

Q1 2019 Earnings Call

Company Participants

- Adriano Rudek de Moura, COPEL
- Daniel Pimentel Slaviero, COPEL
- Franklin Kelly Miguel, COPEL
- Maximiliano Andres Orfali, COPEL
- Moacir Carlos Bertol, COPEL
- Wendell Alexandre Paes de Andrade de Oliveira, CEO

Other Participants

- Carolina Carneiro, Sector Head
- Lilyanna Yang, Analyst, LatAm Utilities, Oil and Gas
- Marcelo SÃ;, Associate Director and Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to Companhia Paranaense de Energia; COPEL earnings call to discuss the results of the First Quarter of 2019. (Operator Instructions)

Before proceeding, we should mention that forward-looking statements that might be made during this conference call related to Copel business outlooks, projections, operating and financial projections and goals are based on beliefs and assumptions of the company's management and on information currently available to the company.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstance that may or may not occur. General economic conditions, industry conditions and other operating factors may also affect the future results of Copel and could cause results to differ materially from those expressed in such forward-looking statements.

With us today in this conference call, Mr. Daniel Pimentel Slaviero, CEO of Copel; Mr. Adriano Rudek de Moura, CFO and IR Officer; Ms. Ana LetÃcia Feller, Chief Corporate Management Officer; Mr. Eduardo Barbosa, Chief Legal and Institutional Affairs Officer; Mr. Franklin Kelly Miguel, CEO of Copel Commercialization; Mr. Maximiliano Andres Orfali, CEO of Copel Distribution; Mr. Moacir Carlos Bertol, CEO of Copel Generation and Transmission; Mr. Rafael Moura de Oliveira, CFO for Copel Telecom; and Mr. Cassio

Santana da Silva, Chief Business Development Officer. The presentation will be delivered by Copel's management and may be followed on the company's website at ir.copel.com.

Now we turn the floor to Mr. Daniel Slaviero, CEO of the company. The floor is yours, sir.

Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Good morning, everyone. Ladies and gentlemen, thank you very much for participating in this conference call for the results of our First Quarter of 2019. It is with great satisfaction that I share with you the delivery of another quarter with sound and consistent results. And I would like to start by highlighting a record EBITDA of BRL 1.1 billion, which represents a significant growth of approximately 40%, vis-À-vis the First Quarter of 2018, followed by a cash generation of over BRL 1.3 billion, also significantly higher than the BRL 944 million recorded in the same period of '18. The net income, as you can see, went over BRL 500 million in the First Quarter, which is also the best one in our history with a growth of 42%.

I also would like to highlight a major reduction in our financial leverage, which ends the First Quarter of '18 at 3.3. And now we reached 2.6x net debt over EBITDA ratio. This is a significant figure that we expected to reach over the year. But we already were able to achieve the result in the First Quarter. So there is no better way of starting the year. And in spite of being aware that we still have many challenges ahead, these results do encourage us to expedite the execution of our strategy, aiming at creating value to our company.

In that sense, the results already show progress in several areas, such as the commercial start-up of relevant projects, operating quality and efficiency improvement, a significant cost reduction, levels of governance. And now we also start moving forward in innovation where we are already assessing several opportunities that may generate new sustainable businesses, such as distributed generation, smart grids and a major process that we are considering for the next month, which is to work on services, just like other companies in the industry do.

About commercial operations, startup of these relevant projects, I would like to highlight ColÁder HPP where we are already operating with 2 generating units of the 3 ones we had planned with the first unit that started operations in March of 2019. The second generating unit will have the start-up now in May. And that represents 200 megawatts of installed capacity in commercial operation of a total of 300 megawatts and 180 megawatts average in assured power. Therefore, ColÁder HPP already represents almost the total amount of 125 average megawatts sold by commercialization contract for regulated environmental energy.

And Baixo Iguaçu HPP, which we will be officially opening next week on May 23, we are already since April 10 at maximum operation capacity, contributing to increase the amount of energy sold by the company. This plant has 3 generating units, adding 350 megawatts of installed capacity, which is enough to serve over 1 million people. Copel-G&T has 30% of the plant in a partnership with Neoenergia, another group.

