Itaipu Binacional

Financial statements December 31, 2018 and 2017



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BALANCE SHEET AT DECEMBER 31, 2018 AND 2017 (In thousands of US Dollars)

<u>ASSETS</u>

	Note	12/31/2018	12/31/2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	385,714	418,960
Trade accounts receivable	7	1,006,624	962,558
Storeroom	8	7,359	5,622
Bonds receivable	9	3,235	3,240
Other accounts receivable	10	21,968	40,681
TOTAL CURRENT ASSETS		1,424,900	1,431,061
NON-CURRENT ASSETS			
Bonds receivable	9	220,121	220,635
Judicial deposits	11	54,208	48,590
		274,329	269,225
RESULTS	12		
From prior years		(7,621,130)	(6,441,140)
Current financial year		(1,190,366)	(1,179,990)
		(8,811,496)	(7,621,130)
PROPERTY, PLANT AND EQUIPMENT	13	17,546,930	17,519,884
INTANGIBLE ASSETS	14	33,544	32,956
TOTAL NON-CURRENT ASSETS		9,043,307	10,200,935
TOTAL ASSETS		10,468,207	11,631,996



BALANCE SHEET AT DECEMBER 31, 2018 AND 2017

(In thousands of US Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	12/31/2018	12/31/2017
LIABILITIES			
CURRENT LIABILITIES			
Loans and financing	15	1,636,387	1,523,050
Remuneration and reimbursements	16	688,912	645,065
Suppliers	17	51,539	44,682
Salaries and social charges	18	89,635	98,081
Labor indemnities	19	46,281	50,242
Provision for lawsuits	21	55,106	65,100
Other liabilities	22	3,157	8,250
TOTAL CURRENT LIABILITIES		2,571,017	2,434,470
NON CURRENT LIABILITIES			
NON-CURRENT LIABILITIES Loans and financing	15	F /FO 4/4	7.01/ 575
Labor indemnities	19	5,650,464 260,708	7,016,575
Post-employment benefits	20	1,726,966	267,704 1,635,203
Provision for lawsuits	20 21	1,726,966	1,035,203
Other liabilities	22	2,200	2,302
TOTAL NON-CURRENT LIABILITIES		7 707 100	0.007.534
TOTAL NON-CURRENT LIABILITIES		7,797,190	9,097,526
TOTAL LIABILITIES		10,368,207	11,531,996
SHAREHOLDERS' EQUITY			
Capital	23		
Centrais Elétricas Brasileiras S.A.		50,000	50,000
Administración Nacional de Electricidad		50,000	50,000
TOTAL SHAREHOLDERS' EQUITY		100,000	100,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,468,207	11,631,996



STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In thousands of US Dollars)

	Note	12/31/2018	12/31/2017
OPERATING REVENUES	24		
Contracted power	24	3,291,012	3,291,012
Remuneration for electricity assignment		327,096	329,392
Royalties and reimbursement for energy additional to the one tied to			
the contracted power		125,828	120,110
Total operating revenues		3,743,936	3,740,514
OPERATING EXPENSES			
REMUNERATION AND REIMBURSEMENTS	25		
Yields from Capital		(50,274)	(48,460)
Remuneration for electricity assignment		(327,096)	(329,392)
Electricity related to contracted power			
Royalties		(423,118)	(407,536)
Reimbursement of management and supervision charges		(32,548)	(31,350)
		(455,666)	(438,886)
Additional electricity related to contracted power		· · · · · ·	
Royalties		(116,840)	(111,530)
Reimbursement of management and supervision charges		(8,988)	(8,580)
		(125,828)	(120,110)
		(958,864)	(936,848)
GENERAL AND ADMINISTRATIVE EXPENSES	26		
Operation, maintenance, and management	20	(1,073,548)	(868,483)
Social and environmental responsibility programs		(1,075,348)	(151,807)
coolar and criving montal responsibility programs		(1,218,830)	(1,020,290)
		(1,210,000)	(1,020,270)
Total operating expenses		(2,177,694)	(1,957,138)
SERVICE INCOME		1,566,242	1,783,376
OTHER REVENUES (EXPENSES)	27	(2 (40)	(10.011)
OTTER REVENUES (EXI ENSES)	21	(3,648)	(10,811)
Financial revenues		31,315	60,584
Financial expenses		(403,543)	(653, 159)
FINANCIAL INCOME (LOSS)	28	(372,228)	(592,575)
INCOME (LOSS) FOR THE YEAR		1,190,366	1,179,990



STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In thousands of US Dollars)

	12/31/2018	12/31/2017
SOURCE OF FUNDS		
Operations		
Income (loss) for the year	1,190,366	1,179,990
Expenses items not affecting net working capital		
Long-term monetary restatements - Ioans	(2,785)	(1,090)
Long-term monetary variation - estimated liabilities	(167,710)	23,507
Write-off of fixed assets	7,591	13,691
	1,027,462	1,216,098
Third-parties		
Increase in non-current liabilities	544,174	397,609
Transfer of current liabilities to non-current liabilities	33,669	130,981
Transfer from non-current to current assets	3,157	3,182
Decrease in non-current assets	13,797	4,518
Loans and financing obtained	-	937
·	594,797	537,227
TOTAL FINANCIAL RESOURCES PROVIDED	1,622,259	1,753,325
INVESTMENTS OF FUNDS		
Investments in property, plant and equipment and intangible assets	34,493	34,852
Incorporated charges on property, plant and equipment	732	880
Increase in non-current assets	22,058	10,691
Decrease in non-current liabilities	41,327	118,193
Transfer from the long to short-term - loans	1,634,307	1,692,283
Transfer from the long to short-term - estimated obligations	32,050	134,006
TOTAL INVESTMENTS	1,764,967	1,990,905
DECREASE IN NET WORKING CAPITAL	(142,708)	(237,580)
STATEMENT OF CHANGES IN NET WORKING CAPITAL		
Closing net working capital		
Final current assets	1,424,900	1,431,061
Final current liabilities	(2,571,017)	(2,434,470)
	(1,146,117)	(1,003,409)
Opening net working capital	(1,003,409)	(765,829)
Decrease in net working capital	(142,708)	(237,580)



STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In thousands of US Dollars)

	12/31/2018	12/31/2017
FROM OPERATING ACTIVITIES		
Income (loss) for the year	1,190,366	1,179,990
Adjustments of income (loss)		
Write-off of fixed assets	7,591	13,691
Monetary restatements - loans	(2,228)	205
Monetary restatements - estimated obligations	(167,710)	23,507
Liability provisions		
Financial charges - Ioans	520,314	628,126
Provisions for personnel	(12,973)	34,881
Actuarial provisions	503,796	136,458
Provision for lawsuits	5,574	106,112
Adjusted income (loss)	2,044,730	2,122,970
Observed to a section of the Million		
Changes in assets and liabilities	/** O/ /\	4/ 405
Changes in stargeom	(44,066)	16,490
Changes in storeroom	(1,737)	(101)
Changes in other receivables	14,337	17,070
Changes in remuneration and reimbursements	43,847	(22,141)
Changes in suppliers and other liabilities	1,662	(7,896)
Changes in salaries and social security charges	(4,935)	8,284
Changes in estimated obligations	(9,296)	(226)
	(188)	11,480
Net cash from operating activities	2,044,542	2,134,450
FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(34,493)	(34,852)
requisition of property, plant and equipment and intangible assets	(34,493)	(34,632)
Net cash used in investment activities	(34,493)	(34,852)
FROM FINANCING ACTIVITIES		
Loans and financing obtained	=	937
Amortization of loans and financing	(1,521,885)	(1,586,118)
Payment of interest on loans and financing	(521,410)	(629,699)
Net cash invested in financing activities	(2,043,295)	(2,214,880)
v		
TOTAL EFFECTS ON CASH AND CASH EQUIVALENTS	(33,246)	(115,282)
Opening balance of cash and cash equivalents	418,960	534,242
Closing balance of cash and cash equivalents	385,714	418,960
Change in cash and cash equivalents	(33,246)	(115,282)



STATEMENT OF ADDED VALUE

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In thousands of US Dollars)

	12/31/2018	12/31/2017
GENERATION OF ADDED VALUE		
Revenues		
Contracted power	3,291,012	3,291,012
Remuneration for electricity assignment	327,096	329,392
Royalties and reimbursement for energy additional to the one tied to the contracted power	405.000	100 110
·	125,828	120,110
Sundry revenues (expenses)	(3,648)	(10,811)
(-) Inputs acquired from third parties	3,740,288	3,729,703
Material	12 440	17 700
Outsourced services	12,448	17,798
Other operating expenses	114,000	128,037
Other operating expenses	135,462	225,740
	261,910	371,575
GROSS ADDED VALUE	3,478,378	3,358,128
(+) Added value received as transfer		
Financial revenues	31,315	60,584
	31,315	60,584
	01,010	
VALUE ADDED TO BE DISTRIBUTED	3,509,693	3,418,712
DISTRIBUTION OF ADDED VALUE Compensation:		
Labor		
Direct remuneration	244,938	261,118
Benefits	139,264	145,736
Actuarial provisions	503,796	136,458
Labor indemnities	31,029	65,485
FGTS	5,608	6,056
	924,635	614,853
Government		
INSS and IPS	32,285	33,862
Royalties	539,958	519,066
Remuneration for electricity assignment	327,096	329,392
	899,339	882,320
Third-party capital		
Debt charges	520,314	628,126
Monetary variation	(116,771)	24,850
Other financial expenses		183
Over conital	403,543	653,159
Own capital		
Yields from Capital	50,274	48,460
Reimbursement for management and supervision charges	41,536	39,930
		88,390
	91,810	
Income (loss) for the year	1,190,366	1,179,990



NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017
(Amounts expressed in thousands of US Dollars, unless
otherwise indicated)

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of US Dollars, unless otherwise indicated)

1. OPERATIONS

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

ITAIPU has its headquarters 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 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 Salto Grande de Sete Quedas ou Salto de Guaíra 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 per month of power available for contracting by ELETROBRAS and ANDE.

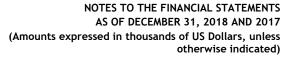
In 2018, ITAIPU generated 96.6 million MWh, exceeding the 96.4 million MWh produced in 2017 and establishing the fourth largest annual production since the plant started its operations. Record power generation occurred in 2016 when it stood at 103.1 million kWh.

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

Attachment "A" - Statute of ITAIPU.

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

Attachment "C" - Financial Bases and provision of electricity services of ITAIPU.





Treaty effective period is undetermined, as described in Article XXV, which establishes that its change depends on a new agreement of the High Contracting Parties. Provisions of Attachment "C", specifically, in accordance with provisions of Article VI of said Attachment will be reviewed after a period of fifty years beginning as of the date in which the Treaty became effective, considering, among other aspects, amortization level of debts contracted by ITAIPU for plant construction and relation between powers contracted by both countries' entities (notes 15 and 24). Attachment "C" provides on supply conditions, breakdown of electricity service cost 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 constitutional Treaty of ITAIPU, its annexes and other official acts, composed of the Balance Sheet, the Statement of Income (loss), Statements of Changes and Investments and Notes of the Financial Statements.

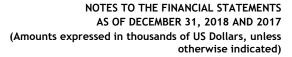
As Supplementary Information: the Statement of Cash Flow, Statement of Added Value and in Attachment I, Statement of Operating Account and Notes to the Statement of Operating Account.

a) Statement of cash flows

It is prepared by the indirect method and presents the cash flows for the year classified per operating, investment, and financing activities. Cash flows deriving from transactions that are the Entity's main source of revenue are classified as operating activities. Therefore, they result from transactions and other events that are included in statement of income for the year. Disbursements for funds expected to generate cash flows in the future are classified and presented as cash flows deriving from investment activities. Cash flows related to suppliers of capital to the entity, such as banks, shareholders, etc. are classified and presented as cash flows deriving from financing activities.

b) Statement of added value - SAV

The purpose of the statement of added value is to provide information related to generation of wealth by the Entity in the period, and the effective way in which such wealth is distributed. The main components of wealth generated by the Entity are presented in revenue items, less inputs acquired from third parties plus added amounts received as transfers, which are subdivided according to each transaction nature. Wealth distribution components include amounts spent with personnel, payroll charges, royalties, remuneration for electricity assignment and remuneration of own and third parties' capital. Its preparation is carried out considering basic conceptual structure for preparation and presentation of Financial Statements, and its data is obtained from reorganization of elements of the Statement of Income for the same period.





c) Statement of Operating Account

Preparation basis is described in Notes to the Statement of Operating Account (Attachment I).

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

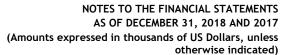
The main provisions and/or regulatory guidelines that differ from accounting practices adopted in these countries are:

- (i) The depreciation of property, plant and equipment and the amortization of intangible assets is not accounted for during the period of its useful life (Notes 4.e and 13);
- (ii) The results of the Entity are not stated in Shareholders' Equity, but are shown under the caption Results, pertaining to assets (Note 12);
- (iii) The assessments of the obligations for post-employment benefits, which include: actuarial gains and losses and returns on plan assets, are recognized on the income statement in the income (loss) for the year (Notes 4.1 and 20);
- (iv) Accounting policies regarding the measurement of fair value of assets and liabilities have not been established or disclosed;
- (v) The return on own capital paid to the Parties does is not considered in the realization of income, which is represented as an operating expense in the income (Notes 16 and 25);
- (vi) ITAIPU does not prepare a Statement of Changes in Shareholders' Equity and a Statement of Comprehensive Income, because its Shareholders' Equity is not changed; and
- (vii) The Statement of Changes and Investments includes the Entity's Financial Statements and Cash Flow and Statements of Added Value, presented as supplementary information.

The issuance of financial statements was authorized by the Executive Board on April 15, 2019.

3. RELATIONSHIP WITH THE INDEPENDENT AUDITORS

ITAIPU maintains an contract with Consórcio KPMG Auditores Independentes - BCA Benítez Codas & Associados, composed of the companies KPMG Auditores Independentes, headquartered in São Paulo, Brazil and BCA Benítez Codas & Associados, headquartered in





Asuncion, Paraguay for the implementation of the external audit of the Financial Statements, according to audit standards and internal controls, according to the United States Sarbanes-Oxley Act (SOX), for the financial years of 2018, 2019 and 2020.

There is no other current contract with the Consortium or any of the companies.

4. DESCRIPTION OF SIGNIFICANT ACCOUNTING PRACTICES

In the preparation of the Entity's Financial Statements, the following accounting practices with regard to recording economic-financial transactions and operations were adopted.

a) Reference currency for recording transactions

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

Economic-financial operations and transactions carried out in different currencies, have values converted to 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 year.
- Other assets and liabilities converted to the rates adopted for the last business day of each month of the year.

