

To managers and controllers of Itaipu Binacional
Brasília - DF

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We audited the financial statements of Itaipu Binacional, which comprise the balance sheet as of 31 December 2011, the respective income statements and statements on sources and use of resources, corresponding to the period ended on that date, expressed in dollars of the United States of America, elaborated in accordance to the specific dispositions contained on the Treaty of 26 April 1973 (cited on explanatory note 2), under the responsibility of your management.

Management's responsibility concerning financial statements

The management of Itaipu Binacional is responsible for the preparation and adequate presentation of financial statements in accordance with accounting practices adopted in Brazil and Paraguay, for the internal controls that it deemed necessary to allow the elaboration of financial statements free of relevant distortion, regardless of it being caused by fraud or error, of selecting and applying adequate accounting policies, and of elaboration of accounting estimates that are reasonable for the circumstances.

Independent auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, which was conducted in accordance with auditing standards adopted in Brazilian and Paraguay. Those standards require fulfillment of ethical exigencies by auditors and that the audit be planned and implemented with the object of obtaining reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures selected to obtain evidence about amounts and disclosures presented in financial statements. Selected procedures depend on the auditor's judgment, including assessment of risks of material misstatement on financial statements, whether due to fraud or error. In such risk assessment, the auditor considers relevant internal controls for preparation and adequate presentation of the entity's financial statements, to plan audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluation of the appropriateness of accounting practices used and of the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence obtained is sufficient and appropriate to base our opinion.

Opinion

In our opinion, the financial statements, when read in conjunction with the accompanying explanatory notes, present fairly, in all material respects, the financial and equity situation of Itaipu Binacional on 31 December 2011, the results of its operations and the origins and uses of funds corresponding to the year then ended, in accordance with the specific provisions contained in the Treaty of 26 April 1973 (cited in note 2), and substantiated in the accounts plan and policies for elaboration of accounting records, approved by the Management Board of Itaipu Binacional. These accounting standards differ, in some relevant aspects, from accounting practices adopted in Brazil and Paraguay, as described in explanatory note 2 (i) to (v).



Emphasis

As discussed in explanatory note 20, the Caja Paraguaya de Jubilaciones y Pensiones del Personal de Itaipu Binacional – CAJUBI, the entity that manages retirement and pensions program of Itaipu employees in Paraguay, presented in 31 December 2011 an actuarial deficit of US\$ 731,933 thousand, for which an accounting provision was incorporated in the full amount of this deficit. Itaipu management has been following actions to equalize the situation. We emphasize that with regard to the emphasized subject there is no change in our opinion.

Other issues

Statement on Value Added, Cash Flows and Operating Accounts

Our audits were conducted for the purpose of issuing a report on the financial statements referred to above, taken together. The Statement on Value Added, Cash Flows and Operating Accounts for the year ended 31 December 2011, contained in Tables I, II, III and Annex I, which are presented to provide additional information about the entity, are not required as integral part of the financial statements. These statements were subjected to the auditing procedures described in the fourth paragraph and, in our opinion, they are fairly presented in all material respects in relation to the financial statements taken as a whole.

Brasília, 22 March 2012.

Asunción, 22 March 2012.

UHY AUDICON Consortium



UHY MOREIRA – AUDITORES
CRC RS 3717
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BALANCE SHEETS AS OF 31 DECEMBER 2011 AND 2010

(In US dollars - US\$ 1.00)

ASSETS

	<u>Note</u>	<u>31.12.2011</u>	<u>31.12.2010</u>
CURRENT ASSETS			
Cash and cash equivalents	6	568.408.376	545.693.567
Trade accounts receivable	7	872.623.855	754.598.355
Stockroom supplies	8	6.902.216	7.326.737
Obligations receivable	9	731.570	734.466
Court deposits	10	54.693.468	51.472.834
Other accounts receivable	11	50.024.883	29.195.719
TOTAL CURRENT ASSETS		<u>1.553.384.368</u>	<u>1.389.021.678</u>
NON-CURRENT ASSETS			
Trade accounts receivable	7	-	39.002.146
Obligations receivable	9	208.219.907	159.894.095
Court deposits	10	45.438.259	30.166.661
		<u>253.658.166</u>	<u>229.062.902</u>
INCOME (LOSSES) AVAILABLE FOR OFFSET			
Prior years	12	362.270.439	828.818.259
Current year		(784.223.831)	(466.547.820)
		<u>(421.953.392)</u>	<u>362.270.439</u>
PROPERTY, PLANT AND EQUIPMENT	13	<u>17.449.556.932</u>	<u>17.430.926.794</u>
INTANGIBLE ASSETS	14	<u>20.332.016</u>	<u>18.074.800</u>
TOTAL NON-CURRENT ASSETS		<u>17.301.593.722</u>	<u>18.040.334.935</u>
TOTAL ASSETS		<u>18.854.978.090</u>	<u>19.429.356.613</u>

The accompanying notes are an integral part of these financial statements.

(Convenience translation into English from the original previously issued in Portuguese)



BALANCE SHEETS AS OF 31 DECEMBER 2011 AND 2010

(In US dollars - US\$ 1.00)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>Note</u>	<u>31.12.2011</u>	<u>31.12.2010</u>
LIABILITIES			
CURRENT LIABILITIES			
Loans and financing	15	1.028.829.033	964.112.033
Payments and reimbursements	16	564.237.033	415.708.139
Trade accounts payable	17	65.874.284	78.389.798
Salaries and social charges	18	51.776.352	53.805.637
Workers' indemnity benefits	19	19.734.254	16.472.537
Provisions for contingencies	21	223.207.923	222.371.817
Other liabilities	22	20.340.205	4.606.031
TOTAL CURRENT LIABILITIES		<u>1.973.999.084</u>	<u>1.755.465.992</u>
NON-CURRENT LIABILITIES			
Loans and financing	15	14.895.116.272	15.895.153.536
Labour indemnities	19	348.521.484	328.497.592
Post-employment benefits	20	1.355.099.147	1.168.898.536
Provisions for contingencies	21	179.188.637	178.286.782
Other liabilities	22	3.053.466	3.054.175
TOTAL NON-CURRENT LIABILITIES		<u>16.780.979.006</u>	<u>17.573.890.621</u>
TOTAL LIABILITIES		<u>18.754.978.090</u>	<u>19.329.356.613</u>
SHAREHOLDERS' EQUITY			
Share capital	23		
Centrais Elétricas Brasileiras S.A.		50.000.000	50.000.000
Administración Nacional de Electricidad		50.000.000	50.000.000
TOTAL SHAREHOLDERS' EQUITY		<u>100.000.000</u>	<u>100.000.000</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>18.854.978.090</u>	<u>19.429.356.613</u>

The accompanying notes are an integral part of these financial statements.

(Convenience translation into English from the original previously issued in Portuguese)



STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(In US dollars - US\$ 1.00)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES	24		
Electricity sold to final consumers		3.291.012.000	3.291.012.000
Payment for transfer of power rights		267.761.087	104.496.786
Reimbursement of costs - excess power sold to the other contracting party		93.378.828	55.038.968
Total operating revenues		3.652.151.915	3.450.547.754
OPERATING EXPENSES			
PAYMENTS AND REIMBURSEMENTS	25		
Capital earnings		(47.149.750)	(44.733.476)
Payment for transfer of power rights		(267.761.087)	(104.496.786)
Power owned by each contracting party			
Royalties		(397.969.347)	(377.031.035)
Reimbursement of administrative and supervision charges		(30.613.027)	(29.002.387)
		(428.582.374)	(406.033.422)
Excess power sold to the other contracting party			
Royalties		(86.708.911)	(51.107.613)
Reimbursement of administrative and supervision charges		(6.669.917)	(3.931.355)
		(93.378.828)	(55.038.968)
		(836.872.039)	(610.302.652)
GENERAL AND ADMINISTRATIVE EXPENSES	26		
Personnel		(545.332.279)	(580.341.945)
Actuarial liabilities		(206.010.554)	(428.607.040)
Materials		(16.169.216)	(12.023.546)
Third-party services		(106.963.208)	(102.745.459)
Provisions for contingencies		(49.301.964)	(68.572.111)
Other operating expenses		(140.414.682)	(99.159.723)
		(1.064.191.903)	(1.291.449.824)
Total operating expenses		(1.901.063.942)	(1.901.752.476)
RESULTS OF OPERATIONS		1.751.087.973	1.548.795.278
OTHER REVENUES (EXPENSES)	27		
Sundry revenues		15.800.187	5.772.443
Sundry expenses		(24.176.920)	(16.552.563)
Total sundry revenues (expenses)		(8.376.733)	(10.780.120)
FINANCIAL REVENUES			
Financial investment earnings		105.934.931	62.400.097
Late payment charges on energy bills		136.470	5.148
Other financial revenues		8.412.075	5.741.215
Total financial revenues		114.483.476	68.146.460
FINANCIAL EXPENSES			
Capitalisable finance charges	28	(225.654)	
Non-capitalisable finance charges		(1.093.462.280)	(1.154.444.716)
Monetary variations		20.745.178	14.830.963
Other financial expenses		(28.129)	(45)
Total financial expenses		(1.072.970.885)	(1.139.613.798)
FINANCIAL LOSS		(958.487.409)	(1.071.467.338)
NET INCOME		784.223.831	466.547.820

The accompanying notes are an integral part of these financial statements.

