Financial Risk Management Policy
- Version May 10, 2018 -

Energisa S.A.

Contents

1. OBJECTIVE

This document defines the Financial Risk Management Policy ("PGRM" or "Policy") of Energisa S.A. ("Company") and its direct and/or indirect subsidiaries in line with the best international practices and aligning the Company's strategic objectives. The policy uses consolidated limits to gage the overall risks associated with the Company and its subsidiaries (collectively referred to as "Energisa Group" or "Group").

The PGRM is available on the Company's website for viewing by stakeholders (commercial counterparties, creditors, investors and rating agencies).

This is the seventh version of the PGRM since its initial publication in May 2009, which again has been adapted to the new consolidated macroeconomic and sector position, while preserving the underlying guidelines of transparency and demonstrating the prudence and predictability of Energisa Group's financial management.

2. VALIDITY

This policy is valid through May 31, 2020, and is subject to changes and improvements at any time.

3. MANAGING FINANCIAL RISKS

Energisa Group's financial risk management can be summarized as follows:

a) Focus:

- Risks posed by the financial market in general

b) Fundamentals:

- Risk management is an ongoing process and not a single event. It should therefore involve several of the company's departments (legal, financial and risk control)
- The Board of Directors should periodically discuss, ratify and review the risk management processes that have been implemented, according to suggestions made by the vice presidency of finances;
- Risk management requires the dissemination of a risk culture, the pursuit of best practices and ongoing participation by employees
- The Company has created a corporate risk management advisory board in order to monitor the risks that could adversely affect Energisa Group.

c) The financial risk management policy consists of:

- Defining the decision-making hierarchies regarding Energisa Group's operations
- Defining the responsibilities of each hierarchy and their limits of authority
- Defining the risk levels acceptable to Energisa Group, in accordance with its shareholders' appetite for risk and in order to optimize the ratio between risk and return, to be endorsed by the Board of Directors

- Implementing a risk management process: risk policy; identifying, prioritizing and measuring the size and probability of risks; control activities, information, communication and monitoring.

d) Management process:

The main steps of the risk management process are as follows:

• Gaging risks and results and the probability of occurrence

• Preliminary analysis of evaluated alternatives

• Devising the policy

• Implementing, informing and communicating, with a view to risk prevention and mitigation

• Monitoring and control.

e) Handling risk management:

The financial risk management process should be handled by the vice presidency of finances, with advice from the Financial Risk Management Committee ("Committee"), responsible for evaluating operations, processes and procedures and putting forward the best alternatives. This committee can recommend operations to the Vice Presidency of Finances for evaluation and possible endorsement by the Board of Directors.

The Financial Risk Management Committee shall meet at least every quarter, and may hold extraordinary meetings if necessary. The committee will consist of the following, minimum members:

1. Energisa’s Vice President of Finances;

2. Energisa’s CFO and Controller's Department Officer

3. Independent Specialist Consultant in risk management, especially cash and debt risks.

The committee shall periodically solicit independent support from macroeconomy and financial market experts. The Independent Specialist shall validate the quarterly Monitoring Report of the "Financial Risk Management Policy” (“Quarterly Monitoring Report”), which shall report on compliance with this policy, any existing waivers and actions necessary or recommended to ensure compliance, if applicable. After validation, this Report is to be sent to the members of the Risk Management Committee.

f) Financial Risk Management Policy

With the support of the Committee, the daily reports received, prepared by independent advisors, and the Quarterly Monitoring Report, the Vice Presidency of Finances shall be responsible for managing Energisa Group's risk exposure, deciding which financial operations to conduct or not. These operations shall always comply with the parameters established in this policy and the escalation limits established in the Bylaws and internal regulations of the executive boards. This report shall be examined by the Board of Directors’ Risks and Audit Committee at least once a year. The Internal Audit shall constantly supervise the group's compliance with this policy.

Financial transactions shall be secured in accordance with Energisa Group's internal procedures, which establish the minimum number of financial institutions to obtain price quotes from (when applicable), spending limits and the formal documentation required.

