

Itaipu Binacional

Financial statements
December 31, 2019

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BALANCE SHEET AT DECEMBER 31, 2019 AND 2018

(In thousands of US Dollars)

A S S E T S

	<u>Note</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	237,165	385,714
Trade accounts receivable	7	1,004,134	1,006,624
Storeroom	8	5,006	7,359
Bonds receivable	9	3,229	3,235
Other accounts receivable	10	19,928	21,968
TOTAL CURRENT ASSETS		1,269,462	1,424,900
NON-CURRENT ASSETS			
Bonds receivable	9	229,331	220,121
Judicial deposits	11	53,451	54,208
		282,782	274,329
RESULTS	12		
From prior years		(8,811,496)	(7,621,130)
Current financial year		(1,523,133)	(1,190,366)
		(10,334,629)	(8,811,496)
PROPERTY, PLANT AND EQUIPMENT	13	17,580,776	17,546,930
INTANGIBLE ASSETS	14	34,876	33,544
TOTAL NON-CURRENT ASSETS		7,563,805	9,043,307
TOTAL ASSETS		8,833,267	10,468,207

See the accompanying notes to the financial statements.



BALANCE SHEET AT DECEMBER 31, 2019 AND 2018

(In thousands of US Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>Note</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
LIABILITIES			
CURRENT LIABILITIES			
Loans and financing	15	1,745,371	1,636,387
Remuneration and reimbursements	16	554,126	688,912
Suppliers	17	43,773	51,539
Salaries and social charges	18	96,927	89,635
Labor Indemnities	19	43,177	46,281
Provision for lawsuits	21	51,789	55,106
Other liabilities	22	2,373	3,157
TOTAL CURRENT LIABILITIES		<u>2,537,536</u>	<u>2,571,017</u>
NON-CURRENT LIABILITIES			
Loans and financing	15	3,891,819	5,650,464
Labor Indemnities	19	236,133	260,708
Post-employment benefits	20	1,908,561	1,726,966
Provision for lawsuits	21	157,092	156,852
Other liabilities	22	2,126	2,200
TOTAL NON-CURRENT LIABILITIES		<u>6,195,731</u>	<u>7,797,190</u>
TOTAL LIABILITIES		<u>8,733,267</u>	<u>10,368,207</u>
SHAREHOLDERS' EQUITY			
Capital	23		
Centrais Elébricas Brasileiras S.A.		50,000	50,000
Administración Nacional de Electricidad		50,000	50,000
TOTAL SHAREHOLDERS' EQUITY		<u>100,000</u>	<u>100,000</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>8,833,267</u>	<u>10,468,207</u>

See the accompanying notes to the financial statements.



STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of US Dollars)

	Note	<u>12/31/2019</u>	<u>12/31/2018</u>
OPERATING REVENUES	24		
Contracted power		3,291,012	3,291,012
Remuneration for electricity assignment		241,513	327,096
Royalties and reimbursement for energy additional to the one tied to the contracted power		51,670	125,828
Total operating revenues		<u>3,584,195</u>	<u>3,743,936</u>
 OPERATING EXPENSES			
REMUNERATION AND REIMBURSEMENTS	25		
Yields from Capital		(50,510)	(50,274)
Remuneration for electricity assignment		(241,513)	(327,096)
Electricity related to contracted power			
Royalties		(398,236)	(423,118)
Reimbursement of management and supervision charges		(30,634)	(32,548)
		<u>(428,870)</u>	<u>(455,666)</u>
Additional electricity related to contracted power			
Royalties		(47,980)	(116,840)
Reimbursement of management and supervision charges		(3,690)	(8,988)
		<u>(51,670)</u>	<u>(125,828)</u>
		<u>(772,563)</u>	<u>(958,864)</u>
 GENERAL AND ADMINISTRATIVE EXPENSES	26		
Operation, maintenance, and management		(837,555)	(1,073,548)
Social and environmental responsibility programs		(170,943)	(145,282)
		<u>(1,008,498)</u>	<u>(1,218,830)</u>
 Total operating expenses		<u>(1,781,061)</u>	<u>(2,177,694)</u>
 SERVICE INCOME		<u>1,803,134</u>	<u>1,566,242</u>
 OTHER REVENUES (EXPENSES)	27	(8,232)	(3,648)
Financial revenues		40,425	31,315
Financial expenses		(312,194)	(403,543)
FINANCIAL INCOME (LOSS)	28	<u>(271,769)</u>	<u>(372,228)</u>
 INCOME (LOSS) FOR THE YEAR		<u><u>1,523,133</u></u>	<u><u>1,190,366</u></u>

See the accompanying notes to the financial statements.



STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of US Dollars)

	<u>12/31/2019</u>	<u>12/31/2018</u>
SOURCE OF FUNDS		
Operations		
Income (loss) for the period	1,523,133	1,190,366
Expenses items not affecting net working capital		
Long-term monetary restatements - loans	(15,034)	(2,785)
Long-term monetary variation - estimated liabilities	(125,398)	(167,710)
Write-offs of fixed assets	5,665	7,591
	<u>1,388,366</u>	<u>1,027,462</u>
Third parties		
Increase in non-current liabilities	336,234	544,174
Transfer of current liabilities to non-current liabilities	89,706	33,669
Transfer from non-current to current assets	3,157	3,157
Decrease in non-current assets	4,246	13,797
	<u>433,343</u>	<u>594,797</u>
TOTAL FINANCIAL RESOURCES PROVIDED	<u>1,821,709</u>	<u>1,622,259</u>
INVESTMENTS OF FUNDS		
Investments in property, plant and equipment and intangible assets	40,274	34,493
Incorporated charges on property, plant and equipment	569	732
Increase in non-current assets	15,856	22,058
Decrease in non-current liabilities	58,517	41,327
Transfer from the long to short-term - loans	1,743,611	1,634,307
Transfer from the long to short-term - estimated obligations	84,839	32,050
	<u>1,943,666</u>	<u>1,764,967</u>
DECREASE IN NET WORKING CAPITAL	<u>(121,957)</u>	<u>(142,708)</u>
STATEMENT OF CHANGES IN NET WORKING CAPITAL		
Closing net working capital		
Final current assets	1,269,462	1,424,900
Final current liabilities	(2,537,536)	(2,571,017)
	<u>(1,268,074)</u>	<u>(1,146,117)</u>
Opening net working capital	<u>(1,146,117)</u>	<u>(1,003,409)</u>
Decrease in net working capital	<u>(121,957)</u>	<u>(142,708)</u>

See the accompanying notes to the financial statements.



STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In thousands of US Dollars)

	12/31/2019	12/31/2018
FROM OPERATING ACTIVITIES		
Income (loss) for the period	1,523,133	1,190,366
Adjustments of income (loss)		
Write-offs of fixed assets	5,665	7,591
Monetary restatements - loans	(8,661)	(2,228)
Monetary restatements - estimated obligations	(125,398)	(167,710)
Liability provisions		
Financial charges - loans	429,718	520,314
Provisions for personnel	(32,766)	(12,973)
Actuarial provisions	301,516	503,796
Provision for lawsuits	(5,827)	5,574
Adjusted income (loss)	2,087,380	2,044,730
 Changes in assets and liabilities		
Changes in trade accounts receivable	2,490	(44,066)
Changes in storeroom	2,353	(1,737)
Changes in other receivables	(5,829)	14,337
Changes in remuneration and reimbursements	(134,786)	43,847
Changes in suppliers and other liabilities	(8,624)	1,662
Changes in salaries and social security charges	11,613	(4,935)
Changes in estimated obligations	8,994	(9,296)
	(123,789)	(188)
Net cash from operating activities	1,963,591	2,044,542
 FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(40,274)	(34,493)
Net cash used in investment activities	(40,274)	(34,493)
 FROM FINANCING ACTIVITIES		
Amortization of loans and financing	(1,634,360)	(1,521,885)
Payment of interest on loans and financing	(437,506)	(521,410)
Net cash invested in financing activities	(2,071,866)	(2,043,295)
 TOTAL EFFECTS ON CASH AND CASH EQUIVALENTS	 (148,549)	 (33,246)
Opening balance of cash and cash equivalents	385,714	418,960
Closing balance of cash and cash equivalents	237,165	385,714
Change in cash and cash equivalents	(148,549)	(33,246)

See the accompanying notes to the financial statements.