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

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

Operating expenses, financial expenses, and sundry expenses, as well as financial revenues and sundry revenues, are converted to the rates of the day preceding the date in which they are incurred.



NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017
(Amounts expressed in thousands of US Dollars, unless
otherwise indicated)

Accordingly, asset and liability balances in dollars of the United States of America on base date of these Financial Statements may have been changed due to change in quotation of Brazilian Real and Guarani, mainly between this statement base date and Financial Statements reading date.

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 values of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Revisions to accounting estimates are recognized in the period they are revised.

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

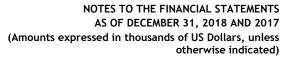
(i) Provision for impairment of fixed and intangible assets: the basis for verification of the necessity (or not) for the formation of provision; (ii) Measurement of post-employment benefit obligations: principal actuarial assumptions; and (iii) Recognition and measurement of provisions for lawsuits: principal assumptions on the probability and magnitude of resource outflows.

c) Cash and cash equivalents

Include cash on hand, bank deposits and other short-term cash investments with high liquidity, promptly translated into a known sum of cash.

d) Trade accounts receivable

They are non-derivative financial assets with fixed payments, but not quoted in the active market. First-time measurement is calculated at value of electricity service provision.





e) Property, plant and equipment and intangible assets

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

Revenues and refunds obtained based on exemptions and tax benefits related to the works were recorded during the construction period and reduced the cost of the work. From the start-up date of the Hydroelectric Power Plant, these figures were reallocated between the cost of the work and sundry revenues and, after full operation, started to be recorded as sundry revenues.

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

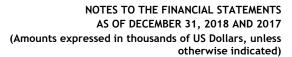
f) Assessment of the recovery value of fixed and intangible assets - Impairment

By not accounting for the depreciation of property, plant and amortization of intangible asset, besides the amortization and financial charges equipment and having amortization and financial charges deriving from loans and financing obtained for the implementation of the project, as a component of Electricity Service Cost, ITAIPU uses projections of tariff composition (unit cost of electricity service), as a basis to verify the probable impairment losses of the fixed and intangible assets.

Projections of tariff breakdown are prepared annually based on Attachment "C" to the Treaty (see Notes to Operating Account - Attachment I) and are subject to ITAIPU Board of Directors' approval. These projections are the basis for preparation of cash flow projections up to 2023, year in which amortization of debt deriving from enterprise construction is expected as well as review of Attachment "C" to the Treaty, through which recoverability of fixed assets and intangible assets accounting value is evaluated in face of future cash flows.

g) Operating revenues

They include amounts deriving from provision of electricity services, which include billing of contracted power, reimbursement of royalties and reimbursement of management and supervision charges deriving from energy additional to that linked to contracted power and remuneration for electricity assignment. Operating revenues are recognized at the accrual system, once compliance with performance obligations and transfer of service to clients is confirmed, in accordance with contract, reflecting consideration that the Entity expects to be entitled to in exchange for services provided (Note 4.n).





h) Operating expenses

They include operating expenses, maintenance and administration relating to the operation of the hydroelectric plant, remuneration and reimbursements to the High Contracting Parties and Parties included in Attachment "C" of the Treaty and, from the financial year of 2005, expenditure related to social and environmental responsibility programs, due to Notes Number 228/05 of the Brazilian Embassy in Asuncion and Number 1/05 of the Ministry of Foreign Affairs of Paraguay, both of March 31, 2005. Operating expenses are recognized under the accrual system.

i) Financial revenues

They include revenues from any income from investments at banking institutions, the restatement of deposits used as collateral according to the Brazilian foreign debt restructuring agreement (Note 9), of arrears for late receipt of invoices for the provision of electricity services, with discounts obtained, and interest arising from the agreement signed with the ANDE for the construction of a substation on the right bank (Note 9) and other financial revenues.

j) Financial expenses

This includes financial charges from loans and financing agreements (Note 15), net inflation adjustments that are made up of inflation adjustments and exchange differences arising from contractually planned operations, principally 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 late payment on remuneration and reimbursements and other financial expenses.

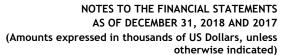
k) Sundry revenues /expenses

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

l) Post-employment benefits

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

 i) the actuarial evaluation of retirement and pension and medical care and hospital plans is carried out qualified actuaries using the method of projected credit and best estimates for the expected performance of investment plans for the funds, salary increases, employee retirement ages, turnover, mortality, expected costs for health care, among other things, respecting the particulars of each country;





- ii) retirement and pension plan actuarial result deriving from obligations' present value less fair value of plan assets, with immediate recognition of all actuarial gains and losses, is recognized, in case of deficit, in ITAIPU's Financial Statements, directly in income (loss) account. (Notes 2.iii and 20);
- iii) present value of medical and hospital care plan obligations, with immediate recognition of all actuarial gains and losses, is fully recognized in ITAIPU's Financial Statements, as it is directly sponsored by the Entity without segregation of assets to the plan, directly in income (loss) account. (Notes 2.iii and 20).

Accounting provisions related to said obligations are adjusted at year end.

m) Profit sharing

Payment to employees of respected values such as profit sharing does not consider the determination of positive income (loss) in the years and is made according to the Terms of Agreement for the Distribution of Profit Sharing, signed each financial year. ITAIPU recognizes a provision for this expense in year of effective provision of service that originated this retribution.

n) CPC 47 / NIIF 15 - Revenue from contract with customer

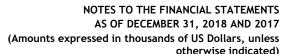
Beginning as of January 1, 2018, ITAIPU applied CPC 47/NIIF 15, which establishes a new model for recognition of revenue deriving from contracts with clients and is comprised of five stages whose values must reflect consideration that the entity expects to be entitled to in exchange for transfer of assets and services to a client.

The Entity evaluated the five steps for recognition and measurement of revenue required by said standard:

- 1. Identify types of contracts entered into with its clients;
- 2. Identify obligations present in each type of contract;
- 3. Determine price of each transaction type;
- 4. Assign price to obligations included in contracts; and
- 5. Recognize revenues when (or to the extent in which) the entity meets all contract obligations.

The Entity analyzed the following revenues from contracts with customers and further details are described in Note 24:

- (i) Contracted power;
- (ii) Royalties and reimbursements related to energy additional to that linked to contracted power;
- (iii) Remuneration for electricity assignment;





After a detailed analysis of these revenues, the Entity concluded that they are recognized in accordance with contracts whose performance obligations are complied with over time, and consideration value reflects fair value to be received at the time services are effectively transferred to the client. Regarding this, as provided for in ITAIPU Treaty, Article XIII, Sole Paragraph - High Contracting Parties commit to acquiring, together or separately as agreed, total installed power.

In addition, this standard determines that the Entity must recognize revenues originated from contract with clients when possibility of receiving is probable, considering the client's payment capacity and intention. Therefore, in case the Company expects not receive it, respective revenue will be presented net, in a revenue regularization account. The Entity evaluated clients and concluded that they do not have a history of significant default.

On the other hand, standard requires determination of transaction price according to contract terms and traditional business practices. The transaction price is the amount of consideration in a contract to which an Entity expects to be entitled in exchange for transferring promised products or services to a customer, except for amounts charged on behalf of third parties. Consideration determined in contract with client may include fixed values, variable values or both. Accordingly, the Entity evaluated that there are no amounts charged on behalf of third parties comprising energy supply price, and separately exposes revenues according to performance contract terms and fixed or variable prices.

Based on analyses made, the Entity concluded that this standard had no impact on Financial Statements of ITAIPU Binacional for 2018.

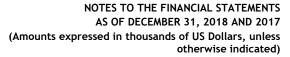
ITAIPU applied CPC 47/NIF 15 using this standard first-time adoption cumulative effect method, recognized on first-time adoption date (beginning as of January 1, 2018). As a result, ITAIPU did not apply requirements of CPC 47/NIF 15 to comparison period. Therefore, 2017 information is presented in accordance with CPC 30/ NIC 18 - Revenues.

o) CPC 48/NIIF 9 - Financial instruments

CPC 48/NIIF 9 became effective on January 1, 2018, replacing *CPC 38/NIC 39 - Financial Instruments: Recognition and Measurement*, and defines the criteria related to recognition, classification and measurement of financial assets, financial liabilities, and few purchase or sale agreements of non-financial items.

Transition method applied by ITAIPU for first-time application of this standard is the retroactive method, without presenting comparison periods again. Accounting hedge requirements of CPC 48/NIIF 9 were not applied by ITAIPU, as the Entity does not have hedge instruments.

Management did carry out a detailed evaluation of the three aspects of the standard and their impact on ITAIPU's financial statements, summarized as follows:





Classification and measurement

CPC 48/NIIF 9 introduced a new approach for classification of financial assets based on two concepts: characteristics of financial asset's contract cash flows and the company's business model.

According to this new approach, the four classification categories of CPC 38/NIC 39 were replaced by the three following categories:

- Amortized cost, if financial assets are held within a business model whose purpose is to obtain contractual cash flows;
- fair value with changes in other comprehensive profit/loss, if financial assets are held in a business model whose purpose is met by obtaining contract cash flows and selling financial assets; o
- Fair value with changes in income (loss), residual category that includes financial instruments that are not held in one of the two previously-mentioned business models, including those held for negotiation and those assigned at fair value at first-time recognition.

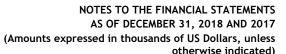
In relation to financial liabilities, CPC 48/NIF 9 greatly maintains accounting treatment provided for in CPC 38/NIC 39, with small changes, as most of these liabilities are measured at amortized cost, which makes it possible to assign a financial liability at fair value with changes in income (loss), if certain requirements are met.

Financial assets held:

- They include bank deposits and other short-term cash investments with high liquidity, promptly translated into a known sum of cash. These investments are held-to-maturity and correspond to non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Entity has the positive intent and ability to hold to maturity (Notes 4.c and 6).
- Accounts receivable are non-derivative financial assets with fixed payments, but not quoted on any active market. First-time measurement is calculated at value of electricity services provision (notes 4.d and 7).

Financial liabilities held:

- They include loans and financing, suppliers and other accounts payable, which are measured at the amortized cost using the effective interest rate method. Interest, foreign exchange gains and losses are recognized in the statement of income (Notes 15, 16 and 17).





- The effective interest method is a method of calculating the amortized cost of a financial asset or liability and to distribute and recognize interest revenues or expenses in the income (loss) for the year during the period.

As of December 31, 2018, ITAIPU's financial instruments will continue to be measured at amortized cost in accordance with CPC 48/NIIF 9.

As a result of business model and characteristics of contract cash flows, ITAIPU determined that new classification requirements of financial assets have no impact on financial statements for 2018.

Impairment

New impairment model of CPC 48/NIF 9 is based on expected credit losses, unlike the incurred loss model of CPC 38/NIC 39. This means that according to CPC 48/NIF 9, losses will be recorded earlier than according to prior model.

The new impairment model will be applied to financial assets measured at amortized cost or measured at fair value with changes in other comprehensive income, except for the investments in equity instruments. Estimated impairment is measured based on:

- Credit losses expected for the following 12 months, or
- credit losses expected during asset life in case, on financial statements presentation date, a significant increase in credit risk of a financial instrument occurs since first-time recognition.

In each presentation date, an entity will evaluate if a financial instrument's credit risk significantly increased since first-time recognition.

An entity may assume that credit risk of a financial instrument did not significantly increase since first-time recognition if it is determined that the financial instrument presents low credit risk on presentation date.

When analyzing clients' credit/payment history, we did not find default records or significant delays in settlements. There is no record of non-compliance losses, from formation up to financial statements presentation date.

Therefore, by complying with provisions of CPC 48/NIF 9, as well as ITAIPU's accounting policy, new regulation does not impact the Entity's operation and, for this reason, recognition of a provision for losses is not necessary this year.



Hedge accounting

CPC 48/NIIF 9 introduced a new hedge accounting model for the purpose of closely aligning bookkeeping with the companies' risk management and establish an approach based on principles. This new approach makes it possible to better present risk management activities in financial statements, permitting more elements to be eligible as covered items: non-financial account entry risk component, net positions and aggregated exposures (that is, a combination of a non-derived exposure and a derivative).

Application of the new hedge accounting model had no impact on the Entity's accounting statements as the Entity does not make investments of speculative nature, in derivatives or other risk assets (note 30, item 2).

5. EFFECTS OF EXCHANGE RATE FLUCTUATIONS ON THE FINANCIAL STATEMENTS

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

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

Exchange rates for the United States Dollar

	Brazil		Paraguay	
Closing rate	Rates in Reais (R\$)	Changes in the year - %	Rates in Guaranis (Gs)	Changes in the year - %
2017	3.3080	1.5	5,600.98	(3.0)
2018	3.8748	17.1	5,960.94	6.4

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

For information purposes, the table below shows the main inflation indexes for the financial years of 2018 and 2017.



Inflation indexes accumulated in the period

	In percentage - %	
	2018	2017
Brazil: Expanded Consumer Price Index - IPCA Instituto Brasileiro de Geografia e Estatística	3.7	2.9
General Price Index - IGP-DI Fundação Getúlio Vargas	7.1	(0.4)
Paraguay: Consumer Price Index - IPC Central Bank of Paraguay	3.2	4.5

6. CASH AND CASH EQUIVALENTS

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

	2018	2017
Cash	15	15
Banks checking account	163	10,629
Interest earning bank deposits In Brazil		
Caixa Econômica Federal - CDB Flex	313,527	345,308
Banco do Brasil - Fixed Income 25 thousand	103	104
	313,630	345,412
In Paraguay		
Banco Regional	27,616	28,144
Banco Continental	23,007	25,782
Banco Itaú	13,061	3,902
Banco Bilbao Vizcaya Argentaria	5,370	2,427
Banco Amambay	171	261



	2018	2017
Banco Nacional de Fomento	198	210
Banco Bancop	2,163	1,012
Banco Atlas	95	952
Sudameris Bank	137	121
Banco do Brasil	88	93
	71,906	62,904
	385,536	408,316
TOTAL	385,714	418,960

7. TRADE ACCOUNTS RECEIVABLE

Refer to amounts deriving from provision of electricity services (note 24) whose invoices mature, respectively, on: the 20th of the second month after generation, on the 30th of the second month after generation, and on the 10th of the third month after generation, except for invoices related to remuneration for electricity assignment that mature 45 days after generation.

