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Itaipu Binacional

***Financial statements at
December 31, 2017 and
independent auditor's report***



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BALANCE SHEET AT DECEMBER 31, 2017 AND 2016

(In thousands of US dollars)

ASSETS

	<u>Note</u>	<u>12.31.2017</u>	<u>12.31.2016</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	418.960	534.242
Trade accounts receivable	7	962.558	979.048
Storeroom	8	5.622	5.521
Bonds receivable	9	3.240	3.270
Other accounts receivable	10	40.681	59.852
TOTAL CURRENT ASSETS		<u>1.431.061</u>	<u>1.581.933</u>
NON-CURRENT ASSETS			
Bonds receivable	9	220.635	219.162
Judicial deposits	11	48.590	47.071
		<u>269.225</u>	<u>266.233</u>
RESULTS	12		
Prior years		(6.441.140)	(5.271.110)
Current year		(1.179.990)	(1.170.030)
		<u>(7.621.130)</u>	<u>(6.441.140)</u>
PROPERTY, PLANT AND EQUIPMENT	13	<u>17.519.884</u>	<u>17.500.644</u>
INTANGIBLE ASSETS	14	<u>32.956</u>	<u>30.155</u>
TOTAL NON-CURRENT ASSETS		<u>10.200.935</u>	<u>11.355.892</u>
TOTAL ASSETS		<u>11.631.996</u>	<u>12.937.825</u>

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



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BALANCE SHEET AT DECEMBER 31, 2017 AND 2016

(In thousands of US dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>Note</u>	<u>12.31.2017</u>	<u>12.31.2016</u>
LIABILITIES			
CURRENT LIABILITIES			
Loans and financing	15	1.523.050	1.415.421
Remuneration and reimbursements	16	645.065	667.206
Suppliers	17	44.682	43.875
Salaries and social charges	18	98.081	79.149
Labor indemnities	19	50.242	50.406
Provisions for lawsuits	21	65.100	74.929
Other liabilities	22	8.250	16.776
TOTAL CURRENT LIABILITIES		<u>2.434.470</u>	<u>2.347.762</u>
NON-CURRENT LIABILITIES			
Loans and financing	15	7.016.575	8.709.012
Labor indemnities	19	267.704	241.402
Post-employment benefits	20	1.635.203	1.472.326
Provisions for lawsuits	21	175.742	64.844
Other liabilities	22	2.302	2.479
TOTAL NON-CURRENT LIABILITIES		<u>9.097.526</u>	<u>10.490.063</u>
TOTAL LIABILITIES		<u>11.531.996</u>	<u>12.837.825</u>
SHAREHOLDERS' EQUITY			
Capital	23		
Centrais Elétricas 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>11.631.996</u>	<u>12.937.825</u>

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STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands of US dollars)

	Note	12.31.2017	12.31.2016
OPERATING INCOME	24		
Supply of power		3.291.012	3.291.012
Remuneration for electricity assignment		329.392	368.455
Royalties and reimbursement of costs - non-bound energy		120.110	152.032
Total operating income		3.740.514	3.811.499
OPERATING EXPENSES			
REMUNERATION AND REIMBURSEMENTS	25		
Proceeds from capital		(48.460)	(46.716)
Remuneration for electricity assignment		(329.392)	(368.455)
Bound energy			
Royalties		(407.536)	(393.560)
Reimbursement of management and supervision charges		(31.350)	(30.274)
		(438.886)	(423.834)
Non-bound energy			
Royalties		(111.530)	(141.172)
Reimbursement of management and supervision charges		(8.580)	(10.860)
		(120.110)	(152.032)
		(936.848)	(991.037)
GENERAL AND ADMINISTRATIVE EXPENSES	26		
Operation, maintenance and management		(868.483)	(874.415)
Social and environmental responsibility programs		(151.807)	(103.618)
		(1.020.290)	(978.033)
Total operating expenses		(1.957.138)	(1.969.070)
SERVICE INCOME		1.783.376	1.842.429
OTHER INCOME (EXPENSES)	27	(10.811)	53
Financial income		60.584	67.270
Financial expenses		(653.159)	(739.722)
FINANCIAL RESULT	28	(592.575)	(672.452)
PROFIT FOR THE YEAR		1.179.990	1.170.030

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STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In thousands of US dollars)

	<u>12.31.2017</u>	<u>12.31.2016</u>
SOURCE OF FUNDS		
From operations		
Profit for the year	1.179.990	1.170.030
Expenses not affecting net working capital		
Long-term monetary variation - loans	(1.090)	4.164
Long-term monetary variation - estimated liabilities	23.507	62.418
Write-offs of fixed assets	13.691	3.748
	<u>1.216.098</u>	<u>1.240.360</u>
From third parties		
Increase in non-current liabilities	397.609	343.409
Transfer from current liabilities to non-current liabilities	130.981	29.725
Transfer from non-current assets to current assets	3.182	3.320
Decrease in non-current assets	4.518	19.470
Funds received - loans	937	7.100
	<u>537.227</u>	<u>403.024</u>
TOTAL FINANCIAL RESOURCES PROVIDED	<u>1.753.325</u>	<u>1.643.384</u>
INVESTMENT OF FUNDS		
Investments in property, plant and equipment and intangible assets	34.852	31.475
Incorporated charges on property, plant and equipment	880	631
Increase in non-current assets	10.691	52.467
Decrease in non-current liabilities	118.193	47.609
Transfer from long-term to short-term - loans	1.692.283	1.413.716
Transfer from long-term to short-term - estimated liabilities	134.006	68.074
	<u>1.990.905</u>	<u>1.613.972</u>
(DECREASE) INCREASE IN NET WORKING CAPITAL	<u>(237.580)</u>	<u>29.412</u>
STATEMENT OF CHANGES IN NET WORKING CAPITAL		
Closing net working capital		
Closing current assets	1.431.061	1.581.933
Closing current liabilities	(2.434.470)	(2.347.762)
	<u>(1.003.409)</u>	<u>(765.829)</u>
Opening net working capital	<u>(765.829)</u>	<u>(795.241)</u>
(Decrease) increase in net working capital	<u>(237.580)</u>	<u>29.412</u>

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STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of US dollars)

	<u>12.31.2017</u>	<u>12.31.2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	1.179.990	1.170.030
Adjustments to profit		
Write-off of property, plant and equipment	13.691	3.748
Monetary variation - loans	205	5.711
Monetary variation - estimated liabilities	23.507	62.418
Provisions for liabilities		
Financial charges - loans	628.126	719.364
Provisions for personnel	34.881	40.547
Actuarial provisions	136.458	281.184
Provisions for lawsuits	106.112	(7.715)
Adjusted profit	<u>2.122.970</u>	<u>2.275.287</u>
Changes in assets and liabilities		
Changes in trade accounts receivable	16.490	(28.359)
Changes in storeroom	(101)	1.160
Changes in other accounts receivable	17.070	(10.771)
Changes in remuneration and reimbursements	(22.141)	50.516
Changes in suppliers and other liabilities	(7.896)	2.941
Changes in salaries and social charges	8.284	(1.496)
Changes in estimated liabilities	(226)	11.648
	<u>11.480</u>	<u>25.639</u>
Net cash from operating activities	<u>2.134.450</u>	<u>2.300.926</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(34.852)	(31.475)
Net cash used in investing activities	<u>(34.852)</u>	<u>(31.475)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans and financing obtained	937	7.100
Amortization of loans and financing	(1.586.118)	(1.324.429)
Payment of interest on loans and financing	(629.699)	(720.823)
Net cash used in financing activities	<u>(2.214.880)</u>	<u>(2.038.152)</u>
TOTAL EFFECTS ON CASH AND CASH EQUIVALENTS	<u><u>(115.282)</u></u>	<u><u>231.299</u></u>
Opening balance of cash and cash equivalents	534.242	302.943
Closing balance of cash and cash equivalents	418.960	534.242
Changes in cash and cash equivalents	<u><u>(115.282)</u></u>	<u><u>231.299</u></u>

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



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STATEMENT OF VALUE ADDED

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In thousands of US dollars)

	<u>12.31.2017</u>	<u>12.31.2016</u>
GENERATION OF VALUE ADDED		
Revenue		
Power supply	3.291.012	3.291.012
Remuneration for electricity assignment	329.392	368.455
Royalties and reimbursement of costs - non-bound energy	120.110	152.032
Other revenue (expenses)	(10.811)	53
	<u>3.729.703</u>	<u>3.811.552</u>
(-) Inputs purchased from third parties		
Material	17.798	16.135
Outsourced services	128.037	94.056
Other operating expenses	225.740	90.648
	<u>371.575</u>	<u>200.839</u>
GROSS VALUE ADDED	<u>3.358.128</u>	<u>3.610.713</u>
(+) Value added received by transfer		
Financial income	60.584	67.270
	<u>60.584</u>	<u>67.270</u>
VALUE ADDED TO BE DISTRIBUTED	<u>3.418.712</u>	<u>3.677.983</u>
DISTRIBUTION OF VALUE ADDED		
Remuneration:		
Employees		
Direct compensation	261.118	264.089
Benefits	145.736	131.184
Post-employment benefits	136.458	281.184
Labor indemnities	65.485	65.102
FGTS	6.056	5.317
	<u>614.853</u>	<u>746.876</u>
Government		
INSS and IPS	33.862	30.318
Royalties	519.066	534.732
Remuneration for electricity assignment	329.392	368.455
	<u>882.320</u>	<u>933.505</u>
Third-party capital		
Interest on debt	628.126	719.360
Monetary variation	24.850	15.772
Other financial expenses	183	4.590
	<u>653.159</u>	<u>739.722</u>
Holders of Entity's capital		
Proceeds from capital	48.460	46.716
Reimbursement of management and supervision charges	39.930	41.134
	<u>88.390</u>	<u>87.850</u>
Profit for the year	<u>1.179.990</u>	<u>1.170.030</u>
VALUE ADDED DISTRIBUTED	<u>3.418.712</u>	<u>3.677.983</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS
AT DECEMBER 31, 2017 AND 2016**

(All amounts in thousands of US dollars unless otherwise stated)

1. OPERATIONS

ITAIPU is a Binational Entity created and governed by the Treaty signed on April 26, 1973 between the Federative Republic of Brazil and the Republic of Paraguay, also referred to as High Contracting Parties, with equal rights and obligations. The capital of ITAIPU Binacional is owned equally by Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE, also referred to as 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 2017, ITAIPU generated 96.4 million MWh of electricity, which is the fourth largest annual production volume achieved by the plant since its inauguration. The generation in 2017 was 6.5% lower than the historical record of 103.1 million MWh generated in 2016.

