

Y 2021 Earnings Call

Company Participants

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

Presentation

Operator

(Starts Abruptly)

Daniel Pimentel Slaviero {BIO 20914773 <GO>}

(Foreign Language) Our actions and it will have a special place in Copel's strategy. Just to conclude my opening remarks, and the big question is what will be coming in the future, which will be our future challenges? As a consequence of our strategic planning, we hired one of the most important international consultancy companies to support us in the construction of the 2030 Copel Vision.

We will be doing this over the next few months to be implemented as of 2023. And one of the pillars of this action plan will be the strong work of Copel in the regulatory agenda, we see structural movement ahead of us and that are inexorable such as the opening of the market for low voltage consumer separation of the energy balance and the division of activities of distribution and commercialization of energy among others.

(Foreign Language) Nevertheless, what I believe as the most urgent is the improvement in the price formation model. What we have been seeing in the last few months with the instability of the spot price is not sustainable in relation to the growth opportunities and M&A opportunities, we will continue to pay attention and evaluate the good possibilities in the market. We consider that we have to be very cautious right now because of the high interest rate and also the CapEx pressure on the increase of commodity prices or the world macroeconomic situation, we will continue with our investment policy with discipline and also discipline in capital allocation and we have a long-term vision.

In the Compagas team, we finished the last stage of the review of the concession by the government of Parana with a public hearing at the end of February and the next few weeks. We are waiting for the final condition so that we may renew the possession and divest from Compagas still within 2022. And another point in our divestment agenda is before that area with the GSF.

(Foreign Language) The end of concession will be December 24. So we will be selling the control of this asset in the last quarter of 2023 as we are allowed by the decree by the Ministry of Mines and Energy and we consider vital for the future of our company to be

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connected to the start-ups and open innovation ecosystem and we created the Copel Volt program in the first phase. We will have five concept proofs with energy tech companies and such as is the case of many competitors in the market in general, we are starting the creation of an investment vehicle for this kind of company. And we see excellent opportunities for growth and for value creation for Copel and for our shareholders and we will continue to contribute to the development of Parana of the electricity sector of Brazil. Thank you very much.

Now, I would like to turn the floor over to our CFO, Adriano Moura.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Thank you Daniel. Good afternoon, everybody. Thank you for participating in our call. And it is with great pleasure that we are delivering not only another quarter without surprises in line with the market expectations and our internal expectations. But also delivering another year with the historical performance as Daniel has already mentioned, one year, which is not typical with few challenges due to the adversities faced not only by our sector, but also many other sectors of the economy. But ultimately, it reinforced our thesis that a good strategy for the medium and long run as provided as well executed will continue to bring good results in the short run and spot -- in spite of the stumbling block that are part of our normal agenda.

We carried out all the fine tuning necessary always paying attention to the short-term impacts and delivering what we promised the results reported here include non-recurrent items mainly the sale of Copel Telecom in August of last year. The recognition of the effect of the GSF renegotiation, which amount to BRL3.3 billion in the EBITDA and BRL2.2 billion in net income fully recognized in the third quarter of '21. And this net income reported of BRL5.49 [ph] billion is the highest ever reported by Copel and it is equivalent to a net income of BRL4.92 [ph] million, and this is the highest calculation base of dividend for Copel so far. And according to the parameters of our dividend policy, we reached BRL3.88 billion [ph] of dividend referring to 2021, a dividend yield as Daniel said of 16%. At the end of my presentation, I will give you more details about this amount. And more specifically in relation to the results reported for the fourth quarter of '21 where we see a drop of 30% vis-a-vis the previous year. I would like to mention some relevant items that negatively affected the comparison year-on-year.

So we have the hybrid crisis that reached its peak in the third quarter of 2021, but still affecting the fourth quarter of 2021 about BRL130 million approximately. And the result of the purchase and sale of energy dropped from BRL675 million in the fourth quarter '21 to BRL546 million this quarter and the GSF reached 67.7%, the average of the quarter.

(inaudible) reaching record results up to the third quarter 2021 with the cumulative EBITDA up to September to BRL405 million. We had the EBITDA that was negative of BRL10 million in the fourth quarter comparing with the fourth quarter of '20 the EBITDA would have been BRL120 million that is to say a variation -- of BRL130 million quarter-on-quarter. And here we have two main reasons, a reduction of 55% in the level of dispatch. And secondly, the maintenance cost of about BRL50 million in one of the turbine is due to the time of use, mainly in 2021.

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We also recognized in the fourth quarter, the total cost of indemnification of BRL125 million, referring to 461 people in the last PDI and the annual benefit of the reduction will be over BRL130 million starting in February of this year, when most of the people will have already left Copel. We also had a supplemental provisions for judicial contingency at some old processes underway, which advanced at the order of BRL114 million in the judiciary. Later on I will talk about that. And one last point, the supplement of BRL39 million of PECLD and this -- and we are following very closely the evolution of the level of delinquency and we do not have a red flag yet and we in January and February, we have already done many actions to maintain the normal levels of delinquency of 1.2%, 1.3%, that you are familiar with.

Going to adjusted results, excluding the non-recurrent items, I would like to mention that in spite of a challenging year, we are growing 5.2% in EBITDA for the year and 2.7% in net income, mainly due to the outstanding results in the first half of '21 inject and induce as well.

In the fourth quarter '21, beside the explanation that I have already given, which negatively impacted the quarter, we had a loss of results from the Telecom of BRL69 million posted in the fourth quarter of '20, at that are no longer part of our portfolio as of the fourth quarter of '21. In net income, the reduction in the fourth quarter of '21 besides the highlights of the EBITDA that I mentioned, it's also related to the financial results both with the reduction of financial revenues of CRC fully paid by the State of Parana in August 2021 that had the use of IGP-DI plus 6.25%, also the increase in the charges of that due to the increase in the interest rate and inflation rate.