STATEMENT OF ADDED VALUE
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In thousands of US Dollars)

	12/31/2019	12/31/2018
GENERATION OF ADDED VALUE		
Revenues		
Contracted power	3,291,012	3,291,012
Remuneration for electricity assignment	241,513	327,096
Royalties and reimbursement for energy additional to the one tied to the contracted power	51,670	125,828
Sundry revenues (expenses)	(8,232)	(3,648)
	3,575,963	3,740,288
(-) Inputs acquired from third parties		
Material	16,252	12,448
Outsourced services	88,380	114,000
Other operating expenses	166,427	135,462
	271,059	261,910
GROSS ADDED VALUE	3,304,904	3,478,378
(+) Added value received as transfer		
Financial revenues	40,425	31,315
	40,425	31,315
VALUE ADDED TO BE DISTRIBUTED	3,345,329	3,509,693
DISTRIBUTION OF ADDED VALUE		
Compensation:		
Labor		
Direct remuneration	237,897	244,938
Benefits	133,643	139,264
Actuarial provisions	301,516	503,796
Labor Indemnities	28,940	31,029
FGTS	5,363	5,608
	707,359	924,635
Government		
INSS and IPS	30,080	32,285
Royalties	446,216	539,958
Remuneration for electricity assignment	241,513	327,096
	717,809	899,339
Third-party capital		
Debt charges	429,718	520,314
Monetary variation	(117,542)	(116,771)
Other financial expenses	18	-
	312,194	403,543
Own capital		
Yields from Capital	50,510	50,274
Reimbursement for management and supervision charges	34,324	41,536
	84,834	91,810
Income (loss) for the period	1,523,133	1,190,366
DISTRIBUTED ADDED VALUE	3,345,329	3,509,693

See the accompanying notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019 AND 2018**

**(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 Guaira 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 2019, ITAIPU generated 79.4 million MWh, while in 2018 the company generated over 96.6 million MWh. 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 Annexes 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, 13 and 14);
- (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) Assessments of post-employment benefit obligations, 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.l and 20);
- (iv) 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);
- (v) 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
- (vi) 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 issue of financial statements was authorized by the Executive Board on April 16, 2020.

3. RELATIONSHIP WITH THE INDEPENDENT AUDITORS

ITAIPU maintains an contract with Consórcio KPMG Auditores Independentes - BCA Benítez Cotas & Associados, composed of the companies KPMG Auditores Independentes, headquartered in São Paulo, Brazil and BCA Benítez Cotas & Associados, headquartered in Asuncion, Paraguay for the implementation of the external audit of the Financial Statements, according to audit standards adopted in Brazil and Paraguay 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.

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 losses 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: main actuarial assumptions; and (iii) recognition and measurement of provisions for lawsuits: main assumptions regarding the likelihood and magnitude of the outflows of funds.

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 and subsequent measurement is carried out at amortized cost.

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 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 the Statement of Operation Accounts - 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) Loans and financing

Loans and financing are measured at the amortized cost using the effective interest rate method (Note 15). 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.

h) Operating revenues

They include amounts deriving from provision of electricity services, which include revenue from 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

o) CPC 06 (R2)/NIIF 16 - Leases

CPC 06 (R2)/NIIF 16, effective as of January 1, 2019, provides for the principles for the recognition, measurement and presentation of leases, and their associated disclosures, from the perspective of lessees and lessors. The standard brought significant changes in relation to the accounting treatment given to lease operations from the point of view of the lessee.

CPC 06 (R2)/NIIF 16 is based on the concept of control to determine whether a contract is or contains a lease. This can be seen in the definition provided by the standard: “lease is the contract, or part of the contract, which transfers the right to use an asset (underlying asset) for a period of time in exchange for consideration.”

In relation to the accounting treatment for the lessor and lessee, the standard provides for the following:

- i) Lessee accounting: The standard requires lessees to account for all leases under a single model, similar to accounting for finance leases. In other words, on the lease start date, the lessee will recognize a right-of-use asset and a liability at the present value of the installments payable in the financial statement, as well as the depreciation of the right-of-use asset separately from the interest corresponding to the related lease liability in the statement of income. The standard includes two voluntary recognition exemptions: leases for which the underlying asset is of low value and short-term leases (equal to or less than 12 months).
- ii) Lessor accounting: it is not substantially modified in relation to that established in the previous standard. The lessor will continue to classify the leases as operating or financial leases.

The Entity assessed the impact of CPC 06 (R2)/NIIF 16 on its financial statements. This assessment required the application of judgments and assumptions, which are summarized as follows:

- Analysis of the lease agreements formalized by the Entity, aiming to identify whether they are within the scope of the standard. This analysis included both agreements in which the Entity acts as a lessee as well as those in which it acts as a lessor.
- Estimated lease terms, based on the non-cancellable period and the periods covered by the renewal options whose exercise is under the Entity’s power and is considered reasonably certain.
- Estimated discount rate to calculate the present value of lease payments, if applicable to existing agreements.

Based on the evaluation performed, the Entity concluded that the amounts related to leases are not material compared to those recorded in the financial statements presented.

Thus, CPC 23/NIC 1, regarding materiality, is predominant and provides for that an entity does not need to adopt an accounting standard if the information from this disclosure is not material.

The Entity has chosen to keep a record of its leases as expenses for the period in which payments are incurred, based on the materiality analysis that they represent in its financial statements.

5. EFFECTS OF EXCHANGE-RATE CHANGES 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

Closing rate	Brazil		Paraguay	
	Rates in Reais (R\$)	Changes in the year - %	Rates in Guaranis (Gs)	Changes in the year - %
2018	3.8748	17.1	5,960.94	6.4
2019	4.0307	4.0	6,463.95	8.4

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 2019 and 2018.

Inflation indexes accumulated in the period

	In percentage - %	
	2019	2018
Brazil:		
Expanded Consumer Price Index - IPCA Instituto Brasileiro de Geografia e Estatística	4.3	3.7
General Price Index - IGP-DI Fundação Getúlio Vargas	7.7	7.1
Paraguay:		
Consumer Price Index - IPC Central Bank of Paraguay	2.8	3.2

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.

	<u>2019</u>	<u>2018</u>
Cash	14	15
Banks checking account	5,277	163
Interest earning bank deposits		
In Brazil		
Caixa Econômica Federal - CDB Flex	184,241	313,527
Banco do Brasil Fixed Income 25 thousand	116	103
	<u>184,357</u>	<u>313,630</u>
In Paraguay		
Banco Regional	18,790	27,616
Banco Continental	4,678	23,007
Banco Itaú	21,074	13,061
Banco Bilbao Vizcaya Argentaria	2,802	5,370
Banco Basa	139	171
Banco Nacional de Fomento	13	198
Banco Bancop	9	2,163
Banco Atlas	9	95
Sudameris Bank	2	137
Banco do Brasil	1	88
	<u>47,517</u>	<u>71,906</u>
	<u>231,874</u>	<u>385,536</u>
TOTAL	<u>237,165</u>	<u>385,714</u>

7. TRADE ACCOUNTS RECEIVABLE

Refer to amounts arising from the provision of electricity services (Note 24), whose bills are due, 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.