ITAIPU is governed by the rules set forth in the 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.

The term of the Treaty is indefinite, as set forth in Article XXV, which establishes that its modification is subject to a new agreement by the High Contracting Parties. The provisions of Attachment “C”, specifically, pursuant to Article VI of the Attachment, shall be revised after a lapse of fifty years from the date the Treaty entered into force, considering, among other aspects, the level of amortization of debts incurred by ITAIPU for construction of the power plant and the ratio of power supply contracted by entities from both countries (Notes 15 and 24). Attachment “C” presents the terms of supply, breakdown of cost of electricity service and revenue (see Notes to the Statement of Operation Accounts).

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 ITAIPU Treaty, 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 Operation Accounts and Notes to the Statement of Operation Accounts are also presented.

a) Statement of Cash Flows

It is prepared under the indirect method and presents cash flows for the period classified by operating, investing and financing activities. Cash flows arising from transactions that represent the Entity’s main sources 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.

b) Statement of Value Added - SVA

The purpose of the SVA is to provide information about how much wealth was created by the Entity in the period and how it was distributed. The main components of the wealth generated by the Entity are represented by revenue less inputs acquired from third parties, plus value added received by 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. The statement of value added is prepared under the basic conceptual framework for the preparation and presentation of financial statements, and their

data are obtained from the reorganization of elements from the statement of income for the same period.

c) Statement of Operation Accounts

The basis of preparation is described in the Notes to the Statement of Operation 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 regulatory provisions and/or 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 over the useful life of the assets (Notes 4.e and 13);
- (ii) The results of the Entity are not stated in shareholders' equity, but are shown under the caption Results, within 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.l and 20);
- (iv) Accounting policies regarding the measurement of fair value of assets and liabilities are not established or disclosed;
- (v) The return on the invested capital paid to the Parties does not consider the realization of profits, and represents an operating expense in the income statement (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 these financial statements was authorized by the Executive Board on March 21, 2018.

3. RELATIONSHIP WITH INDEPENDENT AUDITORS

ITAIPU has an agreement with PWC Consortium for ITAIPU Audit Project, composed of the audit firms PricewaterhouseCoopers Auditores Independentes, headquartered in São Paulo, Brazil, and PricewaterhouseCoopers, headquartered in Asuncion, Paraguay, for the performance of the external audit services of the financial statements and internal controls, in compliance with the United States Sarbanes-Oxley Act (SOX), for the years 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 and 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 at the rates adopted for the last business day of each month of the calendar year.

Operating revenue from the provision of electricity services is 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 Guarani, 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 States 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 financial 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 an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

The uncertainties, assumptions and estimates that have a significant risk of causing a material adjustment within the next financial years are as follows:

(i) Provision for impairment of property, plant and equipment and intangible assets: the basis for verification of the necessity (or not) of recognizing a provision; (ii) Measurement of post-employment benefit obligations: main actuarial assumptions; and (iii) Recognition and measurement of provisions for lawsuits: main assumptions on the probability and amount of cash outflows.

c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments, which are easily and readily converted into a known amount of cash.

d) Trade accounts receivable

Trade accounts receivable are non-derivative financial assets with fixed payments that are not quoted in an active market. They are measured initially at the value of the electricity services provided.

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 impairment losses are identified, they will be deducted from this cost.

Income and refunds obtained based on tax exemptions and tax benefits related to the works were recorded during the construction period as a reduction to 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 over the useful life of the assets, because its income is calculated based on liability charges and these expenses are not part of the electricity service cost, as established in Attachment "C" to the Treaty.

f) Impairment of property, plant and equipment and intangible assets

Since ITAIPU does not account for the depreciation of its property, plant and equipment and the amortization of its intangible assets, in addition to having the amortization and financial charges on loans and financing taken to finance the work as a component of the electricity service cost, it uses tariff composition projections (unit cost of electricity service) as a basis to verify the need to recognize a provision for impairment.

The tariff composition projections are prepared annually based on Attachment "C" to the Treaty (see Notes to the Operation Accounts in Attachment I) and are submitted to the Board of Directors of ITAIPU for approval. These projections serve as a basis for preparation of cash flow projections by 2023, which is the scheduled year for the debt repayment and revision of Attachment "C" to the Treaty, through which the recoverability of the carrying amounts of property, plant and equipment and intangible assets relative to future cash flows is assessed.

g) Operating income

Operating income 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.

h) Operating expenses

Operating expenses include operations, 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.

i) Financial income

Financial income includes interest income on cash investments, interest on deposits used as collateral under the Brazilian foreign debt restructuring agreement (Note 9), interest on late payment of electricity bills, discounts obtained, and interest on the agreement signed with the ANDE for the construction of a substation on the right bank (Note 9) and other financial income.

j) Financial expenses

Financial expenses include financial charges on loan and financing agreements (Note 15), net monetary variations that comprise monetary restatement and exchange differences arising from contractual 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.

k) Sundry income/expenses

Sundry income/expenses 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.

l) Post-employment benefits

ITAIPU recognizes its 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 performed by independent qualified actuaries using the projected unit credit method and best estimates for expected rate of investment earnings, salary increases, employee retirement age, employee turnover, mortality, expected costs of 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 for actuarial deficit (Notes 2.iii and 20);
- iii) the present value of obligations of the health care plan, with immediate recognition of all actuarial gains and losses, is fully recognized in the financial statements of ITAIPU, since it is directly sponsored by the Entity, without segregation of assets for the plan, directly in the income (loss) account: provision for post-employment benefits (Notes 2.iii and 20).

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

m) 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. ITAIPU recognizes a provision for this expense in the year in which the employee renders service that entitles him/her 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 conversion criteria described in Note 4.a, to the extent they deviate 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 - %
2016	3.2591	(16.5)	5,774.63	(0.7)
2017	3.3080	1.5	5,600.98	(3.0)

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 2017 and 2016.

Inflation indexes

	<u>Percentage - %</u>	
	<u>2017</u>	<u>2016</u>
Brazil:		
Expanded Consumer Price Index - IPCA Brazilian Institute of Geography and Statistics	2.9	6.3
General Price Index - IGP-DI Getúlio Vargas Foundation	(0.4)	7.2
Paraguay:		
Consumer Price Index - IPC Central Bank of Paraguay	4.5	3.9

6. CASH AND CASH EQUIVALENTS

These include cash at bank and on hand, held in Reais and Guaranis, equivalent to United States Dollars and also those kept in this currency in Paraguayan banks.

	<u>2017</u>	<u>2016</u>
Cash on hand	15	15
Cash at bank	10,629	12,206
Cash investments		
In Brazil		
Caixa Econômica Federal - CDB Flex	345,308	452,381
Banco do Brasil - Fixed-income 25 thousand	104	61
	<u>345,412</u>	<u>452,442</u>
In Paraguay		
Banco Regional	28,144	31,019
Banco Continental	25,782	25,756
Banco Itaú	3,902	7,709
Banco Bilbao Vizcaya Argentaria	2,427	2,485
Banco Bancop	1,012	1,067
Banco Atlas	952	922
Banco Amambay	261	217
Banco Nacional de Fomento	210	32
Sudameris Bank	121	100
Banco do Brasil	93	90
Vision Banco	-	182
	<u>62,904</u>	<u>69,579</u>
	<u>408,316</u>	<u>522,021</u>
TOTAL	<u>418,960</u>	<u>534,242</u>

7. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are 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.

Trade accounts receivable also include 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 Operation 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, disclosed by the Central Banks of Brazil and Paraguay, respectively.

	<u>2017</u>	<u>2016</u>
Centrais Elébricas Brasileiras S.A. - ELETROBRAS	858,366	882,742
Administración Nacional de Electricidad - ANDE	104,192	96,306
	<hr/>	<hr/>
TOTAL	<u>962,558</u>	<u>979,048</u>

At December 31, 2017 and 2016, none of the balances shown in the table above is past due.

Interest is applied to past-due accounts at a rate of 0.5% per month for the first 15 days of delay and of 1% per month after 16 days.

Pursuant to 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 by them.

Since 2003, the acquisition of electricity services from ITAIPU by Brazil is made by Centrais Elébricas Brasileiras S.A. - ELETROBRAS, pursuant to Decree 4,550 of December 27, 2002, which established this company as the sole Trader of ITAIPU's Energy. On Paraguay's behalf, the acquisition of ITAIPU's electricity services is made by Administración Nacional de Electricidad - ANDE.

8. STOREROOM

This comprises the amounts of consumables kept in to support the immediate needs of the business. They are stated at average acquisition cost. The movement of consumables occurs upon the acquisition, transfers between warehouses and removal for use.

9. BONDS RECEIVABLE

	2017	2016
Escrow deposits CT-80/92 (i)	208,164	204,143
Agreement ANDE 5.808/99-Substation MD (ii)	3,274	3,908
Agreement ANDE 5.808/99-Amendment n.2-T5/R5 (ii.a)	9,474	11,043
Agreement ANDE 5.808/99-Amendment n.6-T4/R4 (ii.b)	698	808
Other	2,265	2,530
TOTAL	223,875	222,432
Current	3,240	3,270
Non-current	220,635	219,162

They consist principally 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, disclosed 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 disclosed.

(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 the required funds to finance the facilities contemplated in this agreement and ANDE shall refund ITAIPU for disbursements incurred on the same conditions of the respective loan agreement.

