

NOTES TO THE STATEMENTS OF OPERATION ACCOUNTS

DECEMBER 31, 2014 AND 2013

Annex "C" to the ITAIPU Treaty - "Financial and Electricity Service Provision Framework" defines the Operation Account as an annual balance between electricity service income and cost, computed using the criteria below:

a) Revenue

Revenue derives from the provision of electricity service under the Letter of Commitment signed with Centrais Elétricas Brasileiras S.A. - ELETROBRAS in Brazil and the Letter of Agreement signed with Administración Nacional de Electricidad - ANDE in Paraguay, as set out in section IV of Annex "C" to the ITAIPU Treaty, and should be equal to the Cost of Electricity Service each year.

The Board of Directors of ITAIPU establishes the unit cost of electricity service in accordance with the requirements set out in the relevant documents.

b) Cost of Electricity Service

Under section III of Annex "C" to the ITAIPU Treaty, Revertive Notes 3 and 4 of January 28, 1986, and Revertive Note 10 of November 13, 2000, exchanged between the Ministries of Foreign Affairs of Brazil and Paraguay, the Cost of Electricity Service comprises the following items:

- Compensation and reimbursement to the Contracting Parties and Members of ITAIPU, as follows:

Income on Capital - Calculated as the equivalent of 12% per year on the interest of Centrais Elétricas Brasileiras S.A. (ELETROBRAS) and Administración Nacional de Electricidad (ANDE) in the Entity's paid up capital. Since January 2001, income on capital has been subject to adjustments in accordance with Revertive Note 10 of November 13, 2000.

Royalties - Calculated as the equivalent of 650 United States Dollars per gigawatt-hour of power generated and measured at the Dam, but never to be less than 18 million United States dollars per year, paid in equal shares to the two State Parties.

Reimbursement of Management and Supervision Costs - Calculated as the equivalent of 50 United States Dollars per gigawatt-hour generated and measured at the Hydroelectric Dam, paid in equal shares to Centrais Elétricas Brasileiras S.A. - ELETROBRAS and Administración Nacional de Electricidad - ANDE.

Compensation for Equity Electricity - Calculated as the equivalent of 300 United States Dollars per gigawatt-hour of equity electricity transferred by one Contracting State to the other.

Revertive Notes 3 and 4 of January 28, 1986, exchanged between the Ministries of Foreign Affairs of Brazil and Paraguay, establish that compensation for equity power is to be included exclusively in the rate paid by the Party consuming the transferred equity electricity.

Royalties, Reimbursement of Management and Supervision Costs and Compensation for Equity Electricity, calculated as set out above, have been multiplied as from FY 1992 by a factor of 4.00 (four point zero zero); as from financial year 2006, under further Revertive Notes between the Brazilian and Paraguayan governments, exchanged on December 08, 2005, Compensation for Equity Electricity has been multiplied by a factor of 5.10 (five point one zero) for the purposes of section III.8 of Annex "C" to the Treaty.

On May 14, 2011, the multiplication factor for the compensation paid to the Government of the Republic of Paraguay for equity power transferred to Brazil increased from 5.10 (five point one zero) to 15.30 (fifteen point three zero) under Revertive Notes concluded on September 1, 2009 between the Government of the Federative Republic of Brazil (promulgated by Decree 7506 of June 27, 2011) and the Government of the Republic of Paraguay (approved by Act 3923 of November 18, 2009).

These costs will be kept constant using the formula established in Revertive Note 3, with the following adjustment factors:

Year	Original factor (A)	Adjustment factor (B) *	Adjusted factor (A x B)
1985	3.50	-	-
1986	3.50	-	-
1987	3.58	1.03161	3.69316
1988	3.66	1.07050	3.91803
1989	3.74	1.12344	4.20167
1990	3.82	1.17452	4.48667
1991	3.90	1.20367	4.69431
1992	4.00	1.22699	4.90796
1993	4.00	1.25442	5.01768
1994	4.00	1.27941	5.11764
1995	4.00	1.32219	5.28876
1996	4.00	1.35174	5.40696
1997	4.00	1.37073	5.48292
1998	4.00	1.36668	5.46672
1999	4.00	1.39071	5.56284
2000	4.00	1.45725	5.82900
2001	4.00	1.48488	5.93952
2002	4.00	1.48082	5.92328
2003	4.00	1.53284	6.13136
2004	4.00	1.59690	6.38760
2005	4.00	1.68959	6.75836
2006	4.00	1.76153	7.04610
2006	5.10	1.76153	8.98378
2007	4.00	1.81921	7.27684
2007	5.10	1.81921	9.27797
2008	4.00	1.94133	7.76534
2008	5.10	1.94133	9.90080
2009	4.00	1.85365	7.41460
2009	5.10	1.85365	9.45362
2010	4.00	1.93060	7.72240
2010	5.10	1.93060	9.84606
2011	4.00	2.03768	8.15072
Jan to May 2011	5.10	2.03768	10.39217
May to Dec 2011	15.30	2.03768	31.17650
2012	4.00	2.05866	8.23464
2012	15.30	2.05866	31.49750
2013	4.00	2.07836	8.31344
2013	15.30	2.07836	31.79891
2014	4.00	2.10372	8.41488
2014	15.30	2.10372	32.18692

(*) Basis: average annual inflation in the United States based on the “Industrial Goods” and “Consumer Prices” indexes published in International Financial Statistics.

- Amortization of Loans and Financing: this item refers to contractual obligations to financial institutions in Brazil and other countries that have been amortized during the period.

- Financial Charges on Loans and Financing: charges paid to financial institutions in Brazil and other countries, incurred up to the reporting date.

These do not include interest that has been capitalized during the period and incorporated in the principal, which is included in the cost of service only upon payment.

As from FY 2012, the Operation Account has no longer included the amortization of and charges on loans from CAJUBI under contracts PIB 2010-10-0001 and PIB 2012-10-0001, as these amounts are reimbursed to ITAIPU by ANDE under amendment 2 to Agreement 5808/99.

As from FY 2014, the Operation Account has no longer included the amortization of and charges on loans from Banco ITAU Paraguai for works and services to improve the Alto Paraná Area Power System in Paraguay under Executive Committee Resolution RDE-076/14 and Board of Directors Resolution RCA-013/14.

- Operation Expenses: these comprise all expenses attributable to the provision of electricity service, including direct operation and maintenance expenses, which include equipment replacement as a result of normal wear and tear, insurance, and general and administrative expenses.

- PROFIT (LOSS) FROM OPERATION: the profit or loss under the Operation Account for the period, following addition or deduction of the prior-year balance.

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