

Y 2018 Earnings Call

Company Participants

- Adriano Rudek de Moura, Chief Financial Officer and Investor Relations Officer
- Daniel Pimentel Slaviero, Chief Executive Officer

Other Participants

- Lilyanna Yang, Analyst
- Marcelo Sa, 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 fourth quarter of 2018. All participants are in listen-only mode during the Company's presentation. And later, we will start the Q&A session and further instructions will be given.

(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 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 circumstances 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 this conference today Mr. Daniel Pimentel Slaviero, CEO of the Company; Mr. Adriano Rudek de Moura, CFO and IR Officer; Ms. Ana Leticia Feller, Business Management Officer; Mr. Eduardo Barbosa, Legal and International Affairs Officer; Mr. Vicente Loiacono Neto, Governance, Risk and Compliance Officer; Mr. Cassio Santana da Silva, Business Development Officer; Mr. Franklin Kelly Miguel, CEO of Copel Comercializacao; Mr. Maximiliano Andres Orfali, CEO of Copel Distribuicao; Mr. Moacir Carlos Bertol, CEO of Geracao e Transmissao; and Mr. Wendell Alexandre Paes de Andrade de Oliveira, CEO of Copel Telecom.

The presentation will be delivered by Copel's management and maybe follow up on the Company's website at ir.copel.com.

Now we turn the floor to Mr. Daniel Slaviero, CEO of the Company.

Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Good morning, everyone. Thank you very much for being with us in this conference call for the results of the fourth quarter of 2018. I would like to start by highlight that it is a great honor and also great responsibility to be a Head of Copel right now. The largest company in Parana and one of the largest in Brazil. This is a company that is part of the lives of millions of consumers and it is crucial to the development of our state and it is a reason of pride for us and Parana.

I thank the opportunity to thank the Governor, Carlos Massa Ratinho Junior, whom, as a legal representative of the controlling shareholder has trusted me to with Copel employees, turn this into a more efficient company, so that we can do better what we already do well, which is to generate, also commercialize and distribute energy. This is our DNA and it's already a priority in our management.

Before going into the details of the presentation, I should highlight, so that we can -- you all start this journey and so that we can meet our bold targets we have ahead. I was careful in bringing aboard a team of seasoned executives that are qualified in their expertise areas. They have a technical profile and they are very competent, trying to maintain the right balance between the internal and external options for the company, but above all, that are totally in line with the pillars of our corporate strategy, which I'll mention further on.

So I would like to say that our CFO is still with us, Mr. Adriano Rudek de Moura. He is in this position for over two years. He had prior experiences in several multi-national companies. Ms. Ana Leticia Feller, Business Management Officer; Mr. Vicente Loiacono Neto, the Governance, Risk and Compliance Officer; both career professionals in the Company that have been in these positions before.

For Legal and Internal Affairs Officer, we have Eduardo Barbosa, who has great experience -- great technical experience. For new business, we have Cassio Santana da Silva, who had leadership positions in important multi-nationals. For Copel Distribuicao, we appointed Maximiliano Orfali as the CEO and for Comercializacao, Franklin Miguel, both are career professionals at Copel that have been in these positions before with great results and with great competence.

For Copel Telecom, we have an engineer Wendell de Oliveira, who also has had experience in other multi-national companies. And finally for Copel Generation and Transmission, the new CEO is Mr. Moacir Bertol, electrical engineering, who has had several important positions recently in the Ministry of Mines and Energy.

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Our selection process follows a strict assessment of the needed competences for these respected positions in all companies of the group and it goes beyond of the new demands -- the new requirements, demand and the law 13303 and best practices. I am sure that there's no management, along with the other leadership of Copel, where we also have experienced career professionals, a brilliant technical group as well as with the support of the 7,600 employees. Altogether, we will start and cycling the Company, a cycle that will take the Company to a new level of profitability, cash generation, operating efficiency, as well as innovation.