Six amendments were made to this agreement, among which: (ii.a) amendment No. 2, of August 20, 2010, with the purpose of establishing the rules for ANDE to refund ITAIPU for the payments made for 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 the rules for ANDE to refund ITAIPU for the payments made for 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. OTHER ACCOUNTS RECEIVABLE

	<u>2017</u>	<u>2016</u>
Advances to suppliers (i)	29,697	42,436
Restricted deposits (ii)	9,242	14,491
Advances to employees	151	579
Sundry receivables	1,591	2,346
TOTAL	<u>40,681</u>	<u>59,852</u>

- (i) Refer to advances made to suppliers of 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 several 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>2017</u>	<u>2016</u>
Cooperation Agreement ANDE L66kV (ii.a)	6,216	12,790
Cooperation Agreement ANDE L220kV (ii.b)	1,560	-
FINEP Agreement (ii.c)	1,014	17
SESI and SENAI Cooperation Terms (ii.d)	291	244
World Bank Agreement (ii.e)	161	62
FOCEM Agreement (ii.f)	-	1,193
Agreement ANDE T5/R5 (Note 9.ii)	-	185
TOTAL	<u>9,242</u>	<u>14,491</u>

(ii.a) Cooperation Agreement ANDE L66kV

On April 25, 2014, the Cooperation Agreement JEC.JE/055/2014 was entered into between ITAIPU and Administración Nacional de Electricidad - ANDE, with a 36-month term, to establish the obligations and conditions regarding the execution of the following works and 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 future Substation Microcenter in Ciudad del Este.

Up to December 2017, 5 amendments were signed, to expand the scope established in said Agreement, with the inclusion of other related works and extension of the term of the Agreement for a further 18 months.

(ii.b) Cooperation Agreement ANDE L220kV

On June 23, 2017, the Cooperation Agreement JEC.JE/166/2017 was signed between ITAIPU and Administración Nacional de Electricidad - ANDE, for a term of 24 months, to establish the obligations and conditions for the execution of the repowering of two transmission lines at 220kV from the Substation on the Right Bank to the Itakyry Substation.

(ii.c) FINEP Agreement

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.

(ii.d) SESI and SENAI Cooperation Terms

Agreements signed with Brazilian institutions SESI and SENAI for the purpose of allocating part of the funds from social security contribution (INSS) levied on payroll, for use in professional development programs and improvement of worker well-being.

(ii.e) 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.f) FOCEM Agreement

On August 2, 2010, the Funding Agreement was signed with the MERCOSUR Structural Convergence Fund (FOCEM) based on the Decision of the Common Market Council 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.

In June 2017, the Technical Unit of FOCEM issued a report on the final audit of the project, which was approved by the Mercosur Commission of Permanent Representatives.

11. 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 to which ITAIPU is part.

	<u>2017</u>	<u>2016</u>
Brazil	45,196	43,641
Paraguay	<u>3,394</u>	<u>3,430</u>
TOTAL	<u>48,590</u>	<u>47,071</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.

12. RESULTS

This includes the results of ITAIPU as per the statement of income for each year, accumulated up to December 31, 2016 and the profit (loss) for the year ended December 31, 2017.

	<u>2017</u>	<u>2016</u>
Profit (loss) for the prior years	(6,441,140)	(5,271,110)
Profit (loss) for the current year	<u>(1,179,990)</u>	<u>(1,170,030)</u>
TOTAL	<u>(7,621,130)</u>	<u>(6,441,140)</u>

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

Until 2023, the scheduled year for the full repayment of the debt and revision of Attachment "C" to the Treaty, the accumulated amounts in the Results account should be equivalent to the total of property, plant and equipment and intangible assets of the Entity, minus the amount of capital, since, pursuant to 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 the amortization of intangible assets are not accounted for by the Entity (Note 2, item i).

13. PROPERTY, PLANT AND EQUIPMENT

	<u>2017</u>	<u>2016</u>
Property, plant and equipment in service		
Goods and production facilities	16,440,818	16,440,845
Other assets and facilities	753,154	756,893
Movable assets	106,033	98,787
Total property, plant and equipment in service	<u>17,300,005</u>	<u>17,296,525</u>
Construction in progress		
Sundry property, plant and equipment	168,894	150,643
Advances for movable assets	32	2,649
Technical reserve	50,953	50,827
Total construction in progress	<u>219,879</u>	<u>204,119</u>
 TOTAL PROPERTY, PLANT AND EQUIPMENT	 <u><u>17,519,884</u></u>	 <u><u>17,500,644</u></u>

Property, Plant and Equipment in service, equivalent to 98.7% and 98.8% of total property, plant and equipment in 2017 and 2016, 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.

Construction in progress, equivalent to 1.0% and 0.9% of total property, plant and equipment in 2017 and 2016, respectively, refers to investments in small works on facilities and replacement of equipment, which are stated at historical acquisition cost. These investments are spread over different assets and there is no concentration in any specific asset.

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.

Property, plant and equipment are stated at historical cost, since ITAIPU does not account for depreciation, has its revenue calculated based on liability charges and these expenses are not part of the electricity service cost, as established in Attachment "C" to the Treaty (Notes 4.e and 12).

In 2017 and 2016, it was not necessary to record a provision for impairment for property, plant and equipment (Note 4.f).

Net changes in property, plant and equipment were US\$ 19,240 and US\$ 26,204 in 2017 and 2016, respectively, as follows:

	<u>2017</u>	<u>2016</u>
Property, plant and equipment in the period		
Sundry property, plant and equipment	19,813	17,767
Movable assets	12,112	10,238
	<u>31,925</u>	<u>28,005</u>
Economic increases (decreases)		
Technical reserve	126	1,316
Financial charges	880	631
Write-off of property, plant and equipment	(13,691)	(3,748)
	<u>(12,685)</u>	<u>(1,801)</u>
Changes in property, plant and equipment	<u>19,240</u>	<u>26,204</u>

Write-off of property, plant and equipment as shown in the table above refer to donations for social and public interest purposes, unserviceable items, sale of movable assets and building materials from demolition sites, and the disposal of properties of housing complexes on both banks.

14. INTANGIBLE ASSETS

This account records expenses for acquisition of intangible assets for the operation, maintenance and management of the Entity.

	<u>2017</u>	<u>2016</u>
Software	32,887	30,086
Right of use of easement strip	<u>69</u>	<u>69</u>
TOTAL	<u>32,956</u>	<u>30,155</u>

As described in Notes 4.e. and 12, ITAIPU does not account for the amortization of its intangible assets. In 2017 and 2016, it was not necessary to record a provision for impairment for intangible assets (Note 4.f).

15. LOANS AND FINANCING

Loans and financing in United States Dollars and other currencies, as shown in the table below, are properly adjusted for accrued interest and other financial charges, according to the contractual terms.

Curren cy (3)	Interest rate	Agreeme nt amount Total	Debt				Amortization period		
			2017		2016		Start	End	Installment
			Short-term	Long-term	Short-term	Long-term			
I - ELETROBRAS									
ECF - 1480/97									
Tranche B - Principal	US\$ 7,50	10.250.481	477.123	1.667.055	432.464	2.315.769	2001	2023	Monthly
Tranche C - Principal	US\$ 4,10	1.780.955	54.147	252.204	51.925	306.351	2007	2023	Monthly
ECF - 1627/97									
Principal	US\$ 7,50	181.577	9.931	41.380	9.931	51.311	1998	2023	Monthly
ECF - 1628/97									
Principal	US\$ 7,50	211.116	20.850	86.876	20.850	107.726	2007	2023	Monthly
CT - 2686/08									
Principal	US\$ 7,50 ⁽⁴⁾	22.343	1.701	5.104	1.702	6.806	2012	2021	Monthly
			563.752	2.052.619	516.872	2.787.963			
II - BRAZILIAN NATIONAL TREASURY									
CT-80/92									
External Debt Restructuring (DMLP)	US\$ (2)(6)	918.235	1.934	243.369	1.766	243.369	1997	2023	Semi-annual
CT-424/TN									
Eletrobras Assignment (ECF-1480/97)									
Tranche B - Principal	US\$ 7,50	-	234.812	1.180.003	218.555	1.414.823	2001	2023	Monthly
Tranche C - Principal	US\$ 4,10	-	58.547	270.396	56.269	328.943	2007	2023	Monthly
CT-425/TN									
Eletrobras Assignment (ECF-1480/97)									
Tranche B - Principal	US\$ 7,50	-	519.810	2.607.154	483.789	3.127.457	2001	2023	Monthly
Tranche C - Principal	US\$ 4,10	-	129.542	598.288	124.501	727.830	2007	2023	Monthly
			944.645	4.899.210	884.880	5.842.422			
III - OTHER AGREEMENTS									
FIBRA - Fundação Itaipu BR de Previdência e Assistência Social									
CT - 7218/03 ⁽¹⁾	R\$ 6,00 ⁽⁵⁾	73.911	3.490	16.944	3.278	20.345	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	1.682	7.792	1.585	9.643	2012	2022	Monthly
PIB 2011-10-0001 - Repowering T1/R1, T2/R2, T3/R3 E TX/RX	US\$ 8,00	5.000	561	1.969	520	2.530	2012	2021	Monthly
PIB 2011-10-0002 - Sectioning L3 and L4 500kV	US\$ 8,00	42.000	4.259	20.226	3.943	24.485	2013	2022	Monthly
PIB 2011-10-0003 - Environment MD	US\$ 8,00	12.000	1.500	6.430	1.389	7.929	2013	2022	Monthly
PIB 2012-10-0001 - Repowering T4/R4	US\$ 8,00	1.132	119	579	110	698	2013	2022	Monthly
			8.121	36.996	7.547	45.285			
Other Lenders									
Banco Bilbao V. A. S.A. - Banco de Baterías - SEMD	US\$ 4,05	1.800	300	-	600	300	2015	2018	Monthly
Banco Continental S.A.E.C.A. - ITAIPU Preserva MD	US\$ 6,00	11.500	1.917	7.506	327	3.273	2016	2022	Monthly
Banco Bilbao V. A. S.A.- Estudio Actual. Tec. UHI	US\$ 5,75	4.537	825	3.300	1.917	9.424	2017	2022	Monthly
			3.042	10.806	2.844	12.997			
TOTAL LOANS AND FINANCING			1.523.050	7.016.575	1.415.421	8.709.012			

(1) The total amount of the agreement converted at the exchange rate in effect and updated at the closing rate for the period is US\$ 22.343.