Exceptionally in 2019, due to the lack of agreement between the purchasing entities, ELETROBRAS and ANDE, for most of the year, the amounts related to the billing from February to September 2019 expire in 20 working days as of December 13, 2019, the date on which the agreements with ELETROBRAS and ANDE were formalized for the years 2019 to 2022, except for the amounts of energy assignment remuneration in October, which matured on December 18, 2019.

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.

	<u>2019</u>	<u>2018</u>
Centrais Elétricas Brasileiras S.A. - ELETROBRAS	892,968	907,982
Administración Nacional de Electricidad - ANDE	117,918	98,642
(-) Provision for credits	(6,752)	-
TOTAL	<u>1,004,134</u>	<u>1,006,624</u>

In balances presented in chart above, both on December 31, 2019 and 2018, as there is an overdue amount owed by ELETROBRAS that is equivalent to US\$ 54,969.

At the last meeting of the Board of Directors of 2019, there were negotiations on the overdue invoice. On that occasion, RCA No. 045/2019 was issued on December 13, 2019, which, in addition to approving the drafts of contracts with the Purchasing Entities for the years 2019 to 2022, also recommended to the Left Margin to present solution proposals to the Executive Board and to the Board of Directors, within a maximum period of 120 days as of the signing of these documents, which expires on April 13, 2020.

On April 2, 2020, the ordinary meeting No. 1067 of the Executive Board of ITAIPU was held, where alternative solutions for this matter were presented. The Board of Directors will consider the alternatives presented for the topic at its meeting on April 24, 2020.

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 amount of late-payment interest, recorded up to December 31, 2019, is US\$ 6,752.

Expected credit losses are a probability-weighted estimate of credit losses throughout estimated life of financial instrument. As the expected credit losses consider the amount and timing of payments, the credit loss occurs even if the entity expects to be paid-up in full, but after the maturity provided for in the contract.

ITAIPU expects to receive the full amounts recognized in trade accounts receivable. However, it estimated losses in the amount equivalent to late payment charges, due to the expiration of ELETROBRÁS' invoice.

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.

As defined in Article XIII of the Treaty, the High Contracting Parties undertake to acquire, jointly or separately, as they agree, the total installed capacity. On the other hand, Article III of Annex C establishes that the amount required for the payment of royalties and reimbursement of management and supervision charges to the High Contracting Parties and Parties, respectively, is part of the cost of the electricity service.

Normally, ITAIPU issues its revenue invoices based on the provisions of an agreement, which establishes the contractual terms related to electricity services, known as Engagement Letter (ELETROBRAS) and Letter of Agreement (ANDE).

In the period from February to November 2019, there were no such agreements. Therefore, the matter was addressed by the High Contracting Parties through diplomatic negotiations, as provided for in Article XXII of the Treaty. On December 13, 2019, the purchasing entities, ELETROBRAS and ANDE, signed, respectively, the Engagement Letter and the Letter of Agreement, which regulate the conditions for the provision of electricity services by ITAIPU Binacional during the period from January 1, 2019 to December 31, 2022. Through these instruments, the billing for the provision of electricity services by ITAIPU Binacional was regularized.

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

	2019	2018
Security deposits CT-80/92 (i)	222,211	210,355
Agreement ANDE 5808/99-Substation MD (ii)	2,007	2,640
Agreement ANDE 5808/99-Addendum n.2-T5/R5 (ii.a)	5,975	7,792
Agreement ANDE 5808/99-Addendum n.6-T4/R4 (ii.b)	451	579
Other	1,916	1,990
TOTAL	232,560	223,356
Current	3,229	3,235
Non-current	229,331	220,121

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, aimed at establishing the compensation rules to ITAIPU by ANDE of payments under the 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 Margin; and (ii.b) the Addendum No. 6, dated February 17, 2012, aimed at establishing the compensation rules to ITAIPU by ANDE of payments under the 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 Margin.

10. OTHER ACCOUNTS RECEIVABLE

	<u>2019</u>	<u>2018</u>
Advances to suppliers (i)	17,131	18,187
Restricted deposits (ii)	1,224	1,780
Advances to staff	384	600
Sundry receivables	<u>1,189</u>	<u>1,401</u>
TOTAL	<u>19,928</u>	<u>21,968</u>

- (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:

	<u>2019</u>	<u>2018</u>
ANDE Agreement of Cooperation L66kV (ii.a)	306	768
ANDE Agreement of Cooperation L220kV (ii.b)	-	71
FINEP agreement (ii.c)	653	574
SESI and SENAI Terms of Cooperation (ii.d)	265	263
Other restricted deposits	-	104
TOTAL	<u>1,224</u>	<u>1,780</u>

(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.

Details of the works and services performed are as follows:

- 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. The works are completed, delivered and fully operational. The contracts related to this Agreement are in the process of being closed.

(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 Margin to the Substation Itakyry.

Three addenda were entered into to extend the amount and term of contract No. 4500045163, whose last maturity occurred on 11/29/2019 for the completion of the availability test of all TL's and the solution for all pending works. So far, all services related to the contract have been completed, except the release of the last payment event and the formalization of a new addendum referring to the contractor's claims, which will not exceed the threshold value of the JEC.JE Cooperation Agreement 166/2017.

(ii.c) FINEP Agreement

On November 27, 2013, FINEP Agreement 01.13.0347-00 was executed with Financiadora de Estudos e Projetos - FINEP with a 36-month duration, for execution of project "Hybrid Electric Ethanol Bus" with funds from the national Fund for Scientific and Technological Development. The project aims to develop a prototype of a top of the line ethanol hybrid electric bus, with all the necessary technical documentation, which will serve as a reference for scale production by the national industry.

The project has the following phases: 1) Adjust the infrastructure for the development of the project; 2) Complement and structure the team; 3) Develop the product design; 4) Prepare the product's subsystems; 5) Assemble the prototype and perform tests; and, 6) Prepare technical documents.

Two addenda were signed extending the execution term by 24 months each. The project is under execution.

(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.

	<u>2019</u>	<u>2018</u>
Brazil	50,863	51,311
Paraguay	<u>2,588</u>	<u>2,897</u>
TOTAL	<u>53,451</u>	<u>54,208</u>

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, 2018, and the income (loss) for the period ended December 31, 2019.

	<u>2019</u>	<u>2018</u>
Prior-year results	(8,811,496)	(7,621,130)
Income (loss) of the current year	(1,523,133)	(1,190,366)
TOTAL	<u>(10,334,629)</u>	<u>(8,811,496)</u>

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

	<u>2019</u>	<u>2018</u>
Fixed assets in service		
Goods and production facilities	16,440,632	16,440,650
Other assets and facilities	750,601	751,465
Capital goods furniture	119,586	113,500
Total fixed assets in service	<u>17,310,819</u>	<u>17,305,615</u>
Constructions in progress		
Sundry property, plant and equipment	216,584	187,925
Advances for movable assets	32	1,032
Technical reserve	53,341	52,358
Total constructions in progress	<u>269,957</u>	<u>241,315</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>17,580,776</u>	<u>17,546,930</u>

Property, plant and equipment in service, equivalent to 98.5% and 98.6% of total property, plant and equipment as of December 31, 2019 and 2018, respectively, represents the historical cost of construction of the ITAIPU Hydroelectric Power Plant: facilities for the production of electricity and auxiliary works, adjacent areas, administrative headquarters, 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 1.2% and 1.1% of total Property, plant and equipment on December 31, 2019 and 2018, 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 2019, as well as for the financial year of 2018, the formation of provision for impairment was not deemed necessary (Note 4.f).