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Cutia Wind Complex is already in its commercial operation, or 96% of its capacity, equivalent to 300 megawatts. And we just have to conclude 6 wind turbines with an average capacity of 30 megawatts. So it is almost done. That's an important wind complex that's almost concluded.

So right now, we are totally focused in concluding the third generating unit for Col der, which should happen in the second half of the year, in addition to concluding the 6 wind turbines in Cutia Wind Complex.

With the commercial operation of 100% of these projects, we will have a total increase of 720 megawatts in installed capacity for Copel, which corresponds to a growth of 13% in our total capacity, allowing us to have an additional revenue of approximately BRL 450 million a year.

In this first year, 2019, our cash increment will be of around BRL 380 million. Nevertheless, the achievements are not restricted to financial and operating matters. Every day, we move forward to improve our management, looking for compliance in processes, strengthening integrity and always following strictly the best practices for corporate governance.

These efforts are also being acknowledged by the huge number of awards and certificates that we have been receiving in the different areas, in addition to already being recognized by our clients as the best distributing company in Brazil. And also we are recognized as the best broadband carrier in the country as well as the only state-owned company standing out in the corporate governance program of state-owned companies from B3.

In this quarter, also we have received a certificate of internal audit by the international quality assessment by the Brazilian State Auditors Institute, which acknowledges the use of the best global practices and compliance with international standards for the professional practice of internal audit. Currently, in Brazil, only 18 companies have this certification. And only Copel and another company in the country have been able to get the top score in this award.

So before turning to our next slide, I would like to talk about the continuous strengthening on corporate governance. And I have 2 other topics to mention here, the election of the new Board of Directors in the last shareholders' meeting of April 29 as well as election of the Audit Committee, Fiscal Committee and the creation of the Nomination and Evaluation Committee, which is a requirement of the law, therefore, filling up all the levels of corporate governance. And also G&T Copel IPO in category B, which will allow us in -- to have a better relationship with investors and the financial market.

About the election of the new members and committees, I should highlight that these nominations have followed a strict selection process where we considered exclusively technical competence, leadership, professional history of each appointed member as well as independence and diversification principles. As a result, we have taken an important step in order to strengthen leadership and governance in the company. Therefore, we

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stress once again our commitment in executing a sustainable strategic plan. And as I said in the beginning, that may increase the value of our company. So we are sure that we're moving forward in the right direction.

And before turning to our next slide, I should talk about G&T IPO. Today, this is our main cash generator. And we have already filed a request at CVM in the beginning of April. And we are moving forward with the process. It should be concluded in the mid of this year. This follows a CVM instruction 480 category B and does not aim at the issuance of shares. But this is a measure that stresses and reinforces the transparency of the company. And it is in line with the best practices of management and governance.

Turning to our next slide. I would like to make a special highlight, a very exceptional highlight for Copel Distribution that has reached an unprecedented EBITDA of BRL 330 million in the First Quarter, up over 150% vis-à-vis the same period of the prior year. In addition to external factors such as the adjustment of over 16% in the TUSD in June of 2018 and in line to the growth -- a significant growth of 5.1 in the grid market, I should highlight that we have been able to execute efficiently an aggressive plan of operating improvement and cost reduction where we are growing consistently towards our regulatory target quarter-on-quarter.

So the chart, everything talks about itself. two years ago, we have a regulatory deficit of 64%. And thanks to significant work coming from Max and his team today, considering the last 12 months, we have an EBITDA of almost BRL 1 billion and a regulatory gap of only 5%. We will continue working on these lines in order to meet and even supersede the regulatory target that is proposed by ANEEL.

In manageable costs, we had a reduction of 15% net of credit provision and reversal losses, thanks mainly to the drop of 24.4% in cost with personnel, thanks to the Voluntary Redundancy Program from 2018 in terms of investments as a part of our strategy to increase the regulatory asset base in the next tariff review, which will be in June of 2021. We have an aggressive plan for investments in 2019 totaling BRL 835 million. And those up to the end of the First Quarter, we have already executed over BRL 200 million, BRL 206 million precisely.