(2) Interest rates
6-month Libor + Spread, 6.00

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

(4) In addition to the interest rate, the agreement establishes the payment of a management fee and credit reserve commission.

(5) In addition to the interest rate, the agreement establishes the adjustment of the balance owed based on the National Consumer Price Index (INPC), which

(6) In addition to the interest rate, the agreement establishes a commission rate.

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

The High Contracting Parties, either jointly or individually, directly or indirectly, as agreed, will provide ITAIPU, upon its request, with guarantees for the loan 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 all past-due and current debts of ITAIPU under financing agreements with ELETROBRAS.

ELETROBRAS Financing Agreement ECF-1627/97
Financing of the cost of remaining investments of the Works Completion Plan (PCO).

ELETROBRAS Financing Agreement ECF-1628/97
Financing of the 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 loan agreements with external creditors.

This agreement provides for cash guarantee to secure the principal of the loan, as mentioned in Note 9.

Agreement CT 424/TN and Agreement CT 425/TN
These agreements were signed between ELETROBRAS and the Brazilian National Treasury on December 29, 1998, establishing the assignment of part of the receivables held by ELETROBRAS from ITAIPU under agreement ECF-1480/97 signed between ITAIPU and ELETROBRAS.

Based on these receivables assignment agreements, ITAIPU transfers directly to the Brazilian National Treasury part of the amounts due to ELETROBRAS under agreement ECF-1480/97, in accordance with the flow of transfers 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 Bank for Economic and Social Development (BNDES) part of the receivables held against ITAIPU arising from agreements No. 424/TN and 425/TN, in the amount equivalent to US\$ 3,851,826. The flow of transfers will start in 2020.

III -Other agreements

Agreement CT-7218/03

This agreement was signed with FIBRA, arising from Board of Directors' Resolution RCA-010/03, of September 5, 2003, which revoked the grant of property in partial settlement of debts owed by ITAIPU to FIBRA, relating to the period from 1989 to 1992, which had been approved by Board of Directors' Resolution RCA- 004/93, of January 11, 1993.

Agreements with CAJUBI and other lenders

Related to specific projects as per each agreement in the table above.

The annual amortization schedule for long-term loans and financing with ELETROBRAS, the Brazilian National Treasury and other institutions is as follows:

<u>Year</u>	
2019	1,622,501
2020	1,731,476
2021	1,848,677
2022	1,340,655
2023	<u>473,266</u>
TOTAL	<u>7,016,575</u>

In 2017, with authorization of the Board of Directors of ITAIPU and prior consent of ELETROBRAS, an extraordinary payment of US\$ 170,000 was made under Financing Agreement ECF-1480/97-tranche B.

Debt service payments were as follows:

Lenders	2017	2016
Eletrobras		
Principal	688,463	485,919
Interest	210,425	246,001
	898,888	731,920
Brazilian National Treasury		
Eletrobras Receivables Assignment		
Principal	883,616	827,636
Interest	403,392	459,628
	1,287,008	1,287,264
Brazilian National Treasury		
External Debt Restructuring		
Principal	-	-
Interest	9,134	8,143
	9,134	8,143
Fibra		
Principal	3,394	2,852
Interest	2,060	2,040
	5,454	4,892
Cajubi		
Principal	7,716	6,988
Interest	3,808	4,375
	11,524	11,363
Other lenders		
Principal	2,929	1,034
Interest	880	636
	3,809	1,670
Total		
Principal	1,586,118	1,324,429
Interest	629,699	720,823
	2,215,817	2,045,252

There are neither overdue debt installments nor covenants linked to the financial results of the Entity or which may establish new obligations that impact 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 ITAIPU Treaty, its Attachments and respective diplomatic notes.

	2017			2016		
	Principal	Dollar adjustm ent	Total	Principal	Dollar adjustm ent	Total
Paraguayan Government						
Royalties (i)	11,946	145,811	157,757	11,471	144,705	156,176
Remuneration for electricity assignment (ii)	28,934	201,810	230,744	39,229	221,066	260,295
Subtotal	40,880	347,621	388,501	50,700	365,771	416,471
Brazilian Government						
Royalties (i)	23,347	157,101	180,448	22,178	154,553	176,731
Subtotal	23,347	157,101	180,448	22,178	154,553	176,731
Administración Nacional de Electricidad - ANDE						
Reimbursement of management and supervision charges (iii)	1,796	12,085	13,881	1,706	11,889	13,595
Return on capital (iv)	6,000	18,177	24,177	6,000	17,407	23,407
Subtotal	7,796	30,262	38,058	7,706	29,296	37,002
Centrais Elétricas Brasileiras S.A. - ELETROBRAS						
Reimbursement of management and supervision charges (iii)	1,796	12,085	13,881	1,706	11,889	13,595
Return on capital (iv)	6,000	18,177	24,177	6,000	17,407	23,407
Subtotal	7,796	30,262	38,058	7,706	29,296	37,002
TOTAL	79,819	565,246	645,065	88,290	578,916	667,206

- (i) Royalties: Compensation due to the High Contracting Parties for the hydroelectric utilization of water resources of the Paraná River.
- (ii) Remuneration for electricity assignment: Amount due to the Paraguayan Government related to the assignment of rights to a portion of energy attributable to it.
- (iii) Reimbursement of management and supervision charges: Amount due to the Parties as refund of management and supervision charges related to ITAIPU.
- (iv) Return on the capital: Remuneration paid to the Parties on the invested capital.

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

At December 31, 2017, none of the amounts shown in the table above is past due. At December 31, 2016, out of the balance of US\$ 260,295 of remuneration for electricity assignment owed to the Paraguayan Government, US\$ 18,711 was past due.

Interest is applied to past-due accounts at a rate of 0.5% per month for the first 15 days of delay and of 1% per month after 16 days.

Part of the royalties owed to Paraguay maturing in January 2018, in the amount of US\$ 22,691, was paid early by ITAIPU in December 2017. Also, obligations of US\$ 20,555 due in January 2017 were paid early in December 2016.

The dollar adjustments on 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 dollar adjustments on return on capital generated in the year, attributable to ELETROBRAS and ANDE, are paid in a lump sum 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 owed by ELETROBRAS and ANDE to ITAIPU and can be paid early if there is available cash.

17. SUPPLIERS

This account records obligations arising from the purchase of goods or outside services necessary for the operation of the business and development of social and environmental actions.

18. SALARIES AND SOCIAL CHARGES

	<u>2017</u>	<u>2016</u>
Provision for vacation and social security charges	40,183	30,668
Provision for profit sharing	30,329	29,141
Supplementary pension funds	9,141	8,407
Payroll charges payable	7,431	6,049
Other	10,997	4,884
TOTAL	<u>98,081</u>	<u>79,149</u>

19. LABOR INDEMNITIES

	<u>2017</u>	<u>2016</u>
Permanent voluntary redundancy program (i)	74,978	77,906
Indemnity for length of service (ii)	242,968	213,902
TOTAL	<u>317,946</u>	<u>291,808</u>
Current	<u>50,242</u>	<u>50,406</u>
Non-current	<u>267,704</u>	<u>241,402</u>

Labor indemnities comprise the amounts of 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 redundancy program (PPDV)

Program through which ITAIPU's employees hired in Brazil agree to leave the Entity in exchange for a financial incentive, in accordance with the provisions set forth in the regulation of the program, approved by Executive Board's Resolution RDE-183/2007 and respective clause of the Collective Bargaining Agreements.

Employees who have been at ITAIPU for nine years or more can participate in the program, terminating employment by mutual agreement with the employer in accordance with the conditions specified in the program regulation.

The payout under the program consists of the statutory pay established by the Brazilian labor legislation plus an extra calculated based on the number of years working at ITAIPU.

The statutory pay is due to all employees hired in Brazil, regardless of their length of employment with the Entity, but only the amounts due to employees who are eligible to participate in the 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 Entity, except in case of termination for cause, according to the following rule:

- a) For employees having less than nine years of service, 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 services, employees shall be entitled to twice the indemnity set forth in the previous paragraph.

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

20. POST-EMPLOYMENT BENEFITS

ITAIPU, as the sponsor, offers its employees a retirement and pension plan 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 4,367 and its Regulation, approved by ITAIPU's Board of Directors' Resolution RCA-041/87, was last updated on January 7, 2011, through ITAIPU's Board of Directors' Resolution RCA-038/10, of October 22, 2010.

CAJUBI was created by Law 1,361/88, of December 19, 1988, and its Regulation, approved by ITAIPU's Board of Directors' Resolution RCA-039/09, was last updated on December 14, 2012, through ITAIPU's Board of Directors' Resolution RCA-047/12.

The retirement and pension plans of both FIBRA and CAJUBI have 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 sufficient funds to cover current and future benefit obligations.

The retirement and pension plan benefits are as follows:

- i) Employees hired in Brazil:
 - a) Retirement supplement due to length of contribution, disability and age;
 - b) Special retirement supplement;
 - c) Reclusion aid;
 - d) Pension supplement;
 - e) Special temporary death benefit;
 - f) Funeral assistance for the death of the beneficiary; and
 - g) Annual allowance supplement.

ii) Employees hired in Paraguay:

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

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

To fund the benefits of the plans, the sponsor's regular contribution rate is 15% for the plan managed by FIBRA and 21.32% 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 from both FIBRA and CAJUBI contribute with a rate of 10% of their benefits. In the case of CAJUBI, pensioners also contribute with a rate of 10% of their benefits.

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

Since 2003, ITAIPU adopts the accounting practice of recording liabilities arising from post-employment benefits related to the health care plan and, as from 2009, related to the retirement and pension plan. For this purpose, ITAIPU engages qualified actuaries that prepare reports based on the applicable accounting standards for both plans.