The net changes of Fixed Assets in 2019 was US\$ 33,846 and US\$ 27,046 in the same period of 2018 with the following breakdown:

	<u>2019</u>	<u>2018</u>
Property, plant and equipment in the period		
Sundry property, plant and equipment	27,342	19,509
Capital goods furniture	10,617	12,990
	<u>37,959</u>	<u>32,499</u>
Economic (decreases) increases		
Technical reserve	983	1,406
Financial charges	569	732
Write down of property, plant and equipment	(5,665)	(7,591)
	<u>(4,113)</u>	<u>(5,453)</u>
Changes in fixed assets	<u>33,846</u>	<u>27,046</u>

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.

	<u>2019</u>	<u>2018</u>
Software	34,807	33,475
Right of use of easement strip	<u>69</u>	<u>69</u>
TOTAL	<u>34,876</u>	<u>33,544</u>

As described in Notes 4.e. and 12, ITAIPU does not account for the amortization of its Intangible Assets. In the financial year of 2019, as well as for the financial year of 2018, 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.



NOTES TO FINANCIAL

STATEMENTS AS OF DECEMBER 31, 2019 AND 2018
(Amounts expressed in thousands of US Dollars, unless otherwise indicated)

	Currency (3)	Annual interest rate	Contract value Total -	Debt				Amortization period		
				12/31/2019		12/31/2018		Beginning	End	Installment
				Short term	Long term	Short term	Long term			
I - ELETROBRAS										
ECF - 1480/97										
Tranche B - Principal	US\$	7.50	10,250,481	549,998	603,242	512,200	1,153,874	2001	2023	Monthly
Tranche C - Principal	US\$	4.10	1,780,955	59,006	136,681	56,515	195,689	2007	2023	Monthly
ECF - 1627/97										
Principal	US\$	7.50	181,577	9,931	21,518	9,931	31,449	1998	2023	Monthly
ECF - 1628/97										
Principal	US\$	7.50	211,116	20,850	45,175	20,850	66,025	2007	2023	Monthly
CT - 2686/08										
Principal	US\$	7.50 ⁽⁴⁾	22,343	1,701	1,701	1,702	3,403	2012	2021	Monthly
				641,486	808,317	601,198	1,450,440			
II - BRAZILIAN NATIONAL TREASURY										
CT-80/92										
External Debt Restructuring (DMLP)	US\$	(2)/(6)	918,235	2,355	243,369	2,292	243,369	1997	2023	Semi-annual
CT-424/TN										
Eletrobras assignment (ECF-1480/97)										
Tranche B - Principal	US\$	7.50	-	270,864	656,918	252,204	927,800	2001	2023	Monthly
Tranche C - Principal	US\$	4.10	-	63,344	146,150	60,901	209,495	2007	2023	Monthly
CT-425/TN										
Eletrobras assignment (ECF-1480/97)										
Tranche B - Principal	US\$	7.50	-	599,626	1,449,114	558,314	2,048,787	2001	2023	Monthly
Tranche C - Principal	US\$	4.10	-	140,156	323,377	134,750	463,537	2007	2023	Monthly
				1,076,345	2,818,928	1,008,461	3,892,988			
III - OTHER CONTRACTS										
FIBRA - Fundação Itaipu BR de Previdência e Social assistance										
CT-56/18 - SERV. PASSADO REAJ. SAL.	R\$	5.76 ⁽⁸⁾	141,536	6,006	124,376	5,908	135,628	2018	2038	Monthly
CT - 7218/03 ⁽¹⁾	R\$	6.00 ⁽⁵⁾	73,911	3,446	8,190	3,271	11,709	2004	2023	Monthly
CAJUBI - Caja Paraguaya de Jubilaciones y Pensiones del Personal de la Itaipu Binacional										
PIB 2010-10-0001 - T5/R5	US\$	8.00	15,000	1,962	4,014	1,816	5,975	2012	2022	Monthly
PIB 2011-10-0001 - Repowering T1/R1, T2/R2										
T3/R3 E TX/RX	US\$	8.00	5,000	655	707	606	1,362	2012	2021	Monthly
PIB 2011-10-0002 - Sectioning L3 and L4 500kV	US\$	8.00	42,000	4,968	10,659	4,600	15,627	2013	2022	Monthly
PIB 2011-10-0003 - Environment MD	US\$	8.00	12,000	1,749	3,060	1,620	4,810	2013	2022	Monthly
PIB 2012-10-0001 - Repowering T4/R4	US\$	8.00	1,132	139	312	129	451	2013	2022	Monthly
CT-257/18 - SERV. PASSADO REAJ. SAL.	Gs.	5.51 ⁽⁷⁾	129,445	5,873	107,932	6,036	123,409	2018	2038	Monthly
				15,346	126,684	14,807	151,634			
Other lenders										
Banco Continental S.A.E.C.A. - ITAIPO Preserve MD	US\$	6.00	11,500	1,917	3,674	1,917	5,590	2016	2022	Monthly
Banco Bilbao V. A. S.A. - Estudo Atual. Tec. UHI	US\$	5.75	4,537	825	1,650	825	2,475	2017	2022	Monthly
				2,742	5,324	2,742	8,065			
TOTAL LOANS AND FINANCING				1,745,371	3,891,819	1,636,387	5,650,464			

(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\$ 18,337.

(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

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

(3) Abbreviations:

R\$ - Reais
US\$ - US
Dollars
Gs. - Guaranis

(7) In addition to the interest rate, the contract sets forth the correction of balance payable by the IPC and may not be less than the minimum actuarial profitability.

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

(8) In addition to the interest rate, the contract sets forth the correction of balance payable by the IPCA and may not be less than the minimum actuarial profitability.

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.

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:

<u>Year</u>	
2021	1,860,868
2022	1,351,595
2023	243,490
2024	258,163
2025	15,627
2026-2038	<u>162,076</u>
TOTAL	<u>3,891,819</u>

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

Financing entities	<u>2019</u>	<u>2018</u>
Eletrobras		
Principal	601,835	564,733
Charges	<u>121,163</u>	<u>161,249</u>
	<u>722,998</u>	<u>725,982</u>
Brazilian National Treasury Credit Assignment of Eletrobras		
Principal	1,006,240	942,763
Charges	<u>279,427</u>	<u>343,731</u>
	<u>1,285,667</u>	<u>1,286,494</u>
Brazilian National Treasury Foreign debt restructuring		
Charges	<u>11,231</u>	<u>10,185</u>
	<u>11,231</u>	<u>10,185</u>
Fibra		
Principal	9,044	3,226
Charges	<u>13,815</u>	<u>2,313</u>
	<u>22,859</u>	<u>5,539</u>
Cajubi		
Principal	14,500	8,121
Charges	<u>11,301</u>	<u>3,200</u>
	<u>25,801</u>	<u>11,321</u>
Other lenders		
Principal	2,741	3,042
Charges	<u>569</u>	<u>732</u>
	<u>3,310</u>	<u>3,774</u>
Total		
Principal	1,634,360	1,521,885
Charges	<u>437,506</u>	<u>521,410</u>
	<u>2,071,866</u>	<u>2,043,295</u>

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.

