Brazil, from the Business Climate Initiative (IEC)
- Brazilian Business Commitment to Biodiversity

Priority SDGs



SDGs added for prioritization in 2020:



Economic Performance

- Profit of **BRL 2.109 billion**, the second highest in Chesf's history (and 25.6% lower than the BRL 2.833 billion recorded in 2019)
- Gross operating revenue of **BRL 7.928 billion**, 33.6% higher than the BRL 5.936 billion in 2019
- Net Debt/Adjusted EBITDA: target of 0.15; **result of -0.21**



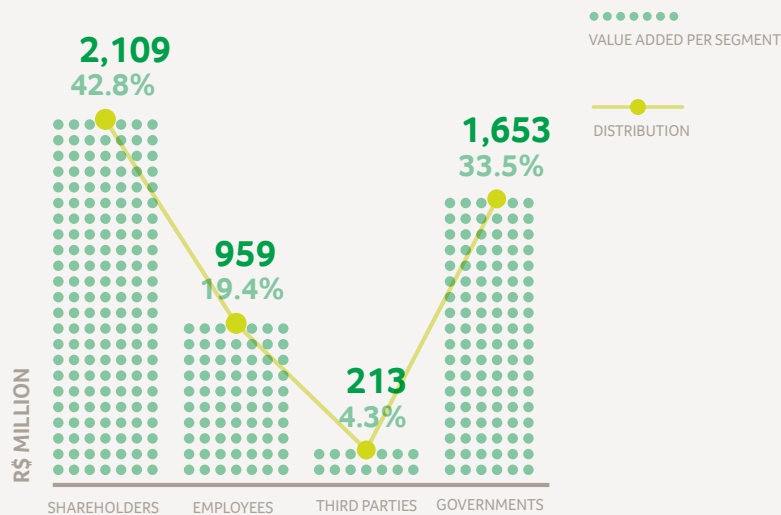
Economic value generated: BRL 4,933.2 million against BRL 3,400.7 million in 2019

Operational Performance

We have exceeded our operational goals even with the restrictions imposed by the pandemic:

- **System Robustness: 94.84%**, second best result in the last 5 years
- **Generation Operational Availability: 1.12**
- **Operational Availability of Transmission Lines: 99.96%**, second best result in history
- **Operational Availability of Transformers: 99.9%** (above target)

DISTRIBUTION OF ADDED VALUE



In 2020, Chesf was ranked among the six largest transmission companies in the National Interconnected System (SIN) – also second within the Eletrobras Group

R&D + I

MAIN RESEARCH, DEVELOPMENT AND INNOVATION FRONTS:

- Alternative Sources of Electric Power Generation (FA)
- Innovation Management (GI)
- Substations 4.0
- Green Hydrogen
- Hybrid plants combining wind and solar generation plus energy storage

SUPPLIER MANAGEMENT

- Implemented the Zero Delay Program to make Supply more strategic and generate more value
- Launched the Chesf Supplier Portal where vendors can manage information, send documents and monitor the status of registration processes
- Purchases from local suppliers by Chesf represented 38.86% of the total, generating a contribution of more than R\$593 million to the economy of the Northeast



Patent registration

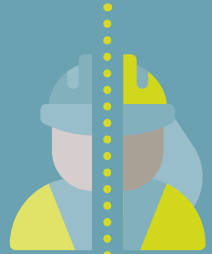
In 2020 Chesf filed patent EP 2985920 - Smart Alarm - in Switzerland. Published as PI 1106471-4, the patent refers to a model for voltage regulation and parallelism among different models of voltage sources and/or high voltage energized spans.

Employment



TOTAL¹
3,162
NORTHEAST

BY GENDER



2,582 **580**
MEN **WOMEN**

BY DAILY WORKLOAD



| FULL TIME ² | | PART TIME ³ | |
|------------------------|------------|------------------------|--------------|
| 2,104 | 478 | 522 | 58 |
| MEN | MEN | WOMEN | WOMEN |

¹ Considering the following types of employment relationships: own employees, requisitioned personnel, amnestied civil servants reinstated in the company and commissioned positions. Does not include employees on loan, employees on unpaid leave and amnestied/reinstated civil

servants transferred to government agencies. All Chesf employees have an open-ended employment contract (no defined termination date).

² Daily workload of 7.5 or 8 hours, depending on Chesf schedules.

³ Workload of 4 to 6 hours.