The post-employment benefit obligations recorded in the financial statements of ITAIPU are as follows:

	BRAZIL		PARAGUAY		TOTAL	
	2017	2016	2017	2016	2017	2016
Obligations recorded on the balance sheet - long-term						
Retirement plan benefits	94,674	65,822	678,201	578,823	772,875	644,645
Health care plan benefits	366,181	389,921	496,147	437,760	862,328	827,681
	460,855	455,743	1,174,348	1,016,583	1,635,203	1,472,326
Provisions recognized in the statement of income for the years						
Retirement plan benefits	(29,825)	(65,822)	(79,795)	20,290	(109,620)	(45,532)
Health care plan benefits	17,977	(99,764)	(44,815)	(135,888)	(26,838)	(235,652)
	(11,848)	(165,586)	(124,610)	(115,598)	(136,458)	(281,184)

The following assumptions were used in the annual assessment of post-employment benefits:

	BRAZIL		PARAGUAY	
	2017	2016	2017	2016
<u>GENERAL DATA</u>				
Active participants	1,409	1,422	1,738	1,673
Retired participants	1,548	1,492	1,454	1,388
Pensioners	247	236	352	333
<u>ECONOMIC ASSUMPTIONS</u>				
Actual discount rate (p.a.) - pension plan	5.45%	5.77%	5.51%	5.72%
Actual discount rate (p.a.) - health care plan	5.45%	5.77%	5.51%	5.72%
Expected rate of return on plan assets (p.a.)	10.64%	10.85%	9.76%	10.36%
Actual rate of salary increases (p.a.)	2.54%	2.45%	1.95%	1.95%
Actual rate of growth in costs (p.a.)	2.00%	2.50%	2.00%	2.00%
Inflation	4.92%	4.80%	4.03%	4.40%
Benefits capacity factor	97.37%	97.43%	97.83%	97.61%

	BRAZIL		PARAGUAY	
	2017	2016	2017	2016
<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%	0.12%	0.50%	0.50%

a) Pension plan

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

DESCRIPTION	FIBRA		CAJUBI	
	2017	2016	2017	2016
Fair value of plan assets	1,082,845	1,025,219	358,158	329,258
Present value of obligations	(1,197,953)	(1,114,665)	(1,081,476)	(960,913)
Actuarial (deficit) surplus	(115,108)	(89,446)	(723,318)	(631,655)

An accounting provision was recognized in 2009 for the total amount of the actuarial deficit of the pension plan managed by CAJUBI and in 2016 for the plan managed by FIBRA. These provisions are adjusted annually based on the actuarial reports and are recorded excluding the obligation already recognized by ITAIPU in its financial statements for loans and debts with the entities, in the amount of US\$ 20,434 for FIBRA and US\$ 45,117 for CAJUBI in 2017, US\$ 23,623 for FIBRA and US\$ 52,832 for CAJUBI in 2016, as described in Note 15, since these balances owed are deducted from the fair value of plan assets in the actuarial reports.

The sponsor and active and retired participants have the responsibility for ensuring the financial and actuarial equilibrium of the retirement and pension plans. Both plans have legal provisions (Article 62 of FIBRA's charter and Articles 94 and 95 of CAJUBI's organization law) that require, as a mechanism for preserving the actuarial equilibrium, ordinary actuarial reviews once a year and extraordinary actuarial review whenever the Board so determines. Any contributions resulting from the review established in those articles, subject to the prior approval of the Executive Board and the Board of Directors of ITAIPU, shall be made through changes in the participant's and sponsor's contribution rate.

To ensure sustainability and convergence of the plans in both margins, the Board of Directors, by Board of Directors' Resolution RCA-007/16 of February 26, 2016, approved the guidelines for the project of settlement of pension plans in effect at ITAIPU and the creation of new plans. This Resolution also gives the Entity's Executive Board the power to modify the approved guidelines as necessary based on specialized technical studies for submission to the Board of Directors.

Through RDE-128/17, the Binational Working Group was formed to coordinate and engage consulting services for the project. The service was contracted out to Consortium MIRADOR ATUARIAL/ATEST, with service start on October 9, 2017 pursuant to chapter XXV, Clause 61 of agreement 4500045211. Evaluation, planning and definition of the strategy for settlement of the pension plans and creation of new plans are being carried out.

b) Health care plan

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

DESCRIPTION	BRAZIL		PARAGUAY	
	2017	2016	2017	2016
Fair value of plan assets	-	-	-	-
Present value of obligations				
overdue rights	276,214	284,140	369,423	321,242
current rights	89,967	105,781	126,724	116,518
	366,181	389,921	496,147	437,760
Unrecognized gains (losses)	-	-	-	-
Recorded actuarial liability	366,181	389,921	496,147	437,760

The actuarial liabilities related to the health care plan are fully recognized in liabilities of the sponsor ITAIPU since there are no segregated assets in the plan. At each year-end, these amounts are restated based on actuarial reports.

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

	Liability amount 2017		Impact	
			Projected scenarios	
			0.5% increase	0.5% decrease
	Discount rate used			
Private pension plan - Brazil	5.45%	(94,674)	68,085	(75,609)
Private pension plan - Paraguay	5.51%	(678,201)	53,702	(59,195)
Health care plan - Brazil	5.45%	(366,181)	23,721	(26,601)
Health care plan - Paraguay	5.51%	(496,147)	30,023	(33,367)

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

- i) For lawsuits in which an unfavorable outcome is probable, provisions are recognized;
- ii) For lawsuits involving risks of loss classified as possible, no provision is recognized but related information is disclosed in the notes to the financial statements; and
- iii) For lawsuits in which the risk of loss is remote, neither a provision nor a disclosure is required.

The provisions for lawsuits are recognized at periodically updated amounts, as 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 determine reliably the timing of the settlement of lawsuits at the date of preparation of the financial statements, since they are contingent upon the progress through several judicial levels.

	2017			2016		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Current						
Tax	23,601	-	23,601	30,335	-	30,335
Commercial	1	41	42	7,851	18	7,869
Labor	37,981	3,476	41,457	34,247	2,478	36,725
	61,583	3,517	65,100	72,433	2,496	74,929
Non-current						
Tax	7,191	-	7,191	7,932	-	7,932
Civil	3	-	3	346	-	346
Commercial	154,899	336	155,235	38,802	326	39,128
Labor	5,377	7,936	13,313	9,611	7,827	17,438
	167,470	8,272	175,742	56,691	8,153	64,844
Total	229.053	11.789	240.842	129.124	10.649	139.773

The table below presents a summary of changes in the book balances of lawsuits:

	Tax	Civil	Commercial	Labor	Total
Balance at 12/31/2016	38,267	346	46,997	54,163	139,773
Brazil					
(+) Additions	7,382	315	153,950	8,215	169,862
(-) Write-offs /					
Reversals	(14,803)	(673)	(40,896)	(8,196)	(64,568)
Exchange variation	(54)	15	(4,807)	(519)	(5,365)
Paraguay					
(+) Additions	-	-	22	3,048	3,070
(-) Write-offs /					
Reversals	-	-	-	(2,252)	(2,252)
Exchange variation	-	-	11	311	322
Balance at 12/31/2017	30,792	3	155,277	54,770	240,842

Ongoing lawsuits in Brazil and Paraguay involving risks of loss classified as possible, for which no provision was recognized, are shown in the table below:

	2017			2016		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Tax	4,555	-	4,555	4,831	-	4,831
Civil	118	289	407	75	281	356
Commercial	10,708	4,508	15,216	168,778	5,733	174,511
Labor	676	16,230	16,906	-	14,408	14,408
Environmental	-	24	24	3,069	25	3,094
Total	16,057	21,051	37,108	176,753	20,447	197,200

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

i) Tax proceedings

Of the forty-five (45) tax proceedings in progress in Brazil (particularly resulting from administrative proceedings and tax collection procedures), in which ITAIPU is the defendant, the main proceedings relate to assessments for payment of social security tax on payroll amounts, profit sharing, education expenses, compensation paid to non-employee officers, salary bonuses, housing aid, all under administrative discussion (PAF). In 2017, there were changes in some proceedings that resulted in a reversal of part of recorded provisions.

There are no tax proceedings in progress in Paraguay.

ii) Civil lawsuits

Of the fifty-one (51) civil lawsuits in progress in Brazil (mostly resulting from PAMHO and administrative proceedings), in which ITAIPU is the defendant, the main actions relate to disputes about benefits of the ITAIPU's healthcare self-management plan (PAMHO), selection processes, FIBRA, assessments by the National Health Agency (ANS) for the management of PAMHO and indemnity actions/collection lawsuits.

The twenty-six (26) civil lawsuits in progress in Paraguay are related 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 can proceed under both civil and commercial law.

iii) Commercial lawsuits

Of the seventy-eight (78) commercial lawsuits in progress in Brazil, there are nine (9) in particular that stand out, which are indemnity actions filed by companies that had contracts with ITAIPU during the period of construction of the Power Plant. The other lawsuits are related to competitive bidding processes, claims for recovery of the financial and economic equilibrium of contract, breach of contracts, collection of default or compensatory fines, or also indemnity claims related to the image of ITAIPU and its officers. In 2017, there were changes in some lawsuits that resulted in changes in provision amounts, particularly two lawsuits on the order of US\$ 140,000, whose risk of loss was reclassified from possible to probable because of a final judgment of conviction passed by the appellate court on September 8, 2017.

Of the twenty-seven (27) commercial lawsuits in progress in Paraguay, the majority were filed by companies and contractors seeking damages for breach of contracts.

iv) Labor lawsuits

Of the five hundred and twelve (512) labor lawsuits in progress in Brazil, the majority were filed by employees of contractors or with any type of relationship with ITAIPU, usually claiming the joint liability of ITAIPU for the payment of salary amounts that are the responsibility of the plaintiffs' employers. There is also a significant number of labor claims filed by ITAIPU's former employees, seeking salary adjustment, pay equity, difference/payment of risk exposure premium, overtime pay, acknowledgement of employment relationship in periods of work provided by outsourced companies, and effects on the permanent voluntary redundancy program (PPDV) and on the annual supplementary bonus. Of the total, twelve (12) are class actions filed by labor unions. In 2017, there were changes in some lawsuits that resulted in a reversal of part of the provisions.