4. RISK SOURCES

This section provides information about the sources of the financial risks to be addressed.

4.1. DEBT

The debt includes all loans and financing of Energisa Group, and all domestic and international debt issuances, in addition to financing and contingent liabilities.

4.2. CALL DEPOSITS

Energisa Group's call deposits embrace all financial investments made, including short-, mid- and long-term investments. Examples of call deposits include investments in investment funds, sovereign bonds and securities issued by financial institutions or public and private companies in the domestic and international markets.

4.3. DERIVATIVES

Energisa Group may structure several derivative strategies in order to eliminate exposure to certain indexes prone to adverse variance, thereby controlling the volatility of the result.

Derivative options are also sometimes structured to acquire directional positions for applications: assets/liabilities at a fixed or floating rate (inflation, interest).

4.4. FINANCIAL GUARANTEES AWARDED

Financial guarantees awarded aim to ensure defense in legal proceedings (labor, civil, tax, environmental etc.) and to improve the attractiveness and conditions provided by suppliers, financiers and investors in transactions involving Energisa Group.

Given the sound risk profile of Energisa Group companies, reflected in its rating scores, we should avoid providing guarantees. Within limits, Energisa S/A may secure operations of its subsidiaries. Any guarantees to be submitted should be approved formally by email by two officers of Energisa Group.

If the use of guarantees in Energisa Group’s operations is inevitable, we should give priority to the items in the following order: (i) guarantee Energisa S/A (ii) surety bond, (iii) bank guarantee, (iv) escrow and restricted deposits, (v) other possible guarantees.

5. MONITORING AND MANAGEMENT

This section addresses the monitoring of the financial risks under analysis. It describes the means of control recommended by this Policy and the specifics considered for each type of risk.

5.1. DEBT

Energisa Group will seek to control its debt in terms of quantity, average duration, cost, guarantees and choice of creditor (considering quality and concentration).

Despite the advantages of the debt being in a capital structure, the size of a company's debt must be kept in check in order to avoid excessive leverage of the venture/company and to mitigate the risk of breaching any covenants which exist in most financing loans. Keeping debt in check also mitigates the risk of refinancing, by ensuring sufficient project/company cash generation, preventing capital market investors being deterred by the associated risk, thereby preserving credit quality.

The amount of debt held by each creditor will also be monitored. To the extent possible given the high level of market concentration in Brazil, Energisa Group may establish limits on the amount of debt held by each creditor, in order to prevent concentration of its debts (facilitating access to credit through greater dispersal), and to pursue cheaper alternatives with better duration and fewer financial and operational covenants.

The securing of any debt instrument shall take into account: (i) compliance with the approved budget, (ii) the Internal Regulations of the executive board that establish the authority of the Company's executives for securing the operations (iii) the specific approval of the Board of Directors, where necessary, including for the main terms of the contracts to be signed and (iv) approval by regulatory agencies, when necessary as part of the concession guarantees.

Debt management will seek to comply with the following limits:

Leverage Limit:

• The leverage limit is determined by the indicator Total Net Debt / Adjusted EBITDA for the past 12 months ("Net Debt Limit"), as per the concept described in the latest debt issuance on the market. In cases of acquisitions of assets/companies or even the discontinuity of assets/companies, Debts and pro-forma EBITDAs shall be compiled, in order to view a fairer ratio for this calculation;

• Consolidated Net Debt Limit: while this revision is valid (through May 2020) the limit should reflect a maximum leverage of 3.5x, where this ratio should ideally remain at around 3.0x. This limit can be exceeded in specific periods involving specific, major acquisitions or investments, subject to prior approval of the Board of Directors, in which case a grace period shall be adopted of up to 36 months;

• Energisa should also maintain minimum corporate ratings of BB- (Fitch and/or S&P) and Ba3 (Moody's) global scale and AA- (Fitch and/or S&P) and Aa3 (Moody's) on the Brazilian scale rating, or equivalent to one notch below the Brazil sovereign rating, whichever is lower;

• The above limits should always abide by performance of the covenants established in domestic and international financing contracts and debt issuances.