	2019			2018		
	Principal	Dollar adjustm ent	Total	Principal	Dollar adjustm ent	Total
Paraguayan Government						
Royalties (i)	8,928	132,069	140,997	22,435	167,156	189,591
Remuneration for electricity assignment (ii)	17,500	159,141	176,641	26,626	203,792	230,418
Subtotal	26,428	291,210	317,638	49,061	370,948	420,009
Brazilian Government						
Royalties (i)	17,103	144,169	161,272	22,435	167,156	189,591
Subtotal	17,103	144,169	161,272	22,435	167,156	189,591
Administración Nacional de Electricidad - ANDE						
Reimbursement for Management and Supervision Charges (iii)	1,315	11,090	12,405	1,726	12,858	14,584
Yields from Capital (iv)	6,000	19,203	25,203	6,000	19,072	25,072
Subtotal	7,315	30,293	37,608	7,726	31,930	39,656
Centrais Elétricas Brasileiras S.A. - ELETROBRAS						
Reimbursement for Management and Supervision Charges (iii)	1,315	11,090	12,405	1,726	12,858	14,584
Yields from Capital (iv)	6,000	19,203	25,203	6,000	19,072	25,072
Subtotal	7,315	30,293	37,608	7,726	31,930	39,656
TOTAL	58,161	495,965	554,126	86,948	601,964	688,912

- (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 Reverses 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, 2019 and December 31, 2018.

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

	<u>2019</u>	<u>2018</u>
Provision for vacation and social security charges	36,134	38,569
Provision for profit sharing	26,625	28,404
Supplementary pension foundations	9,465	6,806
Payroll charges payable	6,136	6,458
Other	18,567	9,398
TOTAL	<u>96,927</u>	<u>89,635</u>

19. LABOR INDEMNITIES

	<u>2019</u>	<u>2018</u>
Permanent voluntary termination program (i)	64,298	66,994
Indemnity for length of service (ii)	215,012	239,995
TOTAL	<u>279,310</u>	<u>306,989</u>
Current	<u>43,177</u>	<u>46,281</u>
Non-current	<u>236,133</u>	<u>260,708</u>

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)

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 Ordinance No. 4,367 and its Regulation approved by the ITAIPU Board of Directors' Resolution RCA-041/87, last updated on August 30, 2019, by ITAIPU Board of Directors' Resolution RCA-021/19 up to the end of this year, updated awaited approval by the National Superintendence of Complementary Pension - PREVIC to be implemented.

CAJUBI was created by Law 1,361/88, dated 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 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 21.315% 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 has recorded 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		PARAGUAY		TOTAL	
	2019	2018	2019	2018	2019	2018
Obligations recorded on the balance sheet - long-term						
Retirement plan benefits	135,597	41,009	790,531	727,249	926,128	768,258
Health plan benefits	444,458	402,172	537,975	556,536	982,433	958,708
	580,055	443,181	1,328,506	1,283,785	1,908,561	1,726,966
Provisions recognized in the statement of income for the years						
Retirement plan benefits	(96,175)	(101,719)	(122,753)	(222,172)	(218,928)	(323,891)
Health plan benefits	(57,841)	(89,556)	(24,747)	(90,349)	(82,588)	(179,905)
	(154,016)	(191,275)	(147,500)	(312,521)	(301,516)	(503,796)

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

	BRAZIL		PARAGUAY	
	2019	2018	2019	2018
<u>GENERAL DATA</u>				
Active participants	1,386	1,407	1,579	1,688
Retired participants	1,640	1,590	1,618	1,529
Pensioners	262	259	378	361
<u>ECONOMIC ASSUMPTIONS</u>				
Real discount rate (p.a.) - pension plan	3.30%	4.92%	5.15%	5.33%
Real discount rate (p.a.) - Health plan	3.30%	4.92%	5.15%	5.33%
Assets expected return rate (p.a.)	7.25%	9.48%	9.36%	9.54%
Real rate of wage developments (p.a.)	2.83%	2.58%	3.50%	2.50%
Real rate of growth in costs (p.a.)	2.00%	2.25%	2.00%	2.00%
Inflation	3.82%	4.34%	4.00%	4.00%
Benefits capacity factor	97.37%	97.67%	97.83%	97.80%

	BRAZIL		PARAGUAY	
	2019	2018	2019	2018
<u>ACTUARIAL ASSUMPTIONS</u>				
General mortality table	AT-2000 (-20%)	AT-2000 (-20%)	AT-2000 (-10%)	AT-2000 (-10%)
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	Weak 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 for 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 for based on respective accounting opinions.

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

DESCRIPTION	FIBRA		CAJUBI	
	2019	2018	2019	2018
Fair value of the plan assets	1,169,151	963,280	238,967	241,349
Present value of the obligations	(1,446,766)	(1,160,805)	(1,171,528)	(1,135,039)
Actuarial deficit	(277,615)	(197,525)	(932,561)	(893,690)
Loan and debt contracts	142,018	156,516	142,030	166,441
Actuarial deficit, net	<u>(135,597)</u>	<u>(41,009)</u>	<u>(790,531)</u>	<u>(727,249)</u>

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.

Aiming to comply with the guidelines approved by the Board of Directors, the Executive Board took the necessary steps to pay and create new pension plans, including the assembling of a Working Group and the engagement of a specialized consulting firm.

The results of the work of the consulting firm referring to phase 1 of the contract regarding Assessment, Planning and Definition of the settlement strategy for pension plans and the creation of new plans in Brazil and Paraguay were presented and are awaiting the Executive Board's decision.

Phase 1 of the Report is in the process of being updated, as requested by the Board of Directors.

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	BRAZIL		PARAGUAY	
	2019	2018	2019	2018
Fair value of the plan assets	-	-	-	-
Present value of the obligations				
Rights due	325,684	302,529	417,090	413,418
Rights falling due	118,774	99,643	120,885	143,118
	444,458	402,172	537,975	556,536
Unrecognized gains (losses)	-	-	-	-
Recorded actuarial liability	444,458	402,172	537,975	556,536

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 2019		Impact	
	Discount rate used		Projected scenarios	
			increase 0.5%	decrease 0.5%
Private pension plan - Brazil	3.30%	(135,597)	99,214	(111,479)
Private pension plan - Paraguay	5.15%	(790,531)	94,956	(42,030)
Brazil Health Plan	3.30%	(444,458)	34,276	(39,782)
Paraguay Health Plan	5.15%	(537,975)	34,773	(38,895)

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 are 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.

	2019			2018		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Current						
Tax	10,586	-	10,586	13,473	-	13,473
Civil	28	-	28	43	-	43
Commercial	-	35	35	1	38	39
Labor	33,484	7,656	41,140	33,762	7,789	41,551
	44,098	7,691	51,789	47,279	7,827	55,106
Non-current						
Tax	13,082	-	13,082	6,562	-	6,562
Civil	55	-	55	18	-	18
Commercial	133,844	48	133,892	140,117	52	140,169
Labor	4,016	6,047	10,063	3,882	6,221	10,103
	150,997	6,095	157,092	150,579	6,273	156,852
Total	195,095	13,786	208,881	197,858	14,100	211,958

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

	Tax	Civil	Commercial	Labor	Total
Balance at 12/31/2018	20,035	61	140,208	51,654	211,958
Brazil					
(+) Additions	9,274	93	6,480	1,786	17,633
(-) Write-offs/reversals	(4,950)	(67)	(7,223)	(445)	(12,685)
Exchange-rate change	(691)	(4)	(5,532)	(1,480)	(7,707)
Paraguay					
(+) Additions	-	-	-	3,703	3,703
(-) Write-offs/reversals	-	-	(1)	(2,823)	(2,824)
Exchange-rate change	-	-	(5)	(1,192)	(1,197)
Balance at 12/31/2019	23,668	83	133,927	51,203	208,881

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:

	2019			2018		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Tax	30	-	30	14,801	-	14,801
Civil	37	661	698	47	667	714
Commercial	11,005	3,288	14,293	9,688	3,955	13,643
Labor	1,381	5,584	6,965	1,666	16,372	18,038
Environmental	-	150	150	-	23	23
Total	12,453	9,683	22,136	26,202	21,017	47,219

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

i) Tax lawsuits

In Brazil, out of the forty-one (41) 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 2019, the change in the provisioned amounts was solely caused by the adjustment of amounts, reassessment of risk.