Of the two hundred and fifty (250) labor lawsuits in progress in Paraguay, the main proceedings are related to 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

The ninety-one (91) environmental lawsuits in progress in Brazil include actions filed against ITAIPU seeking, in summary, payment of indemnification and/or imposition of obligations due to alleged losses caused by the formation of ITAIPU's reservoir and its operation. The majority were filed by bordering farmers alleging losses on 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 resulting from the lowering of the reservoir level in the drought season.

Of the five (5) environmental lawsuits in progress in Paraguay, the majority are related to allegations of 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>2017</u>	<u>2016</u>
Agreements (i)	5,132	13,001
Contractual retentions	3,114	3,467
Sundry creditors	2,306	2,787
	<u>10,552</u>	<u>19,255</u>
TOTAL	10,552	19,255
Current	8,250	16,776
Non-current	2,302	2,479

- (i) This account comprises balances of appeals that are pending execution by ITAIPU, linked to Agreements and Cooperation Terms entered into with several bodies (Note 10).

23. CAPITAL

According to the provisions of the Treaty and its Attachment "A" - Statute, the capital of ITAIPU, equivalent to US\$ 100,000, mandatorily constant since August 13, 1973, the date of exchange of the Instrument of Ratification of the Treaty, belongs in equal and non-transferable amounts to Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.

24. OPERATING INCOME

Operating income comprises revenue 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 on the conditions of the respective agreements for purchase and sale of electricity services.

This power is billed based on the tariff defined at ITAIPU as the unit cost of electricity service, calculated based on Attachment "C" to the Treaty, under the main assumption 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 (see Attachment I - Notes to the Statement of Operation 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 (see Attachment I - Notes to the Statement of Operation Accounts) related to non-bound energy, which is billed to each purchasing entity according to its consumption.

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

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

In 2017 and 2016, income arising from the billing of supply of power totaled US\$ 3,291,012, which corresponds to the billing of 145,620 MW of power, at the tariff of US\$ 22.60 per kW of monthly supply of power.

Bound energy totaled 75.1 million MWh in 2017 versus 75.3 million MWh in 2016, since 2016 is a leap year.

Total energy supplied to the purchasing entities in 2017 was 95.7 million MWh and 102.3 million MWh in 2016. It should be noted that in 2016 ITAIPU exceeded its historical record in electricity production, as mentioned in Note 1.

	2017			2016		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Supply of power	2,942,912	348,100	3,291,012	2,942,270	348,742	3,291,012
Remuneration for electricity assignment	329,392	-	329,392	368,455	-	368,455
Royalties and reimbursement of costs - non-bound energy	87,405	32,705	120,110	133,203	18,829	152,032
Total	3,359,709	380,805	3,740,514	3,443,928	367,571	3,811,499
Billed power - MW	130,217	15,403	145,620	130,189	15,431	145,620
Bound energy - MWh	67,284,307	7,850,213	75,134,520	67,459,791	7,880,577	75,340,368
Supplied energy - MWh	82,227,907	13,454,277	95,682,184	91,107,592	11,227,393	102,334,985

25. OPERATING EXPENSES - REMUNERATION AND REIMBURSEMENTS

These include remuneration and reimbursements as set forth in Attachment "C" to the Treaty and respective Diplomatic Notes (See Note 16 and Attachment I - Notes to the Statement of Operation Accounts), relating to 2017 and 2016, payable to the High Contracting Parties - royalties and remuneration for electricity assignment, and to the Parties ELETROBRAS and ANDE - return on capital and reimbursement of management and supervision charges.

	2017			2016		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Return on capital						
Principal	(6,000)	(6,000)	(12,000)	(6,000)	(6,000)	(12,000)
Dollar adjustment	(18,230)	(18,230)	(36,460)	(17,358)	(17,358)	(34,716)
Subtotal	(24,230)	(24,230)	(48,460)	(23,358)	(23,358)	(46,716)
Royalties						
Principal	(124,387)	(124,387)	(248,774)	(133,036)	(133,036)	(266,072)
Dollar adjustment	(135,146)	(135,146)	(270,292)	(134,330)	(134,330)	(268,660)
Subtotal	(259,533)	(259,533)	(519,066)	(267,366)	(267,366)	(534,732)
Reimbursement of management and supervision charges						
Principal	(9,568)	(9,568)	(19,136)	(10,234)	(10,234)	(20,468)
Dollar adjustment	(10,397)	(10,397)	(20,794)	(10,333)	(10,333)	(20,666)
Subtotal	(19,965)	(19,965)	(39,930)	(20,567)	(20,567)	(41,134)
Remuneration for electricity assignment						
Principal	-	(157,835)	(157,835)	-	(183,325)	(183,325)
Dollar adjustment	-	(171,557)	(171,557)	-	(185,130)	(185,130)
Subtotal	-	(329,392)	(329,392)	-	(368,455)	(368,455)
Total	(303,728)	(633,120)	(936,848)	(311,291)	(679,746)	(991,037)

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 costs of social and environmental programs. ITAIPU's social and environmental actions focus on environmental preservation and/or conservation, infrastructure improvement, public health, income creation, education, protection and respect for human rights.

	<u>2017</u>	<u>2016</u>
Personnel		
Compensation	(250,470)	(231,777)
Benefits	(145,736)	(131,184)
Social charges	(39,917)	(35,635)
Indemnities (Note 19)	(41,252)	(56,867)
(Recognition) of provisions and reversals	(34,881)	(40,547)
	<u>(512,256)</u>	<u>(496,010)</u>
Materials		
Consumables	(16,681)	(15,552)
Materials used in social and environmental actions	(1,117)	(583)
	<u>(17,798)</u>	<u>(16,135)</u>
Outsourced services		
Services for social and environmental actions	(61,142)	(27,770)
Maintenance	(12,868)	(13,998)
Consulting and audit	(4,631)	(6,168)
Insurance	(3,857)	(3,699)
Other outsourced services	(45,539)	(42,421)
	<u>(128,037)</u>	<u>(94,056)</u>
Provisions - (Recognition) / reversals		
For pension and health care plans (Note 20)	(136,458)	(281,184)
For lawsuits (Note 21)	(106,112)	7,715
	<u>(242,570)</u>	<u>(273,469)</u>
Other		
Agreements and financial contributions	(90,714)	(70,217)
Other expenses	(28,915)	(28,146)
	<u>(119,629)</u>	<u>(98,363)</u>
TOTAL	<u>(1,020,290)</u>	<u>(978,033)</u>
Reconciliation - Expenses by function		
Operations, maintenance and management	(868,483)	(874,415)
Social and environmental responsibility programs	(151,807)	(103,618)
	<u>(1,020,290)</u>	<u>(978,033)</u>

27. OTHER INCOME (EXPENSES)

Other income or expenses refer to income or expense from the sale of scrap and unserviceable equipment, real estate occupancy rates, contractual fines, write-offs of assets, bank expenses, discounts granted and other, as shown below:

	<u>2017</u>	<u>2016</u>
Sundry income		
Disposals	649	865
Real estate occupancy rates	1,039	1,985
Interest, contractual fines and other	1,229	960
	<u>2,917</u>	<u>3,810</u>
Sundry expenses		
Write-off of goods and facilities	(13,691)	(3,748)
Discounts granted	(34)	-
Fines	(3)	(9)
	<u>(13,728)</u>	<u>(3,757)</u>
	<u>(10,811)</u>	<u>53</u>

28. FINANCIAL RESULT

	<u>2017</u>	<u>2016</u>
Financial income		
Interest income on cash investments (Notes 6 and 30)	57,868	59,142
Interest on judicial deposits (Note 11)	2,155	3,040
Late fees on bills (Note 7)	271	4,759
Other financial income	290	329
	<u>60,584</u>	<u>67,270</u>
Financial expenses		
Financial charges on loans and financing (Note 15)	(628,126)	(719,360)
Monetary variations (Note 28.1)	(24,850)	(15,772)
Late fees on remuneration and reimbursements (Note 16)	(74)	(4,544)
Other financial expenses	(109)	(46)
	<u>(653,159)</u>	<u>(739,722)</u>
	<u>(592,575)</u>	<u>(672,452)</u>

28.1 FINANCIAL EXPENSES - MONETARY VARIATIONS

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

Monetary variations arising from foreign exchange rate oscillations are accounted for in assets and liabilities, according to the account of the principal transaction, and in specific income statement accounts, as follows:

	<u>2017</u>	<u>2016</u>
Loans and financing		
FIBRA	<u>(205)</u>	<u>(5,711)</u>
Other exchange variations		
Current assets	972	67,504
Non-current assets	(613)	(1,211)
Current liabilities	(1,497)	(13,936)
Non-current liabilities	<u>(23,507)</u>	<u>(62,418)</u>
	<u>(24,645)</u>	<u>(10,061)</u>
	<u>(24,850)</u>	<u>(15,772)</u>

29. INSURANCE

The main items of 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 covers the following risks:

- a) All risks insurance for all assets installed in the Hydroelectric Power Plant, with the sum insured of US\$ 2,360,495.
- b) Operating civil liability insurance for the Hydroelectric Power Plant, with the sum insured of US\$ 20,000.

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

Insurance lines	Coverages
i) Fire	US\$ 205,864
ii) Vehicles	Civil liability and hull US\$ 102,340
iii) Personal accident - tourists	Death, disability, medical and hospital expenses.
iv) Directors and Officers liability - D&O	US\$ 10,000
v) Aircraft	US\$ 9,686
vi) Group life	For the employee: 30 basic salaries, limited to the 15 highest salaries of ITAIPU. For the spouse: 50% of the coverage, limited to the 5 highest salaries.

30. FINANCIAL RISK MANAGEMENT

1. Financial risk factors

ITAIPU's activities expose it to a variety of financial risks, which are managed by the financial department under policies approved internally and that are in accordance with the ITAIPU Treaty and respective Attachments.

a) Market risk

(i) Foreign exchange risk

ITAIPU has loan and financing agreements, commitments to pay royalties, return on capital and reimbursement for management and supervision charges in United States dollars.

