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**Financial liabilities**—The Group's financial liabilities consist principally of trade payables and borrowings and are recorded initially at fair value, net of applicable transaction costs, and subsequently measured at amortized cost plus interest, as applicable.

**Derivative financial instruments**—Derivative financial instruments are recorded at fair value with subsequent changes value recorded in the combined income statements, unless they are designated in a qualifying cash flow or net investment hedging relationship. For the periods presented, the Group did not contract or have any outstanding derivative financial instruments.

**Offsetting**—Financial assets and liabilities are offset and recorded net in the combined balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

**Property, plant and equipment**—Property, plant and equipment consist of land, the Group's energy generation assets, and construction in progress, which are measured at the historical purchase or construction cost, less accumulated depreciation and accumulated impairment losses, when necessary.

The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs to bring the assets to a working condition for their intended use. Financing costs, consisting of interest expense on borrowings and amortization of deferred financing costs, net of finance income earned on unused financing proceeds as applicable, are capitalized during the construction phase until the asset is ready for its intended use.

Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance and repairs are expensed as incurred.

Property, plant and equipment are depreciated on a straight-line basis over the estimated economic useful life of each component from the date the asset is placed in service and ready for its intended use. The estimated useful lives used in the determination of the depreciation rates consider the manuals and guides of ANEEL, which approximate the useful lives of these assets.

For the SHPPs, the Group considers these rates appropriate since, based on a legal assessment of the prevailing legislation and management's assessment of ANEEL Permission Resolution granting a license to operate as an independent power generator, the Group will be indemnified for the residual value of the assets upon termination of these licenses, if not renewed. Management considers the renewal of operating licenses probable. As the regulatory agency issues new information or decisions, the current depreciation rates for such assets may be changed.

The following summarizes the estimated useful lives of the Group's property, plant and equipment.

Category	Useful lives in years
Reservoirs, dams and watermains	43
Buildings, civil works and improvements	26 to 37
Machinery and equipment	21 to 32
Other	7 to 19

According to Brazilian electricity regulation, those assets and facilities used in power generation, transmission, distribution and sale of power are linked to these services and cannot be removed, sold, assigned or pledged without the prior and express authorization of the regulatory body.

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