In Paraguay, there are no tax lawsuits in progress.

ii) Civil lawsuits

In Brazil, of the 81 civil lawsuits (including administrative lawsuits) to which ITAIPU is a party, we highlight those involving discussions on: benefits of ITAIPU's self-managed healthcare plan, selection processes, FIBRA, assessments by the National Health Agency (ANS) regarding PAMHO's management, and lawsuits for damages/collection, proprietary and possessory lawsuits.

The twenty-four (24) 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 (80) 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.

Out of the twenty (20) 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 eighty-one (481) 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 2019, the change in the provisioned amounts was solely caused by the adjustment of amounts, reassessment of risk. There was also a write-off/reversal of part of the amounts provisioned to ITAIPU due to the settlement or termination of labor claims.

Out of the two hundred thirty-seven (237) 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-three (93) 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 class lawsuits 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

	2019	2018
Agreements (i)	900	1,548
Contractual retentions	1,449	1,584
Sundry creditors	2,150	2,225
TOTAL	4,499	5,357
Current	2,373	3,157
Non-current	2,126	2,200

- (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: (i) the contracted power; (ii) royalties and reimbursement of management and supervision charges related to the energy additional to that tied to the contracted power; and (iii) 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 energy additional to that linked to contracted power: correspond to the costs related to the royalties and reimbursement of management and supervision charges (see Annex 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 2019 and 2018 totaled US\$ 3,291,012, which corresponds to 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 2019 was 70.4 million Mwh in comparison to 75.1 million Mwh in same period of 2018.

The total energy supplied to the Purchasing Entities in the year 2019 amounted to 78.9 million MWh and 95.9 million MWh in the same period of 2018.

	2019			2018		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Contracted power	2,921,649	369,363	3,291,012	2,941,079	349,933	3,291,012
Remuneration for electricity assignment	241,513	-	241,513	327,096	-	327,096
Royalties and reimbursement for energy additional to the one tied to the contracted power	9,164	42,506	51,670	82,214	43,614	125,828
Total	3,172,326	411,869	3,584,195	3,350,389	393,547	3,743,936
Billed power - MW	129,277	16,343	145,620	130,136	15,484	145,620
Bound energy - MWh	62,147,644	8,284,979	70,432,623	67,286,342	7,848,178	75,134,520
Energy supplied - MWh	63,627,155	15,266,241	78,893,396	80,838,912	15,043,900	95,882,812

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 Annex I - Notes to Statement of Operating Account), generated in 2019 and 2018, due to the High Contracting Parties: royalties and remuneration for energy assignment, as well as to the Parties (ELETROBRAS and ANDE): yields from capital and reimbursement for management and supervision charges.

	2019			2018		
	Brazil	Paraguay	Total	Brazil	Paraguay	Total
Yields from Capital						
Principal	(6,000)	(6,000)	(12,000)	(6,000)	(6,000)	(12,000)
Dollar adjustment	(19,255)	(19,255)	(38,510)	(19,137)	(19,137)	(38,274)
Subtotal	(25,255)	(25,255)	(50,510)	(25,137)	(25,137)	(50,274)
Royalties						
Principal	(102,562)	(102,562)	(205,124)	(124,648)	(124,648)	(249,296)
Dollar adjustment	(120,546)	(120,546)	(241,092)	(145,331)	(145,331)	(290,662)
Subtotal	(223,108)	(223,108)	(446,216)	(269,979)	(269,979)	(539,958)
Reimbursement of management and supervision charges						
Principal	(7,889)	(7,889)	(15,778)	(9,588)	(9,588)	(19,176)
Dollar adjustment	(9,273)	(9,273)	(18,546)	(11,180)	(11,180)	(22,360)
Subtotal	(17,162)	(17,162)	(34,324)	(20,768)	(20,768)	(41,536)
Remuneration for electricity assignment						
Principal	-	(110,988)	(110,988)	-	(150,999)	(150,999)
Dollar adjustment	-	(130,525)	(130,525)	-	(176,097)	(176,097)
Subtotal	-	(241,513)	(241,513)	-	(327,096)	(327,096)
Total	(265,525)	(507,038)	(772,563)	(315,884)	(642,980)	(958,864)

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.

	<u>2019</u>	<u>2018</u>
Personnel		
Remunerations	(242,219)	(248,450)
Benefits	(133,643)	(139,264)
Social charges	(35,443)	(37,893)
Indemnities (Note 19)	(57,384)	(40,490)
(Formation) and reversal of provisions	32,766	12,973
	<u>(435,923)</u>	<u>(453,124)</u>
Materials		
Consumption materials	(14,982)	(10,968)
Materials used in social and environmental actions	(1,270)	(1,480)
	<u>(16,252)</u>	<u>(12,448)</u>
Outsourced services		
Services applied on social and environmental actions	(27,638)	(43,380)
Maintenance services	(11,740)	(12,806)
Consultancy and audit	(3,107)	(3,669)
Insurance	(3,225)	(3,418)
Other outsourced services	(42,670)	(50,727)
	<u>(88,380)</u>	<u>(114,000)</u>
Provisions - (Formation) / Reversals		
Related to pension and health plans (Note 20)	(301,516)	(503,796)
Related to lawsuits (Note 21)	(5,827)	(5,574)
	<u>(307,343)</u>	<u>(509,370)</u>
Other		
Agreements and financial contributions	(145,257)	(100,500)
Other expenses	(15,343)	(29,388)
	<u>(160,600)</u>	<u>(129,888)</u>
TOTAL	<u>(1,008,498)</u>	<u>(1,218,830)</u>
Reconciliation - Expenses per function		
Operation, maintenance, and management	(837,555)	(1,073,548)
Social and environmental responsibility programs	(170,943)	(145,282)
	<u>(1,008,498)</u>	<u>(1,218,830)</u>

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, estimated credit losses, bank expenses, discounts granted and similar, are shown as follows below:

	<u>2019</u>	<u>2018</u>
Sundry revenues		
Disposals	2,023	1,869
Real estate occupancy rates	975	1,104
Interest, contractual fines and other	1,310	1,051
	<u>4,308</u>	<u>4,024</u>
Sundry expenses		
Write-offs of goods and facilities	(5,665)	(7,591)
Estimated credit losses (Note 7)	(6,752)	-
Bank and fine expenses	(122)	(67)
Other expenses	(1)	(14)
	<u>(12,540)</u>	<u>(7,672)</u>
	<u>(8,232)</u>	<u>(3,648)</u>

28. FINANCIAL INCOME (LOSS)

	<u>2019</u>	<u>2018</u>
Financial revenues		
Income from interest earning bank deposits (Note 6 and Note 30)	31,892	29,124
Restatement of judicial deposits (Note 11)	1,517	1,939
Late-payment interest on billing (Note 7)	6,834	19
Other financial revenues	182	233
	<u>40,425</u>	<u>31,315</u>
Financial expenses		
Financial charges on loans and financing (Note 15)	(429,718)	(520,314)
Inflation adjustments (Note 28.1)	117,542	116,771
Late-payment interest on remuneration and reimbursements (Note 16)	(18)	-
	<u>(312,194)</u>	<u>(403,543)</u>
	<u>(271,769)</u>	<u>(372,228)</u>

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 and monetary adjustments 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:

	<u>2019</u>	<u>2018</u>
Loans and financing		
CAJUBI	7,628	-
FIBRA	1,033	2,228
	<u>8,661</u>	<u>2,228</u>
Other exchange-rate changes		
Current assets	(16,749)	(55,855)
Non-current assets	(2,373)	(8,006)
Current liabilities	2,605	10,694
Non-current liabilities	125,398	167,710
	<u>108,881</u>	<u>114,543</u>
	<u>117,542</u>	<u>116,771</u>

29. INSURANCE

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

- 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 to its administrative facilities; ii) civil and hull liability for vehicles; iii) personal accidents with tourists visiting ITAIPU; iv) Management civil liability; v) hull cover, civil liability, aircraft crew and passengers; and vi) group life insurance for its employees, as presented in the table below:

Description	Coverages
i) Fire	US\$ 235,424
ii) Vehicles	Civil and hull liability - US\$ 130,982
iii) Personal Tourists Accident	Death, disability, medical and hospital expenses.
iv) Management civil liability - D&O	US\$ 10,000
v) Aircrafts	US\$ 8,195
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) Market risk

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 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 do 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 2019 and 2018, are detailed in the following table:

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>
December 31, 2019				
Loans and financing	2,064,879	2,060,908	1,747,387	280,225
Remuneration and reimbursements	554,126	-	-	-
Suppliers	41,678	-	-	-
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	-	-	-

2. Financial instruments

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 maintained:

- 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.

