

Financial Statements

Pacto Energia S.A. and Consolidated

December 31, 2020
with Independent Auditor's Report

Pacto Energia S.A. and Consolidated

Financial statements

December 31, 2020

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A free translation from Portuguese into English of Independent Auditor's Report on individual and consolidated Financial Statements originally issued in Portuguese

Independent auditor's report on individual and consolidated financial statements

To the
Shareholders, Board of Directors and Officers
Pacto Energia S.A.
Goiânia - Goiás

Opinion

We have audited the individual and consolidated financial statements of Pacto Energia S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2020, and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2020, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other matters

Prior-year's financial statements audited by other independent auditor

The Company's individual and consolidated financial statements for the year ended December 31, 2019 were audited by other independent auditor, who issued an unmodified opinion thereon dated May 4, 2020.



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

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

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

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

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

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

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Recife, August 16, 2021.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in grey ink, appearing to read 'Henrique Piereck de Sá', is written over the printed name.

Henrique Piereck de Sá
Accountant CRC PE023398/O-3

A free translation from Portuguese into English of Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB)

Pacto Energia S.A. and Consolidated

Statements of financial position
December 31, 2020
(In thousands of reais)

	Note	Individual		Consolidated	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
Assets					
Current assets					
Cash and cash equivalents	3	4	3	7,389	4,987
Accounts receivable	4	-	-	48,484	52,659
Inventories		-	-	1,719	-
Taxes recoverable		-	-	869	506
Power trade agreements	18	-	-	8,267	8,368
Related parties	5	1,800	-	1,800	-
Dividends receivable	6	1,890	2,025	-	-
Other receivables		-	2	2,194	1,304
		3,694	2,030	70,722	67,824
Noncurrent assets					
Long-term assets					
Power trade agreements	18	-	-	8,601	-
Related parties	5	9,041	4,423	7,855	3,059
Taxes recoverable		-	-	-	409
Other receivables		-	-	68	-
Investments	7	27,966	27,062	3,322	18,910
Right of use		-	-	95	-
Property, Plant and Equipment (PPE)	8	-	-	20,036	471
Intangible assets		-	-	-	243
		37,007	31,485	39,977	23,092
Total assets		40,701	33,515	110,699	90,916

	Note	Individual		Consolidated	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
Liabilities and equity					
Current liabilities					
Accounts payable	10	-	-	42,110	44,806
Loans and financing	9	2,000	2,500	6,204	1,048
Taxes payable		149	-	2,141	-
Social and labor obligations		-	2	90	2,907
Power trade agreements	18	-	-	8,593	8,234
Dividends payable	12(e)	1,075	-	1,075	-
Advances from customers		-	-	3,221	-
Lease obligations		-	-	55	-
Other obligations		-	-	2,078	1,503
		3,224	2,502	65,567	58,498
Noncurrent liabilities					
Loans and financing	9	-	-	16,080	14,236
Related parties	5	18,954	17,083	817	2,530
Power trade agreements	18	-	-	414	-
Deferred taxes	17	-	-	3,610	-
Provision for contingencies	11	-	-	400	400
Lease obligations		-	-	95	-
Other obligations		-	1	-	120
		18,954	17,084	21,416	17,286
Equity					
Capital	12	8,000	1	8,000	1
Capital reserve		1,500	-	1,500	-
Income reserves		3,995	903	3,995	903
		13,495	904	13,495	904
Advances for future capital contribution		5,028	13,025	5,028	13,025
		18,523	13,929	18,523	13,929
Noncontrolling interests		-	-	5,193	1,203
Total equity		18,523	13,929	23,716	15,132
Total liabilities and equity					
		40,701	33,515	110,699	90,916

See accompanying notes.

Pacto Energia S.A.

Statements of profit or loss
Year ended December 31, 2020
(In thousands of reais)

	Note	Individual		Consolidated	
		12/31/2020	12/31/2019	12/31/2020	12/31/2019
Net operating revenue	13	-	-	218,097	293,125
Costs of sales	14	-	-	(210,718)	(282,664)
Change in fair value of future power trade agreements	18	-	-	7,861	134
Gross profit		-	-	15,240	10,595
Operating expenses					
General and administrative expenses	15	(306)	(252)	(7,823)	(4,267)
Equity pickup	7	4,985	5,882	659	532
Other income (expenses), net		-	(1)	526	(710)
		4,679	5,629	(6,638)	(4,445)
Income before finance income (costs)		4,679	5,629	8,602	6,150
Finance income (costs)	16				
Finance income		-	2	242	360
Finance costs		(151)	(2)	(1,713)	(1,175)
		(151)	-	(1,471)	(815)
Income before income and social contribution taxes		4,528	5,629	7,131	5,335
Income and social contribution taxes	17				
Current		-	-	(251)	(852)
Deferred		-	-	(2,269)	-
		-	-	(2,520)	(852)
Net income for the period		4,528	5,629	4,611	4,483
Net income for the period attributable to:					
Controlling interests				4,528	(1,145)
Noncontrolling interests				83	5,628
Net income for the period				4,611	4,483

See accompanying notes.

Pacto Energia S.A.

Statements of comprehensive income
Year ended December 31, 2020
(In thousands of reais)

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Net income for the period	4,528	5,629	4,611	4,483
Other comprehensive income	-	-	-	-
Comprehensive income for the period	4,528	5,629	4,611	4,483
Comprehensive income for the period attributable to:				
Controlling interests			4,528	(1,145)
Noncontrolling interests			83	5,628
Comprehensive income for the period			4,611	4,483

See accompanying notes.

Pacto Energia S.A.

Statements of changes in equity
Year ended December 31, 2020
(In thousands of reais)

	Consolidated										
	Individual										
	Note	Capital	Capital reserve - Goodwill on capital transactions	Income reserves		Subtotal	Future capital contribution	Subtotal	Noncontrolling interests	Total equity	
Legal reserve				Retained profits	Retained earnings						
Balances at December 31, 2018		1	-	-	13,233	-	13,234	5,000	18,234	1,263	19,497
Future capital contributions		-	-	-	-	-	-	8,025	8,025	1,084	9,109
Dividends distributed		-	-	-	(17,958)	-	(17,958)	-	(17,958)	-	(17,958)
Net income for the year		-	-	-	-	5,628	5,628	-	5,628	(1,144)	4,484
Allocation of income:											
Retained profits		-	-	-	5,628	(5,628)	-	-	-	-	-
Balances at December 31, 2019		1	-	-	903	-	904	13,025	13,929	1,203	15,132
Capital increase	12(a)	7,999	-	-	-	-	7,999	(7,999)	-	5,099	5,099
Gain on change in equity interest	12(b)	-	1,500	-	-	-	1,500	-	1,500	(1,500)	-
Net income for the year		-	-	-	-	4,528	4,528	-	4,528	83	4,611
Allocation of income:	12(e)										
Legal reserve		-	-	226	-	(226)	-	-	-	-	-
Mandatory minimum dividends		-	-	-	-	(1,075)	(1,075)	-	(1,075)	-	(1,075)
Retained profits		-	-	-	3,227	(3,227)	-	-	-	-	-
Other		-	-	-	(361)	-	(361)	2	(359)	308	(51)
Balances at December 31, 2020		8,000	1,500	226	3,769	-	13,495	5,028	18,523	5,193	23,716

See accompanying notes.