Having thanked everyone, having introduced everyone, I now turn to Page 4 of our presentation with the highlights for 2018. Even be in a year where we had a political transaction and macroeconomic scenarios during the recovery, Copel has reached its all-time high results. This is a reason that makes us very proud. We are very happy to say that, that net income was a record of BRL1.4 billion, 30% higher than what we had in 2017.

I also should highlight here EBITDA in the fourth quarter of BRL757 million, a total of BRL3.1 billion, 9.5% higher than what we had in 2017. And also we have met an all-time high in operating cash generation of BRL3 billion, a 22% increase vis-a-vis 2017. This was thanks to hard work and competent work of the team, especially in the fourth quarter where we had a net income of 193% higher than the same period of 2017, totaling BRL390 million as you can see, and the EBITDA in the fourth quarter was BRL757 million.

Further on, we'll go into the details about the main reasons for these improvements, but I should highlight that this was only possible thanks to a broad program of cost reduction with the help of all Copel's areas and this will continue. Further on, it would have all my support. We are already mapping other initiatives that will be implemented in the short and the medium runs.

Some very short-term measures have been taken in my management in these first 90 days, such as the return of leased buildings, reduction in management, support and administrative positions. These are some small examples that has stressed our belief that the reduction of process and efficiency improvement will be a band of this new management.

Another example that I find that is very relevant to be highlighted was the reduction of 120 employees in the last two years. Bringing that in 2018, we had 634 basically thanks to a voluntary redundancy program that we called in December 2018, representing a 11% of our headcount. That will allow us to have savings in 2019 of BRL200 million.

Another important highlight is the start of commercial operation of relevant projects such as Colider HPP, Baixo Iguacu HPP and Cutia Wind Complex. Therefore we had a long cycle of great investments the Company has made in the past few years. Right now, we are totally focused in concluding 100% of these projects, which have already started its commercial operations, but without meeting their maximum capacity when we will then have a total increase of 718 megawatts in installed capacity of Copel, increasing our total capacity.

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It's important to highlight that these three undertaken, especially Colider, which was the hard work of our team, had already its first plant in operation. The commercial operation was approved in March '19 and these projects will bring an additional revenue to the Company now starting in 2019 of BRL400 million. And Baixo Iguacu, we have a partner -- a partnership with new Energia Group and we are already operating two turbines, one in the Cutia Complex. We already have in operation 127 wind turbines of a total of 149 that is over 85% of the installed capacity already in full operation and we estimate that it's all going to be concluded.

Now in this -- at the end of the first quarter, an important highlight is the recognition of the quality of Copel Group. We are acknowledged by our clients as the best distributing company in Brazil for the second year in a row. In the consumers award, this is end consumer view considering ANEEL's quality index and Copel Telecom was considered the best broadband operator in our country.

In addition to that, we have received several awards and acknowledgments regarding information disclosure, management quality, volunteer program as well as sustainability. Of course, going through our corporate governance and then I should highlight also and I should mention an award that made us very proud in December of 2018, we were recognized by B3 as the best state-owned company and corporate governance. We were ahead of a large company; thanks to our profile. And Copel was the only state-owned company to participate in this award and we ranked first. We got the first prize.

I should say that it is very important to have the governance -- corporate governance and compliance and the -- pillars of our business. It's also crucial -- recognize that our results are thanks to the largest equity of this company, the 7,600 employees that work hard to maintain an excellent service in 2018. Once again, we are among the 150 best companies to work at. And this is a survey made by Voce S/A. And that's a great achievement that proves that Copel is dedicated and committed in everything it does.

More than anything, we want that these undertakings are seen by the market. We already have good signs that this is happening partly by the appreciation of our shares and we'll continue encouraging by continue its strengthening of the relationship of our investors and market analysts in a way that we can all share the trust and the confidence that we are on the right path.

Now turning to the next to slide, checking the business perspective. It is crucial and I would like to give a special highlight to the results of Copel, (inaudible) has reached into 2018 an EBITDA of BRL800 million, an increase of seven times more than an EBITDA two years ago and an improvement of 42% vis-a-vis 2017. Therefore reducing our regulatory gap to 23.8% and then, we should once again thanks to Max and his team for their work in 2016 and up to 2018 reducing our regulatory gap from 86% to 26%.