The Vice Presidency of Finances shall comply with the minimum leverage limit of the distribution companies' controlled by the Company so as not to contravene the regulatory leverage and the commitments undertaken with the Regulator.

Average Pursued Minimum Duration

To pursue an average consolidated net debt duration of longer than 4 (four) years, which needless to say depends on market conditions for new issuances. Bridge loans may be taken out with a view to a future issuance on better terms, subject to the leverage limit.

Limiting Credit Concentration

• Subject to the attractiveness of the rates practiced by these agents, seek maximum leverage from domestic development banks and financiers, with a view to the average interest costs and durations more suited to the companies engaged in electricity infrastructure;

• In normal market conditions development banks operate at maximum exposure limits equal to 30% of the total assets of borrower companies and/or economic groups with the same rating levels as the Company. We will strive to meet these limits, subject to the Leverage Limit and the conditions offered by the respective development banks.

• Energisa Group should give priority to capital market operations, to the detriment of direct financing from commercial and investment banks. The Company should seek to maximize debt dispersal (avoiding exposure concentration). Priority should be given to clean operations, the main advantage of which is that receivables do not have to be provided as collateral. Receivables may be provided as collateral in order to reduce the financing cost or facilitate access thereto in times of credit shortages and high interest rates. Unless there are exceptional conditions or a creditor requires these operations from development institutions, we should always pursue the lowest exposure possible, maintaining at least 30% of the receivables free and clear.

• Personal guarantees should not be obtained from executives or shareholders, in order to preserve the companies' operational and financial independence.

• Energisa S/A may underwrite its subsidiaries' borrowing operations.

• It is important to give Energisa Group a presence in all capital markets, including international markets, whilst limiting foreign-currency exposure to 25% (twenty-five percent) of the total remunerated debt. Any breaches of this limit should be remedied in 120 days, by either reducing the foreign-currency debt or contracting derivative financial instruments that neutralize adverse exchange variance. Foreign-currency operations involving plain vanilla swaps are not considered to pose exchange rate exposure, and should pursue a hedge account or fair value hedge to limit volatility in the balance sheet.

5.2. CALL DEPOSITS

Energisa Group controls its financial applications in order to mitigate the counterparty risk, i.e. the risk associated with the possibility of the entity not honoring its payment commitments.

The limits below must be upheld for both direct exclusive investment funds and funds Energisa Group invests in, and be considered on a consolidated basis. ENERGISA constantly monitors the composition of exclusive and non-exclusive investment funds comprising the resource allocation profile. Upon becoming a shareholder of the non-exclusive investment fund, ENERGISA delegates the investment portfolio’s management subject to the trustee’s discretion (subject to the fund’s investment policy and restrictions). Any investments made by the non-exclusive fund trustees may fail to comply with the limits and rules established in this Investment Policy, in which case ENERGISA should consider actions and procedures to redeem or maintain its investment as part of its monitoring.

Eligible Groups and Assets

• Investments may be made in Federal Public Securities, CDBs, Ribs, Financial Bills, debentures and investment funds (subject to the limit below). Investments may not be made in redeemable shares, subordinated debt (except for quotas subordinated to the Group's own FIDCs) and the subordinated CDBs/Financial Bills of first-rate banks with a rating of AAA (S&P/Fitch) or Aaa (Moody's), or with the same national scale rating, subject to a maximum duration of two years) and "quasi-equity" (preferred shares with fixed dividends, in line with US practices)

• The acquisition of debentures should be approved by the risk management committee on a case-by-case basis.

• Investment in private securities of direct or indirect subsidiaries of Energisa is only permitted subject to the specific regulations of the National Electricity Regulatory Agency ("ANEEL") and the preliminary evaluation of the Energisa Group's Vice Presidency of Regulations; Investments are permitted in private securities issued by suppliers (drawn risk) and/or consumers, including in the event of refinancing, financing or any other form of renegotiating debt of suppliers and/or consumers with Energisa Group, by structuring debt securities or underlying existing commercial positions;

• Minimum rating limit for banks: rating equal to A+ (Local) or the local sovereign rating, whichever is lower, always subject to the lowest existing rating, in the event of more than one coverage. In the case of foreign banks formally supporting their Brazilian subsidiaries or branches, a rating of A- (Global) is sufficient for the respective parent company of the foreign bank

• Minimum rating limit for Companies: AA- or the local sovereign rating, whichever is lower, always subject to the lowest existing rating, in the event of more than one coverage.