ITAIPU's financial instruments are measured at amortized cost in accordance with CPC 48/NIIF 9.

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 5.97% p.a. in the year 2019 and 6.58% p.a. in 2018, 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 2019 was 3.07% p.a. and 3.12% p.a. in 2018; for investments in dollars in the year 2019 was 3.35% p.a. and 2.88% p.a. in 2018. 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 2019 and 2018, include provision of electricity services, loans obtained, obligations under Annex “C” of the Treaty of ITAIPU and obligations related to pension funds, as shown in the following:

		2019				
	Note	ELETROBRAS	ANDE	FIBRA	CAJUBI	TOTAL
BALANCE SHEET						
ASSETS						
Trade accounts receivable	7	886,216	117,918	-	-	1,004,134
Agreements	9	-	8,433	-	-	8,433
Total		886,216	126,351	-	-	1,012,567
LIABILITIES						
Loans and financing	15	(1,449,803)	-	(142,018)	(142,030)	(1,733,851)
Remuneration and reimbursements	16	(37,608)	(37,608)	-	-	(75,216)
Pension contributions	18	-	-	(2,248)	(7,217)	(9,465)
Actuarial obligations	20	-	-	(135,597)	(790,531)	(926,128)
Total		(1,487,411)	(37,608)	(279,863)	(939,778)	(2,744,660)
INCOME (LOSS)						
REVENUES						
Revenue from services rendered	24	3,172,326	411,869	-	-	3,584,195
Financial revenues		6,832	172	-	-	7,004
Total		3,179,158	412,041	-	-	3,591,199
EXPENSES						
Financial expenses		(121,163)	-	(13,815)	(10,723)	(145,701)
Remuneration and reimbursements	25	(42,417)	(42,417)	-	-	(84,834)
Pension contributions		-	-	(16,156)	(27,388)	(43,544)
Actuarial expenses	20	-	-	(96,175)	(122,753)	(218,928)
Total		(163,580)	(42,417)	(126,146)	(160,864)	(493,007)

	Note	2018				
		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)

Besides the above-mentioned transactions, ITAIPU has parties related to the Itaipu 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.

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 2019 and 2018, are shown below:

	Assets / (Liabilities)		Revenue / (Expenses)	
	2019	2018	2019	2018
1. Services engaged				
a) Itaipuapy Health Foundation	991	(1)	(9,664)	(11,499)
a) Tesai Health Foundation	2,952	4,352	(25,451)	(24,438)
b) ITAIPU Technological Park Foundation BR	(592)	(671)	(2,225)	(5,916)
b) ITAIPU Technological Park Foundation PY	-	9	(1,800)	(922)
2. Agreements and financial contributions				
a) Itaipuapy Health Foundation	(5,450)	-	(17,673)	(4,321)
a) Tesai Health Foundation	21	2,552	(13,519)	(10,101)
b) ITAIPU Technological Park Foundation BR	(1,618)	(5,157)	(5,773)	(9,957)
b) ITAIPU Technological Park Foundation PY	-	(93)	(6,173)	(13,809)
Total				
a) Itaipuapy Health Foundation	(4,459)	(1)	(27,337)	(15,820)
a) Tesai Health Foundation	2,973	6,904	(38,97)	(34,539)
b) ITAIPU Technological Park Foundation BR	(2,210)	(5,828)	(7,998)	(15,873)
b) ITAIPU Technological Park Foundation PY	-	(84)	(7,973)	(14,731)
Total	(3,696)	991	(82,278)	(80,963)

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 health care plan, operating agreements, or social and environmental expenditures.

1. Services Engaged

a) Health Foundations

Refer to the contracting of medical and 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 actions developed by Health 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 Health 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 Foundation 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:

	<u>2019</u>	<u>2018</u>
Remuneration of board members and officers	(6,645)	(6,555)
Social charges	(652)	(645)
Benefits	(1,133)	(1,088)
	<u>(8,430)</u>	<u>(8,288)</u>

32. REGULATORY PROVISIONS

Since the beginning of ITAIPU's operation, opinions and official statements from several public bodies (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 (among them, Miguel Reale, creator of the ITAIPU Treaty) attested to the legal and factual unfeasibility of having unilateral inspection, by an external control body, either Brazilian or Paraguayan, over the Entity. 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 an eventual inspection related to breach of the sovereignty of the other Country, and principles and the constitutional and international rules to which Brazil and Paraguay are subject. Thus, for the TCU and Paraguayan control bodies to unilaterally or jointly work, diplomatic negotiations between both High Contracting Parties shall be conducted.

The Federal Court of Auditors itself has already examined the issue thoroughly and technically through the Court's Commission, whose technical conclusions were accepted in Decision No. 279/95-Plenary (TC 003.064/93-0). The feasibility, both legal and technical, was established, as well as the need for diplomatic understandings to enable inspection by external bodies. There was no legal or factual change in ITAIPU's model or operations after this manifestation by Court of Accounts.

With the Brazilian Constitution of 1988, art. 71, item V, 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, since the admittance document is silent). A similar dynamic was set out in the 1992 Paraguayan Constitution.

Despite of this fact, in 2009, the Ruling 2,918/2009, 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 applicable to Binacional.

The Ministry of Foreign Affairs of Brazil and the Ministry of Mines and Energy of Brazil were called to issue statements before the examination by the TCU plenary session of the vote of the reporting judge in the Account Taking No. 009.799/2006-1, decided in the aforementioned ruling. The Parties reiterated the Entity's legal and administrative characteristics, but admitted the possibility of new diplomatic understandings with Paraguay, aiming to add other external control mechanisms over ITAIPU's binational accounts, in the manner that it would be agreed in its own diplomatic instruments.

Considering this decision in 2009, on January 28, 2015, Agreement No. 88/2015-Plenary (Survey Report 012.897/2011-6) was issued, in which TCU, unanimously made recommendations and determinations to ELETROBRAS. It instructed the Brazilian state-owned company to point out actions to improve its control and governance over ITAIPU, in addition to adopting management and other measures. Based on this decision, two notes deserve to be made.

The first addresses the Court's determination that SecexEstat - the Secretariat for External Control of Indirect Administration in Rio de Janeiro, the TCU technical unit - carry out the direct inspection of ITAIPU's national accounts. Due to the lack of material conditions (inexistence of accounts of this nature), this action was never carried out.

The second concerns inaccuracies of the decision when compared with the legal nature of ITAIPU. Knowing that the Binational is shared, in equal parts, between ELETROBRAS and ANDE, there is no need to speak of a "Brazilian parent company", as there is no majority party. Nor do "national accounts" of Entity 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, whose votes have exactly the same value.