(Convenience translation into English from the original previously issued in Portuguese)



STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(In US dollars - US\$ 1.00)

	2011	2010
SOURCES OF FUNDS		
Provided by operations		
Net income	784.223.831	466.547.820
Noncash items		
Long-term monetary variations - loans	(2.509.412)	4.814.536
Long-term monetary variations - accrued liabilities	(52.128.833)	19.692.274
Long-term capitalisable charges	225.654	
Write-offs of property, plant and equipment	23.720.181	15.954.778
	753.531.421	507.009.408
From third parties		
Increase in non-current liabilities	334.141.316	615.462.605
Transfer from current to non-current liabilities	21.623.718	167.367
Transfer from non-current to current assets	39.896.692	3.079.076
Decrease in non-current assets	15.396.042	12.648.252
Received funds - loans	29.060.019	19.587.569
	440.117.787	650.944.869
TOTAL SOURCES OF FUNDS	1.193.649.208	1.157.954.277
APPLICATIONS OF FUNDS		
Investments in property, plant and equipment and intangible assets	44.607.535	49.093.824
Increase in non-current assets	79.281.036	26.318.634
	123.888.571	75.412.458
Transfer from long-term to current liabilities - loans	1.027.420.487	962.140.993
Transfer from long-term to current liabilities - accrued liabilities	96.510.552	15.654.976
	1.123.931.039	977.795.969
TOTAL APPLICATIONS OF FUNDS	1.247.819.610	1.053.208.427
INCREASE IN WORKING CAPITAL	(54.170.402)	104.745.850
STATEMENT OF CHANGES IN WORKING CAPITAL		
Working capital - end of year		
Current assets - end of year	1.553.384.368	1.389.021.678
Current liabilities - end of year	(1.973.999.084)	(1.755.465.992)
	(420.614.716)	(366.444.314)
Working capital - beginning of year	(366.444.314)	(471.190.165)
Increase in working capital	(54.170.402)	104.745.851

The accompanying notes are an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2011 AND 2010

(Amounts in US dollars)

1. OPERATIONS

ITAIPU (the "Entity") is a bi-national entity created and ruled by the Treaty signed on 26 April 1973 by the Federative Republic of Brazil and the Republic of Paraguay, referred to herein as Contracting Parties. Its share capital belongs in equal parts to Centrais Elétricas Brasileiras S.A. - ELETROBRÁS and Administración Nacional de Electricidad - ANDE, also referred to herein as Parties, under equal rights and obligations.

The head offices of ITAIPU are located in Brasília – capital of Brazil and in Asunción – capital of Paraguay, and it enjoys tax full exemption in both countries, pursuant to the signed treaty.

The purpose of the Entity is to make use of the water resources of Parana river between Guaira and the mouth of Iguazu River, which belong as a condominium to both countries, by constructing and operating a hydroelectric plant with total available capacity of 12.6 million kW. It generates electricity with social and environmental responsibility, fostering economic, tourist and technological sustained development in Brazil and Paraguay.

ITAIPU officially started its activities on 17 May 1974 and the hydroelectric plant was opened on 25 October 1984. In March 1985 two generating units started operating for energy production in Brazil and Paraguay. In 1991 the first phase of implementation of the generating units was concluded. With the beginning of the operations of the last two generating units, in December 2006 and April 2007, the hydroelectric plant reached 14 million kW of total installed capacity, and established a record in 2008, when it produced 94.7 billion kWh.

ITAIPU is regulated by the rules set forth by the Treaty and Attachments, as mentioned below, and its management bodies comprise a Board of Directors and an Executive Board made up of an equal number of members from each country.

Attachment "A" - ITAIPU's Bylaws.

Attachment "B" - General description of the facilities designed for the production of electricity and auxiliary constructions.

Attachment "C" - ITAIPU's rendering of electricity services and financial bases.

2. PRESENTATION OF FINANCIAL STATEMENTS

As established in the ITAIPU's bylaws, the financial statements comprise the Balance Sheet, Statement of Income, Statement of Changes in Financial Position and notes to the financial statements.

As supplementary information, we present the Statement of Value Added, the Statement of Cash Flows and the Statement of Core Business Accounts, exhibits I, II, III and notes to the Statement of Core Business Accounts, attachment I.

The financial statements and supplementary information have been prepared in accordance with accounting practices adopted in Brazil and Paraguay and specific provisions established on the Treaty, its attachments and other official acts.

The main provisions that differ from accounting practices adopted in these countries are:

- i) Depreciation of property, plant and equipment and amortization of intangible assets are not calculated, as mentioned in note 4.b;
- ii) The Entity's retained earnings are not disclosed in shareholders' equity, being appropriated to "Income (losses) available for offset" in assets (note 12).
- iii) Earnings on equity capital paid to the Parties do not take into consideration the realization of income and is recorded in liabilities with an offsetting entry operating expenses in the statement of income (note 16);
- iv) The statement of changes in financial position is part of the Entity's financial statements, and the statements of cash flows and of value added are presented as supplementary information; and
- v) ITAIPU does not present the statement of changes in shareholders' equity or the statement of comprehensive income as its shareholders' equity is not subject to changes.

The financial statements are part of the Entity's Annual Report

3. RELATIONS WITH INDEPENDENT AUDITORS

Itaipu has a contract with the UHY Audicon Consortium, formed by the companies UHY Moreira-Auditors, based in Rio Grande do Sul in Brazil, and Audicon - Auditors, Counters and Consultants, based in Asuncion in Paraguay, for the implementation of external audit services for the Financial Statements of 2011 and 2012.

UHY Moreira-Auditors also provided external audit services in the non-refundable technical cooperation agreement ATN/OC-11621-BR, signed between Itaipu and the Interamerican Development Bank - IDB, for 2009 to 2011.

There is no other contract in effect with the consortium or any of its member companies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The following accounting practices were adopted to record the Entity's business and financial transactions and prepare its financial statements:

a) Reporting currency

The US dollar is the currency which the Entity uses to record its transactions and present its financial statements, as established in Attachment "A" of the Treaty.

The business and financial transactions conducted in various currencies have their amounts converted into US dollars at the closing market rates disclosed by the Central Banks of Brazil and Paraguay, according to the following criteria:

- Property, plant and equipment, intangible assets and other costs – at the rates of the day prior to that when costs were incurred.
- Capital – at the rates in effect on the dates it is paid in.
- Loans and financing – adjusted in the original currency using the contractual rates and converted into the reporting currency at the exchange rate adopted for the last business day of each month of the calendar year.
- Other asset and liability balances – converted at the rates adopted for the last business day of each month of the calendar year.

Operating revenues from electricity service agreements are calculated and recorded in US dollars and the amounts of the related invoices are received in Brazilian reais or Paraguayan guaranis at the rates in effect on the day before that of receipt.

Capital earnings, royalties, reimbursement of administrative and supervision charges and the payment for transfer of power rights, which are part of the operating expenses, are calculated and recorded in US dollars and paid in Brazilian reais or Paraguayan guaranis at the rates in effect on the day before that of payment.

Operating expenses, financial expenses and sundry expenses, as well as financial revenues and sundry revenues, are translated at the rates of the day prior to that when they were incurred.

b) Property, plant and equipment and intangible assets

Investments in construction works regarding acquisition, construction, assembly and engineering, including general administrative expenses, finance charges levied on funds from third parties, pre-operating expenses on hiring and training personnel during construction period, and apportioned administrative expenses are accounted for at historical cost.

Revenues and reimbursements related to construction works and resulting from tax exemptions and benefits were accounted for during the construction period as cost reduction. As of the start of the operations of the hydroelectric plant, these revenues and reimbursements were allocated to construction work cost and sundry revenues and as of the date the plant became fully operative they started to be recognized as sundry revenues.

ITAIPU does not account for depreciation of property, plant and equipment and amortization of intangible assets, as the revenue is calculated based on liability charges and because these expenses are not included in the "Cost of Electricity Service", according to Attachment C to the Treaty.

c) Operating revenues

Operating revenues include the amounts earned for rendering electricity services, according to the contracted Power, to ELETROBRAS companies in Brazil and ANDE in Paraguay, pursuant to the letters of commitment and partnership signed to that end, as well as the reimbursement of the energy supplied in excess of the contracted power owned by Brazil.

Payment for transfer of power rights is charged to ELETROBRÁS and credited to the government of Paraguay for the transfer of the power Paraguay is entitled to.

d) Operating expenses

Operating expenses comprise expenses on the operation, maintenance and manage of the hydroelectric plant, and payments and reimbursements to the Contracting Parties and the Parties included in Attachment C to the Treaty and beginning in fiscal year 2005 expenses incurred with social and environmental responsibility programs, due to Reversal Notes No. 228/05 of the Brazilian Embassy and No. 001/05 of Paraguay's Ministry of Foreign Affairs, both from 31 March 2005. Operating expenses are recognized on the accrual basis.

e) Financial revenues

Financial revenues include earnings on investments in banking institutions, restatement of the guarantee deposits included in the agreement for the rescheduling of Brazilian foreign debt, late payment charges collected on payments of electricity service invoices in arrears, interest accrued on the rescheduling of ANDE's debt related to the rendering of electricity services, and interest resulting from the agreement entered into with ANDE for the construction of the right bank substation.

f) Financial expenses

Financial expenses comprise finance charges on loan and financing agreements, as well as net monetary variations that include monetary restatement and exchange variations arising from transactions established by contract, mainly conducted in Brazilian reais and Paraguayan guaranis and converted into the reporting currency, which is the US dollar as described in item "a" of this note, in addition to finance charges on payments and reimbursements and other financial expenses.

g) Sundry revenues / expenses

Sundry revenues/expenses comprise revenues and expenses arising from the sale of scrap, unusable equipment, occupancy rates, sale of notices of a request for bid proposals, write-off of assets and the like.

h) Post-employment benefits

ITAIPU recognizes its employee benefit plan obligations and adopts the following practices:

- i) The cost of the pension scheme and the healthcare program is calculated by independent actuaries in accordance with the method of projected credit unit, and best estimates about the expected results of investments in funds, salary growth, employees' age of retirement, turnover, mortality, expected costs of health treatments, and others, respecting the specificities of each country.
- ii) The cost of the pension scheme is recognized in the Entity's financial statements, net of the scheme's assets (note 20.a);
- iii) The cost of the health program is fully recognized in the Entity's financial statements (note 20.b).

i) Profit sharing

The Entity recognizes profit sharing payments on a cash basis, due to the uncertainty involving these payments.

5. EFFECTS OF INFLATION ON FINANCIAL STATEMENTS

The Entity conducts transactions in several currencies, especially Brazilian reais and Paraguayan guaranis, and they are stated in US dollars. The effects of variations in the purchasing power of these currencies are reflected on the financial statements according to the conversion criteria described in note 4.a, to the extent of the variation of these currencies in relation to the US dollar rate.

