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Itaipu Binacional

***Financial statements at
December 31, 2016 and
independent auditor's report***



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BALANCE SHEET AT DECEMBER 31, 2016 AND 2015

(In thousands of US dollars)

A S S E T S

	<u>Note</u>	<u>12.31.2016</u>	<u>12.31.2015</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	534,242	302,943
Trade accounts receivable	7	979,048	950,689
Storeroom	8	5,521	6,681
Bonds receivable	9	3,270	3,269
Judicial deposits	10	-	23,036
Other accounts receivable	11	59,852	54,727
TOTAL CURRENT ASSETS		<u>1,581,933</u>	<u>1,341,345</u>
NON-CURRENT ASSETS			
Bonds receivable	9	219,162	221,450
Judicial deposits	10	47,071	15,106
		<u>266,233</u>	<u>236,556</u>
RESULTS			
	12		
From prior years		(5,271,110)	(3,235,236)
Current year		(1,170,030)	(2,035,874)
		<u>(6,441,140)</u>	<u>(5,271,110)</u>
PROPERTY, PLANT AND EQUIPMENT	13	<u>17,500,644</u>	<u>17,474,440</u>
INTANGIBLE ASSETS	14	<u>30,155</u>	<u>28,001</u>
TOTAL NON-CURRENT ASSETS		<u>11,355,892</u>	<u>12,467,887</u>
TOTAL ASSETS		<u>12,937,825</u>	<u>13,809,232</u>

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

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BALANCE SHEET AT DECEMBER 31, 2016 AND 2015

(In thousands of US dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>Note</u>	<u>12.31.2016</u>	<u>31.12.2015</u>
LIABILITIES			
CURRENT LIABILITIES			
Loans and financing	15	1,415,421	1,324,420
Remuneration and reimbursements	16	667,206	616,690
Suppliers	17	43,875	39,259
Salaries and social charges	18	79,149	48,334
Labor indemnities	19	50,406	19,984
Provision for lawsuits	21	74,929	69,933
Other liabilities	22	16,776	17,966
TOTAL CURRENT LIABILITIES		<u>2,347,762</u>	<u>2,136,586</u>
NON-CURRENT LIABILITIES			
Loans and financing	15	8,709,012	10,111,463
Labor indemnities	19	241,402	264,710
Post-employment benefits	20	1,472,326	1,137,069
Provision for lawsuits	21	64,844	56,440
Other liabilities	22	2,479	2,964
TOTAL NON-CURRENT LIABILITIES		<u>10,490,063</u>	<u>11,572,646</u>
TOTAL LIABILITIES		<u>12,837,825</u>	<u>13,709,232</u>
SHAREHOLDERS' EQUITY			
Capital	23		
Centrais Elébricas Brasileiras S.A.		50,000	50,000
Administración Nacional de Electricidad		50,000	50,000
TOTAL SHAREHOLDERS' EQUITY		<u>100,000</u>	<u>100,000</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>12,937,825</u>	<u>13,809,232</u>

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

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STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of US dollars)

	Note	12.31.2016	12.31.2015
OPERATING INCOME	24		
Supply of power		3,291,012	3,291,012
Remuneration for electricity assignment		368,455	313,420
Reimbursement of costs - non-bound energy		152,032	76,370
Total operating income		3,811,499	3,680,802
OPERATING EXPENSES			
REMUNERATION AND REIMBURSEMENTS	25		
Proceeds from capital		(46,716)	(47,120)
Remuneration for electricity assignment		(368,455)	(313,420)
Bound energy			
Royalties		(393,560)	(396,385)
Reimbursement of management and supervision charges		(30,274)	(30,491)
		<u>(423,834)</u>	<u>(426,876)</u>
Non-bound energy			
Royalties		(141,172)	(70,915)
Reimbursement of management and supervision charges		(10,860)	(5,455)
		<u>(152,032)</u>	<u>(76,370)</u>
		(991,037)	(863,786)
GENERAL AND ADMINISTRATIVE EXPENSES	26		
Personnel		(496,010)	(381,844)
Actuarial provisions		(281,184)	206,765
Material		(16,135)	(17,170)
Outsourced services		(94,056)	(99,503)
Provision for lawsuits		7,715	(13,346)
Other operating expenses		(98,363)	(88,766)
		<u>(978,033)</u>	<u>(393,864)</u>
Total operating expenses		(1,969,070)	(1,257,650)
SERVICE INCOME		1,842,429	2,423,152
OTHER INCOME (EXPENSES)	27		
Sundry income		3,945	4,899
Sundry expenses		(3,892)	(18,273)
Total sundry income (expenses)		53	(13,374)
FINANCIAL INCOME			
Proceeds from interest earning bank deposits		59,142	39,561
Penalties on overdue electricity bills		4,759	4,321
Other financial income		3,369	3,758
Total financial income		67,270	47,640
FINANCIAL EXPENSES			
Unfunded financial charges		(719,360)	(804,342)
Charges on remuneration and reimbursements		(4,544)	(4,070)
Monetary variation	28	(15,772)	387,012
Other financial expenses		(46)	(144)
Total financial expenses		(739,722)	(421,544)
FINANCIAL INCOME (LOSS)		(672,452)	(373,904)
INCOME (LOSS) FOR THE YEAR		1,170,030	2,035,874

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

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STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of US dollars)

	<u>12.31.2016</u>	<u>12.31.2015</u>
SOURCE OF FUNDS		
Operations		
Income (loss) for the year	1,170,030	2,035,874
Expenses not affecting net working capital		
Long-term monetary variation - loans	4,164	(7,091)
Long-term monetary variation - estimated liabilities	62,418	(452,624)
Write-offs of fixed assets	3,748	18,017
	<u>1,240,360</u>	<u>1,594,176</u>
Third parties		
Increase in non-current liabilities	343,409	59,072
Transfer of current liabilities to non-current liabilities	29,725	3,933
Transfer from non-current assets to current assets	3,320	3,287
Decrease in non-current assets	19,470	12,976
Funds received - loans	7,100	11,132
	<u>403,024</u>	<u>90,400</u>
TOTAL FINANCIAL RESOURCES PROVIDED	<u>1,643,384</u>	<u>1,684,576</u>
INVESTMENT OF FUNDS		
Investments in property, plant and equipment and intangible assets	31,475	25,635
Incorporated charges on property, plant and equipment	631	334
Increase in non-current assets	52,467	10,543
Decrease in non-current liabilities	47,609	307,685
Transfer from long term to short term - loans	1,413,716	1,328,922
Transfer from long term to short term - estimated obligations	68,074	20,837
	<u>1,613,972</u>	<u>1,693,956</u>
TOTAL INVESTMENTS	<u>1,613,972</u>	<u>1,693,956</u>
INCREASE (DECREASE) IN NET WORKING CAPITAL	<u>29,412</u>	<u>(9,380)</u>
STATEMENT OF CHANGES IN NET WORKING CAPITAL		
Closing net working capital		
Closing current assets	1,581,933	1,341,345
Closing current liabilities	(2,347,762)	(2,136,586)
	<u>(765,829)</u>	<u>(795,241)</u>
Opening net working capital	<u>(795,241)</u>	<u>(785,861)</u>
Increase (decrease) in net working capital	<u>29,412</u>	<u>(9,380)</u>

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STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of US dollars)

	<u>12.31.2016</u>	<u>12.31.2015</u>
CASH FROM OPERATING ACTIVITIES		
Profit for the year	1,170,030	2,035,874
Adjustments to profit		
Write-off property, plant and equipment	3,748	18,017
Monetary variation - loans	5,711	(7,185)
Monetary variation - estimated liabilities	62,418	(452,624)
Provision for liabilities		
Financial charges - loans	719,364	804,470
Provisions for personnel	40,547	(79,109)
Actuarial provisions	281,184	(206,765)
Provisions for lawsuits	(7,715)	13,346
Adjusted profit (loss)	<u>2,275,287</u>	<u>2,126,024</u>
Changes in net assets and liabilities		
Changes in trade accounts receivable	(28,359)	40,141
Changes in storeroom	1,160	(188)
Changes in other accounts receivable	(10,771)	3,058
Changes in remuneration and reimbursements	50,516	(67,921)
Changes in trade accounts payable and other liabilities	2,941	(3,723)
Changes in salaries and social charges	(1,496)	(6,854)
Changes in estimated liabilities	11,648	(29,891)
	<u>25,639</u>	<u>(65,378)</u>
Net cash from operating activities	<u>2,300,926</u>	<u>2,060,646</u>
CASH FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(31,475)	(25,635)
Net cash used in investing activities	<u>(31,475)</u>	<u>(25,635)</u>
CASH FROM FINANCING ACTIVITIES		
Loans and financing obtained	7,100	11,132
Amortization of loans and financing	(1,324,429)	(1,251,216)
Interesting on loans and financing	(720,823)	(805,934)
Cash used in financing activities	<u>(2,038,152)</u>	<u>(2,046,018)</u>
TOTAL EFFECT ON CASH AND CASH EQUIVALENTS	<u>231,299</u>	<u>(11,007)</u>
Opening balance of cash and cash equivalents	302,943	313,950
Closing balance of cash and cash equivalents	534,242	302,943
Changes in cash and cash equivalents	<u>231,299</u>	<u>(11,007)</u>

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

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STATEMENT OF ADDED VALUE
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands of US dollars)

	<u>12.31.2016</u>	<u>12.31.2015</u>
GENERATION OF ADDED VALUE		
Revenue		
Power supply	3,291,012	3,291,012
Remuneration for electricity assignment	368,455	313,420
Reimbursement of costs - non-bound energy	152,032	76,370
Other revenue (expense)	53	(13,374)
	<u>3,811,552</u>	<u>3,667,428</u>
(-) Inputs purchased from third parties		
Material	16,135	17,170
Outsourced services	94,056	99,503
Other operating expenses	90,648	102,112
	<u>200,839</u>	<u>218,785</u>
	<u>3,610,713</u>	<u>3,448,643</u>
GROSS VALUE ADDED		
(+) Added value received by transfer		
Financial revenue	67,270	47,640
Monetary variation	-	387,012
	<u>67,270</u>	<u>434,652</u>
ADDED VALUE TO BE DISTRIBUTED	<u>3,677,983</u>	<u>3,883,295</u>
DISTRIBUTION OF ADDED VALUE		
Remuneration:		
Employees		
Direct compensation	264,089	236,202
Benefits	131,184	139,241
Post-employment benefits	281,184	(206,766)
Labor indemnities	65,102	(29,985)
FGTS	5,317	5,182
	<u>746,876</u>	<u>143,874</u>
Government		
INSS and IPS	30,318	31,205
Royalties	534,732	467,300
Remuneration for electricity assignment	368,455	313,420
	<u>933,505</u>	<u>811,925</u>
Third-party capital		
Interest on debt	719,360	804,342
Monetary variation	15,772	-
Other financial expenses	4,590	4,214
	<u>739,722</u>	<u>808,556</u>
Equity		
Income on capital	46,716	47,120
Reimbursement of management and supervision charges	41,134	35,946
	<u>87,850</u>	<u>83,066</u>
Profit for the year	<u>1,170,030</u>	<u>2,035,874</u>
ADDED VALUE DISTRIBUTED	<u>3,677,983</u>	<u>3,883,295</u>

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



NOTES TO THE FINANCIAL STATEMENTS

AT DECEMBER 31, 2016 AND 2015

(Amounts in thousands of US dollars, except when otherwise indicated)

1. OPERATIONS

ITAIPU is a Binational Entity created and governed, with equal rights and obligations, by Treaty signed on April 26, 1973, between the Federative Republic of Brazil and the Republic of Paraguay, also referred to as the High Contracting Parties, with its capital equally owned by Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE, also referred to as the Parties

ITAIPU's headquarters are located in Brasilia, the Capital of the Federative Republic of Brazil and Asuncion, the Capital of the Republic of Paraguay, and has full tax exemption in both countries, according to the signed Treaty

Its objective is the utilization of the water resources of the Parana River to generate hydroelectric power, belonging to both countries, as a condominium, from and including the Guaira Falls until the mouth of the Iguazu River, through the construction and operation of a Hydroelectric Power Plant, with a total installed capacity of 14,000 MW, generating electric power, with social and environmental responsibility, boosting economic, touristic and technological sustainable development in Brazil and Paraguay.

ITAIPU formally began operations on May 17, 1974, and the Hydroelectric Power Plant was officially inaugurated on October 25, 1984, and by March 1985, two generating units for contracting by Brazil and Paraguay were already available. In 1991, the first stage of implementation of generating units was completed. After entry into operation of the last two generating units in December 2006 and April 2007, the Hydroelectric Power Plant has 12,135 MW of power available for contracting by ELETROBRAS and ANDE.

In 2016, ITAIPU reached the historical production of 103.1 million MWh, exceeding its record of for energy generation recorded in 2013, of 98.6 million MWh. The generation in 2016 was 15.6% higher than the 89.2 million MWh generated in 2015.

ITAIPU is governed by the rules set forth in its Treaty and its Attachments, as referred to below, and as its administrative bodies has a Board of Directors and an Executive Board, composed of equal numbers of members from each country.

Attachment "A" - Statute of ITAIPU.

Attachment "B" - General Description of the Facilities Designated for the Production of Electric Power and Auxiliary Works.

Attachment "C" - Financial Bases and Provision of Electricity Services of ITAIPU.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation

As established in the official acts of the Entity, the Financial Statements have been prepared in accordance with the practices and the provisions of the constitutional Treaty of ITAIPU, its attachments and other official acts, composed of the Balance Sheet, the Statement of Income, Statements of Changes in Financial Position and Notes to the Financial Statements.

On a supplementary basis, the Statement of Cash Flows, the Statement of Value Added, and, in Attachment I, the Statement of Operations Account and Notes to the Statement of Operating Accounts are also presented.

(i) Statement of Cash Flows

It is prepared under the indirect method and presents cash flows of the period classified by operating, investing and financing activities. Cash flows arising from transactions that represent the Entity's main source of income are classified as operating activities. Therefore, they result from transactions and other events included in the calculation of the result for the year. Those disbursements for funds expected to generate cash flows in the future are classified and presented as investing activities. Those flows related to the suppliers of capital to the Entity, such as banks, shareholders, etc. are classified and presented as cash flows arising from financing activities.