Pacto Energia S.A.

Statements of cash flows
Year ended December 31, 2020
(In thousands of reais)

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Operating activities				
Income before income and social contribution taxes	4,528	5,628	7,131	4,483
Adjustments to reconcile income before income and social contribution taxes to cash:				
Depreciation and amortization	-	-	1,002	223
Equity pickup	(4,985)	(5,882)	-	(532)
Interest on loans and financing	-	-	2,079	-
Change in fair value of future power trade agreements	-	-	(7,861)	-
Provisions	-	-	-	(11,612)
	(457)	(254)	2,351	(7,438)
(Increase) decrease in assets				
Accounts receivable	-	-	12,543	(12,970)
Inventories	-	-	(1,719)	-
Taxes recoverable	-	-	1,136	(352)
Dividends receivable	-	3,907	-	-
Other receivables	2	(2)	(958)	9,047
Increase (decrease) in liabilities				
Accounts payable	-	(1)	(10,930)	16,823
Social and labor obligations	147	2	(676)	(2,351)
Taxes payable				
Advances from customers		-	3,221	-
Other obligations	(1)	-	554	1,573
Net cash from (used in) operating activities	(309)	3,652	5,522	4,332
Payment of interest on loans and financing	-	-	(119)	-
Net cash from (used in) operating activities	(309)	3,652	5,403	4,332
Investing activities:				
Increase in investments	(3,146)	(8,500)	-	(16,076)
Additions to property, plant and equipment	-	-	268	(504)
Net cash from (used in) investing activities	(3,146)	(8,500)	268	(16,580)
Financing activities				
Loans and financing taken out	-	2,500	6,090	17,660
Repayment of principal of loans and financing	(500)	-	(1,050)	-
Related parties	3,956	12,278	(8,309)	(368)
Future capital contribution	-	8,026	-	9,110
Prepaid dividends	-	(17,958)	-	(17,958)
Net cash from (used in) financing activities	3,456	4,846	(3,269)	8,444
Increase (decrease) in cash and cash equivalents	1	(2)	2,402	(3,804)
Cash and cash equivalents				
At beginning of year	3	5	4,987	8,790
At end of year	4	3	7,389	4,987
Increase (decrease) in cash and cash equivalents	1	(2)	2,402	(3,804)

See accompanying notes.

Pacto Energia S.A. and Consolidated

Notes to financial statements
December 31, 2020
(In thousands of reais)

1. Operations

Pacto Energia S.A. (individually “Company” or jointly with its subsidiaries “Group”) is a privately held corporation set up on June 21, 2017. The Company is headquartered at Rua 86, 37 Setor Sul, in the city of Goiânia, Goiás state, and is engaged in holding equity interest in other companies.

At the Special General Meeting held on June 23, 2020, the shareholders approved the change in the Company’s corporate name from 3F Capital S.A. to Pacto Energia S.A.

Currently, together with its subsidiaries, the Company offers a wide range of products and services in the Brazilian electric power market, as shown below:

- **Pacto Comercializadora de Energia e Gás Natural S.A.**

Incorporated on September 9, 2015 and headquartered in the city of Goiânia, Goiás state, this entity is engaged in: i) the electric power trading (purchase and sale), operating as a trading agent, pursuant to Resolution No. 265 of August 13, 1998, issued by the Brazilian Electricity Regulatory Agency (“ANEEL”); ii) the import and export of electric power, also pursuant to ANEEL Resolution No. 265/98; and iii) the rendering of advisory services, representation of agents, intermediation in the purchase and sale of electric power, natural gas, both in the local and foreign market, as well as import and export.

- **Pacto Geração e Transmissão S.A.**

Incorporated in 2014 and also headquartered in the city of Goiânia, Goiás state, this entity is engaged in: i) holding equity interest in other business companies in the areas of generation, transmission and sale; ii) the production, generation, distribution and sale of power; and iii) the wholesale sale of electric power.

Pacto Geração e Transmissão is specialized in the development of “greenfield” renewable energy generation projects and in participating in transmission auctions. Its business model implies finding an area with the proper profile for generation, making the necessary measurements, projects and licensing to bring the project to the “ready to build” stage (approval from ANEEL, environmental licenses, authorization from states and cities, etc.), enabling the entry of an investor and/or access to the capital market to then participate in both auctions in the Regulated Market (“ACR”) and in bids for power trade agreements in the Free Market (“ACL”).

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

1. Operations (Continued)

- **Pacto Geração Distribuída S.A.**

Incorporated on October 5, 2016 and headquartered in the city of Goiânia, Goiás state, this entity is engaged in the development, sale, installation, operation and maintenance of photovoltaic, wind, hydropower and qualified co-generation solar electric power generation systems, with output below 5MW (five megawatts).

Pacto Geração Distribuída is specialized in the development of photovoltaic solar power generation projects. In this business model, an area with or without Access Opinion is sought, but with relatively low cost with construction works, for the connection of the future power plant to the regional power distributor. The proximity of an electric power substation and the high level of insolation allows to improve power generation of the solar plant that will be rented to the final customer, which can be captured directly by the commercial team, through an auction or Requests for Quotation (RFQs) from institutions that wish to reduce their power consumption expenses. Concurrently, the entity seeks to optimize the project's rate of return by accessing the capital market, financial institutions or third-party capital for the construction of photovoltaic power plants.

- **Pacto Esco S.A.**

Incorporated on January 11, 2017 and headquartered in the city of Goiânia, Goiás state, this entity, not yet in operation, is engaged in: i) metering of electric power, gas and water consumption, sale of products and rendering of services related to energy efficiency projects, water and gas consumption; and ii) the lease of other industrial machinery and equipment.

- **Pacto Indústria S.A.**

Incorporated on January 11, 2017 and headquartered in the city of Aparecida de Goiânia, Goiás state, this entity is primarily engaged in: i) the manufacturing of apparatus, modules, power plant control panels and equipment; ii) the manufacturing of inverters; iii) the manufacturing of steel structures, engines and turbines, parts and accessories; iv) the manufacturing of hydraulic and tyre equipment; v) the manufacturing of direct current and alternating current generators, parts and accessories; vi) the manufacturing of energy meters; vii) the wholesale trade of machinery and equipment for industrial use, pieces and spare parts, import and export; viii) installation and maintenance services for power generation systems; ix) construction of electric power distribution stations and grids; x) electric installation and maintenance; xi) development and licensing of non-customizable computer programs; xii) technical support, maintenance and other information technology services; and xiii) custom software development. The entity's trade name is "Easy Solar".

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

1. Operations (Continued)

- **Pacto Soluções em Energia S.A.**

Incorporated on June 21, 2018 and headquartered in the city of Arapoti, Paraná state, this entity is engaged in: i) the intermediation of businesses related to the sale of electric power; ii) rendering of consulting and advisory services related to the sale of electric power; iii) holding interest in other companies, as a member or shareholder.

Pacto Soluções operates in the management of power generators and consumers, helping them in the migration from the captive Regulated Market (ACR) to the power Free Market (ACL), as well as in the maintenance of its monthly obligations with the CCEE (Electric Energy Trade Chamber) and ANEEL (Brazilian Electricity Regulatory Agency).