Currency Exchange rates per US dollar

As of 31 December	Brazil		Paraguay	
	Exchange rates in Brazilian reais (R\$)	Annual variation - %	Exchange rates in Guaranis (Gs)	Annual variation - %
2002	3,5333	52,3	7.200	54,5
2003	2,8892	(18,2)	6.100	(15,3)
2004	2,6544	(8,1)	6.240	2,3
2005	2,3407	(11,8)	6.150	(1,4)
2006	2,1380	(8,6)	5.210	(15,3)
2007	1,7713	(17,5)	4.910	(5,7)
2008	2,3370	31,9	4.970	1,2
2009	1,7412	(25,5)	4.630	(6,8)
2010	1,6662	(4,3)	4.591,74	(0,8)
2011	1,8758	12,6	4.505,95	(1,9)

The amounts accounted for in US dollars remain recorded at historical cost.

Only for informative purposes, the chart below shows the situation of the main inflation indexes in 2011 and 2010.

Inflation indexes

	In percentage - %	
	2011	2010
Brazil:		
Amplified Consumer Price Index – IPCA Brazilian Institute for Geography and Statistics	6,5	5,9
General Price Index – IGP-DI Fundação Getúlio Vargas	5,0	11,3
Paraguay:		
Consumer Price Index – IPC Central Bank of Paraguay	4,9	7,2
United States of America:		
Average of Industrial Goods and Consumer Price Indexes	5,6	4,3

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the amounts in Brazilian reais and Paraguayan guaranis kept with banks and in cash, the equivalent amounts in US dollars, and also US dollar amounts kept in Paraguayan banks:

	US\$	
	2011	2010
Cash	16.030	17.864
Bank accounts	488.707	2.552.425
Financial investments		
In Brazil		
Caixa Econômica Federal – FIC Ideal RF	6.155	3.223
Caixa Econômica Federal - CDB Flex	110.530.002	138.987.715
Banco do Brasil - CDB DI	429.205.873	393.839.169
Banco do Brasil - Renda Fixa 25 mil	3.315	29.398
	<u>539.745.345</u>	<u>532.859.505</u>
In Paraguay		
Banco Regional	15.427.825	5.774.715
Banco do Brasil	109.587	190.055
Banco Nacional de Fomento	73.466	39.199
Banco Bilbao Vizcaya Argentaria - BBVA	517.383	2.873.486
Banco Amambay	361.085	26.030
Banco Continental	391.775	109.309
Banco HSBC	2.556.609	30.371
Banco Itau	6.995.833	1.191.037
Sudameris Bank	1.073.741	29.571
Vision Banco	650.990	-
	<u>28.158.294</u>	<u>10.263.773</u>
	<u>567.903.639</u>	<u>543.123.278</u>
TOTAL	<u>568.408.376</u>	<u>545.693.567</u>

7. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable include receivables from the rendering of electricity services, whose invoices mature as follows: by the 20th day of the second month after generation, by the 30th day of the second month after generation and by the 10th day of the third month after generation. These invoices are issued in US dollars and payable in Brazilian reais or Paraguayan guaranis at the exchange rates in effect on the day before that of payment.

	US\$	
	<u>2011</u>	<u>2010</u>
Purchasing Entities		
Centrais Elétricas Brasileiras S.A. – ELETROBRAS	722.560.402	703.915.061
Administración Nacional de Electricidad – ANDE	55.565.431	89.685.440
Ministério de Minas e Energia do Brasil	94.498.022	-
TOTAL	<u>872.623.855</u>	<u>793.600.501</u>
(-) Long-term portions	<u>-</u>	<u>39.002.146</u>
Short-term portions	872.623.855	754.598.355

From 14 May 2011, as per Agreement by Reversal Notes signed on 1 September 2009 between the Government of the Federative Republic of Brazil, promulgated by Decree 7506 of 27 June 2011, and the Government of the Republic of Paraguay, approved by Law 3.923 of 18 November 2009, the multiplying factor of remuneration for energy from Itaipu transferred to Brazil, paid to the Government of the Republic of Paraguay, passed from 5.1 (five integers and one tenth) to 15.3 (fifteen integers and three tenths). The Government of the Federative Republic of Brazil, represented by the Ministry of Mines and Energy, being responsible for the transfer of financial resources to ITAIPU relating to Remuneration for Transfer of Energy, in the portion corresponding to the factor multiplier 10.2 (ten integers and two tenths).

The value of long-term accounts receivable, fully paid in December 2011, referred to the renegotiation of overdue ANDE invoices, for the period from January 1999 to February 2001, which since July 2002 have been amortized, as monthly interest rates invoiced and received in the same month incided on the principal.

8. STOCKROOM SUPPLIES

	US\$	
	2011	2010
Materials in deposit	6.709.554	7.129.888
Materials to be alienated	192.662	196.849
TOTAL	6.902.216	7.326.737

9. OBLIGATIONS RECEIVABLE

Obligations receivable basically comprise the guarantees maturing in April 2024 that are the Entity's rights. They are in an amount equivalent to the principal of par and discount bonds that have been issued under the agreement for rescheduling Brazil's foreign debt, negotiated by Brazil's Federal Treasury through contract No. 80.

	US\$	
	2011	2010
Security deposits CT-80	182.348.012	143.763.076
Agreement with ANDE - Substation MD	7.076.228	7.709.921
Agreement with ANDE – T5/R5	12.225.109	1.196.835
Recoverable compulsive taxes	4.170.749	4.243.242
Other	3.131.379	3.715.487
TOTAL	208.951.477	160.628.561
(-) Long-term portions	208.219.907	159.894.095
Short-term portions	731.570	734.466

On 20 August 2010, the second amendment to Agreement No. 5.808/99 was signed by ITAIPU and ANDE for the purpose of establishing rules for the reimbursement to ITAIPU by ANDE of payments made under a loan taken out by ITAIPU with Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional – CAJUBI (note 15) for the expansion of sectors 3 and 4 of the Right Bank Substation, property of ANDE, including the installation of a Transformer/Regulator of 500/220 kV (T5/R5), associated equipment, civil construction works, electromechanical assembly and executive project.

The reimbursement of all payments made by ITAIPU to CAJUBI will be under the same conditions established in the loan agreement and, if necessary, through offset against ANDE's rights, as set forth in item III.5, Attachment C of ITAIPU's Treaty.

10. COURT DEPOSITS

Court deposits consist of deposits required to file appeals, security deposits, and certificates of bank deposit (CDB) in Brazil, and appeals in Paraguay referring to labor, tax, civil and business lawsuits to which ITAIPU is a party.

	US\$	
	31.12.2011	31.12.2010
Brazil	96.600.213	78.474.715
Paraguay	3.531.514	3.164.780
TOTAL	100.131.727	81.639.495
(-) Long-term portions	45.438.259	30.166.661
Short-term portions	54.693.468	51.472.834

Court deposits in Brazil, except CDBs which bear interest according to the rules established upon acquisition, are updated on the basis of the National Consumer Price Index (INPC) for deposits made for tax, civil and commercial lawsuits, and using the FGTS adjustment rate for those made for labor lawsuits.

11. OTHER ACCOUNTS RECEIVABLE

	US\$	
	2011	2010
Advances to suppliers	24.631.284	24.326.807
Advances to personnel	1.462.832	1.037.008
Restricted deposits	22.615.053	1.734.117
Sundry debtors	1.163.239	1.818.430
Alienation of assets	152.475	279.357
TOTAL	50.024.883	29.195.719

In September 2010, based on the Decision of the Council of the Common Market of South America, MERCOSUR/CMC/DEC 07/2010 of 2 August 2010, the Financing of the MERCOSUR Convergence Fund Agreement (COF) was signed for the project "Construction of 500 kV Transmission Line Itaipu-Villa Hayes, of the Villa Hayes Sub-Station and of the Extension of Sub-Station of the ITAIPU Right Bank", with Itaipu as the project's implementing body.

The project's total cost is US\$ 555 million, of which US\$400 million proceeded from resources from the Fund for Structural Convergence of MERCOSUR-FOCEM and a counterpart of US\$ 155 million of resources invested by Itaipu and the Administración Nacional de Electricidad - ANDE.

In fiscal 2011 the agreements relating to said project had the following movement of resources:

<u>COF</u>	<u>US\$</u>
Resources received from FOCEM	30.000.000
Amounts paid in Project implementation	(13.835.569)
Available on 31 December 2011	<u>16.164.431</u>



Agreement ANDE - T5/R5 (Note 9)	US\$
Resources received from CAJUCI (2011 and 2010)	14.497.300
Amounts paid on execution of project	(8.736.452)
Available on 31 December 2011	<u>5.760.848</u>

The asset write-down category includes amounts receivable of Itaipu employees related to the sale of residential villas "A" and "B," located in Foz de Iguazú in Brazil, and buildings of housing developments 1, 2, 3, 4 and 8, located in Ciudad del Este, Paraguay.

12. INCOME (LOSSES) AVAILABLE FOR OFFSET

The "Income (losses) available for offset" account shows ITAIPU's accrued results up to 31 December 2010 and the income reported in the Statement of Income for the year ended 31 December 2011.

	US\$	
	<u>2011</u>	<u>2010</u>
Income from prior years	362.270.439	828.818.259
Current net income	(784.223.831)	(466.547.820)
TOTAL	<u>(421.953.392)</u>	<u>362.270.439</u>

The accumulated amounts recorded in assets result mainly from loan and financing charges that were not covered by electricity rates in the period from 1985 to 1996. Beginning in 1997, with the renegotiation of debts and the withdrawal in 2007 of the Industrial Goods and Consumer Price Indexes used to adjust the contracts signed with Eletrobras and the Federal Treasury (assignment), the electricity rate composition projections (electricity service cost per unit) show that the Entity will have sufficient funds to fulfill its obligations until 2023, when Attachment C of the Treaty shall be reviewed.