Our strategy has pillars in addition to the increase of the regulatory asset base as we said, investments in smart solutions that will reduce costs and as well as we want to improve the quality and expand our energy distribution grid, especially in the Southwest and North of the country. The Southwest of the state is a productive pole and works will benefit almost 100,000 people. These new works include 4 new substations that -- with 318 kilometers of new high-voltage grids will ensure better safety for the regions.

The medium-voltage grids that take energy to final consumers -- to end consumers will have a reinforcement of over 639 new works between 2019 and 2021. Up to 2021, Dis will install new grids, voltage regulators, automatic reclosers and self-healing devices. And the idea here is to increase our (inaudible) to meet the needs of our clients and reduce cost. This is what we call triple gain in the investments.

In the North of the state, we will have new 5 substations and 275 kilometers of new distribution networks of high voltage. Here we have 13 construction works involving reclosers, high-voltage regulators and 370 kilometers of new grids.

Maintaining the dynamics of investments in the Dis in the next quarter is a way of meeting our target and providing better service and a more reliable service to our consumers. And the results that we have had so far show that we are on the right direction.

The next slide. So moving towards the end of my presentation and before I turn the floor to Moura, I would like to make a brief summary of the main focus of the strategies that we are aligning with this new Board of Directors. Remember that the motto here in the company is execution, is to have the projects working especially the divestment project of telecom and after that, Compagas, which is a goal of our colleague here, Wendell de Oliveira. So we do want to have that execution process moving in order to ensure the better strategy and also adding value to the company.

I should highlight that the discipline in capital allocation to new projects and the conclusion of ongoing works, SPP Bela Vista Lot E and other works also that we are finishing, Santa Genebra, that should be concluded in August of 2019. All of these are crucial topics in our strategy, not to mention our continuous effort and all preparation work to strengthen economically the company aim. Our major challenge for September in 2023. So for Foz do Areia. So we are working with Brasilia to change the (Bill of Law 10985). So that we can have the privatization of this plant.

Finally, I should say that the innovation projects, distribution generation, electric and smart grids and especially to move forward to service providing for our consumers, all of those are strategic focuses for this management for 2019.

So once again, I thank you very much for participating in this call. I am available to answer your questions at the end of this presentation. And I should stress the trust that I have, the confidence that I have in this team and this efficient execution of this bold plan that we have just shared with you.

I also highlight that we will measure no efforts to meet our target and to take Copel to a new level, a new level of governance, of structure, of investments and especially of value to our investors and shareholders.

So now I turn the floor to Moura.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Thank you very much, Daniel. Good morning, everyone. Thank you for being with us here in this conference call. It is also with great pleasure that I share with you another quarter with sound and consistent results. And I should stress that the execution of our strategic plan is in agreeance with the targets and expectations of the market.

This continuous improvement comes, thanks to a major alignment of all the areas of the company with our strategy of sustainable growth and financial discipline. We know that good results are encouraging. But also, we know that we have many challenges ahead, especially with our political and economic environment. This is already affecting Brazil.

The First Quarter was not good. The expectation of growth have -- has already been dropped. And we know that the additional cash generation must be addressed, allocated with a lot of financial discipline and responsibility. And this is one of the main strategic focuses that we have, as Daniel has mentioned. And we'll continue following along those lines.

Specifically, about the First Quarter, I should say that the EBITDA of BRL 1.1 billion is the best in our history and represents a growth of over 25%, vis-À-vis the First Quarter of '18, the same comparison base, that is without the nonrecurring items.

Another highlight is the operating cash generation of BRL 1.4 billion, also representing a significant growth of 46% compared to the same period of the prior year. And here we can already see an important contribution of new projects, which started commercial operations such as Colãder and Baixo Iguaçu HPP as well as Cutia Wind Complex.

Our revenue is close to BRL 4 billion in the quarter, another all-time high. And that means 16.3% growth, vis-À-vis the First Quarter of '18. Net income is above BRL 500 million in the quarter, also representing a significant increase, 42% vis-À-vis first Q '18. And among several factors that have contributed to the improvement of these results, I should highlight. And Daniel has already mentioned it, the exceptional results of Dis, which has reached an unprecedented EBITDA of BRL 330 million in the First Quarter of '19, up 150% the same period of the prior year, coming very close to the regulatory target in the last 12 months. This is another landmark that encourages us to believe that we will meet the regulatory target in 2019. That's the plan that we are pursuing.