This entity operates with two types of contract: (i) remunerated on the savings provided to the customer based on the rate practiced by the captive market (distributors); or (ii) remunerated with a fixed management fee.

- **W2E Digital S.A.**

Incorporated on May 25, 2018 and headquartered in the city and state of São Paulo, this entity is engaged in: i) the management of a digital energy credit platform, aimed at providing services in all areas of interest of associated parties throughout the country; ii) holding interest in other companies, as a member or shareholder.

ePOP (trade name), the first Brazilian “energytech”, is an online platform for the offsetting and assignment of energy credits, developed on algorithms based on new technologies and concepts such as the internet of things 'IoT', artificial intelligence 'AI' and machine learning, which provides service to plants leased by the EPOP COOP cooperative for use in Distributed Generation, within the parameters established by ANEEL Resolution No. 482/2012, amended by Resolution No. 687/2015 in plants of up to 5MWp.

To meet the energy demand of its members through the ePOP platform, EPOP COOP has leased two plants, one of 0.5 MWp in operation and another of 2.00 MWp under construction, both plants are located in the city of Uberaba, Minas Gerais state.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

1. Operations (Continued)

- **Evolution Comercializadora de Energia Elétrica e Gás Natural Ltda.**

Incorporated on June 18, 2019 and headquartered in the city and state of São Paulo, this entity is engaged in: i) the electric power trading (purchase and sale), operating as a trading agent, pursuant to Resolution No. 265 of August 13, 1998, issued by the Brazilian Electricity Regulatory Agency (ANEEL); ii) the import and export of electric power, also pursuant to ANEEL Resolution No. 265/98 and; iii) the rendering of advisory services, representation of agents, intermediation in the purchase and sale of electric power, natural gas, both in the local and foreign market, as well as import and export.

- **BBCE - Balcão Brasileiro de Comercialização de Energia S.A.**

Incorporated on June 13, 2011 and headquartered in the city and state of São Paulo, BBCE is a privately held corporation engaged in the intermediation and agencying of services and business in general, except for real estate. This entity has already been operating as a market place and is currently considered the “exchange” of the energy free market, enabling most of the businesses carried out in the energy free market environment.

- **Energy Serviços Digitais Ltda.**

Incorporated on May 21, 2019 and headquartered in the city and state of São Paulo, This entity invests in the development of a blockchain programming platform named EnergyBank, which will allow individuals and legal entities to carry out power trade on the Free Market (ACL) through a home-broker. The application that can be downloaded from Google Play and AppStore is also a fintech that enables users to have access to a digital account and carry out transfers between accounts, payments, mobile recharges and other services.

- **Power Labs Participações Ltda.**

Incorporated on May 20, 2019 and headquartered in the city and state of São Paulo, Power Labs is an investment holding exclusively engaged in promoting the acceleration of startups, developer of technological innovation projects focused on renewable and non-renewable energies, by means of: (i) holding equity interest, as a member or shareholder, in the capital of startups; and/or (ii) investments, whether through capital, debt, capitalization, financing of any nature, issue or subscription of financial assets and marketable securities, and crowdfunding; (iii) provision of physical spaces; and/or (iv) rendering, directly or indirectly, of legal and regulatory, financial, administrative, technological, operational or marketing advisory services.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

1. Operations (Continued)

- **Pacto Energia e Manutenções Ltda.**

Incorporated on November 7, 2019 and headquartered in the city and state of São Paulo, Pacto Energia is engaged in: electric installation and maintenance, other civil engineering works, construction of stations and electric distribution grids, hydraulic, sanitary and gas installations, retail trade of lighting equipment, hardware and tools, electric material, hydraulic material, lease of machinery and equipment, engineering services, equipment and industrial installation as well as cleaning and gardening services.

COVID-19 Pandemic - Impacts and Company actions

On March 11, 2020, the World Health Organization (WHO) declared coronavirus (COVID-19) outbreak a pandemic. As a result, certain measures were adopted such as social distancing, closing of commercial establishments, and later the stoppage of the industry. These measures resulted in a slowdown in the supply chain and significant impact on the global economy.

In Brazil, as in other countries worldwide, measures were announced to boost the economy, the credit (including the continuation of the cycle of cuts in interest rates, supported by the low level of inflation) and to guarantee the stability of the electric power industry.

The main risks for the electric power industry in the country derive from the reduction in the electric power load in the year ended 2020. However, agents located in the free market, especially final consumers, may occasionally not comply with the Electric Power Purchase and Sale Agreements entered into in the Free Market, based on legal theses such as act of God, liability for exclusion by force majeure, among others. It should be stressed that almost the entirety of the Group's portfolio is concentrated in free generators, traders and consumers, among which the referred to legal theses do not succeed, reinforcing the concept that the commitments with the agreements in force should be respected.

Management continues to actively monitor the global situation in its financial conditions, liquidity, operations, suppliers, industry and workforce to ensure the protection of its employees, the maintenance of its operations and business continuity.

Despite the negative impacts on the global economy due to the COVID-19 pandemic, the Company was not directly affected. Management implemented systems and new methodologies to support and analyze counterparty (credit) and portfolio risk, focused on hedging its cash flow, a measure that enabled greater control in anticipating situations that could put its cash flow into risk.

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Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

1. Operations (Continued)

COVID-19 Pandemic - Impacts and Company actions (Continued)

In addition, as long as the pandemic does not get worse and economic activity resumes at previous levels, the Company and its subsidiaries do not expect significant effects that could impact their P&L or jeopardize the operational continuity or implementation of their projects.

2. Accounting policies

2.1. Basis of preparation of financial statements

The financial statements were prepared in accordance with the accounting practices adopted in Brazil (BR GAAP), comprising the pronouncements issued by Brazil's Financial Accounting Standards Boards - FASB ("CPC") in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). In addition, the Company considered the guidance provided for in Accounting Guidance OCPC 07 in preparing its financial statements. Accordingly, all significant information of the financial statements themselves, and only such information, is being disclosed and corresponds to that used to manage the Company's operations.

Management assessed the Company's ability to continue as a going concern and is convinced that the Company has the necessary resources to sustain its businesses in the future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt as to its ability to continue as a going concern. Accordingly, these financial statements were prepared using the going concern basis of accounting.

The Company's fiscal year corresponds to the period from January 1 to December 31.

These financial statements are presented in Brazilian reais, which is the Company's functional currency. All financial information presented in Brazilian reais was rounded to thousands of reais, unless otherwise stated.

During the current year, management reclassified the balances of Power trade agreements previously presented in the statement of financial position as at December 31, 2019, on a net basis, between the asset and liability position and fair value, for better comparison with the presentation of the financial statements of the current year.

The Company's financial statements were approved by management on August 16, 2021.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.1. Basis of consolidation

The consolidated financial statements for the years ended December 31, 2020 and 2019 comprise the financial statements of the Company and its subsidiaries, presented below:

	2020	2019
Subsidiaries		
Energy Serviços Digitais Ltda.	100.00%	100.00%
Evolution Comercializadora de Energia Elétrica e Gás Natural Ltda.	100.00%	49.99%
Pacto Comercializadora de Energia e Gás Natural S.A.	100.00%	100.00%
Pacto Esco S.A.	100.00%	100.00%
Pacto Geração Distribuída S.A.	100.00%	100.00%
Pacto Geração e Transmissão S.A.	100.00%	100.00%
Pacto Indústria S.A.	100.00%	100.00%
Pacto Soluções em Energia S.A.	100.00%	100.00%
Power Labs Participações Ltda.	90.00%	90.00%
W2E Digital S.A.	100.00%	100.00%
Associates		
Pacto Energia e Manutenções Ltda.	24.00%	24.00%
BBCE - Balcão Brasileiro de Comercialização de Energia S.A.	0.02%	0.02%

Control is obtained when the Company is exposed or has the right to variable returns based on its involvement with the investee and has the capacity of affecting these returns through the power exercised in relation to the investee.