Showing, therefore a significant improvement in efficiency and cost control. And our guideline, our target is to have 2019 an EBITDA -- the regulatory EBITDA, we went to reach the regulatory EBITDA in 2019, we'll do all that without losing our main focus, which are quality and access.

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And then, in the chart here, you can see that we have our ELC, EFC indexes that are better than the regulatory ones. Thanks to Copel's teams' commitments that are relentless in their work and in serving our consumers. Our commitment is to improve even more. The quality of the services by a modernization program that is going to integrate automation and remote control of the electrical grid and also the installation of the smart equipment as we have done in Ipiranga and we are doing that also in (inaudible) Parana. The first in the country that will be fully covered by regulators and intelligence measuring devices, all integrated in the same communication system. These technological innovations will contribute to the reduction of operating costs and investments in -- for 2019 will be of BRL135 million, the highest of the decade and that decision is also part of our strategy to increase the remuneration base, RAB for our next tariff review of 2021.

I also would like to highlight another important initiative, which is the recent opening of the Smart Copel, a most modern distribution, modern center of operating center. This unit will centralize all operations of our Parana teams. Another major about to hear is the electrical modernity in 2018, we will have the largest electric highway in the country. It connect Paranagua to Falls Iguacu.

Very briefly, turning to my final remarks, so that I can turn the floor to our CFO. I would like to highlight that the other businesses, as I said, also had significant results and generation in addition to the focus and the conclusion of important projects. The priority right now is to have the efficiency and the productivity improvement program, and also having new synergies such as SPP Bela Vista. We would like to increase our productivity and to become more competitive, so that we can think in a sustainable expansion in the medium and the long run.

In transmission, we are over 4,600 kilometers of lines and that allows us to have an annual allowable revenue of BRL700 million end of 2019. We will conclude SPE Mata de Santa Genebra and in the next, we will start operation of the underground transmission lines.

Uberaba and Curitiba Centro works that have the state-of-the-art in terms of energy transmission and high voltage. We also take over the operations of Uirapuru and undertaking that corresponds to 120 kilometers and operating lines in Parana with annual allowable revenue of BRL32 million.

In commercialization, this market in Brazil is in constant development. We are facing a challenging moment, but even then our commercialization company reached BRL1.3 billion, a significant growth vis-a-vis 2017. And I should highlight the focus that we're going to give this as company, because we consider to be strategic to Copel's Group. Once we consider the dynamics of the free market and also serving the consumers that will migrate to the category.

In telecom, we have a very attractive asset with high capacity grid and backbone of great reliability that have a footprint in the 399 cities of our state by a grid of -- an optical grid of 34,000 kilometers and I have said that and I will repeat, we are willing -- very much willing of leaving the assets that are not in our asset, that are not in energy DNA and we are

moving fast in the studies of segregating these assets internally, so that we can move on and governance and take that to the Board of Directors and present that to the market.

Now to conclude, what we foresee we have for the future. First, focus and continuous improvement of our profitability, a strict control of cost reduction, disciplined capital allocation. Our goal of the regulatory EBITDA, this is a commitment of all our management, we are going to work hard to bring that result, and as I mentioned divestments.

Copel Telecom to start and then Compagas that will be reassessed as well. And for sure, with that increase of the cash generation, especially coming from new projects, we will be focused in reducing leverage. This is also a continuous work of meritocracy. We will have priority investments, generation transmission, distribution and we will be especially focused and we will be working every day focused and renewing the approval for Foz do Areia plant, which is the main asset 1,676 in generation. This is the largest asset in Copel's portfolio.

All these investments, we will always be focusing on the best return for the company and in the last year, important learnings that we had were improvements in our governance to approve new investments.