The management of this foreign exchange risk is set forth in Attachment "C" to the ITAIPU Treaty, which establishes that the annual revenue from the provision of electricity services shall consider the cost of service established in the same document. This cost is made up of the items mentioned in the preceding 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 interest rate risk

The interest rate risk arising from loans 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.

All of the Entity's cash investments are fixed-income and low-risk in order to maximize returns over time, reduce risks (in case of a private financial institution) and ensure the required liquidity, according to internal rules and procedures.

b) Credit risk

Credit risk arises mainly from cash and cash equivalents. The credit exposure to customers ELETROBRAS and ANDE is considered low. ITAIPU maintains accounts preferably in official financial institutions of both countries, according to the rule in force. The choice of private financial institutions may be submitted to the approval of the Executive Board, with justification provided by the Financial Director based on the respective margin, including, among others, credit risk analysis by a renowned credit rating agency, analysis of shareholders' equity (compared to other financial institutions of the country), solvency, liquidity and the basket of products and services offered. For private banks in Paraguay, it is necessary to have an AApy/AApy (or equivalent) rating and, in Brazil, an investment grade rating.

c) Liquidity risk

Cash flow forecasting is performed by the financial department which monitors rolling forecasts of the Entity's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Surplus cash obtained during the year is invested in short-term investments, choosing instruments with appropriate maturities or sufficient liquidity to provide adequate margin to meet financial commitments.

The table below analyzes the Entity's undiscounted financial liabilities:

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
At December 31, 2017				
Loans and financing	2,039,620	2,035,348	5,470,879	241,597
Remuneration and reimbursements	645,065	-	-	-
Suppliers	43,056	-	-	-
At 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	-	-	-

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 contractual rates versus market rates. ITAIPU does not make any speculative investments in derivatives or any other risk assets.

In 2017 and 2016, cash investments were contracted in Brazilian reais, in Brazil, and in guaranis and dollars, in Paraguay. The effective weighted average yield obtained in Brazil was 10.11% and 14.31% p.a., and all investments provide daily liquidity and yield credit. In Paraguay: a) the weighted average yield of investments in guaranis was 3.75% and 3.87% p.a., also with daily liquidity, yield credit as contracted with each bank and simple interest. Cash investments (CDAs) were also made in guaranis with yield of 5.52% and 6.25% p.a.; b) investments in dollars had weighted average yield of 2.89% and 2.80% p.a., and yield was credited as contracted with each bank and with simple interest.

31. RELATED PARTIES

The main transactions with related parties in 2017 and 2016 were provision of electricity services, borrowings, obligations under Attachment “C” to the ITAIPU Treaty and pension fund obligations, as shown below:

	Note	2017				TOTAL
		ELETROBRAS	ANDE	FIBRA	CAJUBI	
BALANCE SHEET						
ASSETS						
Trade accounts receivable	7	858,366	104,192	-	-	962,558
Agreements	9	-	13,446	-	-	13,446
Total		858,366	117,638	-	-	976,004
LIABILITIES						
Loans and financing	15	(2,616,371)	-	(20,434)	(45,117)	(2,681,922)
Remuneration and reimbursements	16	(38,058)	(38,058)	-	-	(76,116)
Social security contributions	18	-	-	(2,354)	(6,787)	(9,141)
Actuarial liabilities	20	-	-	(94,674)	(678,201)	(772,875)
Total		(2,654,429)	(38,058)	(117,462)	(730,105)	(3,540,054)
INCOME STATEMENT						
INCOME						
Service fee income	24	3,359,709	380,805	-	-	3,740,514
Financial income		100	434	-	-	534
Total		3,359,809	381,239	-	-	3,741,048
EXPENSES						
Financial expenses		(210,425)	-	(2,060)	(2,945)	(215,430)
Remuneration and reimbursements	25	(44,195)	(44,195)	-	-	(88,390)
Social security contributions		-	-	(18,152)	(31,778)	(49,930)
Actuarial expenses	20	-	-	(29,825)	(79,795)	(109,620)
Total		(254,620)	(44,195)	(50,037)	(114,518)	(463,370)

		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 STATEMENT						
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)

In addition to the above-mentioned transactions, ITAIPU's other related parties are Itaipu Health Foundation, Tesai Health Foundation, ITAIPU Brazil Technology Park Foundation and ITAIPU Paraguay Technology Park Foundation. ITAIPU has significant influence over the management of these entities and carries out financial transactions with them, such as transfer of funds for administrative costs and investments.

Itaipu and Tesai Health Foundations

The Ministro Costa Cavalcanti Hospital (HMCC), in Brazil, and ITAIPU Margem Direita Hospital, in Paraguay, were built by ITAIPU originally to provide medical care for the workers employed in the construction and operation of the 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. To this end, in November 1994, through Board of Directors' Resolution 019/94, the Itaipu Health Foundation, a private non-profit organization, was created to manage and operate the Ministro Costa Cavalcanti Hospital (HMCC), in Brazil. Subsequently, in March 1997, through Board of Directors' Resolution RCA-004/97, the Tesai Health Foundation was established as a private non-profit organization, to manage and operate the ITAIPU Margem Direita Hospital, in Paraguay.

ITAIPU Technology Park Foundations - FPTI BR and FPTI PY

ITAIPU Technology Park Foundations were organized in 2005, in Brazil, through Board of Directors' Resolution RCA-010/05, and in 2008, in Paraguay, through Board of Directors' Resolution RCA-035/08, with the mission to understand and transform the reality of the trinational Iguazu region, coordinating and promoting actions to foster the economic, scientific and technological development with respect for human beings and focus on water, energy and tourism solutions.

The purpose of these Foundations is to maintain and operate the ITAIPU Technology Parks, thus contributing to the sustainable development in the region through activities that foster institutional, scientific, technological development and innovation, dissemination of knowledge, professional training, and the creation of companies through interaction with public and private entities, academic and research institutions, and development and production agencies.

Financial transactions carried out between ITAIPU and these Foundations in 2017 and 2016 are as follows:

	Assets / (Liabilities)		(Expenses)	
	2017	2016	2017	2016
1. Contracted services				
a) Itaiguapy Health Foundation	3,910	4,967	(11,808)	(10,225)
a) Tesai Health Foundation	5,369	2,680	(23,764)	(22,277)
b) ITAIPU BR Technology Park Foundation	(169)	(93)	(2,527)	(2,892)
b) ITAIPU PY Technology Park Foundation	(1,363)	(97)	(1,790)	(553)
2. Agreements and financial contributions				
a) Itaiguapy Health Foundation	(14)	-	(8,077)	(7,244)
a) Tesai Health Foundation	5,783	6,454	(4,921)	(7,282)
b) ITAIPU BR Technology Park Foundation	(610)	(539)	(22,709)	(14,477)
b) ITAIPU PY Technology Park Foundation	(3,358)	(3,904)	(6,942)	(6,985)
Total				
a) Itaiguapy Health Foundation	3,896	4,967	(19,885)	(17,469)
a) Tesai Health Foundation	11,152	9,134	(28,685)	(29,559)
b) ITAIPU BR Technology Park Foundation	(779)	(632)	(25,236)	(17,369)
b) ITAIPU PY Technology Park Foundation	(4,721)	(4,001)	(8,732)	(7,538)
Total	9,548	9,468	(82,538)	(71,935)

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

Disbursements made by ITAIPU are accounted for as expenses according to the nature of the expense: 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 allocates financial resources to subsidize social actions developed by the Health Foundations, such as: services for needy communities in Paraguay and 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 pay the costs of supporting infrastructure and operating processes of the Foundations.

Agreements entered into between ITAIPU and the Technology Park Foundations for their performance of actions that result in products, services and/or knowledge. Currently, the 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 of key management personnel are presented below:

	<u>2017</u>	<u>2016</u>
Compensation of directors and board members	(6,179)	(5,798)
Social charges	(959)	(525)
Benefits	(982)	(972)
	<u>(8,120)</u>	<u>(7,295)</u>

32. REGULATORY PROVISIONS

Since ITAIPU started operations, 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.

Pursuant to the work of the Technical Commission of the Brazilian Federal Court of Auditors (TCU), organized by Regulation Instruction 6/94 of that Court, whose technical conclusions were encompassed by TCU Decision 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, 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, Court Decision 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 2,918/2009, and they took a stand exactly in the same terms that the legal and factual aspects signaled since ITAIPU's inception, 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 Court Decision 88/2015-Plenário-TCU was issued, in which TCU makes recommendations and determinations to ELETROBRAS, as Part of ITAIPU, pointing out improvements 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 adopted in said Court Decision conflict with the specific legal nature of ITAIPU, which is a binational entity created and governed by the Treaty signed on April 26, 1973 between the Federative Republic of Brazil and the Republic of Paraguay, conferring equal rights and obligations upon the two nations, and its capital is equally owned by Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.

Therefore, it is not possible to state that there is 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 which is made up of an equal number of representatives of the two countries, and the Board of Directors can only make valid decisions with the attendance of the majority of the 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 ITAIPU Treaty and the Vienna Convention on the Law of Treaties, for which reason prior understandings and diplomatic instruments between the two National Governments are required.

On June 8, 2016 Court Decision 1,470/2016-Plenário-TCU was issued, in which certain recommendations made to ELETROBRAS by the aforementioned Court Decision 88/2015-Plenário-TCU, are considered by TCU as complied with and others remain 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 created it addressed the matter (which does not happen), which is why the conclusion is again that negotiations between the Federative Republic of Brazil and the Republic of Paraguay are necessary to create an additional control through specific diplomatic instruments. The issue has been conducted by the diplomatic bodies of both Countries to set up a Binational Commission for Accounts, which is still under negotiation.

ELETROBRAS filed appeals against said TCU Decision 1,470/2016, giving rise to Decisions 1014/2015 and 936/2017, which did not overturn the previous TCU Decision.