The subsidiaries are fully consolidated as from their acquisition date, which is the date on which the Company obtains their control, and continue being consolidated through the date on which such control ceases to exist. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting practices. All assets and liabilities, P&L, revenues, expenses and cash flows of a same group, related to transactions between members of the Group, are fully eliminated in the consolidation.

The variation in the subsidiary's equity interest, without loss of control, is accounted for as an equity transaction, directly in equity.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices

a) Cash and cash equivalents

Cash and cash equivalents are classified in accordance with their realization term, stated at acquisition cost, plus, in the case of financial investments, income earned up to the periods' closing dates, net of the provision for adjustment to net realizable value, when applicable.

b) Accounts receivable

Trade accounts receivable are recorded and maintained in the statement of financial position at the nominal value of notes representing these receivables, net of the allowance for expected credit losses, when applicable. If the collection period is equivalent to one year or less, the accounts receivable are classified in current assets. Otherwise, they are stated as noncurrent assets.

c) Investments in associates and subsidiaries

Investment in associates

The Company's and its subsidiaries' investments are accounted for using the equity method.

The statement of profit or loss reflects the portion of income (loss) arising from investees' operations. Unrealized gains and losses arising from transactions carried out between the Company and its associates are eliminated, when applicable, in accordance with the interest held in the associates.

The equity interest held in associates is stated in Note 2.2.

The financial statements of the associates are prepared for the same reporting period as that of the Company. Whenever necessary, adjustments are made for the accounting practices to be in line with those adopted by the Company. After the equity method is applied, the Company and its subsidiaries determine whether additional impairment of the Company's investments in its associates should be recognized.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

c) Investments in associates and subsidiaries (Continued)

At each statement of financial position closing date, the Company and its subsidiaries determine whether there is objective evidence that investment in associates is impaired. If this is the case, the Company and its subsidiaries calculate the impairment amount as the difference between the recoverable amount of the subsidiary and its carrying amount, and recognizes such difference in the statement of profit or loss.

d) Property, Plant and Equipment (PPE)

Property, plant and equipment are recorded at cost of acquisition or construction, plus, when applicable, interest capitalized over the construction period, net of accumulated depreciation and provision for impairment of assets relating to decommissioned assets and without expectation of reuse or realization, when applicable.

Depreciation is recognized in the statement of profit or loss based on the straight-line method at specific rates, which management understands to represent an estimate close to the useful lives of its main property, plant and equipment items.

A property, plant and equipment item is derecognized after disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses related to disposals are determined through the comparison of the sales amount against the net carrying amount and are recorded in the statement of profit or loss.

e) Impairment of assets

The Company annually test its assets for impairment. If so, the recoverable amount of the asset is estimated. The recoverable amount of an asset is the higher of: (a) its fair value less costs that would be incurred to realize it; and (b) its value in use.

The value in use is equivalent to discounted cash flows (before taxes) derived from the continuous use of the asset. When the net carrying amount of the asset exceeds its recoverable amount, the impairment of (provision for) the book balance of this asset is recognized.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

f) Taxation

Current and deferred income and social contribution taxes

Taxation on income includes income and social contribution taxes, recorded on an accrual basis, computed according to the legislation in force, based on the reconstructed profit regime (“Lucro Real”).

Income and social contribution tax expenses are calculated and recorded according to the legislation in force, and include current and deferred taxes. Income taxes are recognized in the statement of profit or loss, except for cases where they are directly related to items directly recorded in equity or in comprehensive income equity, in which they are already recognized at amounts net of these tax effects, and those arising from initial accounting in business combinations.

Current tax is the expected tax payable or receivable/offset on taxable income or loss for the year, which reflects the uncertainties related to its calculation, if any. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes as well as for income and social contribution tax losses, and reflects the uncertainty related to income tax, if any.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. Deferred tax assets are reviewed every annual reporting date and are reduced to the extent that their realization is no longer probable.

Sales taxes

These mainly refer to Contribution Taxes on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) under the cumulative taxation regime, calculated at the rates of 1.65% and 7.6%, respectively, on revenues and credited on purchases.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

f) Taxation

Taxation - subsidiaries

Subsidiaries Pacto Comercializadora and Evolution Comercializadora are also taxed based on the reconstructed profit regime and fall under the items above. The other subsidiaries are taxed according to the regime whereby their current taxes are calculated, on a quarterly basis, based on gross revenue.

Corporate Income Tax - IRPJ (25%) and Social Contribution Tax on Net Profit - CSLL (9%) are calculated at their nominal rates, which combined total 34%. PIS and COFINS are fully taxed at 0.65% and 3%, respectively

g) Financial instruments

Recognition and measurement

Financial assets and liabilities are recognized when the Company and its subsidiaries become parties to their contractual provisions. They are initially measured at amortized cost or fair value, depending on their assessment regarding the allocation.

Transactions costs are directly attributable to the acquisition or issue of financial assets and liabilities (except for financial assets and liabilities recognized at fair value through profit or loss) and are increased or decreased of fair value of financial assets or liabilities, where applicable, after initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are immediately recognized in P&L.

Classification

Financial assets and liabilities are presented net in the statement of financial position if, and only if, there is a current enforceable legal right of offsetting the amounts recognized and if there is the intention to offset or realize the asset and settle the liability simultaneously.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

g) Financial instruments (Continued)

Classification (Continued)

Upon initial recognition, a financial asset is classified as:

- Measured at amortized cost;
- Measured at fair value through other comprehensive income (FVTOCI), with reclassification of accumulated gains and losses (debt instruments);
- Measured at fair value through other comprehensive income (FVTOCI), without reclassification of accumulated gains and losses upon their derecognition (equity instruments);
- Measured at fair value through profit or loss (FVTPL).

Financial assets and liabilities are not reclassified subsequently to initial recognition, unless the Company changes the business model for financial asset management, in which case all affected financial assets are reclassified on the first day of the reporting period after the change in the business model.

Offsetting

Financial assets or liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Impairment test of financial assets

Financial assets are tested at each statement of financial position date, identifying if they are fully recoverable or if there is an impairment loss for these financial instruments.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

g) Financial instruments (Continued)

Power trade agreements - mark-to-market

The Company and its subsidiaries carry out power purchase and sale transactions to meet their main objective, which is the trade of electric power in the Energy Free Market. Such power purchase and sale transactions are traded in an active market and meet the definition of financial instruments, due to the fact that they are settled in power and readily convertible into cash. These agreements are accounted for as derivatives under CPC 48 and are recognized in the Company's and its subsidiaries' statement of financial position at fair value, on the date the derivative is entered into. Their fair value is reassessed on the statement of financial position date and changes thereto are accounted for in the statement of profit or loss for the year.