This also includes provisions for the adjustment of the dollar on receivables from royalties and reimbursement of management and supervision charges from additional electricity linked to the contracted power and Remuneration for electricity assignment, (see Attachment I - Notes to Statement of Operating Account), for the current financial year and part of the previous financial year, which are billed in 12 installments, maturing from March the year following generation.

Aforementioned invoices are issued in United States Dollars, charged in Reais or Guaranis, according to exchange rates of sale (closing), the day prior to the collection, disclosed by the Central Banks of Brazil and Paraguay, respectively.

	2018	2017
Centrais Elétricas Brasileiras S.A ELETROBRAS	907,982	858,366
Administración Nacional de Electricidad - ANDE	98,642	104,192
TOTAL	1,006,624	962,558

In balances presented in chart above, as of December 31, 2018, there is an overdue amount owed by ELETROBRAS that is equivalent to US\$ 54,969, while as of December 31, 2017, there are no overdue amounts.



On overdue amounts, there are increases for late payment of 0.5% per month during the first fifteen days of delay and 1% per month beginning as of the sixteenth day of delay.

As provided for in Article XIV of the Treaty, ITAIPU's electricity services will be acquired by ELETROBRAS and ANDE, which may also do it through indicated Brazilian or Paraguayan companies or entities.

Since 2003, the acquisition of the electricity services of ITAIPU in Brazil is performed by Centrais Elétricas Brasileiras S.A. - ELETROBRAS, according to Decree Number 4,550 of December 27, 2002, which established the company as the sole Trading Agent of the Energy of ITAIPU. For Paraguay, the Administración Nacional de Electricidad - ANDE, performs the acquisition of ITAIPU's electricity services.

8. STOREROOM

Includes values of consumption materials in inventory for promptly meeting corporate needs. They are represented at the average acquisition cost. Change in consumption materials occurs through acquisition, transfers between warehouses, and removal for use.

9. BONDS RECEIVABLE

	2018	2017
Security deposits CT-80/92 (i)	210,355	208,164
Agreement ANDE 5808/99-Substation MD (ii)	2,640	3,274
Agreement ANDE 5808/99-Addendum n.2-T5/R5 (ii.a)	7,792	9,474
Agreement ANDE 5808/99-Addendum n.6-T4/R4 (ii.b)	579	698
Other	1,990	2,265
TOTAL	223,356	223,875
Current	3,235	3,240
Non-current	220,121	220,635

Include mainly receivables linked to obligations with third parties, such as:



(i) Security deposits CT-80/92

Cash guarantees mature in April 2024, are linked to loan raised from the Brazilian National Treasury, contract CT-80/92 (note 15), comprise the Entity's right at amount equivalent to "Par-Bond" and "Discount-Bond" principal, are adjusted for inflation at rate provided for in medium and long-terms debt contract (DMLP) and disclosed on a half-annual basis in June and December each year by the Brazilian National Treasury Secretary - STN. For other months, adjustment is carried out based on the last rate disclosed.

(ii) Agreement ANDE 5.808/99

Agreement entered into by ITAIPU and ANDE on March 30, 1999, for the purpose of establishing conditions for expansion of ITAIPU's Right Margin Substation, with ITAIPU being responsible for: preparation of project, acquisition of equipment and materials, civil construction work, assembling of equipment, and trials on putting into service and acceptance of facilities of Sector 3 of mentioned Substation, as well as these facilities' operation and maintenance services.

ITAIPU is responsible for obtaining necessary funds to finance facilities that are the object of this agreement and ANDE will compensate ITAIPU for disbursements made, under the same conditions of respective loan contract.

Six addenda to this contract were executed, including: (ii.a) the addendum No. 2, dated August 20, 2010, in order to establish the reimbursement rules to ITAIPU by ANDE of payments made as loan contracted by ITAIPU with Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional - CAJUBI (Note 15), for the installation of an Autotransformer/Regulator of 500/220 kV (T5/R5) in the Substation of the Right Bank; and (ii.b) the addendum No. 6, dated February 17, 2012, in order to establish reimbursement rules to ITAIPU by ANDE of payments made as loan contracted by ITAIPU with Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional - CAJUBI (Note 15), for the Repowering of Autotransformer Set/Regulator (T4/R4) in the Substation of the Right Bank.

10. OTHER ACCOUNTS RECEIVABLE

	2018	2017
Advances to suppliers (i)	18,187	29,697
Restricted deposits (ii)	1,780	9,242
Advances to staff	600	151
Sundry receivables	1,401	1,591
TOTAL	21,968	40,681



- (i) Refer to advances made to suppliers of consumption materials and service providers that will be written-off upon delivery of merchandise or effective provision of services.
- (ii) The group of accounts called "Linked deposits" includes the balances of bank accounts linked to the Agreements and Terms of Cooperation executed into by ITAIPU and several bodies.

In these contracts, ITAIPU is the executing body and the manager of funds destined to respective projects.

Breakdown of this group of accounts is shown in chart below:

	2018	2017
ANDE Agreement of Cooperation L66kV (ii.a) ANDE Agreement of Cooperation L220kV (ii.b) FINEP agreement (ii.c) SESI and SENAI Terms of Cooperation (ii.d) Other restricted deposits	768 71 574 263 104	6,216 1,560 1,014 291 161
TOTAL	1,780	9,242

(ii.a) ANDE Agreement of Cooperation L66kV

On April 25, 2014, the Agreement of Cooperation JEC.JE/055/2014 was reached between ITAIPU and the Administración Nacional de Electricidad - ANDE, to last 36 months, in order to establish the obligations and conditions regarding the execution of the following works and services to strengthen the electrical system of Alto Parana, Paraguay:

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

Five addenda were signed to expand scope of object defined in mentioned Agreement, with inclusion of more associated construction work and extension of Agreement for another 18 months. Above-mentioned construction work and services are concluded and in operation and are at the stage of being approved by ANDE.



(ii.b) ANDE Agreement of Cooperation L220kV

On June 23, 2017, the Agreement of Cooperation JEC.JE/166/2017 was reached between ITAIPU and the Administración Nacional de Electricidad - ANDE, to last 24 months, in order to establish the obligations and conditions regarding the execution of repowering of two 220kV transmission lines from Substation of the Right Bank to the Substation Itakyry;

(ii.c) FINEP Agreement

On November 27, 2013, FINEP Agreement 01.13.0347-00 was executed with *Financiadora de Estudos e Projetos* - FINEP for execution of project "Hybrid Electric Ethanol Bus" with funds from the national Fund for Scientific and Technological Development.

(ii.d) SESI and SENAI Terms of Cooperation

Agreements entered into in Brazil with institutions SESI and SENAI to assign part of contribution funds related to INSS, levied on payroll, for investment in professional development programs and improvement of workers' social welfare.

11. JUDICIAL DEPOSITS

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

	2018	2017
Brazil Paraguay	51,311 2,897	45,196 3,394
TOTAL	54,208_	48,590

In Brazil, judicial deposits related to labor matters are updated based on the FGTS correction factor and for the tax, civil and commercial purposes, based on the National Consumer Price Index - INPC. With exception of bank deposit certificates (CDB), as they are already adjusted in accordance with rules agreed upon at the time of their acquisition.



12. RESULTS

This includes the results of ITAIPU drawn from the results of Statement of Income for each year, accumulated up to December 31, 2017, and the income (loss) for the year ended December 31, 2018.

	2018	2017
Prior-year results	(7,621,130)	(6,441,140)
Income (loss) of the current year	(1,190,366)	(1,179,990)
TOTAL	(8,811,496)	(7,621,130)

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

Until 2023, the forecast year for the total debt amortization for the construction of the project and the revision of Attachment "C" of the Treaty, the amount of accrued values in the Income (loss) caption and total fixed and intangible assets of Entity, minus the amount of Capital, as defined in Attachment "C", the amortization of loans and financing is an integral part of the Electricity Service Cost and the depreciation of property, plant and equipment and amortization of intangible assets are not accounted for by the Entity (Note 2, item i).

13. PROPERTY, PLANT AND EQUIPMENT

	2018	2017
Fixed assets in service		
Goods and production facilities	16,440,650	16,440,818
Other assets and facilities	751,465	753,154
Capital goods furniture	113,500	106,033
Total fixed assets in service	17,305,615	17,300,005
Constructions in progress	_	
Sundry property, plant and equipment	187,925	168,894
Advances for movable assets	1,032	32
Technical reserve	52,358	50,953
Total constructions in progress	241,315	219,879
TOTAL PROPERTY, PLANT AND EQUIPMENT	17,546,930	17,519,884



NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017
(Amounts expressed in thousands of US Dollars, unless
otherwise indicated)

Property, plant and equipment in service, equivalent to 98.6% and 98.7% of total property, plant and equipment in the years 2018 and 2017, respectively, represents the historical cost of construction of the ITAIPU Hydroelectric Power Plant: facilities for the production of electricity and ancillary works, adjacent areas, administrative head offices, in addition to movable assets.

These costs, originally, are classified as Construction in progress, being transferred to Property, plant and equipment in service, after the respective physical/accounting reconciliation process of each unit.

Sundry property, plant and equipment - equivalent to 1.1% and 1.0% of total Property, plant and equipment in 2018 and 2017, respectively - refer to investments in small facilities construction work and replacement of equipment, evaluated at historic acquisition cost. These investments are distributed into several assets, with no concentration of amounts per property, plant and equipment.

The charges on loans and financing relating to property, plant and equipment are recorded in Assets until effective start-up date of Fixed assets.

Inventories of spare materials to be used directly in the property, plant and equipment are recorded as a technical reserve.

The balances of property, plant and equipment are presented at the historical cost, since ITAIPU does not account for depreciation, due to having revenue calculated based on liability charges and because these expenses are not part of the Electricity Service Cost, as defined in Attachment "C" of the Treaty (Notes 4.e and 12).

In the financial year of 2018, as well as for the financial year of 2017, the formation of provision for impairment was not deemed necessary (Note 4.f).



The net changes of Fixed Assets in 2018 was US\$ 27,046 and US\$ 19,240 in the same period of 2017 with the following breakdown:

	2018	2017
Property, plant and equipment in the period		
Sundry property, plant and equipment	19,509	19,813
Capital goods furniture	12,990	12,112
	32,499	31,925
Economic (decreases) increases Technical reserve Financial charges Write down of property, plant and equipment	1,406 732 (7,591) (5,453)	126 880 (13,691) (12,685)
Changes in fixed assets	27,046	19,240

The write-off of fixed assets in periods shown in chart above refer to donations of chattel considering public and social interest, write-off in accounting books of chattel and properties evaluated as unserviceable, and effective write-off due to disposal of properties in housing complexes of both margins.

14. INTANGIBLE ASSETS

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

	2018	2017
Software Right of use of easement strip	33,475 69	32,887 69
TOTAL	33,544	32,956

As described in Notes 4.e. and 12, ITAIPU does not account for the amortization of its Intangible Assets. In the financial year of 2018, as well as for the financial year of 2017, the formation of provision for impairment was not deemed necessary (Note 4.f).



15. LOANS AND FINANCING

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

			Contract value			Debt				
	Currency			12/31	/2018	12/	/31/2017		Amortization period	
	(3)	Interest rate	Total	Short term	Long term	Short term	Long term	Beginning	End	Installment
I - ELETROBRAS										
ECF - 1480/97										
Tranche B - Principal	US\$	7.50	10,250,481	512,200	1,153,874	477,123	1,667,055	2001	2023	Monthly
Tranche C - Principal	US\$	4.10	1,780,955	56,515	195,689	54,147	252,204	2007	2023	Monthly
ECF - 1627/97										
Principal ECF - 1628/97	US\$	7.50	181,577	9,931	31,449	9,931	41,380	1998	2023	Monthly
Principal	US\$	7.50	211,116	20,850	66,025	20,850	86,876	2007	2023	Monthly
CT - 2686/08	000	7.50	211,110	20,030	00,023	20,030	00,070	2007	2023	Worlding
Principal	US\$	7.50(4)	22,343	1,702	3,403	1,701	5,104	2012	2021	Monthly
·			,	601,198	1,450,440	563,752	2,052,619			,
II - BRAZILIAN NATIONAL TREASURY										
CT-80/92										
External Debt Restructuring (DMLP)	US\$	(2)(6)	918,235	2,292	243,369	1,934	243,369	1997	2023	Semi-annual
CT-424/TN		(-)(-)		_,	_:-,	.,	,			
Eletrobras assignment (ECF-1480/97)										
Tranche B - Principal	US\$	7.50	-	252,204	927,800	234,812	1,180,003	2001	2023	Monthly
Tranche C - Principal	US\$	4.10	-	60,901	209,495	58,547	270,396	2007	2023	Monthly
CT-425/TN										
Eletrobras assignment (ECF-1480/97)										
Tranche B - Principal	US\$	7.50	-	558,314	2,048,787	519,810	2,607,154	2001	2023	Monthly
Tranche C - Principal	US\$	4.10	-	134,750	463,537	129,542	598,288	2007	2023	Monthly
				1,008,461	3,892,988	944,645	4,899,210			



NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of US Dollars, unless otherwise indicated)

			Contract value		De	bt				
	Currency	Intere		12/31	/2018	12/31	12/31/2017		Amortization period	
	(3)	st rate	Total	Short term	Long term	Short term	Long term	Beginning	End	Installment
III - OTHER CONTRACTS FIBRA - Fundação Itaipu BR de Previdência										
e Assistência Social	DA	F 70(0)	444.500	5.000	405.000			0040	0000	M (6.1
CT- 56/18 - SERV. PASSADO REAJ. SAL. CT - 7218/03 ⁽¹⁾	R\$ R\$	5,76 ⁽⁸⁾ 6.00 ⁽⁵⁾	141,536 73,911	5,908 3.271	135,628 11,709	3.490	- 16,944	2018 2004	2023 2023	Monthly Monthly
G1 - 7210/03 W	Nφ	0,000	73,911	9.179	147.337	3,490	16,944	2004	2023	WOTHIN
CAJUBI - Caja Paraguaya de Jubilaciones y Pensiones del Persona				5,175	141,331	3,490	10,944			
De la Itaipu Binacional										
PIB 2010-10-0001 - T5/R5	US\$	8,00	15,000	1,816	5,975	1,682	7,792	2012	2022	Monthly
PIB 2011-10-0001 - Repowering T1/R1, T2/R2, T3/R3 e TX/RX	US\$	8,00	5,000	606	1,362	561	1,969	2012	2021	Monthly
PIB 2011-10-0002 - Sectioning L3 and L4 500kV PIB 2011-10-0003 - Environment MD	US\$ US\$	8,00 8,00	42,000 12,000	4,600 1,620	15,627 4.810	4,259 1,500	20,226 6,430	2013 2013	2022 2022	Monthly Monthly
PIB 2012-10-0003 - Environment MD PIB 2012-10-0001 - Repowering T4/R4	US\$	8,00	12,000	1,620	4,610 451	1,500	579	2013	2022	Monthly
CT-257/18 - SERV. PASSADO REAJ. SAL	Gs.	5.51 ⁽⁷⁾	129,445	6,036	123,409	-	-	2018	2022	Monthly
OT 201110 OERV. THOURDO RETU. ONE	G 0.	0,0117	120,110	14,807	151,634	8,121	36,996	2010	2022	Monany
Other lenders				1 1,001	.0.,00.	٠,٠_٠	00,000			
Banco Bilbao V. A. S.A Battery Bank - SEMD	US\$	4,05	1,800	-	_	300	-	2015	2018	Monthly
Banco Continental S.A.E.C.A ITAIPU Preserve MD	US\$	6,00	11,500	1,917	5,590	1,917	7,506	2016	2022	Monthly
Banco Bilbao V. A. S.A Estudo Atual. Tec. UHI	US\$	5,75	4,537	825	2,475	825	3,300	2017	2022	Monthly
				2,742	8,065	3,042	10,806			
				1,636,387	5,650,464	1,523,050	7,016,575			

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

⁽¹⁾ The total amount of the contract translated at the current rate on the date of release and updated at the balance sheet closing rate for the period corresponds to US\$ 19,075.

