

Q4 2011 Earnings Call

Company Participants

- Corporate Participant
- Lindolfo Zimmer, Chief Executive Officer
- Mauricio Schulman
- Ricardo Portugal Alves, Chief Financial Officer and Investor Relations officer

Other Participants

- Analyst

Presentation

Operator

Good morning and thank you for waiting. Welcome to the Earnings Conference Call of Companhia Paranaense de Energia, COPEL. To present the results referring to 2011. - all participants will be in a listen-only mode during the company's presentation. After which, we will start our Q&A session where more instructions will be provided. [Operator Instructions].

Before proceeding, we would like to mention that forward-looking statements involving projections, operating and financial goals of COPEL or there is on the believe and assumptions of COPEL's management and on information currently available to the company. We not guarantees of performance and involve risks, uncertainties and assumptions because they relates to future events. And therefore, depend on circumstances which may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also effect the future results of COPEL and could cause results to differ materially from those expressed in such forward-looking statements.

Participating in this earnings conference call are Mr. Lindolfo Zimmer, CEO and Mr. Ricardo Portugal Alves, CFO and Investor Relations Officer. This presentation there will be made by COPEL's management can be followed in the company's website www.copel.com/ri.

We now give the phone to Mr. Ricardo Portugal Alves.

Ricardo Portugal Alves {BIO 2448971 <GO>}

Good morning. Thank you very much for joining us to our earnings conference call. We will now present the 2011 results and after that our CEO, Lindolfo will talk about the highlights of 2011 and the outlooks for 2012. Before - that COPEL is going through one of its best

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moment. Gross profit motivated, profits are growing, the pay out is increasing, cost to control is continuing, we have profitable projects and a huge investors list capability and the market is not being fair over the - share. We need to look ahead and trust the effects of the managements that have been taken.

Well, we will start giving out the data about our energy market. COPEL captive market ahead of 5.4% increase, 60% above the national average. And the high rates what industry request 5.3%, residential 6.8% and commercial 5%. Our market performance has been consistently higher than the market growth seen in the southern region of the country in Brazil. We expect that with market expansion trend will continue based on the optimism regarding the -- economy for coming years. Thanks to initiatives taken by the State Government of Paraná, that is implementing programs to recover in local economy and after due to the expected recovery of the flow of the global economy, which will ensure that continuity of an upward cycle in the commodity prices. As you know Paraná is very strong in that area. So if that continue the market should look very promising for 2012.

We will now give you an analysis of the results seen in 2011. The operating revenue grew about 13%, compared to the same period of 2010 totalling almost R\$ 80 billion. The main drivers of this increment were, the -- account delivery to end customers and greater availability which were impacted by - and by the extension of - discount policy. Although now we had a - discount until June of 2010, for consumers and for consumers that or -- sometime. And in during 2011, we had to present - discount policy.

Another factor is the revenues from the delivery to other utility which should have 12% increase due mainly to an adjustment in our purchase agreements in the regulated market into a greater revenue in the electric power commercialization chamber. A R\$ 143 million in 2011 these will be a 113 million in 2010 and also worth mentioning the 20% increase seen in the telecommunications revenues because of their client based expansion and the diversification of products and solutions offered. Copel Telecomunicações currently have 1,442 clients, 47% up compared to 2010 and operate in 302 cities in Paraná State and two cities in Santa Catarina State.

In addition, the prospect is the 15% increase in the revenues of piped gas supplied by -- due to current adjustment 8.5% as of August into a greater sales volume. Operating costs and expenses reported in 2011 showed an 8.5% increase compared to the same period of the previous years. Because of the following factors, we will mentioned the four main factors. First, including the account electricity purchase before we sell due to a high expenditure with the purchase of energy in auctions of the regulated market. Secondly, 29% increase in the purchase of natural gas, the Compagas caused by sales increase and the enclosing cost related to gas acquisition.

Thirdly, in additional provision amounting to a R\$ 118 million due to several lawsuit of a contract that claims compensation for in the late economic and financial imbalance in the construction of Jordão River Bypass. That lawsuit started in 2004 and Jordão River Bypass was completed in October of 1996.