I would like to highlight once again how important is this and the market already knows it has been disclosed yesterday to the controlling agencies. We have new members in the Board of Directors and they will have more independence. These new members will have more diversity and they will help Copel. We will have (inaudible) and with his experience, his focus on innovation and technology, he will certainly add much to the new challenges of the Company, which are to look for distributed generation, electric mobility, smart grid services, biomass. We have great opportunity there as well.

So we have two models here in this Company execution, so that we can deliver the results, the projects and especially investment plan and innovation. Having said that, I thank you very much for all of you that are here with us. I turn the floor to our CFO. And at the end of his presentation, we will have a Q&A session. Thank you.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Thank you very much, Daniel. Good morning, everyone. Thank you for being with us this morning in this conference call. I think it's clear that we will continue moving forward in several areas and the sound results presented in another quarter showed that the execution of our strategic plan is following perfectly our targets and market expectations. This is -- continuous improvement is thanks to great alignment of all the areas of the Company as our -- to our strategy of sustainable growth and financial discipline.

As we can see in our 2018 EBITDA, we are over the barrier of BRL3 billion; an all-time high for Copel. Our net operating revenue was close to BRL15 billion, BRL1 billion of annual growth since 2016, that means 6.5 growth vis-a-vis 2017. And remember that 2018 was a complicated year. We had a shy economic growth, but even then, this revenue growth is --

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strengthens our position as the largest company in the state of Parana and one of the largest in the industry in the fourth quarter.

We also reached an all-time high of operating result of BRL730 million [ph], with a growth of 57% vis-a-vis fourth quarter of 2017. I also should highlight the generation of net operating cash, which went over BRL3 billion in 2018, around BRL370 million in the fourth quarter of '18. And also here in addition to the improvement of the operating results, we also have the positive effect of the CRC receivables operations back to normal that is -- that was a state administration, that was partially interrupted in 2017. And we started the payments back to normal in 2018 and the total almost BRL220 million and remember that this credit remuneration is IGP-DI, plus 6.65%. We also have an impact from the full reimbursement of RBSE starting in 2018.

As Daniel already mentioned, another all-time high is net income over BRL1.4 billion. This corresponds to a net income per share of 5.14; 36% better than 2017. And therefore, dividends will be also 30% higher. The grid market is helping as well. This is the last quarter and 1.8% in the last quarter, 1.9% in the year, in line with our expectations of growth.

And finally, I should stress investments in 2018 focus in the conclusion of many ongoing works, as I said, Colider, Baixo Iguacu, Cutia Wind Complex, summing up almost BRL1 billion, just in these investments in the year and around BRL150 million in the fourth quarter.

Well, I should mention the drop in revenue in the last quarter when compared to '17 of approximately 6%, basically because of two reasons. First, there was an effect of financial sectorial assets and liabilities, which in the last quarter was negative BRL55 million and in 2017, in the last quarter was of BRL381 million positive, basically because of lower cost as with electric energy purchase for resale and that was because of a lower hydrological deficit and also lower average spot price. And the second reason is the lack of dispatch of UEGA, which is equivalent to a reduction of 17% in electric energy supply. And the last quarter of '17 generated 195 gigawatts hour just to remind you.

Turning to our next to slide, here we have more details on the consolidated results of the year and last quarter. In the bottom left, we have the breakdown for the operating result of 2018 per business and I draw your attention to G&T still being the top presenting company, 60% of total. But already with a relevant share here, we have this distribution company 25%, telecom 4% and others, including the results of our subsidiaries, such as Copel (inaudible) and others.

What is most important here is to highlight the reasons for improvement in these results. Some are Copel management and others are thanks to non-managerial factors. Okay, for Copel management, we had a headcount reduction, we were able to reduce one of the largest Copel costs today. We have a payroll of BRL1.3 billion a year. We had a reduction of 920 employees, which was based in the voluntary redundancy program that was ended now in 2018.

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The options to -- for the employees to leave the Company after December, we had 563 of them leaving Copel in 2018. This impact of the indemnification in 2018 was BRL70 million the less provision we had to both cost of this program and so we'll no longer have any impact after 2018 and we will see estimated savings of over BRL200 million in 2018.