However, with respect to the direct unilateral inspection of ITAIPU by TCU, as set forth in Decision 88/2015, there are indications that TCU, sensitive to the diplomatic issue, the relationship between the two nations and continuity of the harmonious management of ITAIPU, is monitoring the ongoing diplomatic negotiations between Brazil and Paraguay, with a view to creating, through a diplomatic act, a Binational Commission for Accounts, which would be composed of an equal number of technicians from TCU and the Paraguay General Controllershship to work together according to criteria and standards established specifically for ITAIPU, thus preserving ITAIPU’s proven legal model for over 40 years and observing the Treaty of ITAIPU. Both Brazil’s Ministry of Foreign Affairs and Ministry of

Mines and Energy have already expressly notified TCU's President that they do not agree with the understanding of Decision 88/2015 for legal and factual reasons.

Also, ITAIPU informs that: a) the issue about the possibility of unilateral inspection of ITAIPU by TCU has been raised intermittently since the 1970s, 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 ITAIPU Treaty nor any other diplomatic instrument provides for the inspection by TCU; c) regarding Court Decision 88/2015-Plenário-TCU, as shown by complementary Court Decision 1470/2016-Plenário-TCU, TCU has already indicated that it is monitoring the ongoing diplomatic negotiations between the two countries with the intent of creating a Binational Commission for Accounts, which is why TCU Decision 279/1995 is still applicable, avoiding possible undesirable developments, either at foreign affairs and legal level; 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 ITAIPU Treaty 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) that prior understandings and diplomatic instruments are necessary to create an additional control 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 corroborate ITAIPU's and Brazilian government's understanding; 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 Office, permanent Group for improving information access, Binational Team for Compliance Program, 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 attend the meetings of the Board of Directors of ITAIPU and external audits performed by leading audit firms in Brazil and Paraguay that work together with teams made up of Brazilian and Paraguayan auditors.

(A free translation of the original in Portuguese)

STATEMENT OF OPERATION ACCOUNTS**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016****(In thousands of US dollars)**

	<u>12.31.2017</u>	<u>12.31.2016</u>
REVENUE		
Revenue from the provision of electricity services:		
Power supply	3.291.012	3.291.012
Brazilian purchasing entity	2.942.912	2.942.270
Paraguayan purchasing entity	348.100	348.742
Remuneration for electricity assignment	329.392	368.455
Royalties and reimbursement of costs - non-bound energy	120.110	152.032
Total revenue	<u>3.740.514</u>	<u>3.811.499</u>
LESS:		
REMUNERATION FOR ELECTRICITY ASSIGNMENT	<u>(329.392)</u>	<u>(368.455)</u>
COST OF ELECTRICITY SERVICE		
Remuneration and reimbursement to High Contracting Parties and Members of ITAIPU:		
Proceeds from capital	(48.460)	(46.716)
Bound energy		
Royalties	(407.536)	(393.560)
Reimbursement of management and supervision charges	(31.350)	(30.274)
	<u>(438.886)</u>	<u>(423.834)</u>
Non-bound energy		
Royalties	(111.530)	(141.172)
Reimbursement of management and supervision charges	(8.580)	(10.860)
	<u>(120.110)</u>	<u>(152.032)</u>
	<u>(607.456)</u>	<u>(622.582)</u>
Amortization of loans and financing	<u>(1.419.931)</u>	<u>(1.322.585)</u>
Financial charges on loans and financing	<u>(623.160)</u>	<u>(719.823)</u>
Operation expenses		
Personnel	(470.110)	(515.587)
Material and equipment	(34.801)	(31.663)
Outsourced services	(116.468)	(104.400)
Other operation expenses	(96.944)	(98.636)
	<u>(718.323)</u>	<u>(750.286)</u>
Total cost of electricity service	<u>(3.368.870)</u>	<u>(3.415.276)</u>
PROFIT FROM OPERATION FOR THE YEAR	<u>42.252</u>	<u>27.768</u>
Prior year balance	64.859	37.091
ACCUMULATED PROFIT FROM OPERATION	<u><u>107.111</u></u>	<u><u>64.859</u></u>

(A free translation of the original in Portuguese)

NOTES TO THE STATEMENT OF OPERATION ACCOUNTS

AT DECEMBER 31, 2017 AND 2016

The Attachment “C” to the ITAIPU Treaty, 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 electricity service 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 billed power 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 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 the Parties that constitute ITAIPU (ELETROBRAS and ANDE) of the following remuneration and reimbursements:
 - i) Return on the capital: twelve per cent per year on the interest held by 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 in the hydroelectric power plant. This amount shall not be less than eighteen million United States dollars per year, to be split one-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, to be paid in equal shares to Centrais Eléctricas 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.

Beginning January 2001, the amounts of return on capital are restated using the formula set forth in Diplomatic Note No. 10 exchanged between the Ministries of Foreign Affairs of Brazil and Paraguay, on November 13, 2000, based on the following adjustment factors:

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	3.91005
2017	4.02949

(*) Base: annual average inflation rate observed in the United States of America, using the indexes "Industrial Goods" and "Consumer Prices" published in the journal of "International Financial Statistics", updated since 1975.

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, 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 established by means of 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 is multiplied by a factor of 5.10.

As from May 14, 2011, according to the agreement established by Diplomatic Notes on September 1, 2009 between the Government of the Federative Republic of Brazil, enacted by Decree 7,506 of June 27, 2011, and the Government of the Republic of Paraguay, approved by Law 3,923 of November 18, 2009, the multiplying factor of the Remuneration for Electricity Assignment changed from 5.10 to 15.30.

The amounts of Royalties, Reimbursement of Management and Supervision Charges and Remuneration for Electricity Assignment began to be restated using the formula established in Diplomatic Note No. 3 and in the following Notes, mentioned in the preceding paragraphs, as shown in the table below:

Year	Original factor (A)	Adjustment factor (B) *	Adjusted factor (A x B)
1985	3.50	-	-
1986	3.50	-	-
1987	3.58	1.03161	3.69316
1988	3.66	1.07050	3.91803
1989	3.74	1.12344	4.20167
1990	3.82	1.17452	4.48667
1991	3.90	1.20367	4.69431
1992	4.00	1.22699	4.90796
1993	4.00	1.25442	5.01768
1994	4.00	1.27941	5.11764
1995	4.00	1.32219	5.28876
1996	4.00	1.35174	5.40696
1997	4.00	1.37073	5.48292
1998	4.00	1.36668	5.46672
1999	4.00	1.39071	5.56284
2000	4.00	1.45725	5.82900
2001	4.00	1.48488	5.93952
2002	4.00	1.48082	5.92328
2003	4.00	1.53284	6.13136
2004	4.00	1.59690	6.38760
2005	4.00	1.68959	6.75836
2006	4.00	1.76153	7.04610
2006	5.10	1.76153	8.98378
2007	4.00	1.81921	7.27684
2007	5.10	1.81921	9.27797
2008	4.00	1.94133	7.76534
2008	5.10	1.94133	9.90080
2009	4.00	1.85365	7.41460
2009	5.10	1.85365	9.45362
2010	4.00	1.93060	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	2.01838	8.07352
2016	15.30	2.01838	30.88121
2017	4.00	2.08147	8.32588
2017	15.30	2.08147	31.84649

(*) Base: annual average inflation rate observed in the United States of America, using the indexes "Industrial Goods" and "Consumer Prices" published in the journal of "International Financial Statistics", updated since 1986.

- 2) Amount required for the payment of financial charges on borrowings, which as per said Attachment comprise all interest, charges and commissions referring to contracted borrowings.
- 3) Amount required for the repayment of borrowings.

As from 2012, the Operation Account does not include amortization and payment of charges on loans obtained from CAJUBI, under 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 and No. 6 to Agreement 5.808/99 (see Note 9.ii to the Financial Statements).

As from 2014, the Operation Account also does not include amortization and payment of charges on loans from Banco ITAU Paraguay, taken out to finance works and services to strengthen the Electric System of the Alto Paraná Department, Paraguay, pursuant to Executive Board's Resolution RDE-076/14 and Board of Directors' Resolution RCA-013/14. This agreement was settled in April 2016.

In 2017, the Operation Account did not include the extraordinary payment made under financing agreement ECF-1480/97 - Line B of Eletrobras, in the amount of US\$ 170,000, supported by Board of Directors' Resolution RCA-052/17.

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

- 5) The balance, either positive or negative, of the Operation Account for the previous year.

(A free translation of the original in Portuguese)

AUTHORIZATION FOR ISSUE OF
FINANCIAL STATEMENTS AND ATTACHMENT I
AT DECEMBER 31, 2017 AND 2016

Luiz Fernando Leone Vianna
Brazilian General Director

James Spalding Hellmers
Paraguayan General Director

Mauro José Corbellini
Executive Technical Director

José María Sánchez Tillería
Technical Director

Cezar Eduardo Ziliotto
Legal Director

Luis Alberto Breuer González
Executive Legal Director

João Pereira dos Santos
Administrative Director

Carlos Jorge Paris Ferraro
Executive Administrative Director

Marcos V. Stamm
Executive Financial Director

Miguel Ángel Gómez Acosta
Financial Director

Newton Luiz Kaminski
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 Controlling 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, 2017 and the statements of income 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, 2017, 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 are used that 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



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regarding the 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.

Revaluation of retirement and pension plans

As mentioned in Note 20 to the financial statements, Itaipu's management is performing the evaluation, planning and definition of the strategy to pay off the retirement and pension plans based on the defined benefit method, as well as the creation of new plans. 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.

Accounting practice 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.

Other matters

Statements of value added, cash flows and operation accounts

We also have audited the statements of value added, cash flows and operation accounts for the year ended December 31, 2017, 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.

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.



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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, Paraguayan and Brazilian 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, Paraguayan and Brazilian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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



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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 over, 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 26, 2018

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Carlos Alexandre Peres
Contador CRC 1SP198156/O-7

Asunción, April 26, 2018

PricewaterhouseCoopers
Auditores Independentes
Registro de firmas profesionales N° 2

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

PwC Consortium - ITAIPU Audit Project