• As the funds have no rating, the following rules apply: (i) investment in asset management firms with equity in excess of R$ 5 billion, where the top 30 firms in the Anbima investment fund management ranking are eligible (ii) the funds should be administrated by financial institutions with renowned experience in the Brazilian market and (iii) access to the composition of the fund's portfolio is provided, so as to permit evaluation of compliance with this policy.

• Only ratings issued by S&P, Moody's and Fitch shall be relied on.

Application Limits

• Maximum concentration by Bank or Company: R$ 500 million or up to 30% (thirty percent), whichever is lower, of the total invested by Energisa Group for Banks with a rating the same as the sovereign rating (national scale rating). R$ 150 million up to 10% (ten percent), whichever is lower, of the total invested for Banks with a rating one notch below the sovereign rating, subject to the lowest rating and 15% (fifteen percent) for debt securities of Companies, subject to the limits below.

• Concentration Limits: 5% (five percent) of the financial institution or the company's Shareholders' Equity, as stated in the latest quarterly financial statements. For funds, the concentration limits should be 15% (fifteen percent) of the fund's equity, at all times, except in the case of exclusive funds created by the Company itself. Alternatively, if the CDB or RDB operation is DPGE operation, investments may be made up to the guaranteed limit, which currently stands at R$ 20 million for the sum total of this type of investment for each company (CNPJ), subject to the maximum exposure of 5% of the bank's shareholders' equity. All official procedures should be followed that assure the DPGE guarantee issued by the National Treasury is effective.

• Financial applications which are not accessible for over 2 (two) years should be specifically approved by the Board of Directors, unless in financial treasury bills

• Any other concessions to be established must be approved by the Board of Directors.

• The investments in funds should comply with the following additional limits:

- DI-referenced Funds and Fixed-Income Funds – only subject to the aforesaid concentration limits
- Multimarket Fund – R$ 500 million or up to 15% of the consolidated amount invested by Energisa Group, whichever is lower;
- Private Equity and Currency Funds - these funds should only be used to hedge a given corresponding obligation
- Funds that invest in other funds and Mixed Funds – should comply with the aforesaid limits in respect of the original funds.

5.3. DERIVATIVES

The restructuring of derivative operations is important to mitigate adverse risks associated with the financial market.

Because of market price, liquidity and counterparty risks, these operations should be monitored daily by independent cash and debt risk specialists. Energisa Group shall retain a specialized independent service whenever it holds foreign-currency debts or derivative financial instruments and shall comply with the following limits and requirements:

Notional Value

• Energisa Group shall preferably use currency swaps or hedge operations for any foreign currency financing it holds in plain vanilla swaps. If they are not available at a reasonable cost, the minimum quantity for currency hedge and/or swap operations is 85% of the notional foreign currency debt, limited to 100% of this debt (leverage is not permitted);

• The maximum contracted amount of interest-rate swaps (fixed rates, CDI, TJLP, among others) shall comply with the 100% limit of the financial applications' notional value and/or 100% of the local currency debt's notional value (Reais).

• Any interest rate swap (fixed interest, CDI, TJLP, amongst others), whose market value represents an immediate or potential loss in excess of R$ 10 million, should be submitted to the Risk Management Committee to evaluate early settlement.

• Energisa Group may also carry out operations involving currency NDFs - Non Deliverable Forwards, with a view to additional hedging or arbitrage in periods of greater volatility, limited to a sum total exposure of USD 50 million.

• The Marked-to-Market exposure per financial institution shall not exceed 5% of its shareholders' equity, as stated in the latest financial statements and the same rating limitation applicable to call deposits. This exposure limit applies to all Energisa Group's derivative operations, regardless of their structure.