If we do not consider indemnification and this is good margin, the headcount costs was reduced in around 2%, even considering the wages increased in October 2018, which was around 4%. So we will have a real gain of almost 6% that will be maintained starting in 2019, considering that these openings are forever close. This will then be seen in our financial statements that were published yesterday. The cost reduction also was something under Copel's management.

Here we have several examples. In addition to reduction in the headcount, other initiatives have been included in the program. This is a program that is ongoing for a few years. Many contracts have been reviewed, services fleet outsourcing, also delinquency reduction, which is very important in the case of the distribution company for a year. With a collection of overdue bills for the first time, we had a surplus vis-a-vis the regulatory target, where reduction of almost BRL20 million in addition to interest on overdue bills, which corresponds to BRL35 million more, we'll see that in the operating results. We don't see that in the operating results, but that impacts the financial results. There, we have almost BRL55 million of improvement vis-a-vis 2017.

In addition to that, we already have a positive impact in the greater investment in technology focusing the reduction of process improvement. Starting in 2019, we will also see the impacts of the measures mentioned by Daniel, the return of lease buildings reduction of management assistance and head position. So cost reduction, efficiency improvement will be the main agenda of this management.

Now talking about the growth in the grid market, it was 1.8% as I said in the last quarter, 1.9% in the year. That is thanks to the growth of 4.5% in the consumption of the free market in the fourth quarter. And thanks to an improvement in production -- industrial production in Parana growth of 1.7% and 0.3% in October and November, respectively vis-a-vis, 2017.

The areas that have contributed the most to the increase in energy consumption or the manufacturing of food-related product, pulp and paper, and chemical products. Also the number of Copel consumers in Copel's captive market reached 4.6 million in 2018, almost 80,000 more than 2017. Here, we also have a positive impact of the tariff adjustment applied starting in June of 2018, affects 16% and Copel Distribuicao is benefited from that. And an improvement in the hydrological scenario. This -- I should highlight in last quarter GSF of 81.9% in the last quarter was compared to 69% in '17. This had a positive effect for G&T in the last quarter.

Now turning to our next to slide, so that we can have a better comparison of the operating performance of each business, which shows you a breakdown of the adjusted operating result, net of non-recurring effect, especially with the remuneration of RBSE BRL183 million without the impact in 2018 and also without the reduction of the

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impairment, which in 2017 specifically regarding to the gas contract of our subsidiary with Copel Geracao with Petrobras with was no impact in 2018 also.

And there are other impairment adjustments of other assets here we had a reversal in the last quarter of BRL35 million. We also have a labor provisions in 2017. I have already talked about that. So we have the redundancy program. So net of all of this impact, the consolidated adjusted results show an improvement in the EBITDA, both in the quarter as well as in the year, respectively 6.3% and 9% without considering the equity method.

Once again I should highlight the relevant improvement of the distribution company results and remember that it's adjusted result is close to BRL900 million, a growth of 34% vis-a-vis 2017, as we already mentioned. So this is a combination of several factors, including the growth in the grid market, tariff adjustment and more important because of all that, we are -- all the factors, we are able to manage such as initiatives of efficiency improvement in the process and cost reduction.

I also should highlight the significant improvement in Copel G&T in the fourth quarter of '18. With an adjusted EBITDA of BRL502 million, a growth of 61% vis-a-vis the results of the prior year end. As I said this is thanks to the favorable hydrological impacts in the year. The adjusted EBITDA for Copel G&T was of BRL1.8 billion and the comparison representing an increase of 13% over 2017. And year -- this was a year where the hydrological impact was not as relevant.

Now Copel Telecom had a reduction of around 15% in the adjusted EBITDA going from BRL139 million from 2017. And basically, it was because of the activation of assets.