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The fourth factor refers to a 21% increase in the personal item. Due mostly -- salary adjustments of 6.5% and 7.4% applied as of October 2010 and October 2011, we expect that -- collected by winning agreement. The allocation of profit sharing during the fiscal year of 2011 and then -- voluntary resignation program amounting to 64 million of which R\$ 14 million were provisioned in the last quarter alone. After this adjustment, personnel account would be 11% and this was explained by an increase in the number of employees and by the revision in the career and compensation structure beginning in June 1, 2012 matching our employees salaries to those of --. The goal beginning to be the turnover cost. The effects of these, the first measure we needed and employee turnover dropped from 11.6% in 2010 to 8.9% in 2011 and should return to historic level of 5% to 6% which is what we had in the year 2000. Specifically in terms of our staff increased, and at the of 2011 totaled 9,400 employees.

I would like to clarify that the additional hiring took place primarily to meet any alternative resolution for one for 2010 which requires company still have physically allocated in all municipalities of the concession area. About the permanent voluntary resignation program, until now 333 employees have joined the program of which a 144 resigned until the end of 2011, out of these 99 only in the first quarter.

Consolidated EBITDA in 2011 showed a positive 26% variation compared to 2010, totalling 1.9 billion with a 24% margin over the operating income. Copel Geração e Transmissão accounted for 51% of cash generation in the period where as Copel some contributed with 45%. Net of the positions impact, EBITDA will have hit the mark of R\$2 billion. Thus in 2011, Copel's net income was almost R\$1.2 billion, 17% up compared to that of 2010. A growth which was way above the average of peer companies in the sector.

In the fourth quarter alone, net income was R\$189 million, 26% above that of the first quarter of 2010. That is what we did with EBITDA. Net of Renminbi coming effect, we would have reached R\$291 million of net income in the fourth quarter totalling 1.3 billion in 2011. Return on equity was 10.5%. Compared to the cash flow for 2011, some impact should be considered. As you know, we are going through the third tariff review cycle which currently is at the stage of public hearing. And is pointing to a service review index of minus 0.85% that's equity nature of the NDS loans. I'd like to remind you that our expansion strategy is partially based on the NDS debt. And possible confessions of energy generation, transformation and distribution projects which are being analyzed and that we learned about through public integration for new business. And finally, the tradition company restrains in raising CapEx funds by -- financial system. We do not have restrictions in terms of the capital market most of our funding should happen through the benches. Because of these possible constrains COPEL's management chose to maintain the payout at 35% for FY 2011.

And will now give the floor to Dr. Lindolfo Zimmer, our CEO, who will talk about some points relative to the first year of the new management. Dr. Lindolfo?

Lindolfo Zimmer {BIO 2132989 <GO>}

Good morning to all and thank you for joining us in this earnings conference call. Before anything else, I would like to make some comments about the results that we

communicated here. The COPEL management is very happy with these results. Taking into account the significant growth of 13% in our revenues and the 26% increase in EBITDA already mentioned by Ricardo, these figures. And the results of the performance of the Paraná economy, which is growing a lot more than the Brazilian economy in the recent past, while the Brazilian GDP grew 2.7% in 2011.

The GDP of Paraná State grew 4.1% to accelerate to this differential Governor Roberto Requião implemented a program called Paraná - competitive Paraná. What happened in the beginning of his Chairman office. That triggered the interest of hundreds of companies to negotiate with the State Government the installation of new factories and all the expansion of existing plants.

New investments should laid into the growth in the energy market, so much so that in 2011 Copel's capital market grew 5.4% compared to 3.6% growth of the capital market of Brazil as a whole. So the trend effect the company's market should continue perform above the national average. The profit of good results, will allow us to propose a 35% payout to the general shareholders meeting to be held on April 26. it is worth mentioning that the volume of interest on equity propose is 50% higher than that distributed in the previous year increasing from to 181 million to 421 million as you can see on the chart on the slide.

Along 2011, we have worked hard to lay the ground for the expansion cycle to come. For example, we acquired the right to build and operate six transmission lots promoted by NAL in December of last year and in March of this year. With that, we are participating in projects which total more than 3,000 kilometers cutting the states of the EU countries, Santa Catarina, Paraná, Sao Paulo, - Mato Grosso and Mariana.