13. PROPERTY, PLANT AND EQUIPMENT

	US\$	
	2011	2010
Fixed assets in service		
Generating property and facilities	16.342.299.515	16.342.299.515
Sundry property and equipment	735.860.776	754.516.776
Chattel	114.009.076	107.934.114
Total fixed assets in service	17.192.169.367	17.204.750.405
Fixed assets under construction		
Diverse fixed assets	213.419.956	179.399.220
Advances on chattel	42.821	4.199.510
Technical reserve	43.924.788	42.577.659
Total fixed assets under construction	257.387.565	226.176.389
FIXED ASSETS TOTAL	17.449.556.932	17.430.926.794

Fixed assets in service, equivalent to 98.53% and 98.79% of total fixed assets for the 2011 and 2010, respectively, represent the direct costs of construction of the hydroelectric plant and the costs to distribute. These costs were originally classified as construction in progress and were transferred to the "in use" caption, according to the physical and accounting assessment of asset items.

Inventories of spare materials to be used directly in property, plant and equipment are accounted for as technical reserve.

In fiscal 2011 several write-downs were done, as detailed below:

- (i) Accounting write-down, through donation for purposes of public and social interest, of various chattels, in the amount of US\$ 2,145,010;
- (ii) Accounting write-down of various chattels deemed obsolete or deteriorated, in the amount of US\$ 2,919,171;
- (iii) Accounting write-down for the sale of real estate constituting housing developments 1, 2, 3, 4 and 8, located in Ciudad del Este, Paraguay, in the amount of US\$ 18,656,000.

Net movement of fixed assets during the year, totaling US\$ 18,630,138 (US\$ 30,457,909 in 2010), has the following composition:

	US\$	
	2011	2010
Fixed assets in year		
Diverse fixed assets	34.020.736	31.059.247
Movable property	6.982.454	15.950.479
	41.003.190	47.009.726
Economic increases (reductions)		
Technical reserve	1.347.129	(597.038)
Asset retirement	(23.720.181)	(15.954.779)
	(22.373.052)	(16.551.817)
Fixed asset variation	18.630.138	30.457.909

ITAIPU does not take into account the depreciation of its fixed assets, as described in Note 4.b.

Continuing the action plan, initiated in 2010, for the adequacy of asset control procedures in compliance with accounting standards in vigor, the first stage of updating the ITAIPU Accounting and Asset Control Procedures Manual was completed in April 2011, considering, mainly, the adjustment to accounting standards and the incorporation of technological changes in the electricity sector. In the second half of 2011, the technical crew began to study the feasibility of the proposed changes to measure the operational and systemic impact, aiming to the manual's approval.

After the approval of this manual by the Executive Directorship, ITAIPU will perform a general inventory of its fixed assets and a physical and accounting reconciliation and of said assets. For such task it will hire an expert consultancy. Such work is planned to start in 2013 and end in December 2015.

14. INTANGIBLE ASSETS

Intangible assets consist of the expenses inherent to the acquisition of assets lacking physical substance intended for the operation, maintenance and management of the Entity.

	US\$	
	2011	2010
Easement strips	68.914	68.914
Software	20.263.102	18.005.886
TOTAL	20.332.016	18.074.800

As mentioned in note 4.b, ITAIPU does not account for the amortization of intangible assets.

15. LOANS AND FINANCING

Loans and financing in US dollars and other currencies, as shown below, are duly adjusted and include interest and other charges according to contract terms.

Curren- y (3)	Interest rates	Value of Contract		Debt on 31December - US\$ thousands			Amortization period			
		Total (em Mil)	Equivalent in US\$ thou. (1)	2011		2010	Start	End	Parcel	
				Short term	Long term					
I - ELETROBRAS										
ECF - 1480/97										
Tranche B - Principal	US\$ 7,5	10.250.481	10.250.481	456.810	4.702.002	5.581.068	2001	2023	Monthly	
Tranche C - Principal	US\$ 4,1	1.780.955	1.780.955	84.920	662.252	830.673	2007	2023	Monthly	
ECF - 1627/97										
Principal	US\$ 7,5	181.577	181.577	9.953	100.967	120.830	1998	2023	Monthly	
ECF - 1628/97										
Principal	US\$ 7,5	211.116	211.116	20.897	211.976	253.676	2007	2023	Monthly	
CT - 2607/06										
Principal	US\$ 7,5 ⁽⁴⁾	6.304	6.304	1.518	2.907	2.940	2009	2014	Monthly	
CT - 2608/06										
Principal	US\$ 7,5 ⁽⁴⁾	8.004	8.004	1.588	2.249	5.423	2009	2014	Monthly	
CT - 2686/08										
Principal	US\$ 7,5 ⁽⁴⁾	22.343	22.343	1.528	13.716	13.249	2012	2021	Monthly	
				577.214	5.696.069	6.807.859				
II - TESOURO NACIONAL BRASILEIRO										
CT-74/93										
Brasil Investment Bonds (BIBS)	US\$ 6,0	5.612	5.612	388	374	1.143	1999	2013	Quarterly	
CT-80/92										
External Debt Restruturing	US\$ (Note 2)	918.235	918.235	32.417	272.160	345.669	1997	2023	Quarterly	
CT-424/TN										
Cessão Eletrobras (ECF-1480/97)										
Tranche B - Principal	US\$ 7,5	-	-	96.428	2.204.009	2.387.396	2001	2023	Monthly	
Tranche C - Principal	US\$ 4,1	-	-	32.814	552.898	616.636	2007	2023	Monthly	
CT-425/TN										
Cessão Eletrobras (ECF-1480/97)										
Tranche B - Principal	US\$ 7,5	-	-	213.420	4.875.747	5.281.773	2001	2023	Monthly	
Tranche C - Principal	US\$ 4,1	-	-	72.606	1.223.351	1.364.379	2007	2023	Monthly	
				448.073	9.128.539	9.996.996				
III - OTHER CONTRACTS										
FIBRA - Fundação Itaipu BR de Previdência e Assistência Social										
CT - 7218/03	R\$ 6,0 ⁽⁵⁾	73.911	31.626	3.003	42.877	51.651	2004	2023	Mensal	
CAJUBI - Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional										
PIB 2010-10-0001 - T5/R5	US\$ 8,0	15.000	15.000	185	14.944	2.759	2012	2022	Mensal	
PIB 2011-10-0001 - Repotenciação T1/R1, T2/R2, T3/R3 E TX/RX	US\$ 8,0	5.000	5.000	354	4.772	-	2012	2021	Mensal	
PIB 2011-10-0002 - Seccionamento L3 e L4 500kV	US\$ 8,0	42.000	42.000	-	5.127	-	2013	2022	Mensal	
PIB 2011-10-0003 - Meio Ambiente MD	US\$ 8,0	12.000	12.000	-	2.788	-	2013	2022	Mensal	
				539	27.631	2.759				
TOTAL OF LOANS AND FINANCING				1.028.829	14.895.116	16.859.265				

(1) Converted to rate valid at date of release and updated to rate of balance closure.

(4) Besides the interest rate, the contract establishes the payment of a fee for management and credit reserve commission.

(2) Interest rates
Quarterly Libor , 6,0 e 8,0

(5) Beside the interest rate, the contract establishes the correction of the outstanding amount using the INPC index.

(3) Abbreviations:
R\$ - Reais
US\$ - United States Dollars



Centrais Eléctricas Brasileiras S.A.– ELETROBRÁS and the Brazilian National Treasury signed on 29 December 1998 agreements Nos. 423/TN, 424/TN and 425/TN, for the assignment of part of the receivables that company had from the Entity.

As from 2007 the variation between the annual averages of the Industrial Goods and Consumer Price Indexes, published by the *International Financial Statistics* magazine, used for the adjustment of the agreements entered into with ELETROBRAS and the Brazilian National Treasury (assignment), is no longer applied due to new Law No. 11.480, of 30 May 2007, ruled by decree No. 6265, of 22 November 2007, and by amendments No. ECF- 1480-A/2007, ECF-1627-A/2007 and 1628-A/2007, signed on 27 December 2007 with Centrais Eléctricas Brasileiras S.A.– ELETROBRAS.

On 31 May 2005, the Brazilian National Treasury signed assignment agreement No. 235/05, whereby it assigns and transfers part of the receivables from ITAIPU, in the amount of US\$2,480 million, to Empresa Gestora de Ativos - EMGEA for capital increase. These amounts are originated from contracts Nos. 424/ TN and 425/ TN for the acknowledgement and renegotiation of debts and assignment of receivables as payment in kind. In this fiscal year payments were made in the amount of US\$ 303.935.664.

The schedule of payments of long-term loans and financing to ELETROBRÁS, Brazilian National Treasury and other financial institutions establishes the following annual repayments:

Year	US\$
2013	1.096.121.458
2014	1.168.681.263
2015	1.241.356.056
2016	1.323.983.167
2017	1.412.237.319
2018 a 2023	8.652.737.009
Total	14.895.116.272

The following amounts related to interest and repayments due every year were settled to repay the debt:

	US\$	
	2011	2010
Financing agents		
Eletrobras		
Principal	540.251.613	657.863.174
Charges	449.352.127	486.769.309
	989.603.740	1.144.632.483
Brazilian National Treasury		
Eletrobras credit cession		
Principal	380.605.538	355.023.912
Charges	623.197.389	647.918.805
	1.003.802.927	1.002.942.717
Brazilian National Treasury		
Foreign debt restructuring		
Principal	41.066.138	41.066.138
Charges	13.344.956	15.419.197
	54.411.094	56.485.335
Fibra		
Principal	3.075.969	2.602.285
Charges	5.086.578	5.281.321
	8.162.547	7.883.606
Total		
Principal	964.999.258	1.056.555.509
Charges	1.090.981.050	1.155.388.632
	2.055.980.308	2.211.944.141

16. PAYMENTS AND REIMBURSEMENTS

Payments and reimbursements consist of amounts due to the Brazilian and Paraguayan governments, as well as to ELETROBRÁS and ANDE, as set forth in ITAIPU's Treaty.