The fair value of these derivatives is estimated partly based on price quotations disclosed in active markets, to the extent that such observable market inputs exist, and partly based on the use of valuation techniques that take into consideration: (i) prices set in purchase and sale transactions; (ii) supply risk margin; and (iii) market price projected in the period this information is available. Whenever the fair value on initial recognition for these contracts differs from the transaction price, a fair value gain or fair value loss is recognized.

h) Other assets and liabilities (current and noncurrent)

An asset is recognized in the statement of financial position when its future economic benefits are likely to inure to the Company and their cost or value may be reliably measured. A liability is recognized in the statement of financial position when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. When applicable, the corresponding charges, monetary variations or foreign exchange differences incurred are added thereto. Provisions are set up reflecting the best estimates of the risk involved.

Assets and liabilities are classified as current whenever their realization or settlement is likely to occur within the following twelve months; Otherwise, they are stated as noncurrent.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

i) Present value adjustment of assets and liabilities

When applicable, monetary assets and liabilities are adjusted to their present value upon initial recording of the transaction, taking into consideration the contractual cash flows, and explicit or implicit interest rates, based on market rates for transactions similar to the related assets and liabilities. Subsequently, these effects are reallocated in the finance income or costs lines, in the statement of profit or loss, using the discount rate considered and the amortized cost method. At December 31, 2020, management assessed its main financial assets and liabilities (accounts receivable, trade accounts payable and receivables from/payables to related parties) and concluded that possible present value adjustments would be immaterial to the financial statements.

j) Recognition of sales revenue

Operating revenue in the ordinary course of the Company's and its subsidiaries' businesses is measured at the consideration received or receivable. Operating revenue is recognized when it represents the transfer (or promise) of goods or services to customers to reflect the consideration of which amount is expected to be exchanged for those goods or services.

NBC TG 47 / IFRS 15 establishes a five-step model for revenue recognition that considers: (i) identification of the contract with the customer; (ii) identification of the performance obligation defined in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the contract performance obligations; and (v) revenue recognition whether and when the Company meets performance obligations.

Therefore, the revenue is recognized only when (or whether) the performance obligation is satisfied, that is, when the "control" over the goods or services of a certain transaction is effectively transferred to the customer.

Revenue from the sale of power is recorded based on bilateral contracts entered into with market agents and duly registered with the Electric Energy Trade Chamber (CCEE).

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.3. Significant accounting practices (Continued)

k) Provisions for contingencies

Provisions for contingencies are recognized when the Group has a present or constructive obligation arising from past events, the settlement of which is likely to lead to an outflow of funds and the amount of this liability can be reliably measured. Provisions are quantified at the present value of the disbursement expected to settle the obligation, using the appropriate discount rate according to the risks related to the liability. The provisions are restated up to the statement of financial position dates by the estimated amount of probable losses, considering their nature and supported by the opinion of the Group's legal advisors. The provisions assessed as possible losses by the legal advisors are disclosed in notes.

l) Statements of cash flows

The statement of cash flow was prepared by the indirect method and is presented in accordance with the Brazilian Accounting Standard (NBC TG) 03 (R3) / IAS 7 - Statement of Cash Flow issued by Brazil's National Association of State Boards of Accountancy (CFC).

2.4. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Company's and its subsidiaries' financial statements requires that management make judgments and estimates and adopt assumptions that affect the amounts disclosed referring to revenues, expenses, assets and liabilities, as well as the disclosures of contingent liabilities, at the financial statement reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In applying the Company's and its subsidiaries' accounting policies, management made the following judgments that have a more significant effect on the amounts recognized in the financial statements:

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.4. Significant accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions

Significant assumptions regarding sources of uncertainty in future estimates and other major sources of uncertainty in estimates at the statement of financial position date, involving significant risk that a significant adjustment to the carrying amount of assets and liabilities may be required in the next financial year are presented below:

Impairment of nonfinancial assets

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. The calculation of fair value less costs to sell is based on information available on sales transactions of similar assets or market prices less additional costs for the disposal of the asset.

Fair value of power trade agreements

Power trade agreements recognized at fair values through profit or loss are valued through the quotation in an active market for the related instruments, or when such prices are not available, they are valued using pricing models, applied individually for each transaction, taking into consideration future payment flows, based on contractual conditions, discounted to present value at rates obtained through market interest curves, based, whenever available, on information obtained from Balcão Brasileiro de Comercialização de Energia S.A. - BBCE, DCIDE system, and also comprise the debtor's credit risk rate.

2.5. New or reviewed pronouncements first-time adopted in 2020

The Company and its subsidiaries applied for the first time certain standards and amendments that are effective for annual reporting periods beginning on or after January 1, 2020. Management elected not to early adopt any other standard, interpretation or amendment that has been issued, but is not yet effective.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.5. New or reviewed pronouncements first-time adopted in 2020 (Continued)

Amendments to NBC TG 15 (R4): Definition of a business

The amendments to NBC TG 15 (R4) clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the Company's and its subsidiaries' individual and consolidated financial statements, but may impact future periods should the Company and its subsidiaries enter into any business combinations.

Amendments to NBC TG 40 (R3) and NBC TG 48: Interest Rate Benchmark Reform

The amendments to NBC TG 40 (R3) and NBC TG 48 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the Company's and its subsidiaries' individual and consolidated financial statements as they do not have any interest rate hedging relationships.

Amendments to NBC TG 26 (R5) and NBC TG 23 (R2): Definition of material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the Company's financial statements, nor is there expected to be any future impact to the Company.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

2. Accounting policies (Continued)

2.5. New or reviewed pronouncements first-time adopted in 2020 (Continued)

Revision of NBC TG: Conceptual Framework for Financial Reporting

The revised pronouncement brought some new concepts, updated definitions and recognition criteria for assets and liabilities and clarified some important concepts. These amendments had no impact on the Company's and its subsidiaries' individual and consolidated financial statements.

2.6. New standards and interpretations not yet effective

The new and amended standards and interpretations issued but not effective until the issue date of the Company's financial statements are described below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of liabilities as current and noncurrent

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1, related to NBC TG 26 (R5), in order to specify the requirements for classifying the liability as current or noncurrent. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

3. Cash and cash equivalents

	Individual		Consolidated	
	2020	2019	2020	2019
Bank deposits and cash	1	1	383	5
Short-term investments (a)	3	2	7,006	4,982
	4	3	7,389	4,987

(a) Short-term investments refer to temporary cash surpluses invested in fixed income, available for immediate redemption. They are remunerated at a rate between 80% and 105% of the Interbank Deposit Certificate (CDI) rate.

4. Accounts receivable (Consolidated)

	2020	2019
Unbilled metered/delivered power - third parties (a)	31,067	37,528
Trade accounts receivable (b)	17,417	15,131
	48,484	52,659

(a) This balance refers to the power traded by subsidiaries Pacto Comercializadora and Evolution Comercializadora, which is delivered/consumed during the month, however, the billing (issue of invoice) takes place at the beginning of the subsequent month. Therefore, accounts receivable in December 2020 correspond to the power generated/delivered in December 2020, whose invoice was issued in early January 2021. The acquisition cost of this power has the same treatment, the provision payable is recorded in current liabilities matched against cost in the statement of profit or loss for the year. There are no accounts receivable within this category overdue at December 31, 2020 and 2019.