Just an additional comment in the others line where we pulled the impacts of the subsidiaries. Here we have a relevant reduction between 2017 and 2018 both in the quarter and the year. And the reasons are first, the count of gas [ph] of Compagas in 2018 was higher, because there was an increase in price of contracts with Petrobras reducing the margin for Compagas in 2018. Also there was an impact of the lack of the dispatch Araucaria that we have the dispatch in 2017, but not in 2018. This affected the subsidiary line.

And we also had a negative impact in 2018 other TUSD cost increase for the transmission company. Totally, all these three reasons totaled around the BRL100 million [ph] that we may consider as non-recurring. We expect that this can be offset in the next years.

Now turning to Page 12, we have a comparison of the PMSO. There was a reduction of 8.2% in the last quarter, with headcount, including pension funds. And this is explained by the reversal of BRL20 million in the provision related to compensation of the voluntary program. And we expect that more employees would leave the Company. And so reversal helped in the comparison of 2018, but if we eliminate these impacts, the personnel cost in the last quarter would only had an increase of 0.2% [ph] basically maintaining that equivalents of the quarter in 2017. Therefore, considering an adjustment of the salaries of 4% in October.

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So the real increase actually would -- actually be a real reduction of over 2%. And that's what happened in the year. If we check the figures, we will have a reduction of our headcount expenses of 2%, even considering that 4% increase. Therefore, we start seeing the relevant reduction in our headcount cost.

We had an increase in services. These are regarding additional demands of external consultants, some audit services, they tend to decrease and others. This increase is related to the write-off that I mentioned such Copel Telecom. So in summary, I think all manageable costs have increased 3.8%, but they should not be recurring. So we believe that the consolidated PMSO will be reduced, especially with headcount or people due to the impact here and other measures we already mentioned.

In the next slide, we have the results of Copel G&T and also adjusted EBITDA. I think we already talked about the main topics of the G&T. I won't go into the details, but I should highlight the works. We are significantly reducing the level of investments 30% both in the quarter as well as in the year. And because we're concluding the main works, so the main investments in G&T now refer to Lot E almost BRL200 million in 2018 and we'll -- we are forecasting BRL200 million for 2019, completing stages one and two.

Stage one, for September of '19 and March '21. Stage number two, where we would need investments of BRL200 million in 2019. Talking about 2019, again, in addition to that investment of SPP Bela Vista, we will have forecasted investments of BRL114 million, transmission line (inaudible) already in operation represent over 50% of G&T investments estimated and almost BRL800 million in 2019 and we'll see the details on that.

On the page, we have the other details as we said for their distributing company. I won't take longer on this slide, but you have information here. You can check later on, but definitely from GeT, we are increasing our level of investment in the distributing company as Daniel has said, by the means of modernization, grid program, which also will help reducing operating costs in addition to increasing our remuneration base for the next tariff review of 2021.

On page 15, we have our cash generation for operating activities. It's starting on the operating result and the variations of working capital. We already talked about these results and once again we see the origin in the case of the BRL3 billion, part of this origin BRL250 million [ph] is of improvement. So BRL250 million is regarding to operating result and the other improvement that we have BRL280 million [ph] is -- came from receivables from clients, which is improving, thanks to that efforts to collect receivables. We are also being more careful in terms of credit assignments. This is improvement our asset base. And also what I said improvement of RBSE that had full payment in 2018 in addition to CRC receivables, as I said. That is the main reason to explain cash improvement in 2018 when compared to the prior year.

Now to conclude this slide, I should highlight that the expectation for cash or the estimate for cash generation of projects that will be concluded will increase our base in 13% of our installed capacity and once again for BRL450 million more that we estimated for 2019.

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In the next slide, number 16, we have our CapEx history since 2016, highlighting the amount that was directed to generation and transmission projects, reducing -- that we're gradually reducing to BRL1.0 billion [ph] from 2016 and up to BRL388 million for 2018. So we are going to be below BRL2 billion in 2019, just BRL250 million will be for new undertaking. So we are focusing concluding our works and we will invest in what we want in terms of cost reduction and quality improvement. So we will be investing more in -- 20% more vis-a vis 2017 in that area.