	US\$					
	2011			2010		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Royalties						
Principal	19.971.810	19.971.810	39.943.620	20.963.458	20.963.458	41.926.916
Dollar adjustment	139.901.370	139.901.370	279.802.740	119.414.794	119.414.794	238.829.588
Subtotal	159.873.180	159.873.180	319.746.360	140.378.252	140.378.252	280.756.504
Payment for energy transfer						
Principal	-	28.702.566	28.702.566	-	10.361.127	10.361.127
Dollar adjustment	-	144.175.073	144.175.073	-	58.383.356	58.383.356
Subtotal	-	172.877.639	172.877.639	-	68.744.483	68.744.483
Reimbursement of administrative and supervision charges						
Principal	1.536.293	1.536.293	3.072.586	1.612.574	1.612.574	3.225.148
Dollar adjustment	10.761.644	10.761.644	21.523.288	9.185.753	9.185.753	18.371.506
Subtotal	12.297.937	12.297.937	24.595.874	10.798.327	10.798.327	21.596.654
Capital earnings						
Principal	6.000.000	6.000.000	12.000.000	6.000.000	6.000.000	12.000.000
Adjustment of earnings	17.508.580	17.508.580	35.017.160	16.305.249	16.305.249	32.610.498
Subtotal	23.508.580	23.508.580	47.017.160	22.305.249	22.305.249	44.610.498
Total	195.679.697	368.557.336	564.237.033	173.481.828	242.226.311	415.708.139

The annual US dollar adjustment on royalties, reimbursement of administrative and supervision charges and the payment for transfer of power rights are settled in twelve installments from March of the year subsequent to the fiscal year ended. The adjustment of annual capital earnings corresponding to ELETROBRÁS and ANDE is made in a lump sum, on the last business day of the month subsequent to that when the final calculation of the capital earnings adjustment is made. These amounts will necessarily be offset against debts of ELETROBRAS and ANDE to ITAIPU and may be prepaid if cash is available.

From May 2011, as cited in Note 7, the multiplying factor of compensation for energy from Itaipu ceded to Brazil, paid to the Government of the Republic of Paraguay, went from 5.1 (five integers and one tenth) to 15.3 (fifteen integers and three tenths).

17. TRADE ACCOUNTS PAYABLE

	US\$	
	2011	2010
Suppliers	58.509.024	70.112.226
Taxes withheld	7.365.260	8.277.572
TOTAL	65.874.284	78.389.798

18. SALARIES AND SOCIAL CHARGES

	US\$	
	2011	2010
Provision for vacation pay and social charges	37.115.824	36.804.900
Complementary pension foundations	7.831.001	8.756.232
Social charges payable	6.691.474	7.528.273
Other	138.053	716.232
TOTAL	51.776.352	53.805.637

19. WORKERS' INDEMNITY BENEFITS

	US\$	
	2011	2010
Voluntary redundancy plan - Brazil	106.562.368	114.149.912
Labor compensation – Paraguay	261.693.370	230.820.217
TOTAL	368.255.738	344.970.129
(-) Long term portions	348.521.484	328.497.592
Short term portions	19.734.254	16.472.537

20. POST-EMPLOYMENT BENEFITS

The Entity sponsors a pension scheme for its employees administered in Brazil by Fundação ITAIPU BR de Previdência e Assistência Social - FIBRA, and in Paraguay by Caja Paraguaya de Jubilaciones y Pensiones del personal de la Itaipu Binacional – CAJUBI.

Contributions are made both by the sponsor and beneficiaries, according to an actuarial study prepared by an independent actuary in compliance with legislation prevailing in Brazil and Paraguay, with the purpose of providing funds sufficient to cover future obligations related to non-vested defined benefits.

The benefits provided for in the pension scheme are the following:

i) Employees hired in Brazil:

- a) Pension supplementation for years of contribution, disability and age;
- b) Special pension supplementation;
- c) Allowance paid to a prisoner's dependents;
- d) Pension supplementation;
- e) Special temporary benefit due to death;
- f) Beneficiary burial allowance;
- g) Annual bonus supplementation.



ii) Employees hired in Paraguay:

- a) Normal and disability pension;
- b) Special pension;
- c) Allowance paid to a prisoner's dependents;
- d) Death pension;
- e) Burial allowance; and
- f) Annual bonus.

In addition to sponsoring a pension scheme, ITAIPU supports a healthcare program for its employees and their dependents, including retirees, pensioners and their dependents from FIBRA and CAJUBI.

Since 2003, ITAIPU has been recording a liability consisting of actuarial obligations resulting from future benefits to employees related to the healthcare program and as from 2009 to the pension scheme.

To that end, the Entity hires actuaries who produce reports for both programs, according to international accounting standards.

The obligations recorded in ITAIPU's financial statements for post-employment benefits are the following:

	US\$ thousands					
	BRAZIL		PARAGUAY		TOTAL	
	2011	2010	2011	2010	2011	2010
Liabilities recognized in the balance sheet – long-term						
Pension plan benefits	-	-	731.933	575.996	731.933	575.996
Health plan benefits	328.222	321.651	294.944	271.252	623.166	592.903
	328.222	321.651	1.026.877	847.248	1.355.099	1.168.899
Revenues (expenses) recognized in income statement						
Retirement plan benefits	-	-	(144.970)	(385.009)	(144.970)	(385.009)
Health plan benefits	(42.513)	(55.003)	(18.528)	11.404	(61.041)	(43.599)
	(42.513)	(55.003)	(163.498)	(373.605)	(206.011)	(428.608)

The following assumptions were made to assess benefits:

	BRAZIL		PARAGUAY	
	2011	2010	2011	2010
GENERAL DATA				
Active participants	1.507	1.529	1.958	1.856
Retired participants	1.199	1.123	914	856
Pensioners	180	163	195	182
ECONOMIC HYPOTHESES				
Real discount rate (p.a.) - pension plan	5,75%	5,75%	4,00%	4,00%
Real discount rate (p.a.) - health plan	5,50%	5,75%	5,50%	5,75%
Expected return rate on assets (p.a.)	9,98%	11,02%	14,40%	14,40%
Salary progression rate (p.a.)	2,15%	2,01%	1,92%	1,92%
Cost growth rate (p.a.)	2,00%	2,00%	2,00%	2,00%
Inflation	4,00%	4,00%	10,00%	10,00%
Salary/Benefit capacity factor	98%	98%	-	-
ACTUARIAL HYPOTHESES				
General mortality table	AT-2000 (-10%)	AT-2000 (-10%)	AT-2000	AT-2000
Disabled mortality table	AT-1983 (-10%)	AT-1983 (-10%)	AT-1983	AT-1983
Disability table	Light weak	Light weak	Light average	Light average
Turnover table	0,13%	0,20%	0,50%	0,50%

a) Pension scheme

In 2009 a provision was set up in the total amount related to the actuarial deficit of the pension scheme of Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional – CAJUBI.

From 2010, this provision has been updated on the basis of actuarial reports issued annually.

ITAIPU has been requesting clarification and providence to CAJUBI about its actuarial deficit, and has been following the procedures that are being taken to equalize this situation.

On 19 August 2011, in response to the request of Itaipu Management Board, in its 238th meeting of 29 April 2011, the president of the Caja Paraguaya of Jubilaciones y Pensiones del Personal de la Itaipu – CAJUBI, presented to ITAIPU’s Executive Directorship and Management Board CAJUBI’s situation and the measures that are being taken.

For the pension plan of the ITAIPU BR Social Security and Assistance Foundation – FIBRA, no provision was made on Itaipu’s financial statements due to actuarial surplus submitted in both years.

**STATEMENT OF THE ACTUARIAL SURPLUS (DEFICIT) OF THE DEFINED BENEFIT PENSION PLAN
SPONSORED BY ITAIPU BINACIONAL
AMOUNTS IN US\$ THOUSAND**

DESCRIPTION	FIBRA		CAJUBI	
	2011	2010	2011	2010
Fair value of the plan’s assets	1.154.624	1.202.190	232.623	244.300
Present value of obligations	(1.097.530)	(1.119.735)	(964.556)	(820.296)
Actuarial surplus (deficit)	57.094	82.455	(731.933)	(575.996)

Information relating to pension funds, drawn from their respective financial statements, are presented in the tables below, and are converted to US dollars at the exchange rate of 31 December 2011 and 2010.

	US\$ thousands			
	FIBRA		CAJUBI	
	2011	2010	2011	2010
Assets current value	1.116.188	1.176.995	228.277	245.185
Mathematical reserves				
Vested benefits	707.112	690.639	413.927	358.025
Future benefits	393.067	422.656	567.887	533.431
(-) Mathematical reserves to be recognized	(23.901)	(26.532)	(31.516)	(30.553)
	1.076.278	1.086.763	950.298	860.903
Surplus (Deficit)	39.910	90.232	(722.021)	(615.718)

b) Health insurance plan

Actuarial obligations related to health insurance plans are fully recognized in the sponsor's liabilities. These amounts are annually adjusted according to actuarial reports.

**STATEMENT OF ACTUARIAL ASSESSMENT OF OBLIGATIONS RELATED TO HEALTH PLAN
SPONSORED BY ITAIPU BINACIONAL
AMOUNTS IN US\$ THOUSANDS**

DESCRIPTION	BRAZIL		PARAGUAY	
	2011	2010	2011	2010
Fair value of the plan's assets	-	-	-	-
Present value of obligations				
Receivables already past due	109.443	208.122	182.402	166.815
Receivables falling due	218.779	113.529	112.542	104.437
	328.222	321.651	294.944	271.252
Unrecognized gains (losses)	-	-	-	-
Recognized actuarial liabilities	328.222	321.651	294.944	271.252

21. PROVISIONS FOR TAX, CIVIL AND LABOR RISKS

The Entity is party to various tax, commercial, labor and civil cases that are at various stages.

ITAIPU classifies the legal proceedings brought against the Entity in Brazil according to the risk of unfavorable outcome assessed by its legal counselors, in the following manner:

- a) For lawsuits of which an unfavourable outcome is considered probable, provisions are set up; and

- b) For lawsuits of which an unfavourable outcome is considered possible, the related information is disclosed in notes to the financial statements.