And we positioned Copel in the new frontiers of that expansion. With that, Copel exceeded it's 2016 expansion goal for the transmission business inclined from the lowest to the ace position among the ranking of the largest transmission companies in Brazil.

I want to state again that all owner acquisition by Copel done under this management will not destroy value for it's shareholders. All of the bids placed by the company and it's partners are down on the serious technical analysis. We've been there, but always with the responsibility and commitment to create volume that is why project of return or return on project will always be significantly higher than our equity cost. Like the highlights that this investments should mature with into just three years so that the effect on the results will not be immediate.

Another area to be explored from now on, are investment in generation based on renewable sources. In 2011, we study this exhaustively wind generation project. So much so that we acquired 49.9% of the recently created -- Energia, a company that has 94 megawatt defoliated in four wind farms in the state of - with the goal, the straight goal of implementing about a 140 megawatts in a number of wind farms in the North Eastern region. We are working hard to in 2012 announce the new wind generation project. Obviously, it will all depend on the growth of the Brazilian economy and at the Paraná economy in coming years. To give you a brief update on the progress of our generation

works, I want to say that the Mauá plant which is almost complete should start operating in mid-year.

In addition to Mauá, the -- works advance as planned and the project should have the commercial set up in this year 2012. We expect it to have a set up in October of this year. So it's within estimated budget and potential. Only last week, I was in the construction site of that land and could see that the works are unfolding smoothly with regards to -- plant that works after taking strictly according to schedule and we are working with a possible early -- up which was initially planned for late 2014.

With regards to distribution COPEL one more time was recognized for its operating excellence. The equivalent -- of interruption per consumer, per year DEC had a drop of 7.2% in 2011 and reached 10.64 for average equivalent per consumer while FEC, the equivalent frequency of interruptions per consumer per year, which informs the average amount of interruptions per year dropped 12.7% reaching 8.26 interruptions in 2011. These were the best ever results of this company, since its establishment.

COPEL was recognized as the, a largest electricity company in the Southern region of Brazil. According to the top 500 study conducted by Magazine Amanhã in PriceWaterHouseCoopers. COPEL's - preferred shares will continue to be part of the ISC, BMS -- 2012 portfolio, which includes Brazilian companies which are sustainable and socially responsible. All of this shows the seriousness and commitment of COPEL's management to perpetuate the COPEL brand like once again to draw your attention to the great growth potential and appreciation of COPEL.

The U.S. 2011, was mitigated to the organization and preparation of the company for its expansion. We set the foundation for a sustainable growth and in coming years we will definitely be reaping the fruit. I would like to thank you all for your participation and we will know start the Q&A.

Questions And Answers

Operator

[Operator Instructions]. Please wait as we collect the questions. Our first question comes from Mr. -.

Q - Analyst

Hello good morning Ricardo and Lindolfo. Thank you for the call. My question would be about two topics. Firstly, the recent page for transmission, how much do you tend to invest in this two lots to transmission line for one by Copel and partner, so that we can understand the profitability of the project. And my second question was about the behavior of the operating account. What do you expect for 2012? From what I understood in 2011, we had an increase in personnel expenses because you had to hire more people and you to adopt, the company took a new reality of the state of Paraná. And there was some other that contributed. What do you expect will be personnel expenditures for

2012? Well, we see a continuation of these majors adopted in 2011 or will we start seeing the brand estates?

A - Lindolfo Zimmer {BIO 2132989 <GO>}

Vladimir, thank you for your participation and questions. To answer your first question, the date for the transformation line. Firstly, I'd like to say that it was quite below or lower than what initially predicted by and have a favorable condition in the region. It doesn't have a lot of surplus, it is a leveled field and the price of land is lower than in other states. And that helps us optimize quite a lot. On the other hand, we have some prerogatives which are characteristic to our company. Our partner is very experienced in transformation, actually their core business is transmission and there country of origin.