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

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

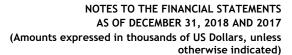
⁽³⁾ Abbreviations: 00 R\$ - Reais

US\$ - US Dollars

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

⁽⁷⁾ In addition to interest rate, contract establishes adjustment of base balance at IPC.

⁽⁸⁾ In addition to interest rate, contract establishes adjustment of base balance at IPCA.





As established in ITAIPU Treaty, funds required for studies, construction and operation of electric plant. and construction work of auxiliary facilities will be supplied by High Contracting Parties or obtained by ITAIPU through credit transactions.

High Contracting Parties - together or separately, directly or indirectly, as agreed - will give ITAIPU, as requested, guarantee for credit operations it carries out.

According to schedule for payment of debt deriving from construction of plant and associated construction work, debt balance will be amortized up to 2023 and cash deposits contracted by Itaipu in 1992 referring to loan raised from the National Treasury, contract CT-80/92, will be used in April 2024.

In December 2018, contracts were executed for payment in installments and acknowledgment of debts with supplementary social security foundations related to the mathematical reserve difference deriving from updating of actuarial assumptions of founding members past service time and adjustments of salary table in Brazil and Paraguay. These contracts have installments maturing by 2038.

Contracts entered into with Centrais Elétricas Brasileiras S.A.- ELETROBRAS and other creditors, shown in chart above, refer to:

I - ELETROBRAS

ELETROBRAS ECF-1480/97 Financing Contract

Refinancing of overdue and current debt balances of total ITAIPU debts deriving from financing contracts with ELETROBRAS.

ELETROBRAS ECF-1627/97 Financing Contract

Financing of remaining investment cost of Construction Work Completion Plan (PCO).

ELETROBRAS ECF-1628/97 Financing Contract

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

ELETROBRAS ECF-2686/08 Financing Contract

Coverage of total cost of Supplementary Investment Program (PIC).

II - Brazilian National Treasury

Contract CT-80/92

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

This contract establishes guarantees for principal in the form of cash deposits, as mentioned in note 9.



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Contract CT 424/TN and Contract CT 425/TN

Signed between ELETROBRAS and Brazilian National Treasury, on December 29, 1998, establishing the assignment of a part of credits which that company held together with this Entity, related to the Contract ECF-1480/97 executed into between ITAIPU and ELETROBRAS.

Based on these credit granting contracts, ITAIPU directly transfers to the Brazilian National Treasury part of amounts owed to ELETROBRAS pursuant to contract ECF-1480/97, according to transfers flow defined in contracts.

Additionally, the Brazilian National Treasury, through concession agreements No. 808/PGFN/CAF of December 28, 2012, granted to the National Bank for Economic and Social Development - BNDES, part of credit receivables held against ITAIPU, under contract numbers 424/TN and 425/TN, an amount equivalent to US\$ 3,851,826. The onlendings flows will start in 2020.

III - Other contracts

Contract CT-7218/03

The contract executed into with FIBRA, from the Resolution of the Board of Directors, RCA 010/03, of September 5, 2003, which revoked the payment in kind of real estate for partial discharge of debts of ITAIPU with FIBRA, for the period of 1989 to 1992, which was approved by the Board of Directors Resolution RCA 004/93, of January 11, 1993.

Contract CT-56/18

Settlement of debt with *Fundação Itaipu-BR de Previdência e Assistência Social* (FIBRA) related to mathematical reserve difference deriving from updating of actuarial assumptions of founding members past service time and adjustments of salary table above inflation.

CAJUBI and other lenders' contracts

Related to specific projects, according to denomination included in every contract of chart above.

Contract CT-257/18

Settlement of debt with Caja Paraguaya de Jubilaciones y Pensiones del Personal de la ITAIPU (CAJUBI) related to mathematical reserve difference deriving from updating of actuarial assumptions of founding members past service time and adjustments of salary table above inflation.



Repayments of loans and long-term financing, with ELETROBRAS, the Brazilian National Treasury and other institutions provide the following annual amortizations:

Year	
2020	1,743,721
2021	1,861,612
2022	1,353,130
2023	487,860
2024-2038	204,141
TOTAL	5,650,464

Being settled by way of debt service, the following amounts related to interest commitments and repayments falling due in each year:

Financing entities	2018	2017
Eletrobras		
Principal	564,733	688,463
Charges	161,249	210,425
	725,982	898,888
Brazilian National Treasury Credit Assignment of Eletrobras		
Principal	942,763	883,616
Charges	343,731	403,392
	1,286,494	1,287,008
Brazilian National Treasury Foreign debt restructuring		
Charges	10,185	9,134
	10,185	9,134
Fibra		,
Principal	3,226	3,394
Charges	2,313	2,060
	5,539	5,454
Cajubi	·	
Principal	8,121	7,716
Charges	3,200	3,808
	11,321	11,524



Financing entities Other lenders	2018	2017	
Principal	3,042	2,929	
Charges	732	880	
	3,774	3,809	
Total			
Principal	1,521,885	1,586,118	
Charges	521,410	629,699	
	2,043,295	2,215,817	

There are no overdue debt installments, ancillary clauses (covenants) linked to the financial results of the Entity, or those that establish new obligations that influence the amounts recognized in liabilities.

16. REMUNERATION AND REIMBURSEMENTS

Include commitments with High Contracting Parties (Federative Republic of Brazil and Republic of Paraguay), as well as with the Parties (ELETROBRAS and ANDE), as provided for in ITAIPU Treaty, in Appendices and respective Reverse Notes.

•	2018			2017		
	Principal	Dollar adjustment	Total	Principal	Dollar adjustment	Total
Paraguayan Government						
Royalties (i)	22,435	167,156	189,591	11,946	145,811	157,757
Remuneration for electricity assignment (ii)	26,626	203,792	230,418	28,934	201,810	230,744
Subtotal	49,061	370,948	420,009	40,880	347,621	388,501
Brazilian Government						
Royalties (i)	22,435	167,156	189,591	23,347	157,101	180,448
Subtotal	22,435	167,156	189,591	23,347	157,101	180,448
Administración Nacional de						
Electricidad - ANDE						
Reimbursement for Management and Supervision Charges (iii)	1,726	12,858	14,584	1,796	12,085	13,881
Yields from Capital (iv)	6,000	19,072	25,072	6,000	18,177	24,177
Subtotal	7,726	31,930	39,656	7,796	30,262	38,058



NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018 AND 2017 (Amounts expressed in thousands of US Dollars, unless otherwise indicated)

•	2018				2017		
	Principal	Dollar adjustment	Total	Principal	Dollar adjustment	Total	
Centrais Elétricas Brasileiras							
S.A ELETROBRAS							
Reimbursement for Management and Supervision Charges (iii)	1,726	12,858	14,584	1,796	12,085	13,881	
Yields from Capital (iv)	6,000	19,072	25,072	6,000	18,177	24,177	
Subtotal	7,726	31,930	39,656	7,796	30,262	38,058	
TOTAL	86,948	601,964	688,912	79,819	565,246	645,065	

- (i) Royalties: Compensation owed to High Contracting Parties due to use of Paraná River hydraulic potential.
- (ii) Remuneration for electricity assignment: Amount owed to Paraguayan Government related to assignment of rights to part of energy.
- (iii) Reimbursement for management and supervision charges: Amount owed to the Parties as reimbursement of management and supervision charges related to ITAIPU.
- (iv) Yields from Capital: Remuneration paid to the Parties on invested capital.

Remuneration and reimbursements are calculated in accordance with Attachment "C" to the Treaty and respective Reverse Notes (See Attachment I - Notes to Statement of Operating Account).

In the balances presented in the chart above, there are no amounts overdue both on December 31, 2018 and December 31, 2017.

On overdue amounts, there are increases for late payment of 0.5% per month during the first fifteen days of delay and 1% per month beginning as of the sixteenth day of delay.

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



17. SUPPLIERS

Include obligations deriving from acquisition of assets or contracting of services required to operate the enterprise and develop social and environmental actions.

18. SALARIES AND SOCIAL CHARGES

	2018	2017
Provision for vacation and social security charges	38,569	40,183
Provision for profit sharing	28,404	30,329
Supplementary pension foundations	6,806	9,141
Payroll charges payable	6,458	7,431
Other	9,398	10,997
TOTAL	89,635	98,081

19. LABOR INDEMNITIES

	2018	2017
Permanent voluntary termination program (i) Indemnity for length of service (ii)	66,994 239,995	74,978 242,968
indefinity for tength of service (ii)		242,700
TOTAL	306,989	317,946
Current	46,281	50,242
Non-current	260,708	267,704

Include amounts related to indemnities to be paid to employees upon termination, with provision recorded in accordance with provisions of respective Collective Bargaining Agreements based on Protocol of Labor Relations and Social Security entered into by the Federative Republic of Brazil and the Government of Republic of Paraguay, which establishes legal standards applicable in relation with Labor and Social Security Law to employees contracted by ITAIPU, regardless of their nationality.

These indemnities were negotiated with Unions for the purpose of finding a balance between employees contracted in Brazil and those contracted in Paraguay in relation to termination indemnity systems according to length of service.

(i) Permanent voluntary termination program (PPDV)



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Program through which ITAIPU's employees contracted in Brazil may be terminated from the Entity with payment of indemnity, in accordance with provisions of its regulation, approved through Executive Board Resolution RDE-183/2007 and respective clause of Collective Bargaining Agreements.

Employees with employment relationship with ITAIPU over a period equal to or higher than nine years that leave the Entity by means of a mutual agreement, observing specific conditions included in program regulation, may join this program.

Indemnity amounts in the program are legal indemnities defined by Brazilian labor law plus supplementary amount calculated according to number of years of employment relationship with ITAIPU.

Legal amounts are owed to all employees contracted in Brazil, regardless of the time of employment relationship with the Entity, but only amounts owed to employees able to join mentioned program are part of respective accounting provisions.

(ii) Indemnity for length of service

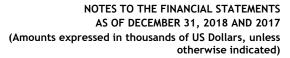
Indemnity provided for in Collective Bargaining Agreements entered into by ITAIPU and Unions representing employees contracted in Paraguay, based on Protocol on Labor Relations and Social Security and on Article 97 of the Paraguayan Labor Code, which will be paid to the employee that leaves the Entity except in case of just cause termination, in conformity with this rule:

- a) For employee whose work contract duration is lower than nine years, indemnity will be calculated based on the month with the highest remuneration received by the worker, per year of service or per annum, and fraction equal to or higher than six months;
- b) After nine years of work contract duration, employee will be entitled to double indemnity provided for in prior paragraph.

Respective accounting provision includes total estimated amounts related to indemnities, according to above-mentioned items "a" and "b", since according to Paraguayan labor legislation, severance pay fund (FGTS), legal amount provided for in Brazilian law, is not paid.

20. POST-EMPLOYMENT BENEFITS

ITAIPU, as a sponsor, offers to employees a retirement program and pensions, which is administered in Brazil, by Fundação ITAIPU BR de Previdência e Assistência Social - FIBRA and in Paraguay, by Caja Paraguaya de Jubilaciones y Pensiones del personal de la Itaipu Binacional - CAJUBI.





FIBRA's Articles of Association were approved by the Ministry of Social Security - MPAS on November 30, 1988, through Administrative Rule 4367 and its Regulation approved by the ITAIPU Board of Directors' Resolution RCA-041/87, last updated on April 26, 2018, by ITAIPU Board of Directors' Resolution RCA-006/18, approved by Administrative Rule 454, of 5/17/2018.

CAJUBI was created by Law 1361/88, of December 19, 1988, and its Regulation was approved by ITAIPU Board of Directors Resolution RCA-039/09; it was last adjusted on December 14, 2012 through ITAIPU Board of Directors' Resolution RCA-047/12.

Both FIBRA and CAJUBI's retirement and pension plans have the "defined benefit" characteristic, according to which contributions are made by the sponsor and participants. These contributions are based on an actuarial study, in accordance with current legislation in Brazil and Paraguay, to provide sufficient funds to cover current obligations with benefits already granted, and future obligations, with benefits to be granted.

The following benefits under the retirement and pension plan are as follows:

- i) Employees hired in Brazil:
 - a) Retirement supplementation plan per length of work, contribution, disability and age;
 - b) Special retirement supplement;
 - c) Allowance for the family of the worker who is incarcerated
 - d) Pension supplement;
 - e) Temporary special death benefit;
 - f) Funeral assistance for the death of the beneficiary; and
 - g) Supplementation of the annual allowance.
- ii) Employees hired in Paraguay:
 - a) Ordinary retirement and disability;
 - b) Extraordinary retirement;
 - c) Voluntary early retirement;
 - d) Allowance for the family of the worker who is incarcerated
 - e) Pension;
 - f) Funeral assistance;



- g) Settled benefit of retirement plan; and
- h) Annual bonus.

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

To cover plans' benefits, regular sponsor contribution rate is 15% for plan administrated by FIBRA and 21.32% for plan administrated by CAJUBI, calculated on total of respective payroll.

FIBRA's active members contribute with rates in three bands: 2.89%, 4.80% and 14.47%, applied to Actual Contribution Salary. CAJUBI's active members contribute with fixed rate of 8.526% on remunerations.