ITAIPU accrues provisions for all the legal proceedings brought against the Entity in Paraguay according to the opinion of its legal department.

Accounting provisions accrued for legal proceedings are set up in amounts periodically adjusted, shown in the table below, to represent the best estimate of future disbursement, according to reports issued by the Entity's legal department.

	2011			2010		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Short term						
Tax	81.468.843	-	81.468.843	94.841.990	-	94.841.990
Civil	27.882.905	-	27.882.905	2.259.633	-	2.259.633
Commercial	47.785.915	1.291.064	49.076.979	50.282.522	1.100.233	51.382.755
Labor	63.809.279	969.917	64.779.196	72.279.431	1.608.008	73.887.439
	220.946.942	2.260.981	223.207.923	219.663.576	2.708.241	222.371.817
Long term						
Tax	20.100.598	-	20.100.598	20.665.586	-	20.665.586
Civil	344.079	-	344.079	1.160.487	-	1.160.487
Commercial	93.755.071	11.306.112	105.061.183	105.370.013	-	105.370.013
Labor	23.861.955	29.820.822	53.682.777	24.677.932	26.412.764	51.090.696
	138.061.703	41.126.934	179.188.637	151.874.018	26.412.764	178.286.782
Total	359.008.645	43.387.915	402.396.560	371.537.594	29.121.005	400.658.599

The Entity is also a party to other legal proceedings instituted in Brazil and whose risk of unfavourable outcome is classified as possible, as shown in the table below, for which it accrued a provision, given that it expects to obtain a favorable decision on these lawsuits.

	US\$	
	<u>2011</u>	<u>2010</u>
Tax	605.112	7.517
Civil	11.603.898	250.282
Commercial	142.967.038	160.951.609
Labor	-	30.008
	<u>155.176.048</u>	<u>161.239.416</u>

22. OTHER LIABILITIES

	US\$	
	<u>2011</u>	<u>2010</u>
Contractual withholdings	3.432.456	3.066.703
Sundry payables	3.053.466	3.054.175
Agreements	16.576.165	1.178.992
Other	331.584	360.336
TOTAL	<u>23.393.671</u>	<u>7.660.206</u>
(-) Long term portions	<u>3.053.466</u>	<u>3.054.175</u>
Short term portions	<u>20.340.205</u>	<u>4.606.031</u>

In the *Agreements* category, during fiscal 2011, US\$ 30,000,000 was received related to the MERCOSUR Convergence Fund Financing Agreement (COF), of which US\$ 14,439,517 were applied in the agreement's project (US\$ 13,835,569 were paid during the fiscal year, as mentioned in Note 11), which are subject to accountability by Itaipu, as provided in the COF.

23. SHARE CAPITAL

According to the provisions of the Treaty and its Attachment "A" – Bylaws, share capital, totaling US\$100 million and unchanged since 13 August 1973, date when the treaty was ratified, is divided in equal and non-transferable parts between Centrais Elétricas Brasileiras S.A. - ELETROBRÁS and Administración Nacional de Electricidad - ANDE.

24. OPERATING REVENUES

Decree N°. 4.550 of 27 December 2002 established that from 2003 the sole seller in Brazil of all electricity generated by Itaipu would be Centrais Elétricas Brasileiras – ELETROBRÁS. In Paraguay Administración Nacional de Electricidad – ANDE sells Itaipu electricity.

Revenue from electricity supply contracts totalled US\$3,291,012,000 in 2011 (US\$3,291,012,000 in 2010), which corresponds to sales of 145,620 (**) megawatts of contracted power in the year (145,620 megawatts in 2010).

The rate charged in 2011 was US\$/kW 22.60, the same as in 2010.

The electricity supplied to Purchasing Entities in 2011 was 91,523 GWh (85,303 GWh in 2010).

	Purchasing Entities - US\$ thousands					
	2011			2010		
	Brazil Eletrobras	Paraguay Ande	Total	Brazil Eletrobras	Paraguay Ande	Total
Energy supply	3.077.436	213.576	3.291.012	3.092.565	198.447	3.291.012
Energy cession remuneration	267.761	-	267.761	104.497	-	104.497
Energy costs reimbursement - un-linked energy	73.322	20.057	93.379	38.481	16.558	55.039
Total	3.418.519	233.633	3.652.152	3.235.543	215.005	3.450.548
Contracted potency - MW	11.405	730	12.135	11.455	680	12.135
Guaranteed energy - GWh (*)	70.616	4.518	75.134	70.925	4.209	75.134
Supplied energy - GWh	83.487	8.036	91.523	78.031	7.272	85.303

(*) Annual electricity supply plan, calculated by CADOP – Committee for the Management and Operation of ITAIPU's Electricity Service Purchase and Sale Contracts.

25. OPERATING EXPENSES – Payments and Reimbursements

Operating expenses consist of the payments and reimbursements provided for in Attachment “C” to the Treaty, due in 2011 and 2010, to Contracting Parties, royalties and payment for transfer of power rights, as well as ELETROBRAS and ANDE, capital earnings and reimbursement of administrative and supervision charges.

	US\$					
	2011			2010		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Capital earnings						
Principal	(6.000.000)	(6.000.000)	(12.000.000)	(6.000.000)	(6.000.000)	(12.000.000)
Adjustment of earnings	(17.574.875)	(17.574.875)	(35.149.750)	(16.366.738)	(16.366.738)	(32.733.476)
Subtotal	(23.574.875)	(23.574.875)	(47.149.750)	(22.366.738)	(22.366.738)	(44.733.476)
Royalties						
Principal	(118.979.656)	(118.979.656)	(237.959.312)	(110.893.416)	(110.893.416)	(221.786.832)
US dollar adjustment	(123.359.473)	(123.359.473)	(246.718.946)	(103.175.908)	(103.175.908)	(206.351.816)
Subtotal	(242.339.129)	(242.339.129)	(484.678.258)	(214.069.324)	(214.069.324)	(428.138.648)
Reimbursement of administrative and supervision charges						
Principal	(9.152.282)	(9.152.282)	(18.304.564)	(8.530.263)	(8.530.263)	(17.060.526)
US dollar adjustment	(9.489.190)	(9.489.190)	(18.978.380)	(7.936.608)	(7.936.608)	(15.873.216)
Subtotal	(18.641.472)	(18.641.472)	(37.282.944)	(16.466.871)	(16.466.871)	(32.933.742)
Payment for transfer of power						
Principal	-	(131.660.580)	(131.660.580)	-	(54.130.193)	(54.130.193)
US dollar adjustment	-	(136.100.507)	(136.100.507)	-	(50.366.593)	(50.366.593)
Subtotal	-	(267.761.087)	(267.761.087)	-	(104.496.786)	(104.496.786)
Total	(284.555.476)	(552.316.563)	(836.872.039)	(252.902.933)	(357.399.719)	(610.302.652)

Payments and reimbursements, including capital earnings and US dollar adjustments, are calculated as provided for in Attachment “C” to the Treaty and related reversal notes, as described in the notes to the Statements of the Core Business Account – Attachment I.

26. OPERATING EXPENSES - General and Administrative Expenses

General and administrative expenses consist of all expenses incurred with operating the enterprise and represent all operating, maintenance and management expenses, as well as social and environmental expenses.

	US\$	
	2011	2010
Personnel, materials and services	(641.012.970)	(663.647.969)
Provisions for operating activities	(255.312.518)	(497.179.151)
Social and environmental expenses	(111.815.388)	(92.734.645)
Training	(2.384.727)	(2.114.078)
Other expenses	(53.666.300)	(35.773.981)
	(1.064.191.903)	(1.291.449.824)

27. OTHER REVENUES (EXPENSES)

Other revenues (expenses) arise from the sale of scrap, unusable equipment, occupancy rates, contractual fines, write-off of assets and equipment, bank expenses, discounts granted and the like, as shown below:

	US\$	
	2011	2010
Sundry revenues		
disposals	6.479.470	2.038.357
Property occupancy rates	1.679.375	1.754.296
Interests and contractual fines	7.569.240	1.906.207
Other	72.102	73.583
	15.800.187	5.772.443
Sundry expenses		
Write-off of assets and facilities	(23.720.181)	(15.954.779)
Financial expenses	(448.409)	(554.401)
Other	(8.330)	(43.383)
	(24.176.920)	(16.552.563)
	(8.376.733)	(10.780.120)

28. FINANCIAL EXPENSES – Monetary Variations

	US\$	
	<u>2011</u>	<u>2010</u>
Loans and financing		
FIBRA	(2.694.871)	5.105.960
Other exchange rate variances		
Current assets	79.002.738	(32.396.948)
Non-current assets	1.313.716	(309.935)
Current liabilities	(46.335.625)	(68.758)
Non-current liabilities	(52.128.834)	11.238.142
Other accounts	97.698	1.600.576
	(18.050.307)	(19.936.923)
	(20.745.178)	(14.830.963)

29. INSURANCE

The main property, plant and equipment in use are insured in accordance with an insurance policy approved by the Entity's Board of Directors in 1992 to guarantee the following coverage:

- a) All risks insurance for all assets installed at the hydroelectric plant in the amount of US\$2, 279,666,379.
- b) Civil liability insurance for the hydroelectric plant in the amount of US\$20,000,000.

As a supplemental coverage, ITAIPU has insurance necessary to cover other risks not directly related to the hydroelectric plant. The policies are taken out according to the location of risks and market conditions of the country where they are, such as: fire insurance for administrative facilities, civil liability and hull marine insurance, insurance for vessels and personal accidents involving tourists visiting Itaipu and group life insurance for the Entity's employees, as below:

Type	Coverage – in USD
Fire	192.590.000
Vehicles	Civil liability and hull marine insurance – 52.721.000
Group life	For the employee: 30 base salaries, limited to 15 times the highest salary of Itaipu’s salary table. For the spouse: 50% of coverage, limited to five times the highest salary of the salary table.
Personal accidents involving tourists	Death, disability, medical and hospital expenses
Vessels	Mandatory insurance for personal damage caused by vessels or by their cargo – DPEM.