(ii) Statement of Value Added - SVA

The purpose of the SVA is to provide information related to the generation of wealth by the Entity in the period and the effective way such wealth was distributed. The main components of the wealth generated by the Entity are presented by the Revenue items, less Inputs purchased from third parties, plus the value added received in transfers, which are subdivided according to the nature of each transaction. The components of the wealth distribution include the amounts related to personnel, social charges, royalties and other compensation, remuneration of third-party capital and return on own capital. It is prepared considering the basic conceptual structure for Preparation and Presentation of Financial Statements, and their date are obtained from the reorganization of elements from the Statement of Income for the same period.

(iii) Statement of Operating Accounts

The basis of preparation is described in the Notes to the Statement of Operating Accounts (Attachment I).

Furthermore, under the requirements of the Treaty, its Attachments and other official acts the Financial Statements and Supplementary Information have been prepared in accordance with the accounting practices adopted in Brazil and Paraguay.

The main provisions and/or regulatory guidelines that differ from accounting practices adopted in these countries are:

- (i) The depreciation of Property, Plant and Equipment and the amortization of Intangible Assets is not accounted for during the period of useful life (Notes 4.e and 13);
- (ii) The results of the Entity are not stated in Shareholders' Equity, but are shown under the caption Results, pertaining to assets (Note 12);
- (iii) The assessments of the obligations for post-employment benefits, which include: actuarial gains and losses and returns on plan assets, are immediately recognized in the statement of income (Notes 4.k and 20);
- (iv) Accounting policies regarding the measurement of fair value of Assets and Liabilities have not been established or disclosed;
- (v) The return on own capital paid to the Parties does not consider the realization of income, and represents an operating expense in income (Notes 16 and 25);
- (vi) ITAIPU does not prepare a Statement of Changes in Shareholders' Equity and a Statement of Comprehensive Income, because its Shareholders' Equity is not altered; and
- (vii) The Statement of Changes in Financial Position is a part of the Entity's Financial Statements and the Statements of Cash Flows and Value Added are presented as supplementary information.

The issue of financial statements was authorized by the Management on April 11, 2017.

3. RELATIONSHIP WITH INDEPENDENT AUDITORS

ITAIPU has an agreement with Consórcio PWC Projeto Auditoria ITAIPU, composed of the companies PricewaterhouseCoopers Auditores Independentes, headquartered in São Paulo, Brazil and PricewaterhouseCoopers, headquartered in Asuncion, Paraguay for the performance of the external audits services of the Financial Statements and internal controls, in compliance with the United States Sarbanes-Oxley Act (SOX), for the years of 2016 and 2017.

There is no other agreement in effect with the Consortium or any of the group companies.

4. SUMMARY OF MAIN ACCOUNTING PRACTICES

In the preparation of the Entity's Financial Statements, the following accounting practices for recording economic and financial transactions and operations were adopted:

a) Reference currency for recording transactions

In the accounting of operations and the presentation of Financial Statements, the currency of the United States has been adopted as a reference, as provided in Attachment "A" to the Treaty.

Economic and financial operations and transactions carried out in different currencies have their values converted into the United States Dollars based on the market closing rates published by the Central Banks of Brazil and Paraguay, according to the following criteria:

- Property, Plant and Equipment, Intangible Assets - the rates of the previous day on which the costs were incurred.
- Capital - the rates in effect on the dates of payment.
- Loans and financing - updated to the currency of origin in accordance with the contractual indexes and converted into the reference currency at the exchange rate adopted for the last business day of each month of the calendar year.
- Other assets and liabilities - converted to the rates adopted for the last business day of each month of the calendar year.

Operating Income from the provision of electricity services are calculated and accounted for in United States Dollars and invoice amounts related thereto are received in Reais or in Guaranis, with the application of the rates in effect on the day preceding the receipt.

Return on capital, royalties, and reimbursement of management and supervision charges, as well as remuneration for electricity assignment, and components of operating expenses, are calculated and booked in United States Dollars and paid in Reais or Guaranis, at the rates in effect on the day preceding the payment.

Operating expenses, financial expenses, and sundry expenses, as well as financial income and sundry income, are converted at the rates of the day preceding the date on which they are incurred.

Thus, asset and liability balances in United State Dollars on the base date of these Financial Statements may have changed due to the variation in the Real and Guarani quote, mainly between the base date of these statements and the reading date of the Financial Statements.

b) Use of estimates and judgments

The preparation of Financial Statements requires judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of Assets, Liabilities, Income and Expenses. Actual results may differ from these estimates

Estimates and assumptions are reviewed on a continuous manner. Revisions to accounting

estimates are recognized in the period they are revised.

Information on uncertainties, assumptions and estimates that pose a high risk of resulting in a material adjustment within the next financial years are included in the following Notes:

- i) Note 13 - Provision for impairment: the basis for verification of the necessity (or not) for the constitution of provisions;
- ii) Note 20 - Measurement of post-employment benefit obligations: principal actuarial assumptions;
- iii) Note 21 - Recognition and measurement of provisions for lawsuits: principal assumptions on the probability and magnitude of resource outflows.

c) Cash and cash equivalents

Include cash, bank deposits and other highly liquid short-term investments, which are immediately convertible into a known cash amount and that are subject to an insignificant risk of change in value.

d) Trade accounts receivable

These are non-derivative financial assets with fixed payments not quoted in an active market. The initial measurement is calculated at the value of the electricity services provision.

e) Property, plant and equipment and intangible assets

Investments in works, relating to the acquisition, construction, installation and engineering, including expenditure on general administration, financial charges on third party funds during the construction period, pre-operating expenses for the deployment and training of personnel during the construction period and apportionments of management fees, have been accounted for under the historical cost principle. In the event of impairment losses, they will be deducted from this cost.

Income and refunds obtained based on exemptions and tax benefits related to the works were recorded during the construction period and reduced the cost of the work. From the start of operation of the Hydroelectric Power Plant, these figures were reallocated between the cost of the work and sundry income and, after full operation, started being recorded in sundry income.

ITAIPU does not account for the depreciation of property, plant and equipment and the amortization of intangible assets for their useful life, as income is based on liability charges and because these expenses are not part of the Electricity Service Costs, as established in Attachment "C" to the Treaty.

f) Operating income

This comprises the amounts arising from the provision of electricity services, include the billing of supply of power, reimbursement of royalties and reimbursement of management and supervision charges arising from non-bound energy and remuneration for electricity assignment. Operating income is recognized under the accrual basis of accounting.

g) Operating expenses

This includes operational, maintenance and management expenses related to the exploitation of the Hydroelectric Power Plant, remuneration and reimbursements to the High Contracting Parties and Parties included in Attachment "C" to the Treaty and, as from 2005, expenditure related to social and environmental responsibility programs, due to Diplomatic Notes No. 228/05 of the Brazilian Embassy in Asuncion and No.1/05 of the Ministry of Foreign Affairs of Paraguay, both of March 31, 2005. Operating expenses are recognized under the accrual basis of accounting.

h) Financial income

This includes income resulting from yields from investments in banking institutions, the restatement of deposits used as collateral as part of the Brazilian foreign debt restructuring agreement (Note 9), of arrear interest for late receipt of invoices for electricity services provision, discounts obtained, and interest arising from the agreement signed with the ANDE for the construction of a substation on the right bank (Note 9) and other financial income.

i) Financial expenses

This includes financial charges from loans and financing agreements, net monetary variations that are made up of monetary restatement and exchange differences arising from contractually planned operations, mainly in Reais and Guaranis, converted into the accounting currency for transactions, the United States Dollar, as described in item "a" of this Note, in addition to financial charges on remuneration and reimbursements and other financial expenses.

j) Sundry income/expenses

This includes revenues and expenses from the sale of scrap and unserviceable equipment, real estate occupancy rates, sale of public notices, write-off of assets and the like.

k) Post-employment benefits

ITAIPU acknowledges their obligations under the Employee benefit plans, adopting the following practices:

- i) the actuarial valuation of the retirement and pension plan and health care plan is conducted by independent actuaries using the method of projected credit and best estimates for the expected performance of investment plans for the funds, salary increases, employee retirement ages, turnover, mortality, expected costs for health care, among other items, respecting the particulars of each country.
- ii) the actuarial result of the retirement and pension plan, arising from the present value of obligations, deducted from the fair value of plan assets, with the immediate recognition of all actuarial gains and losses, is recognized, if showing a deficit, in the Financial Statements of ITAIPU, directly in the income (loss) account: Provision Actuarial Deficit (Notes 2.iii and 20);
- iii) the present value of obligations of the health care plan, with immediate recognition of all gains and losses, is fully recognized in the Financial Statements of ITAIPU, since it is directly sponsored by the Entity, with no segregation of assets for the plan, directly in the result account: Provision Post-Employment Benefits (Notes 2.iii and 20).

Accounting provisions related to said obligations are restated at the end of each year.

l) Profit sharing

Payment to employees of values classified as profit sharing does not consider the calculation of positive results for the years; it is made based on Collective Bargaining Agreements and Goal Agreement Terms for Distribution of Profit Sharing, signed each year. As from 2016, ITAIPU recognizes a provision for this expense in the year of the effective provision of service, which gave rise to this reward.

5. EFFECTS OF EXCHANGE RATE VARIATION ON THE FINANCIAL STATEMENTS

Operations of the Entity, carried out in sundry currencies, mainly in Reais and Guaranis, are accounted for using USD as a reference.

The effects of fluctuations in the purchasing power of these currencies are reflected in the Financial Statements in accordance with the criteria of conversion described in Note 4.a, to the extent it deviates from the value of the United States Dollar.

Exchange rates for the United States Dollar

Closing rate	Brazil		Paraguay	
	Rates in Reais (R\$)	Annual variation - %	Rates in Guaranis (Gs)	Annual variation - %
2015	3.9048	47.0	5,813.94	25.2
2016	3.2591	(16.5)	5,774.63	(0.7)

The amounts accounted for in United States Dollars remain recorded at historical cost.

For information purposes, the table below shows the main inflation indexes for 2016 and 2015.

Inflation indexes

	Percentage - %	
	2016	2015
Brazil:		
Expanded Consumer Price Index - IPCA Brazilian Institute of Geography and Statistics	6.3	10.7
General Price Index - IGP-DI Getúlio Vargas Foundation	7.2	10.7
Paraguay:		
Consumer Price Index - IPC Central Bank of Paraguay	3.9	3.1

6. CASH AND CASH EQUIVALENTS

These include banking and cash equivalents, held in Reais and Guaranis, equivalent to United States Dollars and also those kept in this currency in Paraguayan banks.

	<u>2016</u>	<u>2015</u>
Cash	15	17
Banks checking accounts	12,206	991
Temporary cash investments		
In Brazil		
Caixa Econômica Federal - CDB Flex	452,381	219,920
Banco do Brasil - CDB DI	-	8,845
Banco do Brasil - Fixed Income 25 thousand	61	192
	<u>452,442</u>	<u>228,957</u>
In Paraguay		
Banco Regional	31,019	27,757
Banco Continental	25,756	15,948
Banco Itaú	7,709	7,655
Banco Bilbao Vizcaya Argentaria	2,485	16,854
Banco Bancop	1,067	1,413
Banco Atlas	922	2,972
Banco Amambay	217	64
Vision Banco	182	96
Sudameris Bank	100	100
Banco do Brasil	90	88
Banco Nacional de Fomento	32	31
	<u>69,579</u>	<u>72,978</u>
	<u>522,021</u>	<u>301,935</u>
TOTAL	<u>534,242</u>	<u>302,943</u>

7. TRADE ACCOUNTS RECEIVABLE

This refers to the amounts resulting from the provision of electricity services (Note 24), whose invoices are due respectively: by the 20th day of the second month after generation, on the 30th day of the second month after generation and on the 10th day of the third month after generation, except for the invoices for electricity assignment, which mature 45 days after generation.

This also includes provisions for the adjustment of the dollar on receivables from royalties and reimbursement of management and supervision charges resulting from non-bound energy and remuneration for electricity assignment (see Attachment I - Notes to the Statement of Operating Accounts) for the current year and part of the previous year, which are billed in 12 installments, maturing as from March of the year following generation.

The above-mentioned invoices are issued in United States dollars, charged in Reais or Guaranis, in accordance with selling exchange rates (closing), of the day prior to the collection, disseminated by the Central Banks of Brazil and Paraguay, respectively.

	<u>2016</u>	<u>2015</u>
Centrais Eléctricas Brasileiras S.A. - ELETROBRAS	882,742	675,702
Administración Nacional de Electricidad - ANDE	96,306	91,233
Ministry of Mines and Energy of Brazil - MME	-	183,754
TOTAL	<u>979,048</u>	<u>950,689</u>

As set forth in Article XIV of the Treaty the acquisition of electricity services from ITAIPU shall be made by ELETROBRAS and ANDE, which can also do it by means of Brazilian or Paraguayan companies appointed thereby.

Since 2003, the acquisition of electricity services from ITAIPU by Brasil is made by Centrais Eléctricas Brasileiras S.A. - ELETROBRAS, pursuant to Decree No. 4.550 of December 27, 2002, which established this company as the sole Trader of ITAIPU's Energy. Regarding Paraguay, the acquisition of ITAIPU's electricity services is made by Administración Nacional de Electricidad - ANDE.

Since 2011, pursuant to Decree No. 7.506 of June 27, 2011, the Brazilian Ministry of Mines and Energy was responsible for crediting to ITAIPU two thirds of the payment on remuneration for electricity assignment due to the Paraguayan Treasury (see Attachment I - Notes to the Statement of Operating Accounts).

Upon the enactment of Provisional Measure No. 735 (article 6) on June 23, 2016, converted into Law No. 13.360 on November 17, 2016, the totality of cost related to the multiplying factor 15.30 (fifteen integers and thirty hundredths) on the remuneration for electricity assignment as addressed by the Bilateral Agreement enacted by Decree No. 7.506, of June 27, 2011, it became ELETROBRAS' responsibility, as from January 1, 2016.

Therefore, ass invoices related to remuneration for electricity assignment due to ITAIPU by the Brazilian Ministry of Mines and Energy, which were overdue on that period and those current as from that date, were canceled and reissued in the same conditions for ELETROBRAS.

Regarding the aforementioned balance of US\$ 979,048, at December 31, 2016, there are no overdue amounts in the year.

At December 31, 2015, regarding the balance of US\$ 950,689, there were overdue balances of the Brazilian Ministry of Mines and Energy, in the amount of US\$ 41,406, an average of 34 days of delay.

Arrears interest of 0.5% p.m. is applicable on past due amounts during the first fifteen days of delay and 1% p.m. as from the sixteenth day of delay.