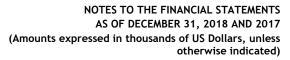
Both FIBRA and CAJUBI's assisted members contribute with rate of 10% of their benefits. In case of CAJUBI, pension members contribute with rate of 10% of their benefits.

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

Since the financial year of 2003, ITAIPU calculates the liability from post-employment benefits relative to the health care plan, and from 2009 on the retirement and pension plan. For this, qualified actuaries are hired and they prepare the opinions, based on the respective accounting standard to both programs.

The obligations recorded on ITAIPU's Financial Statements relating to post-employment benefits are as follows:

	BRAZIL				-				
			PARA	PARAGUAY		TAL			
	2018	2017	2018	2017	2018	2017			
Obligations recorded on the balance sheet - long-term									
Retirement plan benefits	41,009	94,674	727,249	678,201	768,258	772,875			
Health plan benefits	402,172	366,181	556,536	496,147	958,708	862,328			
	443,181	460,855	1,283,785	1,174,348	1,726,966	1,635,203			
Provisions recognized in the statement of incom	e for the years								
Retirement plan benefits	(101,719)	(29,825)	(222,172)	(79,795)	(323,891)	(109,620)			
Health plan benefits	(89,556)	17,977	(90,349)	(44,815)	(179,905)	(26,838)			
	(191,275)	(11,848)	(312,521)	(124,610)	(503,796)	(136,458)			





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

	BRAZIL		PARAGUAY	
	2018	2017	2018	2017
GENERAL DATA				
Active participants	1,407	1,409	1,688	1,738
Retired participants	1,590	1,548	1,529	1,454
Pensioners	259	247	361	352
ECONOMIC ASSUMPTIONS				
Real discount rate (p.a.) - pension plan	4.92%	5.45%	5.33%	5.51%
Real discount rate (p.a.) - Health plan	4.92%	5.45%	5.33%	5.51%
Assets expected return rate (p.a.)	9.48%	10.64%	9.54%	9.76%
Real rate of wage developments (p.a.)	2.58%	2.54%	2.50%	1.95%
Real rate of growth in costs (p.a.)	2.25%	2.00%	2.00%	2.00%
Inflation	4.34%	4.92%	4.00%	4.03%
Benefits capacity factor	97.67%	97.37%	97.80%	97.83%
ACTUARIAL ASSUMPTIONS				
General mortality table	AT-2000 (-20%)	AT-2000 (-20%)	AT-2000 (-10%)	AT-2000
Mortality table of individuals with permanent disability	AT-1983 (-10%)	AT-1983 (-10%)	AT-1983	AT-1983
Table of new disability benefit vested	Weak Light	Weak Light	Weak Light	Average Light
Turnover table	0.12%	0.12%	0.50%	0.50%



a) Pension plan

post-employment benefit liability corresponding to pension plans is annually adjusted based on respective actuarial reports. Accounting provision of amount related to actuarial deficit of benefit plan administered by CAJUBI was initially recognized in 2009 and actuarial deficit of benefit plan administered by FIBRA was initially recognized in 2016. These provisions are annually adjusted based on respective accounting opinions.

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

DESCRIPTION	FIB	FIBRA 2017		CAJUBI		
DESCRIPTION	2018			2017		
Fair value of the plan assets	963,280	1,082,845	241,349	358,158		
Present value of the obligations	(1,160,805)	(1,197,953)	(1,135,039)	(1,081,476)		
(Deficit) Actuarial surplus	(197,525)	(115,108)	(893,690)	(723,318)		
Loan and debt contracts*	156,516	20,434	166,441	45,117		
(Deficit) Actuarial surplus, net	(41,009)	(94,674)	(727,249)	(678,201)		

^{*} In the year 2018, by the Resolution 029/18 of December 20, 2018 of Board of Directors' Meeting, the payment by ITAIPU to Fundação ITAIPU BR de Previdência e Assistência Social - FIBRA and to the Private and Personnel Pension Fund of Paraguay of Itaipu Binacional - CAJUBI was approved in the amount related to the difference of the mathematical reserve from the adjustment of actuarial assumptions of the length of past service of the founding participants, and adjustments in the wage table above inflation. This payment was formalized by the signature of the contract for recognition of the sponsor's debt (see Note 15).

The actuarial reserves are recorded excluding the obligation already recognized by ITAIPU in its Financial Statements, regarding loans and debt contracts, with the entities FIBRA and CAJUBI. The details of such contracts are provided in Nota 15.

To the sponsor and participants, assets and beneficiaries, the responsibility for the financial and actuarial balance of retirement and pension plans in their respective proportions and lawsuits is assigned. The two retirement and pension plans have in their articles of incorporation: Art. 62 of FIBRA's Bylaws and Art. 94 and 95 of Law of CAJUBI Creation, as mechanism for maintaining actuarial balance, the provision for performing actuarial reviews on ordinary basis, once a year, and, extraordinarily, whenever the Board determines. Any contribution arising from the review provided in these articles, conditioned to the prior authorization of ITAIPU's Executive Board and the Board of Directors, will be made through changes to the contribution percentages by the participant and the sponsor.



Aimed at providing sustainability and convergence to the Pension Plans in both margins, the Board of Directors, through the Board of Directors' Resolution RCA-007/16, of February 26, 2016, approved the guidelines on the Project on the Settlement of the pension plans in effect in ITAIPU Binacional and the creation of new plans.

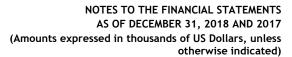
To apply such guidelines, the Executive Board took the measures required for settlement, including the engagement of a consulting firm to support the works. The first step of the project, related to the evaluation, planning and formulation of the settlement strategy was completed, and is waiting for the approval from the Executive Board of Itaipu Binacional.

b) Health care

The actuarial liabilities related to the health care plan are fully recognized in the sponsor's liabilities, ITAIPU, once there are no assets segregated in the plan. In the end of each year, these amounts are adjusted based on actuarial opinions.

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

DESCRIPTION	BRA	ZIL	PARAC	GUAY
———	2018	2017	2018	2017
Fair value of the plan assets	-	-	-	-
Present value of the obligations				
Rights due	302,529	276,214	413,418	369,423
Rights falling due	99,643	89,967	143,118	126,724
	402,172	366,181	556,536	496,147
Unrecognized gains (losses)	-	-	-	-
Recorded actuarial liability	402,172	366,181	556,536	496,147





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

	Liability amount 2018		Impact		
	Discount rate used		Projected	scenarios	
			Increase 0.5%	Decrease 0.5%	
Private pension plan - Brazil	4.92%	(41,009)	68,656	(76,466)	
Private pension plan - Paraguay	5.33%	(727,249)	64,090	(70,813)	
Brazil Health Plan	4.92%	(402,172)	27,687	(31.225)	
Paraguay Health Plan	5.33%	(556,536)	35,412	(39,556)	

21. PROVISION FOR LAWSUITS

ITAIPU is a party to lawsuits related to tax, civil, commercial, labor and environmental matters.

The lawsuits filed against the Entity are classified based on the risk of loss, having the following accounting treatment:

- i) Regarding lawsuits with risk of probable loss, the provisions are formed;
- ii) For lawsuits which risk of loss is "possible" the corresponding information is disclosed in the Notes, a provision not being recognized; and
- iii) For causes where a risk of remote loss is not subject to formation of provisions or disclosure.



The accounting provisions relating to legal proceedings are made up of periodically updated values 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 stressed that it is not possible to inform the exact moment the payments related to lawsuits as of the reporting date of the Financial Statements, once they are conditioned to the execution of lawsuits in progress in many legal levels.

		2018			2017		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total	
Current							
Tax	13,473	-	13,473	23,601	-	23,601	
Civil	43	-	43				
Commercial	1	38	39	1	41	42	
Labor	33,762	7,789	41,551	37,981	3,476	41,457	
	47,279	7,827	55,106	61,583	3,517	65,100	
Non-current							
Tax	6,562	-	6,562	7,191	-	7,191	
Civil	18	-	18	3	-	3	
Commercial	140,117	52	140,169	154,899	336	155,235	
Labor	3,882	6,221	10,103	5,377	7,936	13,313	
	150,579	6,273	156,852	167,470	8,272	175,742	
Total	197,858	14,100	211,958	229,053	11,789	240,842	

In the chart below the summary of changes in the book balances related to lawsuits is shown:

	Tax	Civil	Commercial	Labor	Total
Balance at 12/31/2017	30,792	3	155,277	54,770	240,842
Brazil					
(+) Additions	2,581	65	8,151	2,364	13,161
(-) Write-offs/reversals	(8,758)	(7)	-	(1,815)	(10,580)
Exchange-rate change	(4,580)	-	(22,934)	(6,263)	(33,777)
Paraguay					
(+) Additions	-	-	266	4,962	5,228
(-) Write-offs/reversals	-	-	(530)	(1,705)	(2,235)
Exchange-rate change	-	-	(22)	(659)	(681)
Balance at 12/31/2018	20,035	61	140,208	51,654	211,958



Judicial proceedings underway in Brazil and Paraguay that are classified as "possible" for loss, for which no accounting provision has been made, are shown in the table below:

-	2018			2017		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Tax	14,801	-	14,801	4,555	-	4,555
Civil	47	667	714	118	289	407
Commercial	9,688	3,955	13,643	10,708	4,508	15,216
Labor	1,666	16,372	18,038	676	16,230	16,906
Environmental _	-	23	23		24	24
Total _	26,202	21,017	47,219	16,057	21,051	37,108

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

i) Tax lawsuits

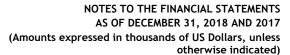
In Brazil, out of the forty-three (43) labor lawsuits (especially arising from administrative proceedings and tax foreclosures) in which ITAIPU is a defendant, we highlight those related to the assessments arising from the non-payment of the social security contribution on the amounts included in payroll (profit sharing, education expenditures, remuneration paid to non-employee directors, salary bonus, and housing allowance). Some of these lawsuits are in administrative pleadings phase (PAF). In the fourth quarter of 2018, the change in the provisioned amounts was solely caused by the adjustment of amounts, the risk assessment being unchanged.

In Paraguay, there are no tax lawsuits in progress.

ii) Civil lawsuits

In Brazil, of the sixty-four (64) civil lawsuits (mostly arising from PAMHO and administrative proceedings) to which ITAIPU is a party, we highlight those that involve dispute about: benefits of ITAIPU's self-managed healthcare plan, selection processes, FIBRA, assessments by the National Health Agency regarding PAMHO's management, and lawsuits for damages/collection.

The twenty-three (23) lawsuits of civil nature in progress in Paraguay correspond to claims for recovery and repossession of real estate properties owned by ITAIPU. It should be informed that, in Paraguay, the suit for pecuniary losses and damages may be dealt with in the scope of both civil and commercial laws.





iii) Commercial lawsuits

Out of eighty-two (82) commercial lawsuits in progress in Brazil, we highlight nine (9) filed by companies which had contractual relationships with ITAIPU during the Plant's construction period, of damages characteristics. The other lawsuits are related to claims derived arising from bidding processes, of claims for restoring the contract's economic and financial balance, of actions arising contract breaches (as collection of late-payment interest) or, even, claims for damages related to ITAIPU's and its management's image. In the fourth quarter of 2018, the change in the provisioned amounts was solely caused by the adjustment of amounts, the risk assessment regarding all lawsuits being unchanged.

Out of the sixteen (16) commercial lawsuits in progress in Paraguay, most of them corresponds to litigations of companies and contractors in the concept of claims for losses and damages due to breach of contracts.

iv) Labor lawsuits

In Brazil, there are four hundred seventy-two (472) labor lawsuits in which ITAIPU is the defendant. Most of them are filed by the employees of companies engaged or with some sort of relationship with ITAIPU, in which they usually claim the subsidiary liability of the company for the payment of salary amounts owed by the actual employer. There is also a significant amount of labor claims filed by ITAIPU's former employees, of which the most common demands are: wage reclassification, salary equivalence, difference/payment of risk premium, overtime payment, recognition of employment relationship over periods of work performed through outsourced companies, and reflections in the permanent voluntary redundancy plan (PPDV), and in annually-adjusted monthly bonus. Out of the total, eleven (11) are class actions filed by the trade unions that represent the employees. In the fourth quarter of 2018, the change in the provisioned amounts was solely caused by the adjustment of amounts, reassessment of risk and recalculation of some lawsuits. There was also a procedural change (settlement or closing) in some lawsuits, which caused the write-off / reversal of a portion of the amounts provisioned to ITAIPU.

Out of the two hundred thirty-two (232) labor lawsuits in progress in Paraguay are claimed, and mainly refer to collections in many salary concepts, lawsuits for annulment of dismissal and readmission, filed by former employees of ITAIPU, and, in some specific cases, retired employees.

v) Environmental lawsuits



Of the ninety-nine (99) environmental lawsuits in progress in Brazil, we highlight those filed against ITAIPU claiming, in brief, payment of indemnity and/or imposition of obligations in view of supposed losses arising from the formation of ITAIPU's reservoir and its operations. Most of such lawsuits are filed by neighboring farmers, who allege losses to soy productivity caused by the supposed change in the region's microclimate due to the formation of the reservoir. There is also a class action filed by fishermen colony and the Federal Public Prosecutor's Office alleging losses arising from the reservoir lowering, during dry spell, and, consequently, it claims the payment of indemnity, and cause ITAIPU to be subject to the requirements of the Brazilian environmental legislation. It should also be highlighted the lawsuit filed by Indian community claiming the payment of royalties and indemnity for pain and suffering from the impact of the formation of the Reservoir on this community.

Out of the five (5) environmental lawsuits in progress in Paraguay, most of them refers to accusations and lawsuits for supposed breaches of Paraguayan environmental Laws, to protect ITAIPU's environmental heritage, consistent in the recovery of environmental preservation and conservation area, which are possibly affected by third party's actions.

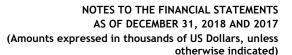
22. OTHER OBLIGATIONS

	2018	2017
Agreements (i)	1,548	5,132
Contractual retentions	1,584	3,114
Sundry creditors	2,225	2,306
TOTAL	5,357	10,552
TOTAL		10,332
Current	3,157	8,250
Non-current	2,200	2,302

(i) The group of accounts Agreements includes the balances of appeals pending execution by ITAIPU, tied to the Agreements and Terms of Cooperation, entered into with several bodies (Note 10).

23. CAPITAL

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





24. OPERATING REVENUES

Comprise the revenues from electricity services, which includes the billing: (i) of the contracted power; (ii) of royalties and reimbursement of management and supervision charges related to the energy additional to that tied to the contracted power; and (iii) of the remuneration for electricity assignment.