(b) This refers to accounts receivable for the sale of goods by subsidiaries Pacto Indústria and Pacto Soluções. The aging list of accounts receivable is as follows:

	2020	2019
Overdue	152	-
Failing due within 30 days	4,590	4
Failing due within 180 days	5,310	15,127
Failing due from 181 to 365 days	7,365	-
	17,417	15,131

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

5. Related parties

All balances with related parties are valued based on their historical costs of value and should be settled in accordance with the specific definition agreed by and between the parties.

The balances have no guarantees, maturities or undergo any restatement.

a) Receivables from related parties

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Assets				
Subsidiaries				
Pacto Esco S.A.	-	2	-	-
Pacto Geração Distribuída S.A.	2,839	850	-	-
Pacto Geração e Transmissão S.A.	215	1,483	-	-
Pacto Indústria S.A.	-	282	-	-
Pacto Soluções S.A.	111	49	-	-
W2E Digital S/A	641	140	-	-
	3,806	2,806	-	-
Shareholders				
Eagle S.A.	2,820	-	2,820	-
Salberg S.A.	2,117	-	2,117	-
	4,937	-	4,937	-
Related parties				
Ecotx Intermediação	-	-	-	66
Energybank Comercializadora de Energia	5	2	5	2
Energybank Trade Comercializadora	5	2	5	2
Epop Coop cooperativa	75	7	559	97
Origen Comercializadora de Energia	10	8	10	8
Total Solar Participações S.A.	1,000	1,000	1,000	1,522
Vertice Comercializadora de Energia	10	8	10	8
Loans with individuals	224	585	2,358	1,354
Other	769	5	771	-
	2,098	1,617	4,718	3,059
	10,841	4,423	9,655	3,059
Current	(1,800)	-	(1,800)	-
Noncurrent	9,041	4,423	7,855	3,059

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

5. Related parties (Continued)

b) Payables to related parties

	Individual		Consolidated	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Noncurrent liabilities				
Subsidiaries				
Evolution Comercializadora	2,285	16	-	-
Pacto Comercializadora	16,669	17,067	-	-
	18,954	17,083	-	-
Related parties				
Argon Comercializadora	-	-	727	-
Total Comercializadora	-	-	18	-
Total Solar Participações	-	-	2	-
Loans with individuals	-	-	23	2,530
Other	-	-	47	-
	-	-	817	2,530
Noncurrent	18,954	17,083	817	2,530

c) Transactions with related parties

Subsidiaries Pacto Comercializadora and Evolution Comercializadora have commercial transactions involving purchase and sale of power among themselves. These transactions are eliminated in the consolidated financial statements and can be summarized as follows:

Seller	Buyer	2020	2019
Evolution Comercializadora	Pacto Comercializadora	9,854	13,588
Pacto Comercializadora	Evolution Comercializadora	7,881	11,199

d) Managing officers' compensation

At December 31, 2020, the Company paid, through its subsidiary Pacto Comercializadora, R\$534 (R\$1,089 in 2019) referring to direct or indirect compensation to its managing officers.

6. Dividends receivable (Individual)

These refer to dividends receivable from subsidiaries as shown in the table below:

	2020	2019
Pacto Comercializadora	762	2,025
Pacto Indústria	1,128	-
	1,890	2,025

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
December 31, 2020
(In thousands of reais)

6. Dividends receivable (Individual) - Continued

Changes in dividends for the year were as follows:

	<u>2020</u>	<u>2019</u>
Opening balance	2,025	-
Dividends receivable	1,890	2,025
Dividends offset	(2,025)	-
Closing balance	<u>1,890</u>	<u>2,025</u>

7. Investments (Individual)

a) Balance breakdown

	<u>2020</u>	<u>2019</u>
Investments in subsidiaries	<u>27,966</u>	<u>27,062</u>
	<u>27,966</u>	<u>27,062</u>

b) Information on investments

	(%) Total equity interest	<u>Balances at December 31, 2020</u>				
		Total Assets	Capital	Equity	P&L for the year	Share in P&L
Energy Serviços Digitais	100%	-	10	-	(10)	(10)
Evolution Comercializadora	100%	8,349	5,000	3,654	336	336
Pacto Comercializadora	100%	71,715	11,000	22,382	3,207	3,207
Pacto Energia e						
Manutenções	24%	100	100	96	(34)	(8)
Pacto Esco	100%	-	1	(3)	(1)	(1)
Pacto Geração						
Distribuidora	100%	22,673	10	(1,107)	(548)	(548)
Pacto Geração	100%	3,385	2,000	2,057	659	659
Pacto Industria	100%	17,158	1,000	1,200	1,126	1,126
Pacto Soluções	100%	458	1	338	376	376
Power Labs Participações	90%	-	10	-	(10)	(9)
W2E Digital	100%	3,694	1	(193)	(193)	(143)
						<u>4,985</u>

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)

December 31, 2020

(In thousands of reais)

7. Investments (Individual) - Continued

c) Changes in investments

	12/31/2019	Acquisitions/ Contributions	Dividends	Equity pickup	12/31/2020
Energy Serviços Digitais	(5)	16	-	(10)	1
Evolution Comercializadora	1,659	1,539	-	336	3,534
Pacto Comercializadora	19,937	-	(762)	3,207	22,382
Pacto Energia e Manutenções	-	41	-	(8)	33
Pacto Esco	(5)	4	-	(1)	(2)
Pacto Geração Distribuidora	(883)	56	-	(548)	(1,375)
Pacto Geração	(93)	1,490	-	659	2,056
Pacto Industria	5,912	-	(5,838)	1,126	1,200
Pacto Soluções	(37)	-	-	376	338
Power Labs Participações	-	-	-	(9)	(9)
W2E Digital	(49)	-	-	(143)	(192)
	27,062	3,146	(6,600)	4,985	27,966

8. Property, Plant and Equipment - PPE (Consolidated)

	(%) Annual depreciation rates	Cost	Accumulated depreciation	Balance in 2020	Balance in 2019
Leasehold improvements		-	-	-	121
Power generation plant	7%	20,050	(557)	19,493	-
Machinery and equipment	10%	55	(15)	40	45
Furniture and fixtures	10%	157	(64)	93	110
Vehicles	20%	136	(51)	85	100
Computers and peripherals	20%	147	(44)	103	94
Communication equipment	20%	-	-	-	1
Construction in progress	20%	222	-	222	-
		20,767	(731)	20,036	471

Changes in property, plant and equipment:

	Balances in 2019	Additions	Depreciation	Balances in 2020
Leasehold improvements	121	-	(121)	-
Power generation plant	-	20,050	(557)	19,493
Machinery and equipment	45	10	(15)	40
Furniture and fixtures	110	47	(64)	93
Vehicles	100	37	(52)	85
Computers and peripherals	94	53	(44)	103
Communication equipment	1	-	(1)	-
Construction in progress	-	222	-	222
	471	20,419	(854)	20,036

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9. Loans and financing (Consolidated)

Description	Charges	Balance at 12/31/2019	Fundraisin g	Interest incurred	Repayments of principal	Interest paid	Balance at 12/31/2020
Financing (a)	157% of CDI TJLP ¹ + 6.71% to	15,284	-	1,933	(500)	-	16,717
Working capital (b)	9.90% p.a.	-	6,090	146	(550)	(119)	5,567
		15,284	6,090	2,079	(1,050)	(119)	22,284
	Current	(1,048)					(6,204)
	Noncurrent	14,236					16,080

(a) This refers to a loan taken out in 2019 from Bradesco bank by subsidiary Pacto Geração Distribuída for the purpose of contributing to its investee Capim Branco II Energia Solar for the construction of a solar power generation plant project. The loan is subject to post-fixed interest rate of 157% of the CDI and its final maturity takes place in 2034. It is guaranteed by assignment of receivables of the power generation plant. This plant has a Power Purchase Agreement (PPA) entered into for 15 years.