8. STOREROOM

	<u>2016</u>	<u>2015</u>
Storeroom material	5,328	6,488
Material separated for disposal	<u>193</u>	<u>193</u>
TOTAL	<u>5,521</u>	<u>6,681</u>

This comprises the amounts of consumables kept in stock for immediate fulfillment of corporate needs. They are presented at average acquisition cost. The movement of consumables occurs upon the acquisition, transfers between warehouses and removal for respective use. Unserviceable materials duly identified and available for disposal, in accordance with the corresponding processes, are also part of the group.

9. BONDS RECEIVABLE

	2016	2015
Escrow deposits CT-80/92 (i)	204,143	200,810
Agreement ANDE 5.808/99-Substation MD (ii)	3,908	4,542
Agreement ANDE 5.808/99- Amendment n.2-T5/R5 (ii.a)	11,043	12,184
Agreement ANDE 5.808/99- Amendment n.6-T4/R4 (ii.b)	808	910
Compulsory tax recoverable	-	4,341
Other	2,530	1,932
TOTAL	222,432	224,719
Current	3,270	3,269
Non current	219,162	221,450

They are principally made up of receivables linked to third party's obligations, such as:

(i) Escrow deposits CT-80/92

Cash guarantees maturing in April 2024, linked to loan agreements with the National Treasury of Brazil, agreement CT-80/92 (Note 15), which are the right of the Entity, in amount equivalent to the principal of the bonds "Par-Bond" and "Discount-Bond", monetarily restated at the short-term and long-term debt indexes - DMLP, disseminated half-yearly, in June and December of each year, by the Brazilian National Treasury Secretariat - STN. For the other months, restatement is made based on the last index disseminated.

(ii) Agreement ANDE 5.808/99

Agreement entered into between ITAIPU and ANDE, on March 30, 1999, with the purpose of establishing conditions to expand the ITAIPU Substation on the Right Bank, and the following were under the responsibility of ITAIPU: project development, acquisition of equipment and material, civil works, equipment assembly, start-up tests and commissioning of facilities of Sector 3 of said Substation, as well as operation and maintenance services of these facilities.

ITAIPU is responsible for obtaining funds required for financing of facilities contemplated in this agreement and ANDE shall refund ITAIPU for disbursements incurred in the same conditions of the respective loan agreement.

Six amendments were entered into for this agreement, among which: (ii.a) amendment No. 2, of August 20, 2010, with the purpose of establishing the rules for refunding of ITAIPU by ANDE of the payments made as borrowings taken out by ITAIPU with Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional - CAJUBI (Note 15), for installation of the Autotransformer/Regulator of 500/220 kV (T5/R5) of Substation on the Right Bank; and (ii.b) amendment No. 6, of February 17, 2012, with the purpose of establishing rules to refund of ITAIPU by ANDE for the payments made as borrowings taken out by ITAIPU with Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional - CAJUBI (Note 15), for Repowering of the Autotransformer/Regulator Set (T4/R4) of the Substation on the Right Bank.

10. JUDICIAL DEPOSITS

These refer to the amounts of judicial deposits, escrow deposits and bank deposit certificates (CDB) in Brazil, and judicial embargoes in Paraguay, related to the labor, tax, civil and commercial lawsuits in which ITAIPU is a party.

	<u>2016</u>	<u>2015</u>
Brazil	43,641	34,721
Paraguay	<u>3,430</u>	<u>3,421</u>
TOTAL	<u>47,071</u>	<u>38,142</u>
Current	<u>-</u>	<u>23,036</u>
Non-current	<u>47,071</u>	<u>15,106</u>

In Brazil, judicial deposits of labor nature are restated based on the FGTS restatement factor, and for those of tax, civil and commercial nature, based on the National Consumer Price Index - INPC. Exceptions are the Bank Deposit Certificates (CDB), which are restated in accordance with the rules agreed upon at the time of their acquisition.

11. OTHER ACCOUNTS RECEIVABLE

	<u>2016</u>	<u>2015</u>
Advances to suppliers (i)	42,436	29,140
Restricted deposits (ii)	14,491	17,086
Advances to staff	579	2,796
Sundry receivables	2,346	5,705
TOTAL	<u>59,852</u>	<u>54,727</u>

- (i) Refer to advances made to suppliers and consumables and service providers, which are written off upon the delivery of goods or effective service provision.
- (ii) The group of accounts named Restricted Deposits comprises bank account balances linked to the Cooperation Agreements and Terms entered into by ITAIPU with a number of bodies.

In these agreements, ITAIPU acts as executing agency and is the manager of resources designated for the respective projects.

The table below shows the breakdown of this group of accounts:

	<u>2016</u>	<u>2015</u>
Cooperation Agreement ANDE L66kV (ii.a)	12,790	14,723
Agreement FOCEM (ii.b)	1,193	1,203
Cooperation Terms SESI and SENAI (ii.c)	244	258
Agreement ANDE T5/R5 (Note 9.ii)	185	185
World Bank Agreement (ii.d)	62	635
Agreement FINEP(ii.e)	17	82
TOTAL	<u>14,491</u>	<u>17,086</u>

(ii.a) Cooperation Agreement ANDE L66kV

On April 25, 2014, the Cooperation Agreement JEC.JE/055/2014 was entered between ITAIPU and Administración Nacional de Electricidad - ANDE, with a 36-month term, to establish the obligation and conditions regarding the execution of the following services to strengthen the Electrical System of Alto Paraná, Paraguay:

- a) Construction of a Substation Microcenter in Ciudad del Este;
- b) Repowering of overhead Transmission Line at 66 kV, between the Substations of Acaray and Alto Parana; and
- c) Construction of two underground transmission lines at 66 kV, between the substation of Alto Parana and the Substation Microcenter in Ciudad del Este.

On February 12 and April 24, 2015, amendments No.1 and No. 2 were signed, respectively, to expand the scope established in said Agreement, with the inclusion of other related works.

(ii.b) Agreement FOCEM

On August 2, 2010, the Funding Agreement for MERCOSUR Convergence - COF was entered into, based on the Decision of the Common Market Council of South America, MERCOSUR/CMC/DEC No. 07/2010, for the project "Construction of Transmission Line of 500 kV ITAIPU - Villa Hayes, of Substation Villa Hayes and Expansion of ITAIPU Substation of the Right Bank", and ITAIPU is the project execution agency.

(ii.c) Cooperation Terms SESI and SENAI

Agreements entered into in Brazil with SESI and SENAI institutions, with the purpose of allocating part of its contribution funds related to INSS, levied on payroll, for application in professional development programs and improvement of workers' well being.

(ii.d) World Bank Agreement

On February 24, 2011, the Subsidy Agreement GEF No. TF096758 was entered into with the World Bank for the implementation of the project "Biodiversity Conservation and Sustainable Land Management in the Atlantic Forest of Eastern Paraguay - Paraguay Biodiversity", with funds arising from the Global Environment Fund - GEF.

(ii.e) Agreement FINEP

On November 27, 2013, the FINEP Agreement 01.13.0347-00 was entered into with the Studies and Projects Financing Agency - FINEP for execution of the project "Ethanol Hybrid Electric Bus", with funds arising from the National Fund for Scientific and Technological Development.

12. RESULTS

This includes the results of ITAIPU drawn from the results of the Statement of Income for each year, accumulated up to December 31, 2015 and the income (loss) for the year ended December 31, 2016.

	2016	2015
Income (loss) of the prior year	(5,271,110)	(3,235,236)
Income (loss) of the current year	(1,170,030)	(2,035,874)
TOTAL	(6,441,140)	(5,271,110)

The results are not used as a calculation basis for return on own capital, profit sharing, or establishment of reserves (Note 2, items ii and vi/v).

Until 2023, the forecast year for the total amortization the debt and the review of Attachment "C" to the Treaty, the amount of accrued values in the Income (loss) caption should be equivalent to total Property, Plant and Equipment and Intangible Assets of Entity, minus the amount of Capital, since as established in Attachment "C" the amortization of loans and financing is an integral part of the Electricity Service Cost and the depreciation of Property, Plant and Equipment and amortization of Intangible Assets are not accounted for by the Entity (Note 2, item i).

13. PROPERTY, PLANT AND EQUIPMENT

	2016	2015
Fixed assets in service		
Goods and production facilities	16,440,845	16,360,107
Other assets and facilities	756,893	687,070
Capital goods furniture	98,787	92,483
Total fixed assets in service	17,296,525	17,139,660

Construction in progress

Sundry property, plant and equipment	150,643	282,472
Advances for movable assets	2,649	2,797
Technical reserve	50,827	49,511
Total construction in progress	<u>204,119</u>	<u>334,780</u>
 TOTAL PROPERTY, PLANT AND EQUIPMENT	 <u>17,500,644</u>	 <u>17,474,440</u>

Property, Plant and Equipment in service, equivalent to 98.8% and 98.1% of total property, plant and equipment in 2016 and 2015, respectively, represent the historical cost of construction of the ITAIPU Hydroelectric Power Plant: facilities designated for the production of electricity and ancillary works, adjacent areas, administrative head offices, in addition to movable assets.

These costs, originally classified as Construction in progress, are transferred to Property, Plant and Equipment in service after the respective physical and accounting reconciliation process of each property unit.

Charges on loans and financing relating to Property, Plant and Equipment are recorded in Assets until fixed assets effectively enter into operation.

Inventories of spare materials to be used directly in the Property, Plant and Equipment are recorded as a technical reserve

The amounts of Property, Plant and Equipment are presented at their historical cost, since ITAIPU does not account for depreciation, due to having Income revenues calculated based on liability charges and because these expenses are not part of the Electricity Service Cost, as established in Attachment "C" to the Treaty (Notes 4.e and 12)

As the Entity does not account for the depreciation of Property, Plant and Equipment and having amortization and financial charges deriving from loans and financing obtained for the implementation of the project, as a component of Electricity Service Cost, ITAIPU uses projections of tariff composition (unit cost of electricity service), approved annually by the Board of Directors of the Entity, as the basis for verification of the need to recognize a provision for impairment. In 2016, as well as for 2015, the recognition of this provision was not deemed necessary.

The breakdown of net movement of Property, Plant and Equipment, that in 2016 was US\$ 26,204 and US\$ 4,825 in 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Property, plant and equipment in the year		
Sundry property, plant and equipment	17,767	16,891
Movable assets	10,238	4,944
	<u>28,005</u>	<u>21,835</u>
Economic (increases) decreases		
Technical reserve	1,316	673
Financial charges	631	334
Write-off of property, plant and equipment	(3,748)	(18,017)
	<u>(1,801)</u>	<u>(17,010)</u>
Changes in fixed assets	<u>26,204</u>	<u>4,825</u>

The write-off of Property, Plant and Equipment in the periods above refer to donations of movable assets for purposes of social and public interest, write-off of movable assets evaluated as scrap and sale of movable assets and immovable property, mainly the real estate items that constitute housing complexes in both banks.

14. INTANGIBLE ASSETS

This is composed of the expenses related to obtaining intangible assets for the operation, maintenance, and Management of the Entity.

	<u>2016</u>	<u>2015</u>
Software	30,086	27,932
Right of use of easement strip	69	69
TOTAL	<u>30,155</u>	<u>28,001</u>

As described in Notes 4.e. and 12, ITAIPU does not account for the amortization of its Intangible Assets.

15. LOANS AND FINANCING

Loans and financing in United States Dollars and other currencies, as shown in the table below, are duly updated with interest and other financial charges added, according to the contractual terms.

	Currency (3)	Interest rate	Agreement Amount Total	Debt				Amortization period		
				2016		2015		Beginning	End	Installment
				Short-term	Long-term	Short-term	Long-term			
I - ELETROBRAS										
ECF - 1480/97										
Tranche B - Principal	US\$	7,50	10,250,481	432,464	2,315,769	402,922	2,748,912	2001	2023	Monthly
Tranche C - Principal	US\$	4,10	1,780,955	51,925	306,351	49,836	358,276	2007	2023	Monthly
ECF - 1627/97										
Principal	US\$	7,50	181,577	9,931	51,311	9,931	61,242	1998	2023	Monthly
ECF - 1628/97										
Principal	US\$	7,50	211,116	20,850	107,726	20,850	128,576	2007	2023	Monthly
CT - 2686/08										
Principal	US\$	7,50 (4)	22,343	1,702	6,806	1,701	8,507	2012	2021	Monthly
				516,872	2,787,963	485,240	3,305,513			
II - BRAZILIAN NATIONAL TREASURY										
CT-80/92										
External Debt Restructuring (DMLP)	US\$	(2)/(6)	918,235	1,766	243,369	1,597	243,369	1997	2023	Semi-annual
CT-424/TN										
Eletrobras Assignment (ECF-1480/97)										
Tranche B - Principal	US\$	7,50	-	218,555	1,414,823	203,371	1,633,379	2001	2023	Monthly
Tranche C - Principal	US\$	4,10	-	56,269	328,943	54,066	385,212	2007	2023	Monthly
CT-425/TN										
Eletrobras Assignment (ECF-1480/97)										
Tranche B - Principal	US\$	7,50	-	483,789	3,127,457	450,147	3,611,671	2001	2023	Monthly
Tranche C - Principal	US\$	4,10	-	124,501	727,830	119,628	852,330	2007	2023	Monthly
				884,880	5,842,422	828,809	6,725,961			
III - OTHER AGREEMENTS										
FIBRA - Fundação Itaipu BR de Previdência e Assistência Social										
CT - 7218/03 (1)	R\$	6,00 (5)	73,911	3,278	20,345	2,404	18,360	2004	2023	Monthly
CAJUBI - Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional										
PIB 2010-10-0001 - T5/R5	US\$	8,00	15,000	1,585	9,643	1,468	11,228	2012	2022	Monthly
PIB 2011-10-0001 - Repowering T1/R1, T2/R2, T3/R3 E TX/RX	US\$	8,00	5,000	520	2,530	481	3,050	2012	2021	Monthly
PIB 2011-10-0002 - Sectioning L3 and L4 500kV	US\$	8,00	42,000	3,943	24,485	3,651	28,429	2013	2022	Monthly
PIB 2011-10-0003 - Environment MD	US\$	8,00	12,000	1,389	7,929	1,286	9,318	2013	2022	Monthly
PIB 2012-10-0001 - Repowering T4/R4	US\$	8,00	1,132	110	698	102	808	2013	2022	Monthly
				7,547	45,285	6,988	52,833			
Other Lenders										
Banco ITAU Paraguay S.A. - ANDE 66Kv Line	US\$	4,09(7)	10,000	-	-	275	-	2015	2016	Annual
Banco Bilbao V. A. S.A. - Battery Bank - SEMD	US\$	4,05	1,800	600	300	600	900	2015	2018	Monthly
Banco Continental S.A.E.C.A. - ITAIPU Preserve MD	US\$	6,00	11,500	327	3,273	104	7,396	2016	2022	Monthly
Banco Bilbao V. A. S.A.-Actual. Tec. Study UHI	US\$	5,75	4,537	1,917	9,424	-	500	2017	2022	Monthly
				2,844	12,997	979	8,796			
TOTAL LOANS AND FINANCING				1,415,421	8,709,012	1,324,420	10,111,463			

(1) Total agreement converted at the current rate on the date of release and updated to the balance sheet closing rate is equivalent to US\$ 31,626.