(i) Contracted power: is the power that ITAIPU will permanently put at the disposal of the purchasing entity, in time periods and on the conditions of the respective electricity service purchase and sale instruments.

Such power is billed based on the rate, defined in ITAIPU as the unit cost of electricity service, calculated based on Attachment "C" to the Treaty, which main assumption is that annual revenue, from electricity service provision, shall be equal, in each year, to the cost of service established in such Attachment (see Attachment I - Notes to the Statement of Operating Account).

The energy associated with the contracted power that ITAIPU undertakes to deliver to the Parties is called energy tied to the contracted power.

- (ii) Royalties and reimbursement related to the energy additional to the one tied to the contracted power: correspond to the costs related to the royalties and reimbursement of management and supervision charges (see Attachment I Notes to the Statement of Operating Account) regarding the energy additional to the one tied to the contracted power, billed to each purchasing entity, according to the respective consumption.
- (iii) Remuneration for electricity assignment: the energy produced by ITAIPU shall be divided in equal parts between the two countries, each one having its right to acquire the energy not used by the other country for own consumption recognized.

The Party that consumes the energy assigned by the other Party will pay to ITAIPU the amount related to the remuneration for electricity assignment (see Attachment I - Notes to the Statement of Operating Account), which is fully transferred by ITAIPU to the Contracting State that assigned the energy.

The revenue from billing the contracted power in the years 2018 and 2017 totaled US\$ 3,291,012, which corresponds to the billing of 145,620 MW of power, at the rate of US\$ 22.60 per kW of monthly contracted power.

The energy tied to the contracted power in the years 2018 and 2017 amounted to 75.1 million MWh.



The total energy supplied to the Purchasing Entities in the year 2018 amounted to 95.9 million MWh and 95.7 million MWh in the same period of 2017.

	2018					
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Contracted power	2,941,079	349,933	3,291,012	2,942,912	348,100	3,291,012
Remuneration for electricity assignment	327,096	-	327,096	329,392	-	329,392
Royalties and reimbursement for energy additional to the one tied to the contracted power	82,214	43,614	125,828	87,405	32,705	120,110
Total	3,350,389	393,547	3,743,936	3,359,709	380,805	3,740,514
Billed power - MW	130,136	15,484	145,620	130,217	15,403	145,620
Bound energy - MWh	67,286,342	7,848,178	75,134,520	67,284,307	7,850,213	75,134,520
Energy supplied - MWh	80,838,912	15,043,900	95,882,812	82,227,907	13,454,277	95,682,184

25. OPERATING EXPENSES - REMUNERATION AND REIMBURSEMENTS

These include the remuneration and reimbursement as provided in Attachment "C" to the Treaty and its Reverses Notes (see Note 16 and Attachment I - Notes to Statement of Operating Account), generated in 2018 and 2017, due to the High Contracting Parties, royalties and remuneration for electricity assignment, and to ELETROBRAS and ANDE, yields from capital and reimbursement of Management and Supervision Charges.

		2018			2017	
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Yields from Capital						
Principal	(6,000)	(6,000)	(12,000)	(6,000)	(6,000)	(12,000)
Dollar adjustment	(19,137)	(19,137)	(38,274)	(18,230)	(18,230)	(36,460)
Subtotal	(25,137)	(25,137)	(50,274)	(24,230)	(24,230)	(48,460)
Royalties						
Principal	(124,648)	(124,648)	(249,296)	(124,387)	(124,387)	(248,774)
Dollar adjustment	(145,331)	(145,331)	(290,662)	(135,146)	(135,146)	(270,292)
Subtotal	(269,979)	(269,979)	(539,958)	(259,533)	(259,533)	(519,066)
Reimbursement of management and sup	ervision charges					
Principal	(9,588)	(9,588)	(19,176)	(9,568)	(9,568)	(19,136)
Dollar adjustment	(11,180)	(11,180)	(22,360)	(10,397)	(10,397)	(20,794)
Subtotal	(20,768)	(20,768)	(41,536)	(19,965)	(19,965)	(39,930)
Remuneration for electricity assignment						
Principal	-	(150,999)	(150,999)	-	(157,835)	(157,835)
Dollar adjustment	-	(176,097)	(176,097)	-	(171,557)	(171,557)
Subtotal		(327,096)	(327,096)		(329,392)	(329,392)
Total	(315,884)	(642,980)	(958,864)	(303,728)	(633,120)	(936,848)



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 costs, maintenance and administration, as well as all expenditures with social and environmental programs. The ITAIPU's social and environmental actions are aimed at environmental conservation, improvements in infrastructure, public health, income generation, education, protection and respect to human rights.

	2018	2017
Personnel		
Remunerations	(248,450)	(250,470)
Benefits	(139,264)	(145,736)
Social charges	(37,893)	(39,917)
Indemnities (Note 19)	(40,490)	(41,252)
(Formation) of provisions and reversals	12,973	(34,881)
	(453,124)	(512,256)
Materials		
Consumption materials	(10,968)	(16,681)
Materials used in social and environmental actions	(1,480)	(1,117)
	(12,448)	(17,798)
Outsourced services Services applied on social and environmental actions	(43,380)	(61,142)
Maintenance services	(12,806)	(12,868)
Consultancy and audit	(3,669)	(4,631)
Insurance	(3,418)	(3,857)
Other outsourced services	(50,727)	(45,539)
outer outsourced services	(114,000)	(128,037)
	(111,000)	(120,001)
Provisions - (Formation) / Reversals		
Related to pension and health plans (Note 20)	(503,796)	(136,458)
Related to lawsuits (Note 21)	(5,574)	(106,112)
	(509,370)	(242,570)
Other Agreements and financial contributions	(100,500)	(90,714)
Other expenses	(29,388)	(28,915)
other expenses	(129,888)	(119,629)
	(127,000)	(117,027)
TOTAL	(1,218,830)	(1,020,290)
December 5.		
Reconciliation - Expenses per function Operation, maintenance, and management	(1 072 549)	(949-492)
Social and environmental responsibility programs	(1,073,548) (145,282)	(868,483) (151,807)
social and environmental responsibility programs	(143,202)	(131,007)
	(1,218,830)	(1,020,290)



27. OTHER REVENUES (EXPENSES)

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

	2018	2017
Sundry revenues	2010	2017
Disposals	1,869	649
Real estate occupancy rates	1,104	1,039
Interest, contractual fines and other	1,051	1,246
	4,024	2,934
•		
Sundry expenses	(= =0.1)	(12.424)
Write-offs of goods and facilities	(7,591)	(13,691)
Discounts granted	- (/ 7)	(34)
Bank and fine expenses Other expenses	(67)	(20)
Other expenses	(14) (7,672)	(13,745)
-	(7,072)	(13,743)
_	(3,648)	(10,811)
20 FINANCIAL INCOME (LOSS)		
28. FINANCIAL INCOME (LOSS)		
	2018	2017
Financial management		
Financial revenues Income from interest earning bank deposits (Note 6		
and Note 30)	29,124	57,868
Restatement of judicial deposits (Note 11)	1,939	2,155
Late-payment interest on billing (Note 7)	19	271
Other financial revenues	233	290
	31,315	60,584
Financial expenses		
Financial charges on loans and financing (Note 15)	(520,314)	(628,126)
Inflation adjustments (Note 28.1)	116,771	(24,850)
Late-payment interest on remuneration and	-	(74)
reimbursements (Note 16) Other financial expenses	-	(109)
other imaneiat expenses	(403,543)	(653,159)
	(,,-	()
	(372,228)	(592,575)



28.1 FINANCIAL EXPENSES - INFLATION ADJUSTMENT

The reference currency to calculate the operations and presentation of ITAIPU's financial statements is the US Dollar, (Note 4.a); thus, the economic and financial operations, carried out in sundry currencies, have values translated into the United States Dollars based on the market closing rates.

The inflation adjustments arising from exchange-rate changes are recorded in asset and liability accounts, according to the principal transaction account, and in specific profit or loss accounts, according to the following chart:

	2018	2017
Loans and financing		
FIBRA	2,228	(205)
Other exchange-rate changes		
Current assets	(55,855)	972
Non-current assets	(8,006)	(613)
Current liabilities	10,694	(1,497)
Non-current liabilities	167,710	(23,507)
	114,543	(24,645)
	116,771	(24,850)

29. INSURANCE

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

- a) Insurance for all goods installed in Hydroelectric Power Plant, with the coverage type "All Risks" with an insured amount of US\$ 2,360,495.
- b) Operating civil liability insurance for the Hydroelectric Power Plant, with the insured amount of US\$ 20,000.



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

Description	Coverages
i) Fire	US\$ 193,888
ii) Vehicles	Civil and hull liability - US\$ 93,780
iii) Personal Tourists Accident	Death, disability, medical and hospital expenses.
iv) Management civil liability - D&O	US\$ 10,000
v) Aircrafts	US\$ 9,498
vi) Group life	For the employee: Thirty basic wages, limited to 15 salaries of the highest level of the salary scale of ITAIPU. For the spouse: Coverage of 50%, limited to five salaries of the highest level of the pay scale.

30. FINANCIAL RISK MANAGEMENT

1. Financial risk factors

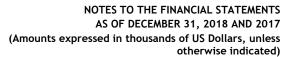
Itaipu Binacional's activities expose it to some financial risks, which management is performed by the financial area, according to the policies which are internally approved and according to the Treaty for establishment of the Entity and its respective Attachments.

a) <u>Market risk</u>

Market risk is understood as the potential loss that can be caused due to the difference in the prices charged in the market or changes in the so-called risk factors, such as: foreign exchange risk and interest rate risk.

(i) Exchange risk

Foreign exchange risk is conceived as the potential loss that can be incurred due to exchange-rate changes of a specific currency, considering the exposure in each currency.





ITAIPU has loan and financing contracts in US dollars, and has commitments to pay royalties, yields from capital, and reimbursement of management and supervision charges, as well as billing electricity services in the same currency. On the other hand, the inflows and disbursements are made in the currency corresponding to each country, guaranis for Paraguay and reais for Brazil, being also indexed to dollar equivalents (Note 4.a).

The management of this foreign exchange risk is provided in Attachment "C" to the ITAIPU Treaty, which establishes that the annual revenue from electricity service provision shall consider the cost of service established therein. This cost comprises, among other things, the items mentioned in the previous paragraph, allowing that the exposure in foreign currency is fully offset by revenues from operations calculated based on an annual rate per kW of contracted power in US dollar.

(ii) Interest rate risk

The risk associated to interest rate is the loss related to the change in the profitability of the financial decisions taken, as a consequence of the changes in the market's interest rates.

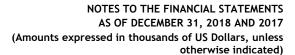
ITAIPU has a loan indexed to LIBOR, this being one of the instruments with variable rate of the portfolio, without representing significant annual disbursements in the interest concept. In relation to other obligations, particularly in loan contract adjusted by the INPC and in the instruments of recognition of social security debits adjusted by the IPCA in Brazil and IPC in Paraguay, added by actuarial discount rates of benefit plans, they not represent a significant share of the total debt balance.

The interest earning bank deposits are made only in fixed income, in modalities considered to have low risk exposure and aiming at maximizing, over time, the return on cash and banks, the dilution of liquidity risks (when referring to private financial institution), according to the internal standards and procedures.

b) Credit risk

Credit risk may be understood as the uncertainty about the net future inflows, derived from the default by one party of its obligations. The credit exposure to the clients ELETROBRAS and ANDE is considered low risk, because of the ITAIPU Treaty.

The financial institutions in which ITAIPU's funds are held are preferably the official ones of both countries. Private financial institutions may be submitted to the Executive Board's approval, upon justification provided by the CFO of the respective margin, contemplating, among others, analysis of the credit risk assigned by renowned rating agency, analysis of shareholders' equity (comparatively to the other financial institutions of the country), solvency, liquidity, besides the basket of product and service offerings.





c) Liquidity risk

Liquidity risk is the likelihood that the payment commitments may not be fulfilled, or that, to fulfill them, it is necessary to obtain funds on unfavorable conditions.

The forecast of cash flow is carried out by Financial Department which monitors the continuous forecasts to comply with liquidity requirements and to ensure that ITAIPU will have enough cash to satisfy operating needs.

The cash surplus obtained during the year is invested in short-term interest earning bank deposits, with choice of instruments with appropriate due dates and/or enough liquidity to fulfill financial commitments.

The undiscounted financial liabilities, which due dates of the remaining contracts fall in the end of the year, are detailed in the following table:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
December 31, 2018				
Loans and financing	2,071,499	2,066,706	3,784,914	354,117
Remuneration and reimbursements	688,912	-	-	-
Suppliers	48,843	-	-	-
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	-	-	-

2. Financial instruments

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

In Brazil, the interest earning bank deposits are made in reais, obtaining an effective weighted average yield of 6.58% p.a. in the year 2018 and 10.11% p.a. in 2017, all of them being in cash, with capitalization, liquidity and credit of daily yield.

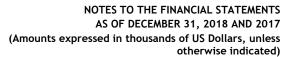
In Paraguay, the interest earning bank deposits are made in guaranis and dollars. The effective weighted average yield of investments in guaranis for the year 2018 was 3.12% p.a. and 3.75% p.a. in 2017; for investments in dollars in the year 2018 was 2.88% p.a. and 2.89% p.a. in 2017. The financial instruments used for obtaining such yield are cash savings accounts, with monthly and quarterly yields, and time deposit certificates (CDA's), of 180 days or less, with interests credited half-yearly according to the contracts established with each bank, and simple interests.