Once again, I should say that our focus will be in the conclusion of the works in this first half of the year. We will improve the quality and efficiency once again. We will improve cost and remuneration base and as Daniel said in the beginning, we'll maintain a new governance level for new projects with a strict assessment of risks and opportunities in a way that Copel can maintain and preserve the best choice in capital allocation.

In the next page, now turning to the end of the presentation, we have the history of our leverage for the last years. From 3.4 times in 2016, we reached 3.1 in 2019, stable vis-a-vis 2018, although we have increased our growth from '18 to '19 and BRL1.5 billion with the objective to conclude ongoing works. Part of this new debt comes from BNDES, where it was at the end of 2018, BRL813 million in two loans, BRL620 million for Cutia Wind Complex, BRL190 million for Baixo Iguacu HPP. So more than allowing to finish this work.

BNDES funds represent an important step in our strategy to extend our debt and to diversify indicators. Part of these funds that will be in the cash of the Company, partially explaining the cash increase at the end of 2018 of over BRL900 million vis-a-vis 2017. And this is the reason why the net debt has increased only BRL700 million. So in -- although we increased BRL1.5 billion, our net debt has increased a lot because the cash is still in the Company and the cash is focused in the businesses. So, the leverage is stable and despite of that growth and the gross debt.

In December, the cost of the debt, just to give you an idea was of 8.38% in average, 70% of the debt was CDI indexed. So the exposure, I can tell you that the exposure is almost zero. So as we always stressed, the control of our leverage will always be one of our main priorities. We are not going to do anything, if we are not sure about a comparable cash generation capacity and also a reasonable return.

We are sure that the leverage reduction will start to be seen in the next quarters. Thanks to all of the short-term actions that we already mentioned, which include once again the reduction of the investment plan, which has already been approved. And here we are talking about BRL600 million, also the perspective of additional cash for new projects, BRL450 million is starting now in the first quarter of '19. And the cost reduction just to give you an example that has happened in 2018 with the announcement here of BRL200 million starting 2019.

I also like to say that our funding plan to meet the short-term demand, where we will have a large concentration of maturities in May, June and July of 2019, it's totally balanced and is being executed. So we are sure that, that will be rolled out and part of it is going to be paid in 2019 for the first time in the last few years.

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Finally, we have our net income per business. We should highlight an improvement of G&T in this quarter, thanks to positive effect of spot prices and GSF in the year. Also there was a significant increase of 22% over the BRL900 million and that corresponds to 62% of consolidated net income of Copel in the case of this that already represented 26% of Copel Group. There is -- also reflects of the improvements we already mentioned. Net income of Dis was positively affected by the fact, which is that the tariff review program, BRL900 million and that is why the difference between the net income increase and EBITDA increase is not comparable, but we have to eliminate that -- if we eliminate benefit in 2017, the comparison would be the net income, which is approximately 47%. So it is very relevant and it shows an upward trend. And to conclude, the reduction in the net income because of the deactivation of some clients during 2018 and we expect that this is a one-time off situation with a significant reduction starting next years.

So I would like to end by saying that I'm very happy about the results we have so far. We know that these results are a great achievement, but we also know that we have a long journey ahead, but I'm sure that we will meet our targets and we will be working relentlessly to deliver every quarter what we are promising here. Thank you very much.

Questions And Answers

Operator

Thank you very much. We'll now start the Q&A session. (Operator Instructions) The analyst from UBS has the question.

Q - Marcelo Sa {BIO 16454581 <GO>}

Hello. I have two questions. First question is about Copel Telecom. You see that this is a very attractive asset, but what we have seen was a negative EBITDA in the quarter. And when you turn to the history of telecom, the Company had an EBITDA reported, a lower CapEx in the business. So I want to understand what do you believe is the level of EBITDA that Copel Telecom should have and what do you expect to have in 2019. What is the potential figure that is my first question? Thank you.