(2) Interest rates
Semi-annual Libor + Spread, 6.00

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

(4) In addition to the interest rate, the agreement sets forth the payment of management fees and commission of the credit reserve.

(5) In addition to the interest rate, the contract sets forth the correction of the balance due by the INPC and may not be less than the minimum actuarial

(6) In addition to the interest rate, the contract sets forth the payment rate of commission.

(7) In addition to the interest rate, the contract sets forth the payment rate of commission and VAT.

As established in the Treaty of Itaipu, the funds required for studies, construction and operation of hydroelectric power plants and ancillary works and facilities, are provided by the High Contracting Parties or obtained by ITAIPU in credit transactions.

The High Contracting Parties, either jointly or individually, directly or indirectly, as agreed, will provide ITAIPU, upon its request, with guarantees for the credit transactions the entity carries out.

The agreements entered into with Centrais Elétricas Brasileiras S.A.- ELETROBRAS and other creditors, shown in the table above, refer to:

I - ELETROBRAS

ELETROBRAS Financing Agreement ECF-1480/97

Refinancing of past due and current debit balances of ITAIPU's full debt due to financing agreements with ELETROBRAS.

ELETROBRAS Financing Agreement ECF-1627/97

Financing of investment costs remaining from the Works Completion Plan (PCO).

ELETROBRAS Financing Agreement ECF-1628/97

Financing of installation of ITAIPU's two last generating units (9A and 18A).

ELETROBRAS Financing Agreement ECF-2686/08

Coverage of total cost of the Supplementary Investments Program (PIC).

II - Brazilian National Treasury

Agreement CT-80/92

Renegotiation of external obligations of medium- and long-term agreements with external creditors.

This agreement establishes principal warranty, as cash guarantee, as mentioned in Note 9.

Agreement CT 424/TN and Agreement CT 425/TN

Entered into between ELETROBRAS and the Brazilian National Treasury, on December 29, 1998, which establishes the assignment of part of credits held by that Company with this Entity, related to agreement ECF-1480/97 entered into between ITAIPU and ELETROBRAS.

Based on the credit assignment agreements, ITAIPU repasses directly to the Brazilian National Treasury part of the amounts due to ELETROBRAS in the agreement ECF-1480/97, in accordance with the onlending flow set forth in the agreements.

Additionally, the Brazilian National Treasury, through the assignment agreement No. 808/PGFN/CAF, of December 28, 2012, assigned to the National Social Economic and Development Bank - BNDES, part of the credit rights held against ITAIPU, arising from agreements No. 424/TN and 425/TN, in the amount equivalent to US\$ 3,851,826. The onlending flow will start in 2020.

III -Other Agreements

Agreement CT-7218/03

Entered into with FIBRA, arising from the Resolution of the Board of Directors RCA-010/03, of September 5, 2003, which revoked the accord and satisfaction of property for partial settlement of ITAIPU's debts with FIBRA, related to the period from 1989 to 1992, which had been approved by the Resolution of the Board of Directors RCA- 004/93, of January 11, 1993.

Agreements CAJUBI and other financing parties

Related to specific projects specified for each agreement in the table above.

The amortization schedule of long-term loans and financing with ELETROBRAS, the Brazilian National Treasury and other institutions establish the following annual payments:

<u>Year</u>	
2018	1,508,224
2019	1,608,643
2020	1,716,578
2021	1,832,662
2022	1,536,463
2023	<u>506,442</u>
TOTAL	<u>8,709,012</u>

The following amounts related to interest and amortization commitments falling due in each year were settled as debt service:

Financing entities

2016

2015

Eletrobras		
Principal	485,919	597,732
Charges	<u>246,001</u>	<u>280,906</u>
	<u>731,920</u>	<u>878,638</u>
Brazilian National Treasury Credit Assignment of Eletrobras		
Principal	827,636	634,433
Charges	<u>459,628</u>	<u>509,139</u>
	<u>1,287,264</u>	<u>1,143,572</u>
Brazilian National Treasury Foreign debt restructuring		
Principal	-	-
Charges	<u>8,143</u>	<u>7,587</u>
	<u>8,143</u>	<u>7,587</u>
Fibra		
Principal	2,852	2,562
Charges	<u>2,040</u>	<u>2,909</u>
	<u>4,892</u>	<u>5,471</u>
Cajubi		
Principal	6,988	6,471
Charges	<u>4,375</u>	<u>4,892</u>
	<u>11,363</u>	<u>11,363</u>
Other financing entities		
Principal	1,034	10,018
Charges	<u>636</u>	<u>501</u>
	<u>1,670</u>	<u>10,519</u>
Total		
Principal	1,324,429	1,251,216
Charges	<u>720,823</u>	<u>805,934</u>
	<u>2,045,252</u>	<u>2,057,150</u>

There are neither overdue debt installments, nor ancillary clauses (covenants) linked to the financial results of the Entity, or those that may establish new obligations that influence the amounts recognized in Liabilities.

16. REMUNERATION AND REIMBURSEMENTS

They comprise the commitments to High Contracting Parties (Federative Republic of Brazil and Republic of Paraguay), and to the Parties (ELETROBRAS and ANDE), as established in the Treaty of Itaipu, its Attachments and respective reversals notes.

	2016			2015		
	Principal	Dollar adjustment	Total	Principal	Dollar adjustment	Total
Paraguayan Government						
Royalties (i)	11,471	144,705	156,176	10,112	118,710	128,822
Remuneration for Electricity Assignment (ii)	39,229	221,066	260,295	45,640	210,587	256,227
Subtotal	50,700	365,771	416,471	55,752	329,297	385,049
Brazilian Government						
Royalties (i)	22,178	154,553	176,731	20,365	139,520	159,885
Subtotal	22,178	154,553	176,731	20,365	139,520	159,885
Administración Nacional de Electricidad - ANDE						
Reimbursement of Management and Supervision Charges (iii)	1,706	11,889	13,595	1,429	10,870	12,299
Proceeds from capital (iv)	6,000	17,407	23,407	6,000	17,579	23,579
Subtotal	7,706	29,296	37,002	7,429	28,449	35,878
Centrais Elétricas Brasileiras S.A. - ELETROBRAS						
Reimbursement of Management and Supervision Charges (iii)	1,706	11,889	13,595	1,429	10,870	12,299
Proceeds from capital (iv)	6,000	17,407	23,407	6,000	17,579	23,579
Subtotal	7,706	29,296	37,002	7,429	28,449	35,878
TOTAL	88,290	578,916	667,206	90,975	525,715	616,690

(i) Royalties: Compensation due to the High Contracting Parties due to the use of hydraulic potential.

(ii) Remuneration for electricity assignment: Amount due to the Paraguayan Government related to the assignment of rights to a portion of energy attributable thereto.

(iii) Reimbursement of management and supervision charges: Amount due to the Parties as refund of management a supervision charges related to ITAIPU.

(iv) Capital proceeds: Remuneration paid to the Parties on the invested capital.

Remunerations and refunds are calculated pursuant to Attachment “C” to the Treat and respective Diplomatic Notes (See Attachment I - Notes to the Statement of Operating Accounts).

In 2016, the installments of royalties due to the Paraguayan Government, in the amount of US\$ 20,555, with maturity in the beginning of 2017, were fully paid during the year. In 2015, the installments of royalties due to the Paraguayan Government, in the amount of US\$ 31,063, with maturity in the beginning of 2016, were fully paid in 2015.

The balance payable for remuneration for electricity assignment due to the Paraguayan Government, US\$ 18,711 on December 31, 2016 and US\$ 41,406 on December 31, 2015, was also overdue at the end of each year. This obligation was transferred from the Brazilian Ministry of Mines and Energy to ELETROBRAS as from the publication of Provisional Measure 735/2016 (Note 7).

Past due amounts are subject to arrears interest of 0.5% p.m. during the first fifteen days of delay and 1% p.m. as from the sixteenth day of delay.

The resulting Dollar adjusted amounts generated in the year as royalties, reimbursement of management and supervision charges and costs and remuneration for electricity assignment are paid in 12 installments starting in March of the following year. The figures for the Dollar adjustment of income generated from investments in the year, corresponding to ELETROBRAS and ANDE, are paid in a single installment on the last business day of the month following the month in which the final calculation is made. These amounts must be offset against debts that ELETROBRAS and ANDE maintain with ITAIPU, and can be anticipated if there are cash and cash equivalents available.

17. SUPPLIERS

	<u>2016</u>	<u>2015</u>
Suppliers	39,644	34,595
Withholding taxes	4,231	4,664
TOTAL	<u>43,875</u>	<u>39,259</u>

18. SALARIES AND SOCIAL CHARGES

	<u>2016</u>	<u>2015</u>
Provision for vacation and social security charges	30,668	27,649
Provision for profit sharing	29,141	-
Supplementary pension foundation	8,407	8,701
Payroll charges payable	6,049	3,808
Other	4,884	8,176
TOTAL	<u>79,149</u>	<u>48,334</u>

19. LABOR INDEMNITIES

	<u>2016</u>	<u>2015</u>
Permanent voluntary dismissal program (i)	77,906	58,829
Indemnity for length of service (ii)	213,902	225,865
TOTAL	<u>291,808</u>	<u>284,694</u>
Current	<u>50,406</u>	<u>19,984</u>
Non Current	<u>241,402</u>	<u>264,710</u>

Comprise the amounts related to indemnities to be paid to employees when they leave the Entity, provided for in accordance with the provisions set forth in the Collective Bargaining Agreements, based on the Protocol on Labor Relations and Social Security, entered into between the Federative Republic of Brazil and the Government of the Republic of Paraguay, which establishes the legal rules applicable in matters of Labor Law and Social Security, to workers hired by ITAIPU, regardless of their nationality.

Such indemnities were negotiated with the unions aiming at reaching a balance between employees hired in Brazil and those hired in Paraguay regarding the severance indemnity system for length of service.

(i) Permanent voluntary dismissal program (PPDV)

Program through which ITAIPU's employees hired in Brazil may be dismissed from the Entity upon a severance indemnity, in accordance with the provisions set forth in its regulation, approved in the Resolution of the Executive Board RDE-183/2007 and respective clause of the Collective Bargaining Agreements.

Employees who have an employment relationship with ITAIPU for a period equal to or higher than nine years may participate in the program upon adherence, upon employees' termination from the Entity by mutual assent, except in case of termination for cause, subject to the specific conditions included in the program regulation.

The amounts contemplated by the program are legal funds established by the Brazilian labor legislation plus supplementary funds calculated in accordance with the number of years of employment relationship with ITAIPU.

The legal amounts are due to all employees hired in Brazil, regardless of their length of employment relationship with the Entity, but only the amounts due to employees qualified to adhere to said program are computed for accounting provisions.

(ii) Indemnity for length of service

Indemnity set forth in the Collective Bargaining Agreements entered into between ITAIPU and the unions that represent the employees hired in Paraguay, based on the Protocol on Labor Relations and Social Security and on article 97 of the Paraguayan Labor Code, which will be paid to the employee that leaves the Company, except in case of termination for cause, according to the following rule:

- a) For the employee which labor agreement term is shorter than nine years, indemnity shall be calculated based on the month of the highest compensation received by the employee, per year of service or per year and fraction equal to or higher than six months;
- b) After nine years of the labor agreement term, the employee shall be entitled the double indemnity set forth in the previous paragraph.

The respective accounting provision comprises the total amount estimated for indemnities, pursuant to items "a" and "b" above, since, under the Paraguayan labor legislation, there is no payment of the Severance Pay Fund (FGTS), a legal amount established by the Brazilian legislation.

20. POST-EMPLOYMENT BENEFITS

ITAIPU, as the sponsor, offers its employees a retirement and pension program, which is managed, 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.

FIBRA's charter was approved by the Ministry of Social Security and Assistance - MPAS, on November 30, 1988, through Ordinance No. 4.367 and its Regulation, approved by the Resolution of ITAIPU's Board of Directors RCA-041/87, which last update was on January 7, 2011, through the Resolution of ITAIPU's Board of Directors RCA-038/10, of October 22, 2010.

CAJUBI was created by Law No. 1.361/88, of December 19, 1988, and its Regulation was approved by the Resolution of ITAIPU's Board of Directors RCA-039/09, which last updated was on December 14, 2012, through the Resolution of ITAIPU's Board of Directors RCA-047/12.

The retirement and pension plan, of both FIBRA and CAJUBI, has characteristics of a "defined benefit" plan, in which contributions are made by the sponsor and participants. Said contributions are based on an actuarial study, in accordance with the legislation in force in Brazil and Paraguay, with the purpose of providing funds sufficient to cover current obligations, with benefits already granted, and the future ones, with benefits to be granted.

The benefits established in the retirement and pension plan are as follows:

i) Employees hired in Brazil:

- a) Retirement supplementation due to length of contribution, disability and age;
- b) Special retirement supplementation;
- c) Reclusion aid;
- d) Pension supplementation;
- e) Special temporary death benefit;
- f) Funeral assistance for the death of the beneficiary; and
- g) Supplementation of annual allowance.

ii) Employees hired in Paraguay:

- a) Ordinary retirement and due to disability;
- b) Extraordinary retirement;

- c) Voluntary early retirement;
- d) Reclusion aid;
- e) Pension;
- f) Funeral assistance; and
- g) Annual bonus.

The administrative cost of plans is a responsibility of the sponsor ITAIPU, which pays a specific contribution to both Entities.

To cost the benefits of the plans, the sponsor's regular contribution rate is 15% for the plan managed by FIBRA and 21.315% for the plan managed by CAJUBI, calculated on the total of the respective payroll.

Active participants of FIBRA contribute with three increasing brackets: rates of 2.89%, 4.80% and 14.47%, applied on the SRC (Actual Contribution Salary). Active participants of CAJUBI contribute with the fixed rate of 8.526% on their remuneration.