30. FINANCIAL INSTRUMENTS

The estimated market values of the Entity’s financial assets and liabilities are determined by means of information available in the market and suitable valuation methods. However, considerable judgment was required to interpret market information and estimate the most adequate market value. As a result, the estimates presented below are not necessarily indicative of the amounts that could be realized in the current trading market. The use of different market methodologies may have a material effect on estimated market values.

Financial instruments are managed by applying operational strategies, aiming at liquidity, profitability and security. The control policy consists of a permanent tracking of contractual rates versus market rates. The Entity does not invest in derivatives or any other risk assets for speculation purposes.

a) Breakdown of balances

The account balances and market values of financial instruments included in the balance sheet as of 31 December 2011 are identified below:

Description	US\$	
	Book value	Market value
Assets		
Cash and cash equivalents	504.737	504.737
Financial investments	567.903.639	567.903.639
Trade accounts receivable	872.623.855	872.623.855
Liabilities		
Loans and financing	(15.923.945.305)	(15.923.945.305)
Payments and reimbursements	(564.237.033)	(564.237.033)

b) Criteria, assumptions and limitations used in the calculation of market values

(i) Cash and cash equivalents and financial investments

The market values of balances of current accounts and financial investments held with banks approximate their carrying values.

(ii) Accounts receivable

The market value of the balance of accounts receivable approximates their carrying value due to the short-term nature of the instruments.

(iii) Derivatives

The Entity adopts the practice of eliminating market risks by avoiding exposure to exchange rate fluctuations in the short-term using instruments that allow control over such risks. In accordance with its financial policies, the Entity has not been conducting transactions involving financial instruments with speculative purposes. As of 31 December 2011 the Entity did not have any outstanding forward and/or swap contracts.

31. RELATED-PARTY TRANSACTIONS

The most significant related-party transactions conducted by the Entity in 2011 and 2010 consist of the sale of energy, loans, obligations provided for in Attachment "C" to the ITAIPU Treaty and pension fund obligations, as shown below:

	US\$ mil				TOTAL
	2011				
	ELETROBRAS	ANDE	FIBRA	CAJUBI	
BALANCE SHEET					
ASSETS					
Trade accounts receivable	722.560	55.566	-	-	778.126
Agreements	-	19.301	-	-	19.301
Total	722.560	74.867	-	-	797.427
LIABILITIES					
Loans and financing	(6.273.283)	-	(45.880)	(28.170)	(6.347.333)
Payments and reimbursements	(35.806)	(35.806)	-	-	(71.612)
Social security contributions	-	-	(2.997)	(4.834)	(7.831)
Actuarial obligations	-	-	-	(731.933)	(731.933)
Total	(6.309.089)	(35.806)	(48.877)	(764.937)	(7.158.709)
INCOME (LOSS)					
REVENUES					
Energy supply	3.268.324	233.633	-	-	3.501.957
Financial revenues	134	2.836	-	-	2.970
Total	3.268.458	236.469	-	-	3.504.927
EXPENSES					
Financial expenses	(450.547)	607	(5.087)	(607)	(455.634)
Payments and reimbursements	(42.216)	(42.216)	-	-	(84.432)
Social security contributions	-	-	(20.735)	(23.065)	(43.800)
Actuarial expenses	-	-	-	(144.970)	(144.970)
Total	(492.763)	(41.609)	(25.822)	(168.642)	(728.836)

	US\$ mil				TOTAL
	2010				
	ELETROBRAS	ANDE	FIBRA	CAJUBI	
BALANCE SHEET					
ASSETS					
Trade accounts receivable	703.915	89.685	-	-	793.600
Agreements	-	8.907	-	-	8.907
Total	703.915	98.592	-	-	802.507
LIABILITIES					
Loans and financing	(6.807.859)	-	(51.651)	(2.759)	(6.862.269)
Payments and reimbursements	(33.103)	(33.103)	-	-	(66.206)
Social security contributions	-	-	(3.056)	(5.700)	(8.756)
Actuarial obligations	-	-	-	(575.996)	(575.996)
Total	(6.840.962)	(33.103)	(54.707)	(584.455)	(7.513.227)
INCOME (LOSS)					
REVENUES					
Energy supply	3.235.543	215.005	-	-	3.450.548
Financial revenues	-	5.355	-	-	5.355
Total	3.235.543	220.360	-	-	3.455.903
EXPENSES					
Financial expenses	(486.769)	24	(5.281)	(24)	(492.050)
Payments and reimbursements	(38.834)	(38.834)	-	-	(77.668)
Social security contributions	-	-	(20.763)	(20.220)	(40.983)
Actuarial expenses	-	-	-	(385.009)	(385.009)
Total	(525.603)	(38.810)	(26.044)	(405.253)	(995.710)



In addition to the transactions above, ITAIPU has as related parties Fundação de Saúde Itaipuapy, Fundação de Saúde Tesai, Fundação Parque Tecnológico ITAIPU Brasil and Fundação Parque Tecnológico ITAIPU Paraguay, due to its significant influence on the management of these entities and to the financial transactions conducted with them, such as the transfer of funds for covering administrative and investment costs.

Fundação de Saúde Itaipuapy and Fundação de Saúde Tesai

Hospital Ministro Costa Cavalcanti – HMCC, in Brazil, and Hospital ITAIPU Margem Direita, in Paraguay, were originally built by Itaipu Binacional to serve only the workers hired to build and operate the hydroelectric plant.

To optimize the use of these hospitals and according to its regional insertion policy, ITAIPU decided to offer these hospitals' services to the region's communities. To that end, in November 1994, as per the Board of Directors' RCA Resolution No. 019/1994, it set up a not-for-profit private law entity in charge of managing and operating Hospital Ministro Costa Cavalcanti – HMCC in Brazil. Subsequently, in March 1997, as per the Board of Directors' RCA Resolution No. 004/1997, it set up a not-for-profit private law entity in charge of managing and operating Hospital ITAIPU Margem Direita in Paraguay.

Fundações Parque Tecnológico ITAIPU - FPTI BR and FPTI PY

Established in 2005 in Brazil as per the Board of Directors' RCA Resolution No. 010/2005 and in 2008 in Paraguay as per the Board of Directors' RCA Resolution No. 035/2008, the *Fundações Parque Tecnológico ITAIPU* from both countries have the purpose of understanding and transforming the reality of the three-country region of Iguassu, articulating and encouraging actions aimed at its economic, scientific and technological development, always respecting human beings and focusing on water, energy and tourism solutions.

The purpose of these foundations is to maintain and operate ITAIPU technological complexes contributing towards sustained regional development by carrying out activities that allow institutional, scientific, technological and innovation development, the spread of knowledge, professional training and the setup of companies. To that end, the foundations will work together with public and private academic, research, development and production entities.



Compensation to key management personnel

The compensation, charges and benefits related to key management personnel are listed below:

	US\$ thousands	
	2011	2010
Compensation to directors and board members	(6.503)	(6.052)
Social charges	(1.022)	(816)
Benefits	(1.109)	(851)
	(8.634)	(7.719)

**SUPPLEMENTARY INFORMATION****STATEMENT OF VALUE ADDED****FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010****(In dollars of the United States of America)**

	<u>2011</u>	<u>2010</u>
GENERATION OF VALUE ADDED		
Revenues		
Power supply	3.291.012.000	3.291.012.000
Remuneration for transfer of power	267.761.087	104.496.786
Reimbursement of costs - Non-binding energy	93.378.828	55.038.968
Sundry revenues (expenses)	(8.376.733)	(10.780.120)
	<u>3.643.775.182</u>	<u>3.439.767.634</u>
(-) Input acquired from third parties		
Materials	16.169.216	12.023.546
Third-party services	106.963.208	102.745.459
Other operating expenses	189.716.646	167.731.834
	<u>312.849.070</u>	<u>282.500.839</u>
NET ADDED VALUE	<u>3.330.926.112</u>	<u>3.157.266.795</u>
(+) Value added received in transfer		
Financial revenues	114.483.476	68.146.460
ADDED VALUE TO DISTRIBUTE	<u>3.445.409.588</u>	<u>3.225.413.255</u>
VALUE ADDED DISTRIBUTION		
Remuneration		
Of labor		
Direct remuneration	297.180.181	248.009.177
Beneficits	137.883.923	118.485.497
Post-employment benefits	206.010.554	428.607.040
Labour damages	59.857.085	168.535.361
Pension plan	7.769.518	6.991.799
	<u>708.701.261</u>	<u>970.628.874</u>
Of government		
INSS (social security contribution) / IPI (Federal VAT)	42.641.572	38.320.111
Royalties	484.678.258	428.138.648
Payment for transfer of power rights	267.761.087	104.496.786
	<u>795.080.917</u>	<u>570.955.545</u>
Of third-party capital		
Debt charges	1.093.687.934	1.154.444.716
Currency exchange	(20.745.178)	(14.830.963)
Other financial expenses	28.129	45
	<u>1.072.970.885</u>	<u>1.139.613.798</u>
Of own capital		
Capital earnings	47.149.750	44.733.476
Reimbursement of administrative and supervision charges	37.282.944	32.933.742
	<u>84.432.694</u>	<u>77.667.218</u>
Results	<u>784.223.831</u>	<u>466.547.820</u>
VALUE ADDED DISTRIBUTED	<u>3.445.409.588</u>	<u>3.225.413.255</u>

(Convenience translation into English from the original previously issued in Portuguese)



Exhibit II

SUPPLEMENTARY INFORMATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

(In dollars of the United States of America)