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

Marcelo, good morning. Thank you for your question. I should say that 2018's result for Copel Telecom was because of the deactivations that we had. We do not believe this is going to be recurring and we cannot anticipate our estimates for 2019 regarding telecom, but we certainly expect to see recovery -- a relevant recovery for its results in 2019. Several actions are being taken. One went to took over Copel Telecom. Different measures have been taken. They are already being executed and we already see results. This is a matter of time, and we are on the right track. So let's wait for the results. I am very optimistic about results improvement there.

Q - Marcelo Sa {BIO 16454581 <GO>}

Yes. And my next question is about the Company's cash generation. When we look at the net debt, there was a relevant improvement for BRL100 million [ph] if you compare third

quarter and fourth quarter. If you consider other effects, cash balance even higher, BRL600 million. And I would like to understand what -- why that happened? Was there working capital? What can you tell us?

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

Well, cash generation. We are still increasing our debt, as I said, the focus in the conclusion of the works, I think that in 2018, the growth of 2018 was over BRL1.5 billion, that debt only increased to 17 -- BRL700 million because this cash -- this was the cash is maintained that amount in cash. But we are focused including the works we needed these funds to conclude the works. That's why that year leverage was stable vis-a-vis 2017. Several actions are being taken in the short run, as I already said, we will see an additional cash coming from new projects.

And we do not have no debt starting in 2019. We believe that with this additional generation, we will be able to start paying debt we have so far. And also, we are expecting to see better results coming from efficiency improvement and cost reduction programs. So this will -- this improvement will happen starting in the first quarter. I am very optimistic about that. And once again, we are addressing the problems or the investments made so far. We have to make sure that they start generating cash as fast as possible. And this is our focus. While I am very comfortable about this leverage, I believe it will start dropping.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you very much.

Operator

Ms. Lilyanna Yang from HSBC has a question.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you very much for taking my question. I just would like to understand what is the ideal level of leverage for you in terms of net debt/EBITDA ratio? And what do you have in terms of payment for the next three years? I see that you have the plan, you have a visibility there for 2021. And I would like to understand more. The second question is about telecom and Compagas. You said that you are running already -- bringing to the conclusion that you should sell these assets?

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

Thank you very much for your question. I will start by addressing the second part of the question. And then I'll ask Moura to answer the first one. About telecom, that is advanced in generally as well as Compagas. This model is being discussed. We are interested in a model that allow us to have the largest number of players interested in that asset, which we have already said, consider it to be very attractive and strategic. And considering what happened to other companies, which have been privatized in the state of Mato Grosso [ph] recently, we see that the more open is the model, more interested or potentially

interested players we have. So we are working in order to have a larger number of players interested on this asset.

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

Hello, you talked dividends and leverage. And in terms of leverage, I think the idea today is -- the idea would be about 2.5. And if we think about non-growth and we are reviewing that which will be our strategy for new project and we can tell you that's going to be a very strict criteria. Our leverage is going to reduce a lot. So what we are going to be doing with this money two years from now, we don't know yet. In 2019 -- 2019 is going to be the year we'll reduce that and obviously, if we do not have this project, we will have to pay more dividends, but this has not been discussed internally. This is just something that we expected to see. That's the scenario.

Right now, we proposed a minimum of 25%. This is already an increase of 36% vis-a-vis '17, especially because of increase in net income, but that is in the short term.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you very much for being so transparent and so cautious.

Operator

(Operator Instructions) If there are no further questions from participants, I'll turn the floor back to the Company's management for their final remarks.

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

On behalf of everyone, on behalf of all the officers, I would like to thank you very much for being with us in this call. And once again, I would like to stress that these are all-time high results of the Company, which only increases our responsibilities, especially for future investments and also for the execution of our strategic plan. So without much further ado, thank you very much to my colleague officers, also to the CFO and IR team to -- because they organized all the results and we will be always available to talk to you in a very honest, transparent and pragmatic fashion. Thank you very much.

Operator

Ladies and gentlemen, the conference call of Copel for the fourth quarter of 2018 has ended. Thank you very much.

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