Retired participants, both from FIBRA and CAJUBI, contribute with a rate of 10% of its benefits. In the case of CAJUBI, pensioners also contribute with a rate of 10% of their benefits.

In addition to the retirement and pension program, ITAIPU also offers a health care plan for its employees and dependents, extending it to retirees and pensioners, including dependents of FIBRA and CAJUBI.

Since 2003, ITAIPU has adopted the accounting practice of recording liabilities arising from actuarial obligations with future employee benefits related to the health care plan, and as from 2009, referring to the retirement and pension plan.

For this, certified actuaries are hired to prepare opinions based on post-employment accounting standards for both programs.

The obligations recorded in the Financial Statements of ITAIPU relating to post-employment benefits are as follows:

BRAZIL	PARAGUAY	TOTAL
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	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Obligations recorded on the balance sheet - long-term						
Retirement plan benefits	65,822	-	578,823	595,061	644,645	595,061
Health care plan benefits	<u>389,921</u>	<u>242,177</u>	<u>437,760</u>	<u>299,831</u>	<u>827,681</u>	<u>542,008</u>
	455,743	242,177	1,016,583	894,892	1,472,326	1,137,069
Provisions recognized in the statement of income for the years						
Retirement plan benefits	(65,822)	-	20,290	130,867	(45,532)	130,867
Health care plan benefits	<u>(99,764)</u>	<u>31,803</u>	<u>(135,888)</u>	<u>44,095</u>	<u>(235,652)</u>	<u>75,898</u>
	(165,586)	31,803	(115,598)	174,962	(281,184)	206,765

In the assessment of post-employment benefits, the following assumptions were used:

	<u>BRAZIL</u>		<u>PARAGUAY</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>GENERAL DATA</u>				
Active participants	1,422	1,399	1,673	1,725
Retired participants	1,492	1,425	1,388	1,267
Pensioners	236	225	333	324
<u>ECONOMIC ASSUMPTIONS</u>				
Actual discount rate (p.a.) - pension plan	5.77%	7.22%	5.72%	5.50%
Actual discount rate (p.a.) - health care plan	5.77%	7.22%	5.72%	7.22%
Return rate expected for assets (p.a.)	10.85%	12.50%	10.36%	10.25%
Actual rate of salary increase (p.a.)	2.45%	2.31%	1.95%	1.92%
Actual rate of growth in costs (p.a.)	2.50%	2.00%	2.00%	2.00%
Inflation	4.80%	4.92%	4.40%	4.50%
Benefits capacity factor	97.43%	97.37%	97.61%	97.58%
<u>ACTUARIAL ASSUMPTIONS</u>				

General mortality table	AT-2000 (-20%)	AT-2000 (-20%)	AT-2000	AT-2000
Disabled mortality table	AT-1983 (-10%)	AT-1983 (-10%)	AT-1983	AT-1983
Table of new disability benefit vested	Weak Light	Weak Light	Average Light	Average Light
Turnover table	0.12%	0.13%	0.50%	0.50%

a) Pension plan

STATEMENT OF ACTUARIAL SURPLUS (DEFICIT) OF DEFINED BENEFIT PENSION PLAN
SPONSORED BY ITAIPU BINACIONAL

DESCRIPTION	FIBRA		CAJUBI	
	2016	2015	2016	2015
Fair value of plan assets	1,025,219	773,952	329,258	274,589
Present value of obligations	(1,114,665)	(725,612)	(960,913)	(869,650)
Actuarial Surplus (Deficit)	<u>(89,446)</u>	<u>48,340</u>	<u>(631,655)</u>	<u>(595,061)</u>

In 2009, an accounting provision was recognized for the total amount of the actuarial deficit of the pension plan managed by CAJUBI. As from the financial year of 2010, this provision has been updated annually based on actuarial opinions.

For the benefit plan managed by, FIBRA a provision has been recognized in the Financial Statements of ITAIPU as from 2016, since until 2015 results presented in the respective actuarial opinions were positive.

Both plans have in their incorporation documents (Article 62 of FIBRA's Charter and Articles 94 and 95 of CAJUBI's organization law), as a mechanism for maintaining the actuarial balance, forecast of changes in contribution rates of the sponsor and participants, subject to the prior approval of the Executive Board and the Board of Directors of ITAIPU, when the plans are in a situation of actuarial imbalance.

In view of the provisions of these legal rules and the characteristic of the defined benefit plan, where the actuarial risk and the investment risk may cause an increase in the

sponsor's obligation, ITAIPU recognizes a provision in its Financial Statements for the full amount of deficit of the benefit plans managed by FIBRA and CAJUBI, presented in actuarial opinions prepared in compliance with the accounting standards for post-employment benefits. At the date of the Financial Statements, it is not possible to measure said risk accurately; therefore, for prudence, ITAIPU recognized a provision for the full amount of the plan deficit, despite the legal standards in force (Article 62 of FIBRA's Charter and Articles 94 and 95 of Law 1361/88 of CAJUBI's organization).

In 2016, these provisions were accounted for with the exclusion of the obligation already recognized by ITAIPU in its Financial Statements, as borrowings and debits with the entities amounting to US\$ 23,623 for FIBRA and US\$ 52,832 for CAJUBI, as described in Note 15, since these debit balances are deducted from the Fair Value of Plan Assets in actuarial opinions.

As an initiative in search for long-term sustainable alternatives for the retirement and pension plan, ITAIPU's Board of Directors, through the Resolution of the Board of Directors RCA 007/16, of February 26, 2016, approved the guidelines for the review project of pension plants in effect at ITAIPU, and such action is being analyzed in both banks.

b) Health care plan

STATEMENT OF THE ACTUARIAL VALUATION OF THE OBLIGATIONS REGARDING THE HEALTH CARE PLAN SPONSORED BY ITAIPU BINACIONAL

DESCRIPTION	BRAZIL		PARAGUAY	
	2016	2015	2016	2015
Fair value of plan assets	-	-	-	-
Present value of obligations				
Overdue rights	284,140	175,947	321,242	217,929
Current rights	105,781	66,230	116,518	81,902
	389,921	242,177	437,760	299,831
Unrecognized gains (losses)	-	-	-	-
Recorded actuarial liability	389,921	242,177	437,760	299,831

The actuarial liabilities related to the health care plan are fully recognized in the sponsor's liabilities, ITAIPU. At each year end, these amounts are restated based on actuarial opinions.

Reasonable changes in actuarial assumptions, such as discount rates, keeping all other assumptions constant, could affect the obligations for post-employment benefits as shown in the following table:

	Liability amount 2016				Liability amount 2015			
	Discount rate used	Sensitivity analysis			Discount rate used	Sensitivity analysis		
		+ 0.5%	- 0.5%			+ 0.5%	- 0.5%	
Private pension plan - Brazil	5.77%	(65,822)	(5,228)	(134,278)	7.22%	48,340	84,813	8,290
Private pension plan - Paraguay	5.72%	(578,823)	(531,118)	(631,388)	5.50%	(595,061)	(544,934)	(650,413)
Health care plan - Brazil	5.77%	(389,921)	(363,460)	(419,785)	7.22%	(242,177)	(226,486)	(259,371)
Health care plan - Paraguay	5.72%	(437,760)	(411,343)	(467,101)	7.22%	(299,831)	(282,797)	(318,639)

21. PROVISIONS FOR LAWSUITS

ITAIPU is a party to lawsuits, in the scope of tax, civil, commercial, labor, and environmental laws that are in various stages of trial.

The causes filed against the Entity are classified based on the risk of loss, and are subject to the following accounting treatment:

- i) For causes where a negative outcome for the Entity has been considered "probable", provisions are recognized;
- ii) For causes where a negative outcome for the Entity has been considered "possible", the corresponding information is disclosed in the Notes; and
- iii) For causes where a negative outcome for the Entity has been considered "remote", these are not subject to recognition of provisions or disclosure.

The accounting provisions relating to lawsuits are recognized at periodically updated amounts shown in the table below, to represent the best estimate of future disbursements based on reports issued by the legal departments of the Entity.

However, it should be pointed out that it is not possible to inform the exact date of payments related to lawsuits on the date of preparation of the Financial Statements, since they are conditioned to the execution of lawsuits in progress in different judicial levels.

	2016			2015		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Current						
Tax	30,335	-	30,335	24,656	-	24,656
Civil	-	-	-	6,556	-	6,556
Commercial	7,851	18	7,869	5,791	18	5,809
Labor	34,247	2,478	36,725	28,283	4,629	32,912
	72,433	2,496	74,929	65,286	4,647	69,933
Non-current						
Tax	7,932	-	7,932	6,395	-	6,395
Civil	346	-	346	523	-	523
Commercial	38,802	326	39,128	32,793	323	33,116
Labor	9,611	7,827	17,438	8,632	7,774	16,406
	56,691	8,153	64,844	48,343	8,097	56,440
Total	129,124	10,649	139,773	113,629	12,744	126,373

The table below presents a summary of changes in accounting balances related to lawsuits:

	Tax	Civil	Commercial	Labor	Total
Balance as of 12/31/2015	31,051	7,079	38,925	49,318	126,373
Brazil					
(+) Additions	2,363	39	876	2,032	5,310
(-) Write-offs / Reversals	(1,452)	(6,583)	(493)	(2,299)	(10,827)
Exchange variation	6,305	(189)	7,686	7,210	21,012

	Tax	Civil	Commercial	Labor	Total
Paraguay					
(+) Additions	-	-	-	1,151	1,151
(-) Write-offs / Reversals	-	-	-	(3,349)	(3,349)
Exchange variation	-	-	3	100	103
Balance as of 12/31/2016	38,267	346	46,997	54,163	139,773

Lawsuits in process in Brazil and Paraguay classified as risk of “possible” loss, for which no provision was recognized, are shown in the table below:

	2016			2015		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Tax	4,831	-	4,831	4,036	-	4,036
Civil	75	1,337	1,412	11	-	11
Commercial	168,778	10,105	178,883	140,874	7,971	148,845
Labor	-	38,007	38,007	-	24,956	24,956
Environmental	3,069	258	3,327	2,561	35	2,596
Total	176,753	49,707	226,460	147,482	32,962	180,444

Regarding the nature of lawsuits in process in Brazil and Paraguay, ITAIPU informs that:

i) Tax claims

Of the forty seven (47) tax claims in process in Brazil (particularly resulting from administrative proceedings and tax collection procedures), in which ITAIPU is the defendant, the most relevant are assessments regarding: payment of social security tax on payroll amounts, profit sharing, education expenses, compensation paid to non-employee officers, salary bonuses, housing aid, all in phase of administrative discussion (PAF).

There are no tax claims in process in Paraguay.

ii) Civil lawsuits

Of the seventy eight (78) civil lawsuits in process in Brazil, in which ITAIPU is the defendant, about thirty (30) are actions involving selection process and ITAIPU's

healthcare self-management plan (PAMHO). Most of the other ones are repossession lawsuits.

The thirty three (33) civil lawsuits in process in Paraguay correspond to claims for recovery and repossession of real estate owned by ITAIPU. It should be mentioned that in Paraguay lawsuits involving property damages and losses might be processed under both civil law and the commercial law.

iii) Commercial lawsuits

Of the seventy eight (78) commercial lawsuits in process in Brazil, noteworthy are those filed by companies that had contractual relationships with ITAIPU over the period the Power Plant was being built: i) UNICON União de Construtoras LTDA. (Agreement 290/77) filed three lawsuits in the Federal Justice in the city of Brasília- Federal District (DF); ii) ITAMON Construções Industriais (Agreement 811/90) also filed three lawsuits against ITAIPU; iii) CONSTECCA Construções LTDA. (Agreement 3651/89) filed a collection suit; and iv) companies which were parties to Consórcios Itaipu Eletromecânico (CIEM) and Itaipu de Transportes Especiais (CITE) (Agreement 562/78) filed actions for damages.

Of the thirty six (36) commercial lawsuits in process in Paraguay, the majority corresponds to litigation of companies and contractors in claims for damages and losses due to breach of contracts.

iv) Labor claims

Of the six hundred and twenty (626) labor claims in process in Brazil, the vast majority are labor complaints filed by employees from contracted companies or with any type of relationship with ITAIPU, in which, in general, the claim is for ITAIPU secondary sentence regarding the payment of salary amounts incumbent upon the plaintiffs' employers. There is also a significant number of labor complaints filed by ITAIPU's former employees, and the most common claims are: salary adjustment, pay equity, difference/payment of risk exposure premium, payment of overtime, acknowledgement of employment relationship in work periods provided through outsourced companies, and effects in the permanent voluntary dismissal program (PPDV) and in the annual supplementary bonus. There are also two class actions filed by unions representing employees.

Of the two hundred and eight nine (289) labor claims in process in Paraguay, demands refer mainly to collection in several salary issues, actions for annulment of dismissals and reinstatements filed by ITAIPU's former employees, and in certain specific cases, by retirees.

v) Environmental lawsuits

Of the ninety two (92) environmental lawsuits in process in Brazil, noteworthy are those filed against ITAIPU, in summary, the payment of indemnification and/or imposition of obligations due to alleged losses arising from the formation of ITAIPU's reservoir and its

operation. The majority are files proposed by bordering farmers, alleging losses in soybean yield due to an alleged change in the region's microclimate caused by the formation of the reservoir. There is also a class action filed by a fishing community under the allegation of losses arising from the lowering of the reservoir level in the drought season.

Of the seven (7) environmental lawsuits in process in Paraguay, the majority refers to accusations and suits for alleged violations of national environmental laws, aiming at protecting ITAIPU's environmental heritage, consisting in the recovery of preservation area and environment conservation, which may be affected by third parties' actions.

22. OTHER LIABILITIES

	<u>2016</u>	<u>2015</u>
Agreements (i)	13,001	14,998
Contractual retentions	3,467	2,656
Sundry creditors	2,787	3,276
	<u>19,255</u>	<u>20,930</u>
TOTAL	19,255	20,930
Current	16,776	17,966
Non-current	2,479	2,964

- (i) The Agreement account group comprises balances from appeals pending execution by ITAIPU, linked to Agreements and Cooperation Terms entered into with a number of bodies. (Note 11).

23. CAPITAL

According to the provisions of the Treaty and Attachment "A" - Statute, the capital of ITAIPU, equivalent to US\$ 100 million, mandatory since August 13, 1973, the date of exchange of the Instrument of Ratification of the Treaty, belongs in equal and nontransferable amounts to Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.