(b) This refers to loans taken out in 2020 by subsidiary Pacto Indústria for the subsidiary's working capital purposes. These loans are subject to a post-fixed interest rate of TJLP + 6.71% to 9.90% p.a., and its final maturity takes place in 2024.

Falling due noncurrent portions mature as follows:

Year	2020	2019
2022	2,398	1,048
2023	2,394	1,048
2024	1,795	1,048
2025	1,223	1,048
2026	8,270	10,044
	16,080	14,236

10. Accounts payable (Consolidated)

	2020	2019
Unbilled power purchase (a)	33,481	6,750
Resale, services and consumption - suppliers	19,690	38,056
	53,171	44,806

(a) This refers to the provision of power purchased in December 2019/2020, whose invoice was only received in January 2020/2021.

¹ Long-Term Interest Rate ("TJLP").

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Notes to financial statements (Continued)
December 31, 2020
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11. Provision for contingencies (Consolidated)

At December 31, 2019, management assessed its legal proceedings of labor, civil and tax nature and concluded that, on that date, the following claims presented likelihood of probable loss:

	<u>2020</u>	<u>2019</u>
Labor claims	400	400
	<u>400</u>	<u>400</u>

On that same date, the Company and its subsidiaries were parties to proceedings whose likelihood of loss was assessed as possible, as shown below:

	<u>2020</u>	<u>2019</u>
Civil proceedings	171	-
	<u>171</u>	<u>-</u>

12. Equity

a) Capital

At December 31, 2020, the subscribed and paid-up capital amounts to R\$8,000 (R\$1 in 2019), represented by 8,000,000 (1,000 in 2019) common registered no-par-value shares, held as follows:

<u>Shareholders</u>	<u>2020</u>		<u>2019</u>	
	<u>R\$</u>	<u>%</u>	<u>R\$</u>	<u>%</u>
Eagle Energy Holding	5,600	70.00	0.7	70.00
Salberg Participações S.A.	2,400	30.00	0.3	30.00
	<u>8,000</u>	<u>100.00</u>	<u>1</u>	<u>100.00</u>

At the Special General Meeting (SGM) held on June 23, 2020, the shareholders approved the Company's capital increase through the issue of 7,999,000 new common shares, subscribed and paid in, through the payment of a future capital contribution in the amount of R\$7,999, keeping the share split ratio between shareholders.

b) Capital reserve

The balance of R\$1,500 refers to the change in the Company's percentage of equity interest held in its subsidiary Evolution Comercializadora, on which the Company became the holder of 100% of capital in 2020.

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Notes to financial statements (Continued)
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12. Equity (Continued)

c) Income reserve

Legal reserve

According to the Articles of Incorporation, 5% of the net income for the year will be allocated to set up the legal reserve addressed in article 193 of Law No. 6404/76, capped at 20% of the capital. At December 31, 2020, management allocated R\$226 to the legal reserve.

Retained profits

This represents the portion of profit allocated after setting up the legal reserve and allocation of the mandatory minimum dividend, which must be resolved definitively through a corporate document.

d) Future capital contribution

These refer to contributions made by shareholders that should be paid in to the Company's capital during the next fiscal year.

e) Allocation of income

According to the Company's Articles of Incorporation, shareholders are entitled to a minimum dividend of 25% on net income for the year, adjusted as required by the Brazilian Corporation Law, as follows:

	<u>2020</u>	<u>2019</u>
Net income for the year	4,528	5,628
Retained profit reserve	-	(5,628)
Legal reserve - 5%	(226)	-
Dividend calculation basis	<u>4,302</u>	-
Mandatory minimum dividend - 25%	1,075	-

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Notes to financial statements (Continued)

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13. Net operating revenue (Consolidated)

	2020	2019
Gross revenue from sale of electric power (a)	238,207	266,167
Revenue from metered and unbilled electric power (b)	(13,086)	34,927
Revenue from sale of goods (c)	19,402	20,773
Revenue from sale of services (d)	1,797	21
(-) PIS / COFINS / ICMS ¹ / ISS ² / Return	(28,223)	(28,763)
	218,097	293,125

(a) This refers to the sale of electric power traded in the free market by subsidiaries Pacto Comercializadora and Evolution Comercializadora.

(b) This refers to the power sold by subsidiaries Pacto Comercializadora de Energia e Gás Natural S.A. and Evolution Comercializadora, in December 2020, whose sales invoice was issued in early January 2021.

(c) Sale of products used for power generation carried out by subsidiary Pacto Indústria S.A.

(d) Sale of management services carried out by subsidiaries Pacto Soluções S.A., Pacto Indústria S.A., Pacto Energia e Manutenções and Capim Branco.

14. Costs of sales (Consolidated)

	2020	2019
Cost of purchase of electric power	(212,197)	(248,157)
Cost of purchased and unbilled power (a)	15,445	(24,215)
Cost of goods sold	(13,344)	(10,292)
Cost of services rendered	(622)	-
	(210,718)	(282,664)

(a) This refers to the power purchased by subsidiaries Pacto Comercializadora and Evolution Comercializadora, in December 2020, whose purchase invoice was received in early January 2021.

15. General and administrative expenses

	Individual		Consolidated	
	2020	2019	2020	2019
Services engaged (a)	(289)	(83)	(4,245)	(1,808)
Payroll and related charges	-	-	(1,242)	(576)
Attorney's fees	(60)	-	(239)	(236)
Travel and lodging expenses	(5)	-	(70)	(261)
Rates and fees	(3)	(9)	(570)	(394)
Information Technology	(7)	-	(368)	-
Building maintenance	-	-	(340)	-
Vehicles	-	-	(227)	-
Other (b)	58	(160)	(522)	(991)
	(306)	(252)	(7,823)	(4,266)

(a) These refer to expenses with accounting, transportation, computer, consulting, administrative services, etc.

(b) Composed mainly of expenses with consumption and miscellaneous materials.

¹ Value-Added Tax on Sales and Services ("ICMS").

² Service Tax.

Pacto Energia S.A. and Consolidated

Notes to financial statements (Continued)
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16. Finance income (costs)

	Individual		Consolidated	
	2020	2019	2020	2019
Finance income				
Short-term investment yield	-	2	19	258
Deferred income	-	-	-	96
Interest income	-	-	36	-
Discounts obtained	-	-	187	6
	-	2	242	360
Finance costs				
Tax on Financial Transactions (IOF)	(148)	(1)	(148)	(334)
Bank fees	(2)	(1)	(62)	(19)
Late-payment interest	(1)	-	(290)	(135)
Banking interest	-	-	(486)	(633)
Discounts granted	-	-	(639)	-
Other	-	-	(88)	(54)
	(151)	(2)	(1,713)	(1,175)
Finance income (costs)	(151)	-	(1,471)	(815)

17. Income and social contribution taxes (Consolidated)

Corporate Income Tax - IRPJ (25%) and Social Contribution Tax on net Profit - CSLL (9%) are calculated at their nominal rates, which combined total 34%.