• Currency NDFs whose market value poses a loss of more than 15% of their acquisition value shall be settled in advance within 5(five) working days or submitted to the evaluation of the Risk Management Committee which will decide how to proceed, subject to this term.

Acceptable financial derivatives:

• Vanilla Swaps (Forex, Fixed and Floating Interest and Inflation);

• European Options (Forex);

• Non Deliverable Forwards (NDFs) (Forex).

NB: the issuance of convertible debentures or share subscription bonuses are not considered to be financial instruments for the purposes of the limits in this policy.

5.4. FINANCIAL GUARANTEES AWARDED TO ENERGISA

Financial guarantees required by Energisa Group aim to mitigate the counterparty risk, i.e. the risk associated with the possibility of the entity not honoring its payment commitments.

Eligible Guarantees

Three types of guarantee are acceptable, with a coverage factor of at least 100% of the asset/credit/contract secured, where the guarantee shall include the same restatement criteria of the asset/credit/contract secured

• Bank guarantee: subject to the Minimum Rating Limit for Banks with rating equal to AA (Local) or the local sovereign rating, whichever is lower, always subject to the lowest existing rating, in the event of more than one coverage (S&P, Fitch and Moody's).

• Escrow and Restricted Deposits: CDBs issued by Tier-one banks (according to the rating limit demanded for bank guarantees), financial treasury bills or shares in fixed income or CDI investment funds administrated by tier-one banks. The deposits made should have daily liquidity so they can be enforced at any time.

• Surety Bonds: The bonds submitted should be taken out from insurance companies classified amongst the top 10 insurance companies in the ranking compiled by the National Federation of Private Insurance Companies - FENASEG, which are classified as "very good" in the rating compiled by the National Federation of Private Pension and Capitalization Insurance Brokers – FENACOR, based on the latest publication. Use of the surety bond should be formally approved by the CEO of the business unit, by a vice president or the CFO and Controller's Department Officer.

Guarantees should be given priority in the following order: (i) bank guarantee, (ii) escrow deposit, (iii) surety bond, (iv) corporate guarantee (depending on credit analysis) and (v) other guarantees to be previously approved by the Controllership and finances board.

Guarantees can only be accepted after they have been reviewed and accepted by Energisa Group's legal corporate board.

5.5. LIQUIDITY RISK

To ensure the liquidity of Energisa Group's commitments, the Vice Presidency of Finances shall maintain minimum cash equivalents and financial applications in order to guarantee short-term debt obligations, guarantee deposits etc.

Minimum Cash Limit equal to the higher of:

- thirty (30) days' gross billing in the previous year

- 50% (fifty percent) of the Adjusted EBITDA of the previous year, or

- Sufficient cash equivalents so that the ratio Cash and equivalents / short-term debt is higher than 1.25 (one point two five).

5.5. REVISIONS OF THE FINANCIAL RISK MANAGEMENT POLICY

The Board of Directors shall have the Financial Risk Management Policy revised every two years or as and when necessary.

5.6. DIVIDEND POLICY

The payment of dividends, interest on shareholders' equity or any other proceeds by the subsidiaries to Energisa S/A should comply with the upper limit (95% of net income, including Retained Earnings). However, these payouts may not deteriorate the reference leverage limit (regulatory leverage), the duration and the financial cost of the subsidiary and/or the consolidated debt.

For FYs 2018 to 2019 Energisa S/A's dividend policy should seek to pay out between 35% and 50% of the consolidated net income for the year, which may be relaxed when the Consolidated Debt Limit interval index approaches the lower quartile. This measure aims to maintain an adequate capital structure and tax optimization of the Company, and consequently pursue an adequate Weighted Average Cost of Capital (WACC).

These dividend distribution limits will be reassessed at the end of 2019, when new distribution guidelines will be established.

Rio de Janeiro, May 10, 2018.

Energisa's Vice President of Finances
Energisa's Corporate Finances Director
Risk Manager