24. OPERATING INCOME

Comprise income arising from the provision of electricity services, which includes billing of: (i) supply of power; (ii) royalties and reimbursement of management and supervision charges related to non-bound energy; and (iii) remuneration for electricity assignment.

- (i) Supply of power: is the power that ITAIPU will make available, on a permanent basis, to the purchasing entity, in the periods of time and conditions of the respective instruments for purchase and sale of electricity services.

This power is billed based on the tariff established at ITAIPU as the electricity service unit cost, calculated based on Attachment "C" to the Treaty, which main assumption is that the annual income arising from the provision of electricity services, should be equal, each year, to the cost of service established in that Attachment (Notes to the Statement of Operating Accounts).

Energy associated with the supply of power that ITAIPU undertakes to deliver to the Parties is called bound energy.

- (ii) Royalties and reimbursements related to non-bound energy: correspond to costs related to royalties and reimbursements of management and supervision charges (Notes to the Statement of Operating Accounts) related to additional energy linked to the supply of power, billed for each purchasing entity, according to its consumption.

- (iii) Remuneration for electricity assignment: the energy produced by ITAIPU should be equally divided between the two countries, and each one of them is entitled to the acquisition of energy that is not used by the other country for its own consumption.

The Party that consumes energy assigned by the other Party will pay ITAIPU the amount related to remuneration for electricity assignment (Attachment I - Notes to the Statement of Operating Accounts), which is fully passed on by ITAIPU to the High Party that assigned the energy.

In 2016 and 2015, income arising from the billing of supply of power reached US\$ 3,291,012, which corresponds to the billing of 145,620 MW of power, at the tariff of US\$ 22.60 per kW monthly supply of power.

Bound energy totaled 75.3 million MWh in 2016, against 75.1 million MWh in 2015, since 2016 is a leap year.

Total energy supplied to the Purchasing Entities in 2016 was 102.3 million MWh and 88.6 million MWh in 2015. It should be emphasized that in 2016 ITAIPU exceeded the historical record of energy generation, as mentioned in Note 1.

	2016			2015		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Supply of power	2,942,270	348,742	3,291,012	2,965,537	325,475	3,291,012
Remuneration for electricity assignment	368,455	-	368,455	313,420	-	313,420
Royalties and reimbursement of costs - non-bound energy	133,203	18,829	152,032	57,767	18,603	76,370
Total	<u>3,443,928</u>	<u>367,571</u>	<u>3,811,499</u>	<u>3,336,724</u>	<u>344,078</u>	<u>3,680,802</u>
Billed power - MW	130,189	15,431	145,620	131,218	14,402	145,620
Bound energy - MWh	67,459,791	7,880,577	75,340,368	67,773,185	7,361,335	75,134,520
Supplied energy - MWh	91,107,592	11,227,393	102,334,985	77,938,693	10,636,323	88,575,016

25. OPERATING EXPENSES - REMUNERATION AND REIMBURSEMENTS

These include the remuneration and reimbursements as set forth in Attachment "C" to the Treaty and respective Diplomatic Notes (Note 16 and Notes to the Statement of Operating Accounts), generated in 2016 and in 2015, due to the High Contracting Parties, royalties and remuneration for electricity assignment, and to the Parties ELETROBRAS and ANDE, capital income and reimbursement of management and supervision charges.

	2016			2015		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Proceeds from capital						
Principal	(6,000)	(6,000)	(12,000)	(6,000)	(6,000)	(12,000)
Dollar adjustment	(17,358)	(17,358)	(34,716)	(17,560)	(17,560)	(35,120)
Subtotal	(23,358)	(23,358)	(46,716)	(23,560)	(23,560)	(47,120)
Royalties						
Principal	(133,036)	(133,036)	(266,072)	(115,147)	(115,147)	(230,294)
Dollar adjustment	(134,330)	(134,330)	(268,660)	(118,503)	(118,503)	(237,006)
Subtotal	(267,366)	(267,366)	(534,732)	(233,650)	(233,650)	(467,300)
Reimbursement of management and supervision charges						
Principal	(10,234)	(10,234)	(20,468)	(8,857)	(8,857)	(17,714)
Dollar adjustment	(10,333)	(10,333)	(20,666)	(9,116)	(9,116)	(18,232)
Subtotal	(20,567)	(20,567)	(41,134)	(17,973)	(17,973)	(35,946)
Remuneration for electricity assignment						
Principal	-	(183,325)	(183,325)	-	(154,459)	(154,459)
Dollar adjustment	-	(185,130)	(185,130)	-	(158,961)	(158,961)
Subtotal	-	(368,455)	(368,455)	-	(313,420)	(313,420)
Total	(311,291)	(679,746)	(991,037)	(275,183)	(588,603)	(863,786)

26. OPERATING EXPENSES - GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of all expenses attributable to the operation of the joint venture, and represent all operating, maintenance and administrative costs, as well as all social and environmental costs.

	<u>2016</u>	<u>2015</u>
Personnel		
Compensation, social security charges, benefits and indemnities	(496,010)	(381,844)
	<u>(496,010)</u>	<u>(381,844)</u>
Actuarial provisions		
Recognition of (provisions) reversals related to social security charges and health care plans	(281,184)	206,765
	<u>(281,184)</u>	<u>206,765</u>
Materials		
Consumables	(15,552)	(15,177)
	<u>(15,552)</u>	<u>(15,177)</u>
Outsourced services		
Services	(62,588)	(65,736)
Insurance	(3,699)	(3,830)
	<u>(66,287)</u>	<u>(69,566)</u>
Social and environmental expenses		
Social responsibility, environmental and regional integration programs	(103,618)	(93,986)
	<u>(103,618)</u>	<u>(93,986)</u>
Provisions for lawsuits		
Recognition (provisions) and reversals	7,715	(13,346)
	<u>7,715</u>	<u>(13,346)</u>
Other operating expenses		
Other expenses	(23,097)	(26,710)
	<u>(23,097)</u>	<u>(26,710)</u>
TOTAL	<u><u>(978,033)</u></u>	<u><u>(393,864)</u></u>

27. OTHER INCOME (EXPENSES)

Income or expense from the sale of scrap and unserviceable equipment, real estate occupancy rates, contractual fines, write-offs of property and equipment, bank expenses, discounts granted and similar, are shown below:

	<u>2016</u>	<u>2015</u>
Sundry income		
Disposals	865	3,108
Real estate occupancy rates	1,985	792
Interest, fines and other	1,095	999
	<u>3,945</u>	<u>4,899</u>
Sundry expenses		
Write-off of goods and facilities	(3,748)	(18,017)
Discounts granted	-	(23)
Expenses on fines	(9)	(6)
Other	(135)	(227)
	<u>(3,892)</u>	<u>(18,273)</u>
	<u>53</u>	<u>(13,374)</u>

28. FINANCIAL EXPENSES- MONETARY VARIATIONS

The reference currency for accounting for operations and presentation of Financial Statements of ITAIPU is the United States dollar (Note 4.a). Accordingly, the amounts of economic and financial transactions and operations carried out in different currencies are converted into the United States dollar, based on the market closing rates.

Monetary variations resulting from foreign exchange oscillations are accounted for in Asset and Liability accounts, in accordance with the account of the principal transaction, and specific result accounts, as follows:

	<u>2016</u>	<u>2015</u>
Loans and financing		
FIBRA	<u>(5,711)</u>	<u>7,185</u>

Other exchange variations

Current assets	67,504	(104,188)
Non-current assets	(1,211)	(5,256)
Current liabilities	(13,936)	36,647
Non-current liabilities	(62,418)	452,624
	<u>(10,061)</u>	<u>379,827</u>
	<u>(15,772)</u>	<u>387,012</u>

29. INSURANCE

The main property, plant and equipment in service are insured in accordance with the insurance policy approved by the Board of Directors of the Entity in 1992, which aims to ensure the following coverage:

- Insurance for all goods installed in Hydroelectric Power Plant, with the coverage type "All Risks" with an insured amount of US\$ 2,354,489.
- Operating liability insurance for the Hydroelectric Power Plant, with the insured amount of US\$ 20,000.

In addition to the above coverage, ITAIPU has the insurance necessary to cover other risks not directly related to the operation of the Hydroelectric Power Plant, which is contracted according to the location of the risk and market conditions of the country it is located in, such as: i) fire at its administrative facilities; ii) civil and hull liability for vehicles; iii) boat; iv) personal accident insurance for tourists that visit ITAIPU; v) directors and officers liability; vi) hull coverage, civil liability, aircraft crew and passengers; and vii) group life insurance for its employees, as shown in the table below:

Lines	Coverage
i) Fire	US\$ 174,145
ii) Vehicles	Civil liability and hull US\$ 98,253
iii) Vessels	Compulsory insurance for personal injuries caused by vessels or their cargo - DPEM.
iv) Personal accidents - tourists	Death, disability, medical and hospital expenses.

Lines	Coverage
v) Directors and Officers liability - D&O	US\$ 10,000
vi) Aircraft	US\$ 1,151
vii) Group Life	For the employee: Thirty basic wages, limited to 15 salaries of the highest level of the salary scale of ITAIPU. For the spouse: Coverage of 50%, limited to five salaries of the highest level of the pay scale.

30. FINANCIAL RISK MANAGEMENT

1. Financial risk factors

Itaipu Binational's activities expose it to certain financial risks, which management is performed by the financial area, in compliance with the policies approved internally and that are in accordance with the Treaty that organized the Entity and its respective Attachments.

a) Market risk

(i) Foreign exchange risk

ITAIPU has loan and financing agreements in United States dollars and has commitments to pay royalties, proceeds from capital and reimbursement for management and supervision charges in the same currency.

The management of this foreign exchange risk is set forth in Attachment "C" to the Treaty of ITAIPU, which establishes that the annual income for the provision of electricity services should consider the cost of service established in the same document. This cost is made up by the items mentioned in the previous paragraph, permitting that the exposure in foreign currency is fully offset by operating income calculated based on an annual tariff per kW of power contracted in United States dollars.

(ii) Cash flow risk associated with interest rate

The risk associated with loan interest rate pegged to the LIBOR is mitigated by the guarantee contracted at the same rate (see Notes 9 and 15), whereas for the loan

restated at the INPC there is no materiality in view of the total debt balance.

As temporary cash investments are made only in fixed rate, in modalities considered of low risk exposure in order to maximizing, over time, yields from cash and cash equivalents, the reduction of risks (in case of a private financial institution), compatible with the liquidity required, in compliance with the internal rules and procedures.

b) Credit risk

The credit risk arises mainly from cash and cash equivalents. Credit exposure of customers of ELETROBRAS and ANDE is considered low risk. The financial institutions in which ITAIPU's funds are maintained are, according to the rule in force, preferably the official ones in both countries. Private financial institutions may be submitted to the approval of the Executive Board, upon justification supported by the Financial Director of the respective bank, comprising, among others, credit risk analysis confirmed by a renown credit rating agency, analysis of shareholders' equity (comparatively with the other financial institutions of the country), solvency, liquidity, in addition to the basket of products and services offered. For private banks in Paraguay, it is necessary to be rated as AAAPy/AApy (or equivalent) and, in Brazil, to obtain a rating equivalent to investment grade.

c) Liquidity risk

The cash flow forecast is made by the financial area, which monitors continuous forecasts of liquidity requirements to ensure that ITAIPU has sufficient cash to meet its operating requirements.

Cash surplus obtained during the year is invested in short-term investments, with the choice of instruments with adequate maturities or liquidity sufficient to meet financial commitments.

The table below analyzes the undiscounted financial liabilities:

	<u>Less than one year</u>	<u>Between one and two years</u>	<u>Between two and five years</u>	<u>Over five years</u>
As of December 31, 2016				
Loans and financing	2,041,752	2,038,296	6,090,547	1,891,628
Remuneration and reimbursements	667,206	-	-	-
Suppliers	39,644	-	-	-
As of December 31, 2015				
Loans and financing	2,041,609	2,040,157	6,096,535	3,916,386
Remuneration and reimbursements	616,690	-	-	-
Suppliers	34,595	-	-	-

2. Financial instruments

The management of financial instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent monitoring of the rates engaged versus those in force in the market. ITAIPU does not make any speculative investments in derivatives or any other risk assets.

For funds kept in cash over 2016 and 2015, respectively, temporary cash investments were contracted in Reais, in Brazil, and in Guaranis and dollars, in Paraguay. The effective weighted average yield obtained in Brazil was 14.31% p.a. and 13.46% p.a., and all investments provide daily liquidity and yield credit. In Paraguay: a) for funds invested in Guaranis the weighted average yield was 3.87% p.a. and 3.92% p.a., also with daily liquidity, yield credit as contracted with each bank and simple interests. Temporary cash investments (CDA's) were also made in Guaranis with yields of 6.25% p.a.; b) investments in dollars posted weighted average yield of 2.80% p.a. and 2.90% p.a., and yield was credit as contracted with each bank and with simple interest.