Health and safety

- Use of analysis tools such as Hazard and Risk Matrices, Preliminary Hazard Analysis (APP) and Preliminary Risk Analysis (APR)
- Incident and Non-Compliance Control System (CIN)
- Periodic safety inspections and audits at service providers
- Emergency Action Plans (EAP) in all Chesf dams to protect life, the environment and properties located downstream of the projects
- Area evacuation drills at all plants during 2020
- Dam Safety Seminar

Chesf protocols and Chesfians' commitment to following them were essential to curb contagion among on-site personnel: we actually had fewer cases in operations than in remote work

CHESF ACTIONS DURING THE PANDEMIC

The Covid-19 pandemic marked world events throughout 2020 and had both positive and negative impacts on all Eletrobras businesses, processes and operations.



of our workforce working remotely



More than half

of our substations ended the year operating remotely

- ✔ PSYCHOSOCIAL SUPPORT
- ✔ ONLINE PHYSICAL ACTIVITY
- ✔ ONLINE TRAINING SESSIONS
- ✔ JOB PRESERVATION

DONATIONS



More than R\$ 3 million

TOTAL DONATIONS

In addition to contributing to campaigns to fight Covid-19, Chesf collected R\$ 20,000 in food baskets donated by employees

Other actions

- ✔ Created a Chesf crisis committee and participated in several crisis committees of the holding company
- ✔ Streamlined integration processes
- ✔ Developed operating protocols to protect employee health, especially our field personnel

RESILIENCE TO OVERCOME OBSTACLES



Continuity
We continued operating and ensured power supply



We got stronger
Chesf leveraged technology and adjusted governance



Increased productivity
United leadership focused on safety for our employees and their families

Clients

Focusing on our Generation and Transmission businesses, the satisfaction survey carried out in 2020 showed an overall rate above the target of **87.98%**

| CLIENT / BUSINESS | SATISFACTION |
|---------------------------|--------------|
| Traders/Generation | 95% |
| Free consumers/Generation | 84% |
| Distributors/Generation | 95.4% |
| Connected/Transmission | 88% |
| General score | 90.6% |



Customer satisfaction index **90.6%**

Communities

- Campaigns on dam safety, fire prevention and on hazards associated with kites
- Texting service (SMS) with inflow updates for the São Francisco River region
- Project Recovering Native Trees
- Productive Backyard Projects
- Continued Social and Environmental Action Plan (PAS) at the Paulo Afonso I, II, III, IV and Apolônio Sales HPPs and at the Xingó HPP, integrating the communication, education and health aspects of environmental management
- Sobradinho Lake Project
- São Francisco Lakes Project



Impacts

During 2020, we obtained more than 20 environmental authorizations and licenses for new ventures and other reinforcement and improvement projects.

Climate Change

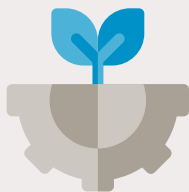
- Development of wind and photovoltaic solar generation projects
 - Conta Zero Program, which will offset energy consumption by distribution concessionaires through seven micro and mini photovoltaic generation projects in substations and installations
 - Petrolina Solar Energy Reference Center, the Sobradinho floating plant. Largest project of its kind in Brazil and subject of doctoral theses at the Federal University of Pernambuco (UFPE)
- Periodic inspections of the hydrological conditions of the hydrographic basins through **measurements at hydrometric stations** in the São Francisco, Parnaíba and Contas river basins
 - Total volume of turbined water: **306,875.52 megaliters**
 - Total consumption: **103.37 thousand m³**

Emissions

We recorded significant reductions compared to 2019

| ANNUAL EMISSIONS | 2019 | 2020 | REDUCTION |
|---------------------------------|----------------|----------------|---------------|
| Scope 1 (tCO ₁ e) | 20,645 | 12,360 | 40.08% |
| Scope 2 (tCO ₂ e) | 140,447 | 101,412 | 27.80% |
| Scope 3 (tCO ₃ e) | 1,268 | 240 | 81% |
| Total (tCO₂e) | 162,360 | 114,012 | 22.77% |





Biodiversity

- Monitoring, control, verification and mitigation of impacts on biodiversity during the planning, implementation and operation phases of projects and facilities
- Produced 75,276 tree seedlings of native caatinga species in the Xingó Forest Nursery
- 5,000 units of coroa-de-frade (*Melocactus zehntneri*) in final stage of cultivation within the research project aimed at large-scale reproduction

Adherence to the Brazilian Business Commitment to Biodiversity, led by the Brazilian Business Council for Development

Effluents and Waste

| TYPE OF DESTINATION | 2020 | | |
|-------------------------------------|--------------------------|---------------------------|--------------|
| | HYDROELECTRIC GENERATION | ADMINISTRATIVE ACTIVITIES | TRANSMISSION |
| Disposal of non-hazardous waste (t) | 12.30 | 6.70 | 6.46 |
| Disposal of hazardous waste (t) | 166.73 | 12.13 | 208.98 |

Chesf is committed to adequate practices in the separation, storage, transport, recovery and final disposal of waste

Credits

General Coordination

Department of Corporate Sustainability
Management, Superintendence of Corporate
Strategy and Equity Management

Writing and Editing

Grupo Report - rpt.sustentabilidade
(Ana Luiza Daltro and Tita Berton)
(Beatriz Miranda, manager)

Graphic design

Grupo Report - rpt.sustentabilidade

English translation

Doris Buchmann

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MINISTÉRIO DE
MINAS E ENERGIA



*All information featured in this Executive Summary is presented in full in our 2020 Annual Report – including footnotes and supplements where necessary.