	2020	2019
Income before income and social contribution taxes	7,131	5,335
Statutory rate	34%	34%
IRPJ and CSLL expense, at statutory rates	(2,425)	(1,814)
Equity pickup	1,695	2,000
Other additions and exclusions, net	(1,790)	(1,038)
IRPJ and CSLL effective expense	(251)	(852)
IRPJ and CSLL - deferred	(2,269)	-
	(2,520)	(852)
Effective rate	35%	16%

Deferred taxes

Subsidiaries Pacto Comercializadora and Evolution Comercializadora recognize deferred IRPJ, CSLL, PIS and COFINS on provisions for purchase and sale of power and on the change in fair value of forward power purchase and sale agreements (Note 14).

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17. Income and social contribution taxes (Consolidated) - Continued

At December 31, 2020, as it did not meet the criteria established in NBC TG 32 (R4) / IAS 12, the Company did not recognize income and social contribution taxes on the related tax loss balances.

At December 31, 2020, deferred taxes presented in the statement of financial position are broken down as follows:

	<u>2020</u>	<u>2019</u>
Liabilities		
Deferred income and social contribution taxes	858	-
Deferred PIS and COFINS	2,752	-
	<u>3,610</u>	<u>-</u>
Deferred tax balance at December 31		

18. Power trade agreements (Consolidated)

At December 31, 2020, subsidiaries Pacto Comercializadora and Evolution Comercializadora have power purchase and sale agreements for future supply until 2023, which resulted in the mark-to-market effects disclosed in item (a) below.

At December 31, 2020, these commitments totaled R\$46,114 and R\$116,797, under receivables and obligations, respectively. As mentioned in Note 2.3 (g), these subsidiaries operate in the Free Market ("ACL") and have entered into bilateral power purchase and sale agreements with their counterparties. These transactions resulted in gains and losses for the subsidiaries, which were recognized at their fair value in the statement of profit or loss for the year.

The transactions and related mark-to-market effects are shown below:

	<u>2020</u>	<u>2019</u>
Assets related to power trade agreements		
Power trade agreements	16,868	8,368
	<u>16,868</u>	<u>8,368</u>
Current assets	8,267	8,368
Noncurrent assets	8,601	-
Liabilities related to power trade agreements		
Power trade agreements	9,007	8,234
	<u>9,007</u>	<u>8,234</u>
Current liabilities	8,593	8,234
Noncurrent liabilities	414	-

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Notes to financial statements (Continued)
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18. Power trade agreements (Consolidated) - Continued

The actual result of financial instruments (futures contracts) may vary substantially, since these agreements were marked-to market considering the base date December 31 of each year.

a) Mark-to-market of trade agreements

The fair value, through the physical settlement of power sale and purchase agreements, was recognized in the following lines:

	<u>2020</u>	<u>2019</u>
Profit or loss		
Fair value of mark-to-market of financial instruments	8,632	134
Deferred PIS and COFINS (Note 17)	(858)	(12)
Deferred income and social contribution taxes	(2,000)	(46)
Cumulative net effect with derivative financial instruments	5,774	76

19. Financial instruments and risk management

The Company, through its subsidiaries, carries out transactions with financial instruments, which are managed through operating strategy and internal controls, aiming at ensuring liquidity, safety and profitability. Gains and losses on these transactions are in accordance with the practices adopted by the management of the Company and its subsidiaries

The risks associated with these transactions are managed through the application of practices defined by management and include monitoring of the exposure levels of each market risk and forecast of future cash flows. These practices also determine that information is updated in operational systems, as well as the information and operation of transactions with counterparties.

19.1. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in a transaction in which there are no favored parties. The fair value concept addresses many variations on metrics used to measure an amount reliably.

19.2. Financial instruments by category

The carrying amounts and fair values of financial assets and liabilities, including their fair value hierarchy levels are presented in the table below. It does not include information on the fair value of financial assets and liabilities not measured at fair value, if the carrying amount is a reasonable approximation of fair value.

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Notes to financial statements (Continued)
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19. Financial instruments and risk management (Continued)

19.2. Financial instruments by category (Continued)

	Consolidated		
	2020		
	Carrying amount at amortized cost	Fair value through profit or loss	Level
Financial assets			
Cash and cash equivalents	-	7,386	Level 1
Accounts receivable	48,484	-	Level 2
Related parties	9,655	-	Level 2
Power trade agreements	-	16,868	Level 2
Financial liabilities			
Trade accounts payable	42,110	-	Level 2
Related parties	817	-	
Power trade agreements	-	9,007	Level 2

The following methods and assumptions were used in determining the fair value:

Financial instruments - these are defined as financial assets and liabilities at fair value through profit or loss. The fair value of future power purchase and sale transactions for future delivery and settlement is estimated partly based on price quotations published in active markets, to the extent that such observable market inputs exist, and partly based on the use of valuation techniques that take into consideration: (i) prices set in purchase and sale transactions; (ii) supply risk margin; and (iii) market price projected in the period this information is available.

19.2.1. Fair value hierarchy

The different levels were defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 - inputs, other than quoted prices, included in Level 1, which are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: assumptions, for assets or liabilities, which are not based on observable market inputs (unobservable inputs).

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Notes to financial statements (Continued)
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19. Financial instruments and risk management (Continued)

19.3. Market risk management

Market risk is presented as the possibility of monetary losses due to fluctuations in variables that have an impact on prices and rates traded in the market. These fluctuations, positive or negative, generate an economic impact on all agents operating in the energy free market and are constantly monitored by Company management. The Company and its subsidiaries consider for the amount already generated in their portfolio and, therefore, they use various risk assessment mechanisms, whether market or credit mechanisms, to debug and price its business and portfolio.

19.4. Price-related risk in power purchase and sale transactions

The Company, through its subsidiaries, operates in the power purchase and sale market in order to achieve results with changes in power prices, respecting the risk limits pre-established by management. This activity, therefore, exposes the Company and its subsidiaries to the power future price risk.

The future power purchase and sale transactions are recognized at fair value through profit or loss, based on the difference between the contracted price and the market future price estimated by the Company and its subsidiaries.

The fair value of power purchase and sale agreements are shown below:

	<u>2020</u>	<u>2019</u>
Fair value in the purchase and sale of power	7,861	-

For power purchase and sale agreements, the fair value was stipulated using the prices defined internally by the Company in the last week of December, which represented the best estimate of the market future price.

19.5. Liquidity risk management

The liquidity risk shows the ability of the Company and its subsidiaries to settle the assumed obligations.

The management of the Company and its subsidiaries only take out credit facilities that enable their operational leverage.

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Notes to financial statements (Continued)
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19. Financial instruments and risk management (Continued)

19.6. Capital management

The objectives of the Company and its subsidiaries in managing their capital are to safeguard their ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders, and to maintain an optimal capital structure to reduce this cost.

In order to maintain or adjust their capital structure, the Company and its subsidiaries may revise the policy for distribution of profits, return capital to shareholders or sell assets to reduce their indebtedness, for example.

* * *