31. RELATED PARTIES

The most significant transactions with related parties carried out by the Entity in 2016 and 2015 include the provision of electricity services, loans obtained, obligations under Attachment "C" to the Treaty of ITAIPU and obligations related to pension funds, as shown below:

		2016				
	Note	ELETROBRAS	ANDE	FIBRA	CAJUBI	TOTAL
BALANCE SHEET						
ASSETS						
Trade accounts receivable	7	882,742	96,306	-	-	979,048
Agreements	9	-	15,759	-	-	15,759
Total		882,742	112,065	-	-	994,807
LIABILITIES						
Loans and financing	15	(3,304,835)	-	(23,623)	(52,832)	(3,381,290)
Remuneration and reimbursements	16	(37,002)	(37,002)	-	-	(74,004)
Social security contributions	18	-	-	(4,564)	(3,843)	(8,407)
Actuarial liabilities	20	-	-	(65,822)	(578,823)	(644,645)
Total		(3,341,837)	(37,002)	(94,009)	(635,498)	(4,108,346)

INCOME (LOSS)

INCOME

Service fee income	24	3,443,928	367,571	-	-	3,811,499
Financial income		4,002	431	-	-	4,433
Total		3,447,930	368,002	-	-	3,815,932

EXPENSES

Financial expenses		(246,001)	-	(2,040)	(3,379)	(251,420)
Remuneration and reimbursements	25	(43,925)	(43,925)	-	-	(87,850)
Social security contributions		-	-	(17,875)	(24,390)	(42,265)
Actuarial expenses	20	-	-	(65,822)	20,290	(45,532)
Total		(289,926)	(43,925)	(85,737)	(7,479)	(427,067)

BALANCE SHEET

ASSETS

	Note	2015				
		ELETRORBRAS	ANDE	FIBRA	CAJUBI	TOTAL
Trade accounts receivable	7	675,702	91,233	-	-	766,935
Agreements	9	-	17,636	-	-	17,636
Total		675,702	108,869	-	-	784,571

LIABILITIES

Loans and financing	15	(3,790,753)	-	(20,764)	(59,821)	(3,871,338)
Remuneration and reimbursements	16	(35,878)	(35,878)	-	-	(71,756)
Social security contributions	18	-	-	(2,089)	(6,612)	(8,701)
Actuarial liabilities	20	-	-	-	(595,061)	(595,061)
Total		(3,826,631)	(35,878)	(22,853)	(661,494)	(4,546,856)

INCOME (LOSS)

INCOME

Service fee income	24	3,127,777	344,078	-	-	3,471,855
Financial income		-	354	-	-	354
Total		3,127,777	344,432	-	-	3,472,209

EXPENSES

Financial expenses	25	(280,906)	-	(2,909)	(3,780)	(287,595)
Remuneration and reimbursements		(41,533)	(41,533)	-	-	(83,066)
Social security contributions	20	-	-	(17,634)	(36,511)	(54,145)
Actuarial expenses		-	-	-	130,867	130,867
Total		(322,439)	(41,533)	(20,543)	90,576	(293,939)

In addition to the above-mentioned transactions, ITAIPU has as related parties Itaiguapy Health Foundation, Tesai Health Foundation, the ITAIPU Technological Park Foundation Brazil and ITAIPU Technological Park Foundation Paraguay, due to its significant influence over the management of these entities and also due to the fact that it carries out financial transactions with these foundations, such as the transfer of funds for administrative costs and investments.

Itaiguapy and Tesai Health Foundations

The Ministro Costa Cavalcanti Hospital - HMCC, in Brazil and ITAIPU Margem Direita Hospital, in Paraguay, were built originally by Itaipu Binacional to cater for the workers hired for the construction and operation of Hydroelectric Power Plant.

To optimize the use of these hospitals and in compliance with its regional integration policy, ITAIPU decided to extend hospital services to the local communities. This was initiated in November 1994, through the Board of Directors Resolution RCA Number 019/94, the Itaiguapy Health Foundation, a private non-profit organization, which is responsible for managing and operating the Ministro Costa Cavalcanti Hospital - HMCC, in Brazil. Subsequently, in March 1997, through the Resolution of the Board of Directors RCA004/97, the Tesai Health Foundation was established as a private non-profit organization, which is responsible for managing and operating the ITAIPU Margem Direita Hospital, in Paraguay.

ITAIPU Technology Park Foundations - FPTI BR and FPTI PY

Organized in 2005, in Brazil, through the Resolution of the Board of Directors RCA 010/05, and in 2008, in Paraguay, through the Resolution of the Board of Directors RCA 035/08, the ITAIPU Technology Park Foundations' mission is, in both countries, to understand and transform the reality of the tri-national Iguazu region, coordinating and promoting actions aimed at economic, scientific and technological development with respect for humans and emphasis on solutions focused on water, energy and tourism.

The purpose of these Foundations is to maintain and operate the ITAIPU Technology Parks that contribute to regional development in a sustainable way, through activities that foster institutional, scientific, technological development and innovation, the dissemination of knowledge, professional training, and the generation of companies, interacting for these purposes with public and private entities, academic and research, development and production bodies.

Financial transactions carried out between ITAIPU and these Foundations in 2016 and 2015 are as follows:

	Assets / (Liabilities)		(Expenses)	
	2016	2015	2016	2015
1. Contracted Services				
a) Itaiguapy Health Foundation	4,967	4,272	(10,225)	(9,483)
a) Tesai Health Foundation	2,680	1,208	(22,277)	(19,055)
b) ITAIPU BR Technology Park Foundation	(93)	(233)	(2,892)	(2,186)
b) ITAIPU PY Technology Park Foundation	(97)	(266)	(553)	(663)
2. Agreements and financial contributions				
a) Itaiguapy Health Foundation	-	-	(7,244)	(7,258)
a) Tesai Health Foundation	6,454	445	(7,282)	(7,676)
b) ITAIPU BR Technology Park Foundation	(539)	(695)	(14,477)	(15,943)
b) ITAIPU PY Technology Park Foundation	(3,904)	(1,334)	(6,985)	(6,202)
Total				
a) Itaiguapy Health Foundation	4,967	4,272	(17,469)	(16,741)
a) Tesai Health Foundation	9,134	1,653	(29,559)	(26,731)
b) ITAIPU BR Technology Park Foundation	(632)	(928)	(17,369)	(18,129)
b) ITAIPU PY Technology Park Foundation	(4,001)	(1,600)	(7,538)	(6,865)
Total	9,468	3,397	(71,935)	(68,466)

The amounts presented in Assets refer to advances made by ITAIPU to the Foundations, written off upon the provision of contracted services, and those presented in Liabilities refer to accounts payable arising from agreements entered into.

Disbursements made by ITAIPU are accounted for as expenses in accordance with the type of expense on health care plan, operating agreements or social and environmental expenses.

1. Contracted services

a) Health Foundations

These refer to contracting of medical and hospital services, such as: medical and hospital expenses of employees and their dependents, provision of 24-hour emergency services, pre-employment and post-employment medical examinations, nutrition consulting, and other similar services.

b) Technology Park Foundations

These refer to technical and financial cooperation agreements for provision of specialized services developed based on research, development and innovation projects for ITAIPU.

2. Agreements and financial contributions

a) Health Foundations

ITAIPU Binacional allocates financial resources to subsidize social actions developed by Health Foundations, such as: services for needy communities in Paraguay and catering for users of the Unified Public Health System - SUS of the nine municipalities of the 9th Health Regional Unit of the State of Paraná, in Brazil.

The main services provided by the Health Foundations to the community are: outpatient appointments, emergency care services, hospitalization, surgeries, childbirth, hospital, and medical care programs.

b) Technology Park Foundations

Financial contributions made by ITAIPU, to maintain the costs of support infrastructure and operation process of Foundations.

Agreements entered into between ITAIPU and the Technology Park Foundations for their performance of actions that result in products, service and/or knowledge. Currently, Technology Parks are supporting ITAIPU's organizational units in the development of projects and research in the areas of electric mobility, renewable energies, power plant testing and automation, environmental management and social and economic development.

Compensation of key management personnel

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

	<u>2016</u>	<u>2015</u>
Compensation of directors and board members	(5,798)	(6,165)
Social security	(525)	(625)
Benefits	(972)	(990)
	<u>(7,295)</u>	<u>(7,780)</u>

32. REGULATORY PROVISIONS

Since ITAIPU's start-up, official opinions (General Consultancy of the Republic of Brazil, subsequently Brazilian Federal Attorney's Office (AGU) Nos. L-208, FC-27, GQ-16) and opinions of the greatest Brazilian jurists attested the legal and factual unfeasibility of unilateral inspection, by a Brazilian or Paraguayan public external control body on ITAIPU, considering the particularities of its operation, mainly in view of the inexistence of management acts or national accounts and the non-existence, in the Treaty, of any permission thereof, which would imply violation of the sovereignty of the other country and violation of constitutional and international principles and rules by which Brazil and Paraguay should abide. This means that diplomatic negotiations between two sovereign Countries are indispensable.

Considering the work of the Technical Commission of the Brazilian Federal Court of Auditors - TCU, organized by Regulation Instruction No. 6/94 of that Court, which technical conclusions were encompassed by TCU Decision No. 279/95, this legal and technical unfeasibility was established, as well as the need for diplomatic understanding.

There has been no change in this legal and factual scenario.

In addition, article 71, V, of the Constitution of 1988, art. 71, V, sets forth that it should be incumbent upon TCU to examine only national accounts (that do not exist in the case of ITAIPU) in compliance with the terms of the incorporation treaty (that once again refers to need for prior diplomatic understanding).

Despite this, in 2009, the Court Decision No. 2.918/2009, which did not produce effect, was a milestone of TCU's attempt to change this accepted understanding, with no justification to change it.

The Brazilian Ministry of Foreign Affairs and the Brazilian Ministry of Mines and Energy were called to express their position before the final vote of the project of Court Decision No. 2.918/2009, and they took a stand exactly in the same terms that the legal and factual aspects signaled since ITAIPU's start-up, but accepting the possibility of new diplomatic understandings with Paraguay, to add other instruments of external control over ITAIPU's binational accounts, as agreed upon in specific diplomatic instruments.

As the TCU Court Decision of 2009 was ineffective, on January 28, 2015 the Court Decision No. 88/2015-Plenário-TCU was issued, in which TCU makes recommendations and determinations to ELETROBRAS, as Part of ITAIPU, pointing out improvement actions in ELETROBRAS' controls and governance over ITAIPU. Actions related to ITAIPU are also determined for the Brazilian Ministry of Mines and Energy and the Secretariat of External Control of the Indirect Administration of Brazil.

However, as it would be unavoidable since there was neither a legal or factual change nor the signature of any new diplomatic instrument, concepts were adopted in said Court Decision that conflict with the specific legal nature of ITAIPU, which is a Binational Entity, created and governed, in equal rights and obligations, by the Treaty signed on April 26, 1973, between the Federative Republic of Brazil and the Republic of Paraguay, and its capital belongs in equal parties to Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.

Therefore, it is not possible to mention a Brazilian controlling company, as mentioned in said Court Decision, since there is no majority party. And there are no “national accounts” of ITAIPU, since the Entity is managed by a Board of Directors and an Executive Board formed by equal number of nationals of both countries, and the Board of Directors can only make valid decisions with the attendance of the majority of Board Members of each country, and with parity of votes equal to the lower national representation in attendance.

Initially, ITAIPU represents that it is not contrary to any new external control mechanism, provided that the Brazilian Federal Constitution is strictly complied with, particularly its article 71,V, and the Legislation, including the Treaty of ITAIPU and the Vienna Convention on the Law of Treaties, reason why all prior understandings and diplomatic instruments between the two National Governments are required.

On June 8, 2016 Court Decision No. 1.470/2016-Plenário-TCU was issued, in which certain recommendations made to ELETROBRAS by the aforementioned Court Decision No. 88/2015-Plenário-TCU, are considered by TCU as complied with and others continued under analysis, considering that for compliance with the recommendations made on an unilateral basis by the Brazilian TCU as having as direct addressee ITAIPU, it would be necessary for ITAIPU to have national accounts (which does not happen) and that the Treaty that organized it addressed the matter (which does not happen), reason why once again the unavoidable conclusion is that negotiations between the Federative Republic of Brazil and the Republic of Paraguay are necessary, as well as the creation of an additional control method with specific diplomatic instruments. The issue has been conducted by the diplomatic bodies of both Countries to organize a Binational Commission of Accounts, still under negotiation.

ITAIPU also informs that: a) since the decade of 1970, the issue of a possible unilateral inspection by TCU of ITAIPU has been intermittently raised, and the position that it is legally and factually unfeasible has prevailed (sole company, with inseparable management, budget, accounting, etc.); b) there are no “national accounts” in ITAIPU and neither the Treaty of ITAIPU nor any other diplomatic instrument sets forth the inspection by TCU; c) regarding Court Decision No. 88/2015-Plenário-TCU, as shown by complementary Court Decision No. 1470/2016-Plenário-TCU, pending appeal, in view of its latent unconstitutionality, the TCU Decision that is still being applied is No. 279/1995. On the other hand, in Court Decision No. 1470/2016 it can be noted that TCU acknowledged that the issue depends on diplomatic understandings as a way of achieving a consensual procedure between both Countries and avoiding undesirable, either in the Foreign Affairs level and in the legal sphere; it should also be considered that the issue is being examined

by the Brazilian Federal Supreme Court (Original Lawsuit No. 1905-PR, in which the Republic of Paraguay acts), and there was an opinion from the Federal Attorney General corroborating the need for a consensual binational mechanism; d) ITAIPU states the importance of the maximum hierarchical standard, i.e., the governing rule of the issue is article 71, V, of the Federal Constitution, and that this rule does not establish conditions for a possible inspection without prior diplomatic understanding: (i) ITAIPU does not have “national accounts”, and (ii) the Treaty of ITAIPU does not establish conditions for possible inspection of (inexistent) “national accounts”; e) there is a final and unappealable decision of the Supreme Court of Justice of Paraguay (decision 280/2011) which conclusion is essentially the same: prior understandings and diplomatic instruments are necessary to create an additional control management instrument over ITAIPU, which should be joint and binational; f) there are countless official legal sentences, legal theories, judicial and technical opinions, including from the TCU itself, which corroborates ITAIPU’s understanding and challenge the conclusion of the Court Decision No. 88/2015; g) ITAIPU has an active Corporate Governance Structure, with the advantage of always being binational, including joint internal audits (Brazilian and Paraguayan), binational Ethics Committee, binational Planning System; binational Accounting and Budget System, Ombudsman’s/Public Defender’ Office, permanent Group for improving information access, among many other mechanisms, in addition to tools and external controls conducted jointly, as set forth in the Treaty, by ELETROBRAS and ANDE, and by the Representatives of the Ministries of Foreign Affairs that follow the meetings of the Board of Directors of ITAIPU.



SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

Attachment I

(A free translation of the original in Portuguese.)