So they brought this technology and supported us, so that we could also optimize the project. This was 1,605 kilometers. Copel loss was about 1 billion, 49.9% of those R\$1 billion will be investment in 49.9% of this transmission line. Anyhow, was expecting a lot more of that about 2 billion. Obviously, Copel continues to lower its volume. This is rather going to be lowered significantly, which will allow us the return rate of this project to be for sure above the cost of equity for transmission. We are completely convinced and sure of that this is a standard set by the Board and the top management under the guidance of Lindolfo that we will not destroy value of this company in any new project like along in -- acquisition. - also asked about what we expect for our 2012 operating expense?

We have the effect of the collective bargaining agreement of last year that will apply for 2012. We have the career plan that will bring an increment to our play role in 2012, but this is not the most important thing, the most important thing is that the CEO and the out management are fully committed and dedicated to control the company's cost. Our CEO announced a while ago, the programming cost -- and things are moving quite well and we also created a working group with members of all the department and those -- is going to analyze all of the cost of the company's with the supplies of our financial department and is going to be able to side and on depend all the cost, I am sure we are going to be very successful in this program.

I am not sure this program will be completed by 2012 or that it will bring marked results in 2012, with by the end of 2013. We will feel the effects of this program as well as our - program for our - voluntary resignation program. This year and this is important to mention, we will implement the zero based budget in the company. Now we'll allow us to have a much better cost to control and - our cost budget. However, the sense will not be seeing all in 2012, it will be seen partially in 2012, but primarily as of the second half of 2013.

Q - Analyst

Okay. Thank you.

Operator

Our next question comes from Mr. - from Goldman Sachs. Mr. --.

Q - Analyst

Good morning. Thank you for the call. My question is its related to COPEL's tariff review cycle. The proposal presented to -- surprised regarding our figures was particularly related to the asset base and the FX totally depreciated and you all suggested 2.6 begin of totally the depreciated assets and if we compared COPEL's growth base in the last cycle, which was 6.7 billion with this proposal of 7.0 billion. We would be talking about a 1.4% nominal growth a year on average and a decrease in terms of minus 2.7% a year, which at least comparing for our numbers of the interest and distribution will not be allowing to the investment volume by COPEL.

I would like to understand how the big company gets the best preliminary proposal by any of regarding the base and what are the main points that the company intense to discuss in the public hearing process that will end with the tariff review in June 24th?

A - Corporate Participant

- thank you for your question. Right now, we have an -- inspection at COPEL. They are working in -- and distribution. Indeed the announcement of 0.85% reduction in the areas is a preliminary figure. This is at the stage of public hearing and -- inspection will continue at COPEL until April 5th. And it will allow us to change many of these figures. So the next remuneration base is about 400 and we hope to have a net remuneration base which is higher. We are totally confident that this will happen, that we will not be at 85,070 that was published 574, but as I said, it will be much higher value, that's what we expect. There is another very important item which was not considered in the net remuneration base, the so called BRL. We do not consider CM and CA. CM would be for smaller components which would be screws and such things. And CA, the traditional cost are referred to labor. So the reality is we can't disclose anything just yet, but we are very optimistic regarding the optimization, a significant optimization of this 0.85% negative. Thank you very much.

Operator

Our next question comes from -.

Q - Analyst

Good morning. I would like to thank you for this conference call. I'd like to ask two questions regarding your investment plan. It was 30% below what was volume? You have an investment point which is relatively high. How are you going to manage your investment and follow-up your investment plan? That's my first question. My second question has to do with the strategic plan for the company. You talked about your focus, what about the telecom assets? Do you expect to sell these assets?

A - Lindolfo Zimmer {BIO 2132989 <GO>}

Matthew, thank you for your question. You asked about the budget in 2011, we 1,430,000 and we had estimated 2.060 billion. We had a new management taking over. We reviewed the plan and that is why we invested less. In addition to problems of delays in the bidding process which always occur. We're predicting 2 billion to 157 million for 2012. We do have significant investments to make. The main ones 1.01 billion in distribution and

then we have the Colíder plant, almost R\$570 million Mauá that is being built. It is almost complete.

We used to invest about R\$290 million in it. But the feeling we have regarding this investment plan is of a half percent is that in customers plan which is approved for 2012 and beyond 2011 by the Board. So, we will invest up to 2.267 million. We are not considering possible acquisitions that might come our way but we believe that this amount 2 billion to 157 million are in areas where we will be investing 1.9 billion to R\$2 billion. Not considering possible new acquisitions.