On June 8, 2016, Decision No. 1470/2016 - Plenary was issued (Monitoring 026.092/2015-8), in which some of the recommendations made to ELETROBRAS by Decision No. 88/2015-Plenary were considered by TCU to be met and others are still under analysis. The parties consider that, in order to meet the recommendations made unilaterally by TCU to ITAIPU, it would be imperative that the entity had national accounts (which does not happen) and that the Treaty that constituted it addressed the matter (which also does not happen), reason why the conclusion once again is that there is a need for negotiations between the High Contracting Parties, through its own diplomatic instruments, aimed at creating some other additional form of control. The issue has been addressed using the diplomacy of the two countries towards the formation of a Binational Account Commission (In 2019, the Brazilian and Paraguayan Ministries of Foreign Affairs received minutes from the General Directors through which agreement was expressed that the company be inspected by external control. At the moment, the chancelleries are expected to resume the activities of the Binational Working Group).

Later, in specific procedures, TCU again signaled its intention to unilaterally inspect ITAIPU's "Brazilian accounts." As a precaution, the Entity submitted these manifestations of the Court to the Supreme Federal Court, under the scope of the Original Civil Action (ACO) No. 1905, which has as its object the interpretation of article 71, V, of the Federal Constitution and the analysis of the TCU competence for exercising external control at ITAIPU. It should be emphasized that in this ACO, which already has two statements of Attorney General, both in the sense that, TCU does not have jurisdiction to unilaterally inspect ITAIPU (in view of the lack of "national accounts" and the lack of diplomatic understanding that authorizes it), which lead the Judge-Rapporteur to order the suspension of any measure in progress, even preparatory ones, aiming at a supposed unilateral inspection of the Brazilian accounts of ITAIPU. The Republic of Paraguay, *amicus curiae* in this ACO, also issued a statement against the unilateral work of the TCU.

In brief: a) since the 1970s, the question regarding the possibility of unilateral inspection by TCU at ITAIPU has been raised, always prevailing the position of its legal and factual unfeasibility (single company, with inseparable management, budget, accounting, etc.); b) there are no "national accounts" in ITAIPU and the ITAIPU Treaty - or, in any case, any

diplomatic instrument - does not provide for the TCU inspection; c) the creation, by the Ministries of Foreign Affairs of the High Contracting Parties, of the Binational Accounts Commission, with the support in the Executive Board of the entity. However, the decision of TCU 279/1995 prevails, in addition to the order issued in ACO 1905 by the Minister-Rapporteur, which prevents TCU from trying to impose unilateral inspection at ITAIPU again; 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 provide for the conditions under which any inspection on “national accounts” should occur; e) there is a final and unappealable decision at the Supreme Court of Justice of Paraguay (Agreement and Sentence 280/2011) which essentially concludes in the same sense: previous understandings and a diplomatic instrument are needed to create an additional external control mechanism for ITAIPU, which must be binational and joint; f) ITAIPU has an active Corporate Governance structure, with the advantage of always being binational, including joint internal audits (Brazilian-Paraguayan), binational Ethics Committee and binational Planning System; Binational Accounting and Budget System, Ombudsman/Defender, Permanent group for improving information access, Compliance Advisory in both margins, Transparency Standard and Provision of information by ITAIPU (Left Margin), 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 meetings of ITAIPU’s Board of Directors and external audits performed by conceited Brazilian and Paraguayan companies.

33. SUBSEQUENT EVENTS

Effects of Coronavirus (COVID-19) on the financial statements

Due to the new Coronavirus (COVID-19) pandemic, announced by the World Health Organization (WHO), ITAIPU informs that it is carefully monitoring the situation and has adopted several measures to preserve the health of its employees and mitigate the effects of the virus spread in the company and in its area of influence. The initiatives are in line with WHO recommendations, the protocols of the Ministry of Health of Brazil and Paraguay, and aim to contribute to the efforts of the population and the authorities of both countries.

ITAIPU assembled a Binational Technical Committee to propose coordination actions within the company to fight the COVID-19 disease, whose objectives are:

- a. Preserve the health of workers and other publics who frequent the Entity's areas.
- b. Guarantee CHI's electricity generation activities.
- c. Adopt preventive measures to prevent massive spread of the disease.
- d. Establish a rapid service protocol for cases verified within ITAIPU's facilities.

Each margin, based on what the health protocols of their respective countries recommend, has adopted measures to prevent and fight COVID-19. Some actions mirrored on both margins are:

- Suspension of tourist visits;
- Release of emergency funds to help hospitals on both margins with supplies and equipment to fight COVID-19;
- Contingency plans;
- Release of young apprentices and people over 60 years;
- Home office regime for employees who can work remotely.

Management evaluated the different business risks to which the Entity could be exposed, such as the measures taken by both governments and possible economic events related to accounting estimates and measurement of its assets and liabilities that could be affected. Management understands that there are no relevant or material impacts that could modify the measurement of its assets and liabilities presented in its financial statements for the year ended December 31, 2019.

ITAIPU will continue to assess the impacts and risks related to the Coronavirus pandemic, making the necessary disclosures.



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NOTES TO THE STATEMENT OF OPERATING ACCOUNT

AS OF DECEMBER 31, 2019 AND 2018

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 Eléctricas 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 Hydroelectric 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 Reversal 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	4.18752
2019	4.20046

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

<u>Year</u>	<u>Original factor (A)</u>	<u>Adjustment factor (B) *</u>	<u>Adjusted factor (A x B)</u>
1985	3.50	-	-
1986	3.50	-	-
1987	3.58	1.03161	3.69316
1988	3.66	1.07050	3.91803
1989	3.74	1.12344	4.20167
1990	3.82	1.17452	4.48667
1991	3.90	1.20367	4.69431
1992	4.00	1.22699	4.90796
1993	4.00	1.25442	5.01768
1994	4.00	1.27941	5.11764
1995	4.00	1.32219	5.28876
1996	4.00	1.35174	5.40696
1997	4.00	1.37073	5.48292
1998	4.00	1.36668	5.46672
1999	4.00	1.39071	5.56284
2000	4.00	1.45725	5.82900
2001	4.00	1.48488	5.93952
2002	4.00	1.48082	5.92328
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

Year	Original factor (A)	Adjustment factor (B) *	Adjusted factor (A x B)
2006	5.10	1.76153	8.98378
2007	4.00	1.81921	7.27684
2007	5.10	1.81921	9.27797
2008	4.00	1.94133	7.76534
2008	5.10	1.94133	9.90080
2009	4.00	1.85365	7.41460
2009	5.10	1.85365	9.45362
2010	4.00	1.93060	7.72240
2010	5.10	1.93060	9.84606
2011	4.00	2.03768	8.15072
Jan-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	2.16483	8.65932
2018	15.30	2.16483	33.12190
2019	4.00	2.16973	8.67892
2019	15.30	2.16973	33.19687

(*) Base: annual average inflation rate observed in the United States, using the indexes: "Industrial Goods" and "Consumer Prices" published in the journal of "International Financial Statistics", 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
DECEMBER 31, 2019 AND 2018

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Paraguayan General Director

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Executive Technical Director

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Technical Director

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Iris Magnolia Mendoza Balmaceda
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Paulo Roberto da Silva Xavier
Administrative Director

Alberto Cabrera Villalba
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Executive Financial Director

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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, 2019 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, 2019, 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, 2019, 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.

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.

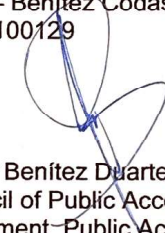
Curitiba, April 16, 2020

Asunción, April 16, 2020

KPMG Auditores Independentes
CRC PR-007945/F-7


João Alberto Dias Panzeri
Accountant CRC PR-048555/O-2

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Javier Benítez Duarte
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