**STATEMENT OF OPERATION ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

(In thousands of US dollars)

	<u>12.31.2016</u>	<u>12.31.2015</u>
REVENUE		
Revenue from the provision of electricity services		
Power supply	3,291,012	3,291,012
Brazilian purchasing entity	2,942,270	2,965,537
Paraguayan purchasing entity	348,742	325,475
Remuneration for electricity assignment	368,455	313,420
Reimbursement of costs - non-bound energy	152,032	76,370
Total revenue	<u>3,811,499</u>	<u>3,680,802</u>
LESS		
REMUNERATION FOR ELECTRICITY ASSIGNMENT	<u>(368,455)</u>	<u>(313,420)</u>
COST OF ELECTRICITY SERVICE		
Remuneration and reimbursement for High Contracting Parties and Members of ITAIPU		
Proceeds from capital	(46,716)	(47,120)
Bound energy		
Royalties	(393,560)	(396,385)
Reimbursement of management and supervision charges	(30,274)	(30,491)
	<u>(423,834)</u>	<u>(426,876)</u>
Non-bound energy		
Royalties	(141,172)	(70,915)
Reimbursement of management and supervision charges	(10,860)	(5,455)
	<u>(152,032)</u>	<u>(76,370)</u>
	<u>(622,582)</u>	<u>(550,366)</u>
Amortization of loans and financing	<u>(1,322,585)</u>	<u>(1,240,045)</u>
Financial charges on loans and financing	<u>(719,823)</u>	<u>(804,669)</u>
Operation expenses		
Personnel	(515,587)	(448,701)
Material and equipment	(31,663)	(27,549)
Outsourced service	(104,400)	(101,653)
Other operation expenses	(98,636)	(88,904)
	<u>(750,286)</u>	<u>(666,807)</u>
Total cost of electricity service	<u>(3,415,276)</u>	<u>(3,261,887)</u>
PROFIT (LOSS) FROM OPERATION FOR THE YEAR	<u>27,768</u>	<u>105,495</u>
Prior-year balance	37,091	(75,147)
Financial and other revenue	-	6,743
ACCUMULATED PROFIT (LOSS) FROM OPERATION	<u>64,859</u>	<u>37,091</u>

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

NOTES TO THE STATEMENT OF OPERATION ACCOUNTS

AT DECEMBER 31, 2016 AND 2015

The Attachment “C” to the Treaty of ITAIPU, which comprises the financial and electricity service provision bases, defines Operation Account as the annual balance between revenue and cost of service.

a) Revenue

Pursuant to article IV of Attachment “C” to the Treaty, ITAIPU’s annual revenue, arising from the electricity service provision agreements, should be equal, each year, to the cost of service established in said Attachment.

The revenue arising from the provision of electricity services includes the billing of power of supply, royalties and reimbursement of management and supervision charges related to non-bound energy and remuneration for electricity assignment.

The supply of power is billed based on the tariff, defined at ITAIPU as the unit cost of electricity service. It is incumbent upon the Board of Directors of ITAIPU to establish the unit cost of the electricity service, pursuant to the conditions established in the Treaty, its Attachment and other Official Acts of the Entity.

Royalties and reimbursement of management and supervision charges related to non-bound energy and remuneration for electricity assignment are billed in accordance with their cost; therefore, for ITAIPU, they present the same amount in revenue and cost.

b) Cost of electricity service

Pursuant to item III of Attachment “C” to the Treaty, the Cost of Electricity Service of ITAIPU will be composed of the following annual portions:

- 1) Amount required for the payment to the High Contracting Parties (Federative Republic of Brazil and Republic of Paraguay) and to Parties that constitute ITAIPU (ELETROBRAS and ANDE), of the following remuneration and reimbursements:
 - i) Proceeds from Capital: yields of twelve per cent per year on the interest of Centrais Eléctricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE in the paid-up capital of ITAIPU.
 - ii) Royalties: calculated at the equivalent of six hundred and fifty United States Dollar per gigawatt-hour, generated and measured at the hydroelectric power plant. This amount shall not be less than eighteen million United States dollars per year, at the rate of half to each High Contracting Party.

- iii) Reimbursement of Management and Supervision Charges: calculated at the equivalent of fifty United States dollars per gigawatt-hour generated and measured in the hydroelectric power plant, in equal parts to Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.
- iv) Remuneration for electricity assignment: remuneration to one of the High Contracting Parties, equivalent to three hundred United States dollars, per gigawatt-hour assigned to the other High Contracting Party, to be paid exclusively by the Party that consumes the ceded energy.

The amounts of Proceeds from Capital, starting January 2001, were restated in accordance with the Diplomatic Note No. 10, exchanged between the Ministries of Foreign Affairs of Brazil and Paraguay, on November 13, 2000, in accordance with the following adjustment factor:

Year	Adjustment factor*
2001	2.88105
2002	2.87653
2003	2.97528
2004	3.09679
2005	3.27196
2006	3.40917
2007	3.51997
2008	3.75019
2009	3.58511
2010	3.72859
2011	3.93029
2012	3.97306
2013	4.01223
2014	4.05879
2015	3.92165
2016	3.90109

(*) Base: annual average inflation rate observed in the United States, using the indexes "Industrial Goods" and "Consumer Prices" published in the journal of "International Financial Statistics".

The amounts of Royalties, Reimbursement of Management and Supervision Charges and Remuneration for Electricity Assignment, were multiplied, as from 1992, by a factor of 4.00 (four integer), pursuant to Diplomatic Note No. 3, exchanged between the Ministries of Foreign Relations of Brazil and Paraguay, on January 28, 1986.

As from 2006, according to the agreement in the Diplomatic Notes exchanged between the Government of the Federative Republic of Brazil and the Government of the Republic of Paraguay on December 8, 2005, the Remuneration for Electricity Assignment has been multiplied by a factor of 5.10 (five integer and ten-hundredths).

As from May 14, 2011, according to the agreement in the Diplomatic Notes entered into on September 1, 2009, between the Government of the Federative Republic of Brazil, enacted by Decree No. 7.506, of June 27, 2011, and the Government of the Republic of Paraguay, approved by Law No. 3.923 of November 18, 2009, the multiplying factor of the Remuneration for Electricity Assignment went from 5.10 (five integer and ten-hundredths) to 15.30 (fifteen integer and thirty-hundredths).

The Brazilian Ministry of Mines and Energy was designated responsible for crediting to ITAIPU the 10.20 (ten integer and twenty-hundredths) arising from the increase in 2011 in the multiplying factor of the Remuneration for Electricity Assignment.

Upon the enactment of Provisional Measure No. 735, converted into Law 13.360 of November 17, 2016, on June 23, 2016, the total cost related to multiplying factor 15.30 (fifteen integer and thirty-hundredths), of the Remuneration for Electricity Assignment addressed by the Bilateral Agreement enacted by Decree No. 7.506, of June 27, 2011, is incumbent upon ELETROBRAS as from January 1, 2016.

The amounts of Royalties, Reimbursement of Management and Supervision Charges and Remuneration for Electricity Assignment started being restated in accordance with the formula established in Diplomatic Note No. 3 and in the following Notes, mentioned in the previous paragraphs, in accordance with the following table:

<u>Year</u>	<u>Original factor (A)</u>	<u>Adjustment factor (B) *</u>	<u>Adjusted factor (A x B)</u>
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

Year	Original factor (A)	Adjustment factor (B) *	Adjusted factor (A x B)
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	1.93060	7.72240
2010	5.10	1.93060	9.84606
2011	4.00	2.03768	8.15072
Jan to May 2011	5.10	2.03768	10.39217
May to Dec 2011	15.30	2.03768	31.17650
2012	4.00	2.05866	8.23464
2012	15.30	2.05866	31.49750
2013	4.00	2.07836	8.31344
2013	15.30	2.07836	31.79891
2014	4.00	2.10189	8.40756
2014	15.30	2.10189	32.15892
2015	4.00	2.02638	8.10552
2015	15.30	2.02638	31.00361
2016	4.00	2.01368	8.05472
2016	15.30	2.01368	30.80930

(*) Base: annual average inflation rate observed in the United States, using the indexes "Industrial Goods" and "Consumer Prices" published in the journal of "International Financial Statistics".

2) Amount required for the payment of financial charges of loans received, understood in said Attachment as all interest, charges and commissions referring to contracted loans.

3) Amortization required for the payment of amortization of loans received.
As from 2012, the Operating Account does not include amortizations and payments of changes of loans obtained with CAJUBI, related to agreements PIB 2010-10-0001 and PIB 2012-10-0001, since these amounts are refunded to ITAIPU by ANDE, as set forth in amendment No. 2 to Agreement 5.808/99 (see Note 9 (ii) to the Financial Statements).

As from 2014, the Operating Account also does not include amortizations and payments of charges of loans of Banco ITAU Paraguay, taken out for the performance

of works and services to strengthen the Electric System of the Alto Paraná Department, Paraguay, pursuant to the Resolution of the Executive Board RDE-076/14 and Resolution of the Board of Directors RCA-013/14. This agreement was settled in April 2016.

- 4) Amount required to cover operating expenses, understood in said Attachment as all expenses attributable to the provision of electricity services, including direct operation and maintenance expenditures, including replacements for normal wear and tear, general and administrative expenditures, in addition to insurance against risks of ITAIPU's assets and installations.

- 5) The balance amount, either positive or negative, of the Operating account of the previous year.

AUTHORIZATION FOR ISSUE
FINANCIAL STATEMENTS AND ATTACHMENT I
AT DECEMBER 31, 2016 AND 2015

Luiz Fernando Leone Vianna
Brazilian General Director

James Spalding Hellmers
Paraguayan General Director

Executive Technical Director

José María Sánchez Tillería
Technical Director

Cezar Eduardo Ziliotto
Legal Director

Luis Alberto Breuer González
Executive Legal Director

Marcos Antonio Baumgärtner
Administrative Director

Carlos Jorge Paris Ferraro
Executive Administrative Director

Marcos V. Stamm
Executive Financial Director

Miguel Ángel Gómez Acosta
Financial Director

Coordination Director

Francisco Pedro Domaniczky Lanik
Executive Coordination Director

Salomão Galperin
Assistant Superintendent of Budget and
Accounting

Luis Ricardo Molinas Acosta
Superintendent of Budget and Accounting

Simone Rogoginski
Accountant - CRC PR-045840/O-2

Celia Cristina Martinez Colman
Manager of the Accounting Department
Enrollment No. C 732 Council of Public
Accountants of Paraguay



(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Itaipu Binacional

Opinion

We have audited the accompanying financial statements of Itaipu Binacional (the "Entity" or "Itaipu"), which comprise the balance sheet as at December 31, 2016 and the statements of operations and changes in financial position for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. These financial statements were prepared by management in accordance with the specific provisions included in the Treaty for the establishment of the Entity and its annexes of April 26, 1973, described in Note 2, and supported by the chart of accounts and standards for financial reporting, approved by the Board of Directors of Itaipu Binacional.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Itaipu Binacional as at December 31, 2016, and its financial performance and changes in financial position for the year then ended, in accordance with the specific provisions included in the Treaty for the establishment of the Entity and its annexes of April 26, 1973 (described in Note 2) and supported by the chart of accounts and standards for financial reporting, approved by the Board of Directors of Itaipu Binacional.

Basis for opinion

We conducted our audit in accordance with Brazilian, Paraguayan and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Entity in accordance with the ethical requirements established in the Code of Professional Ethics, 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.

Emphasis of matter

Regulatory provisions

As described in Note 32 to the financial statements, the Federal Accounting Court (TCU) issued Decision 88/2015, which defines recommendations and determinations to Eletrobrás, as part of Itaipu, regarding the need for improvement in Eletrobrás' controls and governance in relation to Itaipu Binacional, establishing also actions for the Ministry of Mines and Energy of Brazil and the Secretariat of External Control of the Indirect Management of Brazil. The management of Itaipu Binacional understands that, in the aforementioned Decision, concepts used are in disagreement with the specific legal nature of Itaipu, which is a Binational Entity, created and governed by a Treaty signed between the Federative Republic of Brazil and the Republic of Paraguay. This matter has figured in diplomatic negotiations between the two countries for the establishment of a Binational Accounting Commission, since 2015, due to the legal impossibility of unilateral oversight by the TCU in Itaipu, therefore, there are uncertainties regarding the



Itaipu Binacional

developments and/or possible impacts for the Entity, which are not included in the financial statements. Our opinion is not qualified in respect of this matter.

Accounting police adopted in the financial statements

We draw attention to Note 2 to these financial statements, which describes the basis of preparation of the financial statements. The financial statements were prepared for compliance with the provisions for financial reporting required by the Treaty for the establishment of the Entity and its annexes. Consequently, these financial statements may not be suitable for other purposes. Our opinion is not qualified in respect of this matter.

Revaluation of retirement and pension plans

As mentioned in Note 20 to the financial statements, Itaipu's management is performing the revaluation of the retirement and pension plans based on the defined benefit method. Such process, whose goal is the sustainability of the retirement and pension plans that are sponsored by the Entity, includes the analysis of other alternatives to the current pension systems administered by Fundação Itaipu BR de Previdência e Assistência Social - FIBRA, in Brazil, and by Caja Paraguaya de Jubilaciones y Pensiones del personal de la Itaipu Binacional - CAJUBI, in Paraguay. These financial statements do not include potential adjustments, if any, that could be generated as a consequence of the revaluation of the retirement and pension plans based on the defined benefit method. Our opinion is not qualified in respect of this matter.

Other matters

Statements of value added, cash flows and operation accounts

We also have audited the statements of added value, cash flows and operation accounts for the year ended December 31, 2016, prepared under the responsibility of the Entity's management and presented as supplementary information, which were submitted to audit procedures performed in conjunction with the audit of the Entity's financial statements. In our opinion, these statements have been properly prepared in all material respects, in accordance with Note 2 to the financial statements, and are consistent with the financial statements taken as a whole.

Audit of prior-year information

The financial statements of the Entity for the year ended December 31, 2015 were audited by another firm of auditors whose unqualified report, dated April 18, 2016, included emphasis of matter paragraphs regarding regulatory provisions and the accounting police adopted in the financial statements, similar to those described above.



Itaipu Binacional

Other information accompanying the financial statements and the independent auditor's report

The Entity's management is responsible for the other information that comprises the Annual Report.

Our opinion on the financial statements does not cover the Annual Report, and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Annual Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Annual Report, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the specific provisions of the Treaty for the establishment of the Entity and its annexes of April 26, 1973, supported by the chart of accounts and standards for financial reporting, approved by the Board of Directors of Itaipu Binacional 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 financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing will always detect a material misstatement when it exists. 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 an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

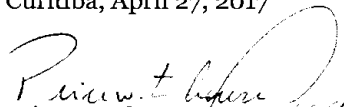


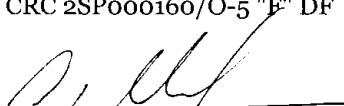
Itaipu Binacional

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude 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 ability of the Entity 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 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

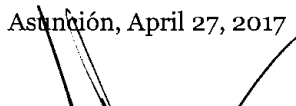
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

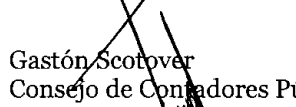
Curitiba, April 27, 2017


PricewaterhouseCoopers
Audidores Independentes
CRC 2SP000160/O-5 "E" DF


Carlos Alexandre Peres
Contador CRC 1 SP198156/O-7 "S" DF

Asunción, April 27, 2017


PricewaterhouseCoopers
Audidores Independentes
Registro de firmas profesionales N° 2


Gastón Scotover
Consejo de Contadores Públicos del Paraguay
Matrícula de contador público Tipo "A" N° 331