Regarding our strategy of planning, our core business continues to be emerging generations, distribution and transmission of electricity. Halopar is an excellent investment for us. It can only bring us benefit in our balance sheet. We have many synergies to be explored with the -. We have managed with the management of -. We are working jointly so that we can optimize disturbances, using -- we serve the same municipalities in the State of Paraná. We can think about joint revenues, joint reading and so many other possible synergies. I believe that -- was and will always be an excellent investment for Copel and as a telecommunication, we are involving quite well. We know -- just corporate clients as you all know, the number of clients increased more than 40% from 2010, to-date. It is a small business. The revenues generated are not too high, however it is a business which is highly profitable. Recently we launched the program that We launched a program that our CEO might want to comment on.

A - Mauricio Schulman {BIO 17334301 <GO>}

Our investment plan for this year, well cannot be definitive. We cannot be fully convinced that we are going to invest everything that we have planned for. That depends on the growth of the -- and that will guide the demand for electricity as a whole. That will dictate the chronology of auctions for generation and transmission which are promoted by the conceding power.

Q - Analyst

We had an auction that should happen in the beginning of the year -- was found -- familiar, is this possible that we're not even closer this year?

A - Corporate Participant

It will depend on the demand. So we somewhat depend on these events. We are assessing a number of projects that we received an invitation to tender. Some of the projects are being built, some others are being -- are already operating and they are being offered. We might be successful in bidding for some of the tenders. And that would consume most of our budget. Obviously, we cannot disclose which ones they are, because we need to maintain confidentiality in that regard.

I would like to add that telecom, telecommunications, as the business is set up to meet the corporate needs of our company, we need to have complete and effective control over all of our areas of operation, all plants that we operate and that we control, we needed to have them protected, all the substations had to be under control.

So all of our business now is under absolute control. That makes telecom quite important. Obviously the additional capacity is made available to the market, because it does not hurt the company to get some additional revenue with telecommunications, okay?

Q - Analyst

Thank you.

Operator

Our next question comes from Mr. Edward Gomiti from HSBC.

Q - Analyst

Good morning to all. My question has to do with the volume of energy of generation that will be de-contracted by 2013. That volume is about 20% of COPEL's capacity. How do you intend to sell this energy? And what would be the expected price? Thank you very much.

A - Corporate Participant

Edward, thank you for your question. If you see, for the year 2012 we have commercialized, we have sold all the energy for 2013. We have some less, I haven't got the figures here, but I think that we have left approximately 21%, for 2014 42% Copel's strategy is to sell that energy in the three markets and we have been very lucky, because we have reached values which are significantly higher than the price of electricity in the regulated market. Why is that?

Because the first auction which stated back in 2004 and '05 had very low tariff, hence were about R\$ 60\$ per megawatt hour. And now, we can sell in the other semester at a R\$ 106\$ per megawatt hour. In the beginning of this year, the prices were somewhat lower. We signed some contracts which are not long-term. They are one-year or two-year contract.

And we have sold a price slightly lower below a R\$ 100, but what we are -- now is that with the increase in ELP because of higher rainfalls, we are starting to reach very interesting progress and on average, the average price of electricity sold in the three market. Right now today, if we could close the projection with these - will be reaching a R\$ 130 on average for the three market in 2013, a 128 for what has been sold for 2014 and so on and so forth. So, we are very happy, we doing very good work and at COPEL's commercialization area and we hope think we continue quite smoothly that our core strategy is to sell all of the energy in the three market. Thank you.

Operator

Our next question comes from Ms. Mariana - from -. Please proceed.

Q - Analyst

Actually, I am Sabirini, not Mariana. Good morning and go - some questions, I would like to make. The first regarding the transmission line auction that you participated in. I would like to know if this contract has been signed or not? If the contract is still be negotiated or not? Secondly, what kind of -- are we talking about is it a trend --, is it mixed -- depending on the cost structure, can we suffer any pressure in coming years? Recently, we saw some company signaling a CapEx entries for many reason, various reasons.