31. RELATED PARTIES

The most significant transactions with related parties carried out by the Entity in 2018 and 2017, include provision of electricity services, loans obtained, obligations under Attachment "C" of the Treaty of ITAIPU and obligations related to pension funds, as shown in the following:

		2018					
	Note	ELETROBRAS	ANDE	FIBRA	CAJUBI	TOTAL	
BALANCE SHEET							
ASSETS							
Trade accounts receivable	7	907,982	98,642	-	-	1,006,624	
Agreements	9		11,011			11,011	
Total		907,982	109,653			1,017,635	
LIABILITIES							
Loans and financing	15	(2,051,638)	-	(156,516)	(166,441)	(2,374,595)	
Remuneration and reimbursements	16	(39,656)	(39,656)	-	-	(79,312)	
Pension contributions	18	-	-	(2,238)	(4,568)	(6,806)	
Actuarial obligations	20			(41,009)	(727,249)	(768,258)	
Total		(2,091,294)	(39,656)	(199,763)	(898,258)	(3,228,971)	
INCOME (LOSS)							
REVENUES							
Revenue from services rendered	24	3,350,389	393,547	-	-	3,743,936	
Financial revenues		2	233			235	
Total		3,350,391	393,780			3,744,171	
EXPENSES							
Financial expenses		(161,249)	-	(2,313)	(2,477)	(166,039)	
Remuneration and reimbursements	25	(45,905)	(45,905)	-	-	(91,810)	
Pension contributions		-	-	(16,754)	(29,180)	(45,934)	
Actuarial expenses	20			(101,719)	(222,172)	(323,891)	
Total		(207,154)	(45,905)	(120,786)	(253,829)	(627,674)	





				2017		
	Note	ELETROBRAS	ANDE	FIBRA	CAJUBI	TOTAL
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)
Pension contributions	18	-	-	(2,354)	(6,787)	(9,141)
Actuarial obligations	20			(94,674)	(678,201)	(772,875)
Total		(2,654,429)	(38,058)	(117,462)	(730,105)	(3,540,054)
INCOME (LOSS)						
REVENUES						
Revenue from services rendered	24	3,359,709	380,805	-	-	3,740,514
Financial revenues		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)
Pension 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)

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



NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017
(Amounts expressed in thousands of US Dollars, unless otherwise indicated)

Itaiguapy and Tesai Health Foundations

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

To optimize the use of these hospitals as per its regional integration policy, ITAIPU decided to extend hospital services to the local communities. This was initiated in November 1994, through the Board of Directors Resolution RCA Number 019/94, the Itaiguapy Health Foundation, a private non-profit organization, which is responsible for managing and operating the Ministro Costa Cavalcanti Hospital - HMCC, in Brazil. Subsequently, in March 1997, through the Board of Directors Resolution Number 004/97 RCA, the Tesai Health Foundation was established, a private non-profit organization, which is responsible for managing and operating the ITAIPU Margem Direita Hospital, in Paraguay.

ITAIPU Technology Park Foundations - FPTI BR and FPTI PY

In 2005, in Brazil, through the Board of Directors Resolution Number 010/05, and in 2008 in Paraguay through the Board of Directors Resolution RCA 035/08, the ITAIPU Technology Park Foundations were created, in both countries, whose mission is to understand and transform the Iguazu falls region, coordinating and promoting actions aimed at economic, scientific and technological development with respect for humans and emphasis on solutions that are focused on water, energy and tourism.

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



The financial transactions made between ITAIPU and these Foundations, in the years 2018 and 2017, are shown below:

	Assets / (Liabilities)		(Exper	nses)
_	2018	2017	2018	2017
1. Services engaged				
a) Itaiguapy Health Foundation	(1)	3,910	(11,499)	(11,808)
a) Tesai Health Foundationb) ITAIPU Technological Park Foundation	4,352	5,369	(24,438)	(23,764)
BR	(671)	(169)	(5,916)	(2,527)
b) ITAIPU Technological Park Foundation PY	9	(1,363)	(922)	(1,790)
2. Agreements and financial contributions				
a) Itaiguapy Health Foundation	-	(14)	(4,321)	(8,077)
a) Tesai Health Foundationb) ITAIPU Technological Park Foundation	2,552	5,783	(10,101)	(4,921)
BR	(5,157)	(610)	(9,957)	(22,709)
b) ITAIPU Technological Park Foundation PY	(93)	(3,358)	(13,809)	(6,942)
Total				
a) Itaiguapy Health Foundation	(1)	3,896	(15,820)	(19,885)
a) Tesai Health Foundationb) ITAIPU Technological Park Foundation	6,904	11,152	(34,539)	(28,685)
BR	(5,828)	(779)	(15,873)	(25,236)
b) ITAIPU Technological Park FoundationPY	(84)	(4,721)	(14,731)	(8,732)
Total _	991	9,548	(80,963)	(82,538)

The amounts presented in Assets refer to the advances made by ITAIPU to the Foundations, written-off when the engaged services are rendered, and those shown in Liabilities refer accounts payable arising from the signed agreements.

The disbursements made by ITAIPU are recorded as expense according to the expenditure's nature: expenses with healthcare plan, operating agreements, or social and environmental expenditures.

1. Services Engaged

a) Health Foundations

Refer to the engagement of medical-hospital services, such as: medical and hospital expenses of employees and their dependents, provision of 24-thour emergency services, pre-employment and termination medical examinations, consulting in nutrition, among other services of similar nature.



b) Technology Park Foundations

Refer to technical and financial cooperation agreements for performance of specialized services developed from research, development and innovation projects to ITAIPU.

2. Agreements and financial contributions

a) Health Foundations

ITAIPU Binacional allocates financial funds to support social activities developed by Healthcare Foundations, such as: service to needy communities, in Paraguay, and service to Single Healthcare System (SUS) users of the nine municipalities of the 9th Regional Health Department of the State of Paraná, in Brazil.

The main services provided by the Healthcare Foundations to the community are: outpatient consultations, Emergency and First Aid services, internments, surgeries, childbirth and medical and hospital care programs.

b) Technology Park Foundations

The financial contributions by ITAIPU, to support the costs of infrastructure support and back-office to the Foundation's operating processes.

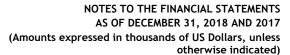
Agreements signed between ITAIPU and Technology Park Foundations for the performance by the Foundations of actions that result in products, services and/or knowledge. Currently, Technology Parks have supported ITAIPU's organization units in the development of projects and researches in the areas of electric mobility, renewable energy, plant tests and automation, environmental management, and social and economic development.

Remuneration of key management personnel

The remunerations, charges and benefits related to Key Management Personnel are presented as follows:

Remuneration of board members and
officers
Social charges
Benefits

_	2018	2017
	// FFF)	(/ 470)
	(6,555)	(6,179)
	(645)	(959)
_	(1,088)	(982)
	(8,288)	(8,120)





32. REGULATORY PROVISIONS

Since the beginning of ITAIPU's operations, opinions and official statements of several government bodies (example: General Advisory of the Republic of Brazil, after the Federal Attorney-General of Brazil, L-208, FC-27, GQ-16, among others), and renowned Brazilian jurists attested the legal and factual unfeasibility of having unilateral inspection, by external control body, either Brazilian or Paraguayan, over ITAIPU, considering the particularities of its operations, mainly due to the inexistence of management acts or national accounts (only Brazilian or only Paraguayan) and the inexistence in the Treaty of any provision about it, which would imply breach of the sovereignty of the other Country, and breach of principles and the constitutional and international rules to which Brazil and Paraguay are subject. That is, for the TCU and Paraguayan inspection bodies to unilaterally or jointly work, diplomatic negotiations between the two sovereign Countries shall be conducted.

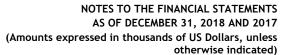
The Federal Court of Audit itself has already thoroughly and technically examined the issue through its technical commission, formed by the Normative Instruction 6/94 of such Court, which technical conclusions were accepted in the TCU Decision 279/95, this legal and technical unfeasibility was recorded, as need for diplomatic understanding to make the inspection feasible, by the TCU and Paraguayan bodies. There was no legal or factual change in ITAIPU's model or operations after this technical analysis by the TCU.

With the Brazilian Constitution of 1988, art. 71, V, and the Paraguayan Constitution of 1992, it was sedimented that the TCU's inspection could only refer to "national accounts" (which in the case of ITAIPU there is none) and "under the terms of the organization treaty" (which remits again to the need for prior diplomatic understandings).

Despite of this fact, in 2009, the Ruling 2918/2009, which was not able to produce effects, market the TCU's attempt to change such understanding, no change to the legal or factual status having been made.

The Ministry of Foreign Affairs of Brazil and the Ministry of Mines and Energy of Brazil were called to issued statements before the examination by the TCU plenary session of the vote of the reporting judge in the procedure in which there was the Ruling 2918/2009, positioning exactly under the same terms that the legal and factual aspects indicated since the start of ITAIPU's operations, but admitting the possibility of new diplomatic understandings with Paraguay, to add other mechanisms for external control of ITAIPU's binational accounts, in the way it may be agreed in own diplomatic instruments.

Inert that TCU's Ruling of 2009, on January 28, 2015 the Ruling 88/2015-Plenary-TCU was issued, in which the TCU, unanimously, makes recommendations and determinations to ELETROBRAS, which, together with ANDE, organized ITAIPU, each holding half of the capital, pointing out actions for improvement in the controls and governance of ELETROBRAS over ITAIPU, among other determinations. It was also determined the direct inspection by TCU of the "national accounts" of ITAIPU, which, also, have never been performed, due to lack of conditions (inexistence of "national accounts").



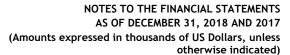


The fact is that, as expected, since there was no legal or factual change, not even the execution of any new diplomatic instrument, concepts conflicting ITAIPU's specific legal nature are used in the mentioned Ruling, which is a Binational Entity created and governed, with equal rights and obligations, by Treaty signed on April 26, 1973, between the Federative Republic of Brazil and the Republic of Paraguay, and the capital in equal portions to Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.

Therefore, it is not possible to talk about Brazilian parent company, as mentioned in said Ruling, because there is no majority Party. Nor do "national accounts" of ITAIPU exist, once the business plan, budget, accounting, audit plan, etc. are single and binational, and the Entity is managed by a Board of Directors and an Executive Board, which are single bodies whose seats are occupied by equal number of representatives appointed by the Governments of Brazil and Paraguay, including Ambassadors, who only make decisions by joint and equitable resolution of Board Members and Directors.

On June 8, 2016 the Ruling 1470/2016-Plenary-TCU was issued, in which some of the recommendations made to ELETROBRAS by Ruling 88/2015-Plenary-TCU, mentioned above, are considered by the TCU as followed, and others continue on analysis, considering that for following the recommendations unilaterally made by the TCU of Brazil whose direct addressee is ITAIPU, ITAIPU would be required to have national accounts (which is not the case) and the Treaty that organized it would had addressed the theme (which is not the case), reason why the conclusion is again reached that they require negotiations between the Federative Republic of Brazil and the Republic of Paraguay so that, by own diplomatic instruments, any other control type is created. The issue has been conducted by the diplomacies of both Countries in the sense of forming a Binational Account Commission, still in negotiation.

Also in relation to the Ruling 88/2015-Plenary-TCU and the determination that the direct inspection of "national accounts" (inexistent) of ITAIPU is performed, such determination was not performed - there is no "national account" - and TCU is keeping up with the managements of the Ministry of Foreign Affairs with the Paraguayan diplomatic authorities, aiming at creating a Binational Account Commission by a Bilateral Agreement between the two Countries, such Commission would be formed by the representatives of TCU and similar Paraguayan body, so that, jointly and equitable, inspection the ITAIPU's accounts, all binational. It should be noted that both TCU and the Contraloria General de la República del Paraguay have representatives that are members of the Brazilian and Paraguayan delegations who negotiate, at the command of the respective Diplomatic Bodies, the creation of the Binational Account Commission.





Afterwards, in specific procedures, the TCU stated again its will to unilaterally inspect the "national accounts" of ITAIPU, which, as precaution, caused ITAIPU to submit such TCU statements to the Federal Supreme Court, in the scope of Original Civil Action (ACO) 1905, which object is this issue of interpretation of article 71, V, of Federal Constitution, and the jurisdiction, or not, of the TCU. The Reporting Judge of this ACO, which already have two statements of Attorney General in the sense that, indeed, TCU do not have jurisdiction to unilaterally inspect ITAIPU, in view of the lack of "national accounts" and the lack of diplomatic understanding that authorizes it, ordered TCU to suspend the progress of any measure, even preparatory ones, aiming at a supposed unilateral inspection of the (inexistent) national accounts of ITAIPU. The Republic of Paraguay, an assistant in this ACO, also issued a statement against the unilateral work of the TCU.

In brief: a) since the 1970s the issue of the possibility of unilateral inspection by TCU of ITAIPU has been intermittently, raised, always prevailing the position that it is legally and factually unfeasible (single company, with management, budget, accounting, etc. inseparable); b) there is no "national account" in ITAIPU and the ITAIPU's Treaty, or, apart from that, any diplomatic instrument, do not provide about inspection by the TCU; c) regarding Ruling 88/2015-Plenary-TCU, as, by the way, the accompanying Ruling 1470/2016-Plenary-TCU shows, TCU has already given signs that it is following the progress of the diplomatic negotiations between the two Countries aiming at creating a Binational Account Commission, reason why the TCU's decision that it is still being applied is the 279/1995, avoiding possible unwanted unfolding, whether in Foreign Affairs or in legal level, considering, also, that the issue is being examined by the Federal Supreme Court of Brazil (Original Civil Action 1905-PR, in which the Republic of Paraguay acts, also issuing statement against the unilateral work of the TCU), and two opinions of the Head of the Attorney-General of the Republic have already been issued (Rodrigo Janot and Raquel Dodge) corroborating with the inexistence of national accounts in ITAIPU, and the need for a consensual binational mechanism. The Reporting Judge of this ACO in this STF issued an order that impedes the TCU from attempting again to impose the unilateral inspection of ITAIPU; d) ITAIPU adduces through the importance of the rule with the maximum hierarchy, that the rule governing the issue is article 71, V, of the Federal Constitution, and that the conditions established in such rule for performing an inspection without prior diplomatic understanding, are not present: (i) ITAIPU does not have "national accounts", and (ii) The ITAIPU Treaty does not establish the conditions through which a possible audit of (inexistent) "national accounts" would be performed; e) there is a final and unappealable decision awarded by the Supreme Court of Paraguay (decision 280/2011) that essentially concludes in the same sense: prior understandings and diplomatic instrument are required for creating an additional external control mechanism of ITAIPU, which shall be binational and joint; f) there are innumerable official, doctrinal, judicial, technical legal statements, including from the MPF and the TCU itself, which corroborate the understanding of ITAIPU and the Brazilian Government; g) ITAIPU has an active Corporate Governance framework, with the advantage of always being binational, including joint internal audit (Brazilian-Paraguayan), binational Ethics Committee, binational Planning System; Binational Accounting and Budget System, Ombudsman/Defender, Permanent group for improving information access, Binational Team for the Compliance Program, among many other mechanisms, besides external tools and controls performed, as provided in the Treaty, by ELETROBRAS and ANDE, jointly, and by the Representatives of the Ministries of Foreign Affairs who attend the



NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017
(Amounts expressed in thousands of US Dollars, unless
otherwise indicated)

meetings of ITAIPU's Board of Directors and external audits jointly performed by conceited Brazilian and Paraguayan companies, which work jointly with the teams formed by Brazilian and Paraguayan auditors.