Other important factors that have contributed to the improvement in the results were the reduction of PMSO manageable costs. And we will see that in details. But I should highlight the reduction in head count, BRL 107 million. Part of that is regarding the indemnity of the Voluntary Redundancy Program, BRL 91 million posted only in the First Quarter of '18. And that has -- will have no impacts of indemnifications in '19.

So on the same comparison base, net of the indemnification impacts, the personnel cost has reduced 25% approximately even with the wages adjustment in the collective agreement of around 4% in October of '18. So consider inflation of 4.5% approximately in the last 12 months, the real reduction in personnel in the same comparison base was approximately of 9%. And remember that in this Voluntary Redundancy Program, 811 people left the company in the last two years.

In addition to personnel, several initiatives for cost reductions happened, such as contracts revision, including services; fleet outsourcing. Reduction in delinquency debt has also helped the results. And the focus on cost reduction and efficiency improvement is more than ever part of our agenda.

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Also there was growth in the grid market, 5.1% in the energy consumption in the First Quarter because of the increase of almost 5% in the captive market consumption influenced especially by the residential class and also the growth of almost 6% in the consumption in the free market, thanks -- the improvement in this reproduction in Paraná, growth of 7.8% in the quarter vis-a-vis first Q '18. The areas that have contributed the most for the increase in energy consumption were food, chemical and beverages manufacturing.

And here we also have a positive impact of the tariff adjustment that we had in June of last year of almost 16%. As we said, the impacts of operation start-up and billing for Baixo Iguaçu and Coláder HPP and Cutia Wind Complex already have a positive contribution to the results, which together add approximately BRL 91 million in revenue in the First Quarter. So it's a better compare.

And in the next page now, we have here the operating performance of each business. The adjusted EBITDA breakdown, we have excluded the nonrecurring effects, which were basically the ones recorded in the First Quarter of last year, as you can see in the chart below.

In summary, there are provisions for indemnity for the Voluntary Redundancy Program in the First Quarter of '18 in the first -- in the amount of BRL 91 million. And also labor mitigation provisions regarding a class action in the amount of BRL 24 million, partially offset by the tax credit related to Pasep taxing discretion stemming from the suspension of effects from Decree Law of 1988. They were considered as nonconstitutional by the Supreme Court. So we have not posted any extraordinary relevant effect in the First Quarter of '19.

And on the top chart, we see the adjusted EBITDA without the nonrecurring items, as mentioned. And in addition to the Dis results, we also see an improvement in G&T in the First Quarter, vis-a-vis last year where the EBITDA went over BRL 600 million, a growth of over 15%, vis-à-vis the adjusted result of the same period in the prior year. Here basically explained by the increase in revenue coming from new projects, as we said. And the reduction of provisions for labor litigations and also because of the positive impacts of the GSF and spot price, which were better than the First Quarter of last year.

And finally, thanks to the increase coming from end consumers. And Copel Telecom had a reduction of 1.7% in the adjusted EBITDA from BRL 36.5 million in the First Quarter of '18 to BRL 35.9 million in the First Quarter of '19, basically because of the effect of write-offs stemming from the activation of assets related to grid infrastructure.

Now on the next slide, we have manageable costs, our PMSO, which have been reduced vis-à-vis last year. There is a reduction of 23% with head count cost of almost BRL 450 million in the quarter. And last year, BRL 344 million this year -- this quarter. And the comparison base -- in the same comparison base, net of indemnification impact and considering inflation and the reduction here is over 9% material. So also we had a reduction of 7%.

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Services have increased because of the adjustment of some contracts following inflation in the period. And others here, we have an increase of 25% basically related to the deactivation of the structure of Copel Telecom as we have said. So the bottom line, the cost reduction is in line with our program. And we still have several initiatives for cost reduction that are already planned and that are still being implemented.