	<u>2011</u>	<u>2010</u>
OF OPERATING ACTIVITIES		
Results of fiscal year	784.223.831	466.547.820
Income adjustments		
Fixed-asset write-off	23.720.181	15.954.779
Monetary variations - loans	(2.694.871)	5.105.960
Monetary variations - estimated liabilities	(52.128.833)	19.692.274
Provisions recorded in liabilities		
Capitalizable finance charges	225.654	-
Non-capitalizable finance charges	1.093.462.280	1.154.444.716
Estimated liabilities	334.141.316	615.462.605
Adjusted income	<u>2.180.949.558</u>	<u>2.277.208.154</u>
Changes in assets and liabilities		
Change in accounts receivable from clients	(79.023.354)	9.290.352
Change in stockroom supplies	424.521	(547.933)
Change in other receivables	(87.037.350)	(43.437.756)
Change in payments and reimbursements	148.528.894	7.118.083
Change in suppliers and other liabilities	3.217.951	24.713.969
Change in salaries and social charges	(2.029.285)	6.245.698
Payment of accrued liabilities	(70.788.302)	(7.771.313)
	<u>(86.706.925)</u>	<u>(4.388.900)</u>
Net operating cash flow	<u>2.094.242.633</u>	<u>2.272.819.254</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and intangible assets	(44.607.535)	(49.093.824)
Cash and cash equivalents used in investing activities	<u>(44.607.535)</u>	<u>(49.093.824)</u>
OF FINANCING ACTIVITIES		
Loans and financing	29.060.019	19.587.569
Repayment of loans and financing	(964.999.258)	(1.056.555.509)
Payment of interest on loans and financing	(1.090.981.050)	(1.155.388.632)
Cash and cash equivalents used in financing activities	<u>(2.026.920.289)</u>	<u>(2.192.356.572)</u>
TOTAL OF EFFECTS ON CASH AND CASH EQUIVALENTS	<u>22.714.809</u>	<u>31.368.858</u>
Cash and cash equivalents at beginning of year	545.693.567	514.324.709
Cash and cash equivalents at end of year	568.408.376	545.693.567
Increase/Decrease in cash and cash equivalents	<u>22.714.809</u>	<u>31.368.858</u>

SUPPLEMENTARY INFORMATIONSTATEMENT OF CORE BUSINESS ACCOUNTSFOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010(In dollars of the United States of America - Annex I)

	<u>2011</u>	<u>2010</u>
REVENUES		
Revenues from electricity supply contracts		
Brazilian purchasing entity	3.077.435.536	3.092.564.722
Paraguayan purchasing entity	213.576.464	198.447.278
Payment for transfer of power rights	267.761.087	104.496.786
Reimbursement of costs - Non-binding power	93.378.828	55.038.968
Total revenue	<u>3.652.151.915</u>	<u>3.450.547.754</u>
MINUS:		
REMUNERATION FOR ENERGY CESSION	<u>(267.761.087)</u>	<u>(104.496.786)</u>
COST OF ELECTRICITY SERVICE		
Payments and reimbursements to High Contracting Parties and parties that constitute Itaipu:		
Capital earnings	(47.149.750)	(44.733.476)
Binding energy		
Royalties	(397.969.347)	(377.031.035)
Reimbursement of administrative and supervision charges	(30.613.027)	(29.002.387)
	<u>(428.582.374)</u>	<u>(406.033.422)</u>
Non-binding energy		
Royalties	(86.708.911)	(51.107.613)
Reimbursement of administrative and supervision charges	(6.669.917)	(3.931.355)
	<u>(93.378.828)</u>	<u>(55.038.968)</u>
	<u>(569.110.952)</u>	<u>(505.805.866)</u>
Repayment of loans and financing	<u>(964.999.258)</u>	<u>(1.056.555.509)</u>
Financial charges of loans and financing	<u>(1.090.981.050)</u>	<u>(1.155.388.632)</u>
Core business expenses		
Personnel	(534.368.806)	(460.068.653)
Materials and equipment	(42.234.098)	(31.701.822)
Third-party services	(128.557.823)	(112.676.409)
Other core business expenses	(174.420.210)	(145.762.797)
	<u>(879.580.937)</u>	<u>(750.209.681)</u>
Total cost of electricity service	<u>(3.504.672.197)</u>	<u>(3.467.959.688)</u>
ANNUAL INCOME FROM CORE BUSINESS ACTIVITIES	<u>(120.281.369)</u>	<u>(121.908.720)</u>
Prior year balance	(49.603.685)	72.305.035
Financial and diverse income	121.180.000	-
ACCUMULATED INCOME (LOSS) FROM CORE BUSINESS ACTIVITIES	<u>(48.705.054)</u>	<u>(49.603.685)</u>

EXPLANATORY NOTES TO OPERATING ACCOUNTS

AT 31 DECEMBER 2011 AND 2010

Annex "C" to the Treaty of Itaipu, Financial Basis and Electricity Supply Services, states that the Operating Account is represented by the annual balance between the Revenue and Cost of Electricity Service, calculated according to the criteria listed below:

a) Revenue

It follows from contracts for provision of electricity services, through the Letter of Commitment signed with Centrais Elétricas Brasileiras S.A. (ELETROBRAS), in Brazil, and the Letter-Agreement signed with the Administración Nacional de Electricidad (ANDE), in Paraguay, according to item IV of Annex "C" to the Treaty of Itaipu, having to be the same, each year, to the Cost of Electricity Service.

The Board of Directors of ITAIPU is competent to set the unit cost of electricity service, according to the conditions set out in signed documents.

b) Cost of Electricity Service

In accordance with item III of Annex "C" to the Treaty of Itaipu and the Reversal Notes number 3 and 4, of 28 January 1986, and number 10, of 13 November 2000, exchanged between the Ministries of Foreign Affairs of Brazil and Paraguay, the Cost of Electricity Service consists of the following items:

- Remunerations and reimbursements to the High Contracting Parties and to the Parties that constitute ITAIPU, namely:

Income from Capital - Calculated at the equivalent of twelve percent per annum on the participation of Centrais Elétricas Brasileiras S.A. (ELETROBRAS) and of the Administración Nacional de Electricidad (ANDE) in the paid-in capital. From January 2001 they began to be updated according to the Reversal Note number 10 of 13 November 2000.

Royalties - Calculated at the equivalent to 650 dollars of the United States of America per gigawatt-hour generated and measured at the power plant, not being less than 18 million dollars per year, at half the rate for each High Contracting Party.

Reimbursement of Administration and Supervision Expenses - Calculated at the equivalent to 50 dollars of the United States of America, per gigawatt-hour generated and measured at the power plant, due in equal parts to Centrais Elétricas Brasileiras S.A. (ELETROBRAS) and to Administración Nacional de Electricidad (ANDE).

Remuneration for Transfer of Energy - Calculated at the equivalent to 300 dollars of the United States of America, per gigawatt-hour, assigned to the other High Contracting Party.

Reversal Notes numbers 3 and 4, both of 28 January 1986, exchanged between the Ministries of Foreign Affairs of Brazil and Paraguay, establish that the amount corresponding to the compensation will be included exclusively in the rate to be paid by the Party that consumes the transferred energy.

The values of Royalties, Reimbursement of Administration and Supervision Expenses and Remuneration for Transfer of Energy, calculated in accordance to the foregoing, from fiscal year 1992 were multiplied by a factor of 4.00 (four integers). Per agreement by exchange of notes between the Brazilian and Paraguayan governments, which established in item III.8 of Annex "C" to the Treaty, that from 2006 onwards the Compensation for Transfer of Power is to be multiplied by a factor of 5.10 (five integers and one tenth).

From 14 May 2011, as agreed by Reverse Notes signed on 1 September 2009 between the Government of the Federative Republic of Brazil, promulgated by Decree number 7.506 of 27 June 2011, and the Government of the Republic of Paraguay, approved by Law number 3,923 of 18 November 2009, the multiplying factor of remuneration for energy from Itaipu ceded to Brazil, paid to the Government of the Republic of Paraguay, increased from 5.1 (five integers and one tenth) to 15.3 (fifteen integers and three tenths).

Such costs will be kept constant according to the formula set out in Reverse Note number 3, according to the following adjustment factors:

Year	Original factor (A)	Adjustment factor (*) (B)	Adjusted factor (A x B)
1985	3,50	-	-
1986	3,50	-	-
1987	3,58	1,03161	3,69316
1988	3,66	1,07050	3,91803
1989	3,74	1,12344	4,20167
1990	3,82	1,17452	4,48667
1991	3,90	1,20367	4,69431
1992	4,00	1,22699	4,90796
1993	4,00	1,25442	5,01768
1994	4,00	1,27941	5,11764
1995	4,00	1,32219	5,28876
1996	4,00	1,35174	5,40696
1997	4,00	1,37073	5,48292
1998	4,00	1,36668	5,46672
1999	4,00	1,39071	5,56284
2000	4,00	1,45725	5,82900
2001	4,00	1,48488	5,93952
2002	4,00	1,48082	5,92328
2003	4,00	1,53284	6,13136
2004	4,00	1,59690	6,38760
2005	4,00	1,68959	6,75836
2006	4,00	1,76153	7,04610
2006	5,10	1,76153	8,98378
2007	4,00	1,81921	7,27684
2007	5,10	1,81921	9,27797
2008	4,00	1,94133	7,76534
2008	5,10	1,94133	9,90080
2009	4,00	1,85365	7,41460
2009	5,10	1,85365	9,45362
2010	4,00	1,92467	7,69868
2010	5,10	1,92467	9,81582
2011	4,00	2,03128	8,12512
Jan. to May 2011	5,10	2,03128	10,35952
May to Dec. 2011	15,30	2,03128	31,07858

(*) Basis: Average annual inflation index verified in the United State of America, using the "Industrial Goods" and "Consumer Prices" indexes published in the "International Financial Statistics" magazine.

- Amortization of Loans and Financing: Refers to contractual obligations amortized during the year, with companies and financial institutions in Brazil and other countries.

- Financial Charges on Loans and Financing: Represents the amount of charges paid to companies and financial institutions in Brazil and abroad, incurred until the balance sheet date.

- Capitalized interest in the fiscal year, and that are incorporated into the principal debt, are not considered. Their inclusion in the cost of service will only occur upon actual payment.

- Operating Expenses: They consist of all expenses attributable to the provision of electricity services, including direct costs of operation and maintenance, including replacements caused by normal wear and tear of equipment, insurance, general and administrative expenses.

- Accumulated Result of Operating Account: Includes the results, positive or negative, of the fiscal year's Operating Account, plus or minus the balance of the previous fiscal year.