It should be stressed that ITAIPU does not oppose any new external control mechanism, if it fully follows the Constitutions and Laws of Brazil and Paraguay, including the Itaipu Treaty and the Vienna Convention on the Law of Treaties, which may only be reached by diplomatic understandings and entering into Bilateral Act by the two Countries, through competent authorities to conduct and maintain foreign relations. It is statutory and regulating duty of the ITAIPU's Board Members and Directors to follow and cause to follow the Itaipu Treaty.

33. SIGNIFICANT EVENTS OCCURRED IN THE YEAR

The Ministry of Foreign Affairs of Paraguay, through Decrees 195 and 196, of September 11, 2018, appointed new Paraguayan members to the Executive Board of ITAIPU Binacional. In this sense, the Paraguayan members of the Executive Board requested the engagement of the Technical Assistance service for performing a Special Review and Following of Administrative Cut, materialized through Service Authorization 4500050011 in favor of the company BDO Auditores Consultores.

On the issue date of the financial statements as of December 31, 2018, the technical assistance mentioned in the previous paragraph issued its final report indicating that there was no evidence of situation that requires the disclosure of additional information in the financial statements.



STATEMENT OF OPERATING ACCOUNT

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(In thousands of US Dollars)

	12/31/2018	12/31/2017
REVENUES		
Revenues from rendering		
of electric power services:		
Contracted power	3,291,012	3,291,012
Brazilian purchasing entity	2,941,079	2,942,912
Paraguayan purchasing entity	349,933	348,100
Remuneration for electricity assignment	327,096	329,392
Royalties and reimbursement for energy additional to the one tied to		
the contracted power	125,828	120,110
Total revenues	3,743,936	3,740,514
LESS:		
REMUNERATION FOR ELECTRICITY ASSIGNMENT	(327,096)	(329,392)
COST OF ELECTRICITY SERVICE		
Remuneration and reimbursement to the High Contracting Parties and the Parties that constitute ITAIPU, as follows:		
Yields from Capital	(50,274)	(48,460)
Electricity related to contracted power		
Royalties	(423,118)	(407,536)
Reimbursement of management and supervision charges	(32,548)	(31,350)
	(455,666)	(438,886)
Additional electricity related to contracted power		
Royalties	(116,840)	(111,530)
Reimbursement of management and supervision charges	(8,988)	(8,580)
	(125,828)	(120,110)
	(631,768)	(607,456)
Amortization of loans and financing	(1,520,084)	(1,419,931)
Financial charges on loans and financing	(520,688)	(623,160)
Exploration expenses		
Personnel	(450,795)	(470,110)
Machinery and equipment Outsourced services	(31,714)	(34,801)
Other exploration expenses	(108,727)	(116,468)
Cities exploration expenses	(124,891) (716,127)	(96,944) (718,323)
Total cost of electricity service	(3,388,667)	(3,368,870)
OPERATING ACCOUNT RESULTS FOR THE PERIOD	28,173	42,252
Prior year balance	107,111	64,859
RETAINED EARNINGS (LOSSES) FROM OPERATING ACCOUNT	135,284	107,111



NOTES TO THE STATEMENT OF OPERATING ACCOUNT

AS OF DECEMBER 31, 2018 AND 2017

Attachment "C" of the Treaty of ITAIPU, which contains financial bases and provision of electricity services, states that the Operating Account as an annual balance sheet between revenue and service cost.

a) Revenue

According to article IV of Attachment "C" to the Treaty, ITAIPU's annual revenue, from electricity service contracts, shall be equal, in each year, to the cost of the service established in such Attachment.

The revenue derived from electricity services includes the billing of the contracted power, the royalties, and reimbursement of management and supervision charges related to the energy additional to the one tied to the contracted power, and the remuneration for electricity assignment.

The contracted power is billed based on the rate, established in ITAIPU as unit cost of electricity service. The Board of Directors of ITAIPU fix the unit cost of the electricity service as per the conditions set out in the Entity's Treaty, Attachments and other Official Acts.

The royalties and the reimbursement of management and supervision charges related to the additional electricity of the contracted power, as well as the remuneration for electricity assignment are billed according to cost, therefore, for ITAIPU, they respectively show the same amount in revenue and cost.

b) Cost of electricity service

According to item III of Attachment "C" to the Treaty, the ITAIPU's Electricity Service Cost comprises the following annual installments:

- 1) The amount required for payment, to the High Contracting Parties (Federative Republic of Brazil and Republic of Paraguay) and to the Parties comprising ITAIPU (ELETROBRAS and ANDE), of the following remunerations and reimbursements:
 - i) Yields from capital: yield of 12% per annum on the participation of Centrais Elétricas Brasileiras S.A. ELETROBRAS and the Administración Nacional de Electricidad ANDE of the ITAIPU's paid capital.



- ii) Royalties: calculated at the equivalent of US\$ 650 per gigawatt hours generated and measured in Electric Power Plant. On an annual basis, this amount may not be lower than US\$ 18 million, at the rate of half to each High Contracting Party.
- iii) Reimbursement of Management and Supervision Charges Calculated at the equivalent of 50 United States Dollars per gigawatt hours generated and measured in Hydroelectric Power Plant, in equal parts to Centrais Elétricas Brasileiras S.A. ELETROBRAS and Administración Nacional de Electricidad ANDE
- iv) Remuneration for electricity assignment: remuneration to one of the High Contracting Parties, equivalent to US\$ 300 per gigawatt hours granted to the other High Contracting Party, to be exclusively paid by the High Party that consumes the granted electricity.

As of January 2001, the amounts of yields from capital were restated as the formula established in Note 10, exchanged between the Brazilian and Paraguayan Ministries of Foreign Affairs on November 13, 2000, according to 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	4.04035
2018	4.17871

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

The values of the royalties, the Reimbursement of Management and Supervision Charges and remuneration for electricity assignment, were multiplied, from the financial year of 1992,



as Reversal Note 3, exchanged between Brazilian and Paraguayan Ministries of Foreign Affairs, on January 28, 1986, by a factor of 4 (four whole).

From the year 2006, according to the agreement by 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 started to be multiplied by the factor 5.10 (five point ten).

From May 14, 2011, as agreed by the Reverses Notes signed, on September 1, 2009, between the Government of the Federative Republic of Brazil, promulgated by Decree Number 7,506 of June 27, 2011, and the Government of the Republic Paraguay, approved by Law Number 3,923, of November 18, 2009, the multiplying factor of Remuneration for electricity assignment went from 5.10 (five whole and one-tenth) to 15.30 (fifteen whole and three-tenths).

The amounts of Royalties, Reimbursement of Management and Supervision Charges, and Remuneration for electricity assignment started to be adjusted according to the formula established in the Reversal Note 3 and following Notes, mentioned in the above paragraphs, according to the following chart:

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



Year	Original factor (A)	Adjustment factor (B)*	Adjusted factor (A x B)
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-May 2011	5.10	2.03768	10.39217
May-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	2.08721	8.34884
2017	15.30	2.08721	31.93431
2018	4.00	2.16021	8.64084
2018	15.30	2.16021	33.05121

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

- 2) The amount required for paying the financial charges of granted loans, understood in such Attachment as all interests, fees, and commissions pertinent to the contracted loans.
- 3) The amount required for paying the amortization of the granted loans.

From the financial year of 2012, amortizations and payments of charges on loans obtained from CAJUBI are not included in the Operating Account, relating to contracts PIB 2010-10-0001 and PIB 2012-10-0001, as these amounts are reimbursed to ITAIPU by ANDE, as provided in addenda No. 2 and 6 of the Agreement 5,808/99 (see Note 9.ii of Notes to Financial Statements).



From the financial year of 2014, amortizations and payments of charges of Banco ITAU Paraguay are not included in the Operating Account, contracted for the execution of works and services to strengthen the electrical system in the Department of Alto Parana, Paraguay as Executive Board Resolution Number RDE-076/14 and Board of Directors' Resolution Number RCA-013/14 in April 2016, this contract was settled.

In the year 2017, the Operating Account did not contain provision about the payment of the extraordinary amortization of the Financing Contract ECF-1480/97 - Tranche B of Eletrobras, in the amount of US\$ 170,000, supported by the Board of Directors' Resolution RCA-052/17.

- 4) The required amount to cover exploration expenses, understood in this Attachment as all expenses attributable to the rendering of electricity services, including direct expenditures of operation and maintenance, in addition to replacements caused by normal wear, management and general expenditures, in addition to insurance against risks of ITAIPU's assets and facilities.
- **5)** The amount of the balance, plus or minus the balance of Operating Account for the previous year.



AUTHORIZATION FOR ISSUE FINANCIAL STATEMENTS AND ATTACHMENT I AS OF DECEMBER 31, 2018 AND 2017

Joaquim Silva e Luna	José Alberto Alderete Rodríguez
Brazilian Director General	Paraguayan General Director
Mauro José Corbellini	José María Sánchez Tillería
Executive Technical Director	Technical Director
Cezar Eduardo Ziliotto	Iris Magnolia Mendoza Balmaceda
Legal Director	Executive Legal Director
João Pereira dos Santos	Alberto Cabrera Villalba
Administrative Director	Executive Administrative Director
Anatalício Risden Júnior	Monica Perez dos Santos
Executive Financial Director	Financial Director
Newton Luiz Kaminski	Miguel Ángel Gómez Acosta
Coordination Director	Executive Director of Coordination
Simone Rogoginski Assistant Superintendent of Budget and Accounting	Mirtha Beatriz Caballero Borges Superintendent of Budget and Accounting
Emerson Cardoso Teotonio Accountant - CRC PR-064802/O-4	Celia Cristina Martinez Colman Accounting Department Manager Enrollment N° C 732 Council of Public Accountants of Paraguay





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Independent auditors' report on financial statements

To the Board Members and Directors of **Itaipu Binacional**

Opinion

We have audited the financial statements of Itaipu Binacional ("Entity"), which comprise the balance sheet as of December 31, 2018 and the related statements of income and statement of origins and statement of changes and investments for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial and equity position of Itaipu Binacional on December 31, 2018, the performance of its operations and origins and Investments of funds for the year then ended, as per specific provisions in the Entity's constitutional Treaty and its attachments dated April 26, 1973.

Basis for opinion

We conducted our audit in accordance with Brazilian, Paraguayan and international standards on auditing. Our responsibilities, in compliance with such standards, are described in the following section, titled "Auditors' Responsibilities for the Audit of Financial Statements." We are independent in relation to the Entity, according to the relevant ethical principles established in the Accountants' Professional Code of Ethics and the professional standards issued by the Federal Accounting Council and *Council of Public Accountants of Paraguay*, and we comply with the other ethical responsibilities according to these standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.





Emphasis

As described in Note 32, the Federal Court of Audit (TCU) issued the Ruling 88/2015, which makes recommendations and determinations to Eletrobrás, as Party of Itaipu, on the need for improvement in the controls and governance of Eletrobrás over Itaipu Binacional, also determining actions to the Ministry of Mines and Energy of Brazil, and the Secretariat of External Control of Indirect Management of Brazil. Itaipu Binacional's Management understands that the concepts adopted in said Ruling which conflict 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, and this them has been the object of diplomatic negotiation between the two countries for the creation of a Binational Account Commission, since 2015, because of the legal impossibility of unilateral inspection by the Federal Court of Audit (TCU) in Itaipu, having uncertainties about the unfolding and/or possible impacts on the Entity, which are not included in the financial statements. Our conclusion is not qualified in respect of this matter.

As mentioned in Note 20, Itaipu's Management is in the process of re-evaluation of the retirement and pension plans based on defined benefit. The purpose of this process is to transform those retirement and pension plans sponsored by the Entity into sustainable plans, including the analysis of other alternatives to the current pension systems administered by Fundação Itaipu BR de Previdência e Assistência Social - FIBRA in Brazil and Caja Paraguaya de Jubilaciones y Pensiones del personal de la Itaipu Binacional - CAJUBI, in Paraguay. The accompanying financial statements do not include any adjustment, if any, that could be made as consequence of the re-evaluation of pension and retirement plans based on defined benefits. Our conclusion is not qualified in respect of this matter.

We draw attention to Note 2 of the financial statements that describes the basis of preparation of the financial statements. The financial statements were prepared in accordance with the financial reporting provisions required by the Entity's constitutional Treaty and its attachments. Consequently, the financial statements may not be presented for other purposes. Our conclusion is not qualified in respect of this matter.

Other issues

The statement of added value (DVA), of cash flows and operating accounts for the year ended December 31, 2018, prepared under responsibility of Entity's Management, was submitted to audit procedures carried out jointly with the audit of Entity's financial statements. In order to express our opinion, we evaluated whether these statements are reconciled with other financial statements and book records, as applicable, and whether its form and content are in accordance with Brazilian, Paraguayan and international standards. In our opinion, these statements were prepared, in all material respects, in accordance with the criteria defined in Brazilian, Paraguayan and international standards and are consistent in relation to the financial statements taken as a whole.

Balance sheet as of December 31, 2017 and statements of income and statements of financial positions of funds and respective notes for the year then ended, presented as corresponding values in financial statements for the current year, were previously examined by other independent auditors, who issued an audit report dated April 26, 2018, with no changes. The corresponding values related to the statement of added value, statement of operating accounts and statement of cash flows for the year ended December 31, 2017 were subject to the same audit procedures by those independent auditors and, based on their examination, they issued report without modification.





Management's responsibility and governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with specific provisions in the Entity's constitutional Treaty and attachments on April 26, 1973 and the internal controls it deemed necessary to enable the preparation of these financial statements free of significant distortions, regardless of whether the latter were caused by fraud or error.

In preparing the financial statements, Management is responsible for assessing the ability of the Entity to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Entity or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those responsible for the Entity's governance are those responsible for supervising the process of preparing the financial statements.

Responsibility of the auditors regarding the audit of 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 assurance level, but not a guarantee that the audit performed according to the Brazilian, Paraguayan and international auditing standards always detect possible existing material misstatements. The misstatements may result from fraud or error and are considered relevant when, individually or in conjunction, they may affect, from a reasonable standpoint, economic decisions of the users based on such financial statements.

As part of the audit conducted in accordance with Brazilian, Paraguayan and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. We also:

- Identify and assess the risk 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 the internal control relevant to the audit to design auditing
 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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. 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 disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Curitiba, April 15, 2019

Asunción, April 15, 2019

KPMG Auditores Independentes CRC PR-007945/F-7

João Alberto Dias Panceri Accountant CRC PR-048555/O-2 BCA - Bernitez Codas & Asociados CRC 100129

Javier Benitez/Duarte Consejo de Contadores Publicos del Paraguay Matrícula de Contador Público, categoria "C", nº 528