Our next page then. Here we show the cash generation for operating activities. And we see the results for cash generation, considering operating results and also working capital. As we can see, BRL 1.4 billion and part of that is stemming from the improvement of BRL 300 million in operating results. But also an improvement of over BRL 75 million in the working capital vis-à-vis the First Quarter of '18. You should look -- you should see that the depreciation does not affect the cash generation and there was an increase of BRL 50 million because of new projects that came in, such as I said, Coláder, Baixo Iguaçu and Cutia.

Now turning to Slide #12. We can see the history of our investments since 2016. Highlighting in orange on the top part of the bar, the amount that was already allocated to projects of Generation and Transmission that are being built in the last years, which is gradually being reduced. And that amount is of BRL 1.8 billion in 2016. And now we are reaching 2019 with a forecast of BRL 388 million. Investments in the First Quarter of '19 are in agreeance to the approved plan for 2019, already show a drop of 46% compared to the First Quarter of '18, over BRL 300 million lower. In addition, I should highlight that the BRL 360 million invested up to the end of March of this year, over BRL 200 million were invested on the Dis.

I should stress that our focus will be in concluding the construction works and improving quality and efficiency, especially with the smart investments of technology in the Dis that may reduce cost and increase the remuneration base. As Daniel said in the beginning, we'll maintain a new level of governance for new projects with a strict assessment of risks and opportunities in a way to maintain the best choice in terms of capital allocation for Copel.

Turning to our next slide. And I am moving towards the end of my presentation. We have our leverage history in the past years. We went from 3.4x in 2016 and now, finally, we are reaching reasonable levels of 2.6x at the end of this First Quarter, thanks to an aggressive plan of capital allocation and financial discipline in all aspects, including the alignment of the investment plan to the cash generation capacity, relevant cost reduction, including personnel as well as the cash contribution -- additional cash contribution of new projects.

As always, we stress that the control of our leverage will be one of our top priorities. And we will not commit to anything without knowing for sure the compatible cash generation capacity and also a reasonable return.

Additionally, I would like to say that the funding plan to meet the demand in the short term, where we'll have a concentration of maturities in May, June and July of this year of around BRL 2.9 billion, that is already totally balanced and already being executed.

That's it. Thank you very much. And now we turn to our Q&A session.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Carolina Carneiro, Crédit Suisse.

Q - Carolina Carneiro

I have 2 questions. The first one about the cost performance, which really has improved in the quarter, can you give us more details specifically on the provisions line? I understood, as you said, that you have no specific highlight of reversions or any nonrecurring items.

But when we compare the level of provision of this quarter vis-à-vis revenue. And even the provisions for other quarters, we see that this was low. So I just would like to understand if this was really a change in the process that from now on becomes recurring and you will maintain that level of provision as is or if there was anything specifically in this quarter that allowed you to have a lower provision level than usual.

And my second question about the G&T result. Several companies have been affected by the IFRS 15 and 16. So I want to understand if you had no relevant impact affecting G&T because of the IFRS.

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Carol, thank you very much for your questions. Moura, can you address the questions, please?

A - Adriano Rudek de Moura {BIO 3590957 <GO>}

Carol, thank you for your questions. Well about labor provisions, I understand that the current provisions are already at a normal level. Last year, we had a class action that was relevant. We have already provisioned 100% of it. And we are trying to negotiate it to bring down this provision. But it was very specific and it came last year. So we do not expect to have anything new regarding additional provisions from now on. You know that with the change in the labor laws, this is also changing. And so the level of complaints has reduced a lot, we are seeing that in our results as well.

Now about G&T, the change impact was not relevant. We have done a detailed work last year. This is -- this was in our notes last year when we published the results of '18. And these impacts were very small and have not affected our results.

Q - Carolina Carneiro

Okay. If you allow me another question about G&T's result. It's about allocation. Most companies became exposed, although the secondary energy this First Quarter being more allocated in the next quarters. But in the case of Copel, what was your allocation

strategy in the system? Were you short in this quarter? Are you saving energy for the next quarters or not?

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Bertol, can you address Carol's question?