On this slide, we present the non-recurrent items in more details. I already mentioned some of the 120 sector [ph] indemnification. And I would like to mention the sale in the spot market BRL72 million due to the surplus energy due to the voluntary under contracting in the last quarter, also the result of the adjustment to fair value the purchase at sale of energy of Copel Mercado Livre BRL37 million and the reversal of impairment in generation assets BRL24 million.

In the fourth quarter last year, the adjustment referring to the PLR supplement was calculated by another rule and we considered the value of the dividend for the year and this was excluded from the calculation base as of 2021. And this brought about the reduction in the PLR, the global PLR, which was relevant as of 2021 of approximately 30%.

Going to the evolution of the adjusted EBITDA per business, here we see very clearly that very much affected by the impact that I have already referred to the hybrid crisis, additional purchase of energy, reduction of the UEGA dispatch et cetera. And this once again 8% growth reaching a regulatory efficiency higher than 21% as Daniel has already mentioned.

Beside the positive impact of the adjustment in the case of this applied in the last tariff revision with a leverage effect of 8.7% on the TUSD as well as an improvement of the growth in the grid market in spite of the increase of the PECLD of BRL39 million. There is a reduction in costs, mainly regarding personnel, which in this period, we have already

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reduced 211 from our head count in this besides the last ones that enrolled in the last PDI that will be leaving in 2022 relation to Copel Mercado Livre. We continue to evolve in amount of commercialization of energy, adjusted EBITDA BRL21 million in the quarter, almost BRL100 million [ph] accumulated up to the end of the year that is that we continue to grow with profitability.

Talking about the evolution of the PMSO and I think this chart is very -- well, it is self explanatory of the growth of approximately BRL330 million quarter-on-quarter, BRL320 million are in the group of provisions and reversals and BRL160 million of these are the variation of litigation provisions. As I said before, some old judicial processes and the way have already advanced in the judiciary and were restated based on the probability of success in the opinion of our legal counsel. And this affected the quarter by BRL114 million and we have the arbitration processes and collective agreements and discussion of indemnifications. And in the fourth quarter of '20, there was a reversal of the tax and labor processes that reached BRL70 million quarter-on-quarter, we see a relevant variation of BRL160 million.

And most of these provisions we expect to happen in the next few quarters. And in the same group, we have the variation of impairment provisions, which in the fourth quarter 2021 had the reversal of generation assets of BRL24 million, mainly due to the improvement in the prices in the free market although part of the energy not sold in the medium and the long run. But compared to the fourth quarter of 2020, the reversal of impairment was much higher BRL130 million mainly the wind plan. And in the quarter-on-quarter variation, we are talking about BRL120 million.

In the personnel line, our highest manageable costs, we see a reduction mainly in the PLR, which is the participation in profit and we had the main reductions over the last few years and all these reductions are totally linked through the year robust improvement of processes by means of investing in technologies with better tools and mainly digitalization of information. And we are being very careful, so that these reductions may not affect the quality of our operations.

In summary, with a retrospective in terms of personnel reduction with the exit of 461 employees that enrolled in the last PDI Copel, we have about 5,900 employees, a reduction of over 2,300 in the last few years, equivalent to about one-third of the payroll, which in 2021 was almost BRL1.5 billion.

Talking about the evolution of our investment program including the budget already approved for 2022 of which BRL2.1 billion -- of almost BRL2.1 billion, we follow very vigorously the physical and financial plan and there we are focused on improving and modernizing the electric grid of our client base and part of the funds are allocated to the Parana Three-Phase program. We have already made great strides already over 6,500 kilometers concluded our total of 25,000 that will be implemented by 2025, and this improves the quality of service and the remuneration base as of the next cycle and reduces also the maintenance cost.

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And we also have the smart grid, the biggest smart grid program of South America by 2023, we will be investing BRL850 million, one-third of which we will have intelligent measure devices, I checked the focus of the construction work the Jandaira Complex -- Wind Complex, that should be concluded by the middle of this year and we'll increase our position in wind energy reaching about 14% of our portfolio. And the investment provided for 2022 does not contemplate new business opportunities, be it the brownfields or greenfields. And we are following this with our Investment Committee analyzing with the due discipline within our investment capacity at our desirable returns.

And going to the end of my part, we have the evolution of our leverage. We closed 2021, which was the lowest level in the last few years impacted, and this reduction had the impact of the sale of the Telecom, also the GSF situation that improve the result and also the settlement of the CRC, which did not affect the result, but improve our cash in BRL1.5 million, many non-recurring items. I would like to mention that our objective is to get to 2.5 times always with the drivers of our investment policy and also our dividend policy. Regarding the maturities, there was no big concentration in our payment schedule. We are fully aligned with our financial capacity. No red flags whatsoever.

And to finalize, I would like to make a few remarks about dividends for 2021 on the next page. We are very pleased that we will be able to submit to the general shareholders meeting, our proposal for the channel of the results with the highest dividend ever paid. And this proposal fully adheres with our dividend policy, 65% of our net income, considering a leverage lower than 1.5 times and considering our cash available.

Emphasizing CapEx investment and the total payment will be over BRL4 billion part of the payment of 2020 and other referring to 2021. And for the first time ever, the dividend for the next year -- for the following year, the first half of '21, and we will still have BRL1.4 billion to be studied in the net shareholders' meeting. Besides the interest on equity already declared in December, and the date of the payment will be defined during the same meeting after our Board studies it.

Thank you very much for your participation. Now, I would like to open for questions.

Questions And Answers

Operator

Thank you very much. Now, we will start