I would like to know if your negotiation would eliminated this type of risk or not? Another question regarding the project has to do with the financing. How do you expect the financing for this transmission lines, are you working with a possible -- lending, would you be using Chinese equipment, what will be alternative for -- loan? And what kind of costs do you expect for this transmission line, if you were not using the -- lines, are you considering some type of hedging for this transmission line? And my final question has to do with the environmental licensing. Do you see any risk with that, any changes in the basic project over time. Again some companies participating in auctions in the past for their projects being altered, modified and that led to cost increases. Can you believe that this might happen or not? These are my questions. Thank you.

A - Corporate Participant

Sabrina, thank you for your questions. Thank you for participating. We are quite sure about the participation of this auction. About our values and about our budget. We do not go that auction with the expectation of getting certain results. We've entered the auction feeling sure regarding of the results to be achieved. We have reestablished contracts that would ensure the expected return.

And I can tell you more to our pleasant surprise, the partners that were participating, they were at that moment more conservative than we were. So, we are absolutely at ease and sure that we will deliver the budget. And I believe that we can spend even less than budgeted. We are convinced that we are not only going to spend less, but we are going to bring these works the set up forward because it is in our interest to complete everything on time. We believe that we can have an earlier setup for some -- work but for that, we need the transmission line, that means in earlier results for the transmission and generation area.

Copel's -- plant itself also requires 'that we make an effort in that direction because it is in our interest that is, have earlier startup'. We are very optimistic with this project. We have received -- the management have been defined and we adjust fine-tuning because we will go to the auction that will be pre-contract, we are just now doing an operational fine-tuning for the execution.

Q - Analyst

Perfect. So to clarify any additional cost pressure that you might have along future months or years, will not impact Copel's return on investment. So we should not expect any announcement in coming months, saying cost increase is 20%, 30%. So you believe this is zero risk for the construction company or we'll assume that kind of loss or perhaps the equipment provider will assume that risk, but not Copel, is that what you are saying?

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A - Corporate Participant

No, we have a pre-contract and the value is better than the initial conditions set. The values were even improved. So naturally, circumstance may occur, adverse circumstances may occur. And we might need to make adjustments, but I do not believe that this will materially impact our initial forecasting and -- if you allow me, this is will be external funding not the NDF lending.

I am very -- the funding will be via the NDF, because all of the equipment is Brazilian. So mostly the NDF funding, lending and we are negotiating -- that be an internal funding. So it's not Chinese equipment, it's Brazilian equipment. Yes, a 100% Brazilian equipment.

Just to give you an idea, because you seen to be confident about the cost increase. In the end of last year, we had a -- transmission line and it was executed strictly within the budget. The return on that investment is going to be very good, a two digit return in real terms.

So as the -- is complete and we had at the NDF -- taken a few weeks later. We do not feel any cost increase pressure. It was strictly within budget. In the budget, we include the calculation of risk and we then include unexpected possible events, everything is taken into account. So, indeed we are not concerned.

Q - Analyst

Thank you very much.

A - Corporate Participant

Thank you.

Operator

If there are no more questions from the participants, we would like to give the floor back to Mr. Lindolfo for his final remarks.

A - Lindolfo Zimmer {BIO 2132989 <GO>}

Thank you very much. I'd like to make some final comments. We've launched a number of measures to optimize our costing structure. One of them is the continuity of the Permanent Voluntary Resignation Program. But I would like also to add that there are other measures that are being implemented simultaneously.

Our -- based budget, which was mentioned by -- a deep analysis of our -- the zero waste program which includes the optimization of inventories, stock room and all of that. We have to reduce those costs to minimum possible, the sizing and reallocation of our staff. I would like to especially mention this items because we are working with an extension plan, and with the options to come there will be no addition of personnel. We will reallocate our staff in order to deal with ours. We will be reallocating the present staff, I believe that this is going to be extremely positive in addition to reducing our cost, it will

allow us to better train our staff and so on and so forth. It is Copal's intention to move towards the highest efficiency standards in the coming year. This is our vision, and this is our action. We're moving in better direction, nothing else to add. I would like to thank you for your participation. Our Investor Relations department is at your disposal. Thank you very much for participating.

Operator

Ladies and gentlemen Copel's earnings conference call for the first quarter 2011 is closed. Thank you very much.

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