A - Moacir Carlos Bertol {BIO 7293355 <GO>}

Yes. It has been allocated to the second half of the year. And the secondary energy generated in this First Quarter was in the north and in -- spot price in this north market was lower in the -- of the secondary energy that was generated. So our largest generation is going to be now in the second half of the year. This is the analyzation process.

Operator

Our next question is from Marcelo SÃi, Bank UBS.

Q - Marcelo SÃi

I have a few questions. First, I want to better understand the distributing result, which is very strong. I know you cannot do that. But a very simple math, you would be -- you have annualized EBITDA of BRL 1.2 billion or a little bit over that, which would be higher than the regulatory one.

So looking at the company up to the end of the year, do you really believe that you will be able to be more efficient than the regulatory up to the end of the year? And still in the Dis company, how do you see the growth in volume? You had a strong First Quarter. And do you believe this growth in volume will be sustained by the end of the year?

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Thank you, Marcelo. Max, can you address the question, please?

A - Maximiliano Andres Orfali {BIO 20897325 <GO>}

Well the first one, if you understand that this process will reach a regulatory EBITDA, in our case, I think it's BRL 1.1 billion. Well we had a plan of meeting the regulatory EBITDA in this tariff cycle. But we see that is it possible in 2019 to reach that level? Of course, we cannot say it for sure. But we are working towards that.

And I know that we have the growth in the grid market. We had a strong growth in the First Quarter because of the high temperatures in the summer. And that tends to stabilize over the year. It might not be replicated the same level throughout the year. But we should have some stability at a lower level, I would say. Yes. Even when the economy picks up again.

But as Marcos has said is that our -- we do not believe that we will maintain that growth level of 5.1% in the First Quarter because of what he mentioned. We did have a strong summer in the South. Just to conclude, Marcelo and Moura, although we do not provide guidance for the year, we do believe in this regulatory target, okay?

Q - Marcelo SÃ;

That's great. Then I have another question. And I would like to have more details for the next steps in the sale of Copel Telecom. I know that you're selling control and you need to go through the legislative house. And so first, you will request an authorization to sell in the legislative house or if you will publish a notice. So what is the schedule? What is the agenda? How is it going to be?

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Well Wendell, can you address this question, please?

A - Wendell Alexandre Paes de Andrade de Oliveira

Marcelo, thank you for your question. Right now, we are still studying the divestment. This has not been concluded. There are a whole series of steps in terms of internal governance that have to -- we have to go through. And we hope to have news very soon, what we can actually divest and what has to stay in the company. So that we can guarantee 100% of the functionality of our operations. So facing all that, the next steps will be soon disclosed.

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Well just adding to what Wendell said is he's talking about the segregation of assets. What we do need for Generation and Transmission operations and distribution as well and what would be available to be sold in the market and what comes first is that, very soon, we will have an invitation for financial analysts to help us in the process. And by the end of the first half of the year, the idea is to send a bill of law to our legislative house beginning of June -- or end of June, beginning of July or after July in beginning of August.

Q - Marcelo SÃ;

And the final question about G&T. I would like to understand if you have closed any relevant deal, if you have sold energy in the mid; and the long run. And if you have done it, if you have any price guidance to give us.

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Franklin, please, Copel commercialization.

A - Franklin Kelly Miguel

Marcelo, for 2020, we are taking that window of opportunity with a high price and we are identifying sales for 2020. For 2021, we are also selling. But not as much because we still believe that it might go up.

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In any way, in this First Quarter, it was very atypical in terms of pricing because of the rain. And we were able to seize this opportunity as much as possible. And we are still seizing this opportunity of a high-price window and with a higher capacity and frankly. And Bertol, right?

We understand that what happened here in the First Quarter with the spot price is not common. It's kind of atypical when we compare the all-time average in the past years. This was a window of opportunity, we seized the opportunity. And we'll continue monitoring it. So that we can have long-term contracts in order to have balance for -- or guarantees for G&T in commercialization.

Q - Marcelo SÃ;

Well so just to understand you, we have sold some energy for 2020, a little bit less for 2021. But the price for '20 was around BRL 200, '21 a little bit lower. Can you give us a range there, please, because we end up not knowing how much the companies are negotiating here? It would be nice to have some guidance.

A - Franklin Kelly Miguel

Well let me talk about marginal prices. The last negotiations are in the range of 2020, 2025. For 2020, yes. For 2021, we have BRL 10 to BRL 15 less than that.

Operator

Our next question is from Lilyanna Yang from HSBC.

Q - Lilyanna Yang {BIO 14003234 <GO>}

These are great results. I would like to have an idea that with a greater cash generation over the year, what is the ideal level of leverage for you? And another question. And I'm sorry if it already has been done because I was disconnected in the beginning. But about Areia that has the contract expiring in 2023. Daniel mentioned something about the privatization. Can you give us more color on what we can expect regarding this asset, please?

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Lily, thank you for your question. Let's start by the final -- your last question about Foz do Areia. We are preparing the company for the current regulations. That is it will be on auction in September of '23. And we will have an economic and financial capacity that is very strong to be able to be part of the process. And we will analyze and face that as -- with the analysis of a good business. This is a good asset and it's an important portfolio. But above all, we will have the guidance of the return capacity of this business. And this is a business that we deeply know about.

Regarding the privatization process, we are working. We are discussing with the Ministry of Mines and Energy, also with the House of Representatives because the PL 10985

address GSF. And within that, it has a possibility of reducing the term from 60 to 36 months. And that is very interesting to us.

So if that is approved and the Minister is showing confidence about the process. But he cannot precise when that will happen and mainly because of the political dynamics. But we are following that up as one of the main items of our agenda. The Minister will be here in Paraná in the beginning of next week and we intend to get more details to know if there are any new facts about it.

But we are talking to relevant players here in Paraná and other areas. So that this could move forward and that we could have this alternative. And there are preliminary studies that shows -- that proves to be a good possibility for the company.

And regarding leverage, we understand that this figure about 2.5, 2.6, which is what we already reached in the First Quarter. And as I said in the beginning, this was the perspective to reach just by the end of the year. And that's a very comfortable position in the process. So Moura, I don't know if you would like to add anything. But it looks like this is a reasonable figure for our capital cost and so on.

A - Adriano Rudek de Moura {BIO 3590957 <GO>}

Yes. It shouldn't be much different from that. We do not have any expectation to add new debt. The trend -- the trend is to have our debts going down. The net debt already shows it. And thanks to better results, the leverage should be around 2.5. That is our target for 2019.

And Lily, a final comment about your question, not only in Foz do Areia. But we are also monitoring and Cassio here is also monitoring new opportunities, whether in the auction in June or the auction in September and also in the availability of Eletrobras having 45 wind SPEs for privatization in the market. In the past, we acquired some transmission grid from Eletrobras that were very interesting for us. And I'm sure that over May and June, the information that comes from Eletrobras, we are considering that. And we'll be paying a lot of attention to these opportunities.

Q - Lilyanna Yang {BIO 14003234 <GO>}

So may I understand that this potential cash generation, the idea is to allocate the capital in new projects instead of thinking about increasing the payout of dividends. Or do you think other things might be happening?

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Well these are the 2 possibilities. Obviously, we'll be looking for projects that are more profitable. So that we do not need to return that in a payout. But if the projects are not good and not profitable, the option of a higher payout is still being considered.

Operator

(Operator Instructions)

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Well since there are no further questions, once again, I thank you very much for your participation on this conference call.

I also would like to highlight that the results we were able to reach and share with you are the results that make us very happy. We're very pleased to share those with you. And this is a process that started two years ago. So we are here reaping the results of the efforts of the company for the last two years.

That's why we had an amazing quarter, the best in the company's results. And that only increases our responsibility. So that in the next quarters in 2019 and for the future, we can continue delivering sound results with the improvement of our process of management, better governance and continue meeting our main target, which is the appreciation of the company. Thank you very much, ladies and gentlemen. Thank you very much my colleagues here from Copel. And we will be available whenever you need us.

Operator

Ladies and gentlemen, the conference call of Copel has ended. Thank you very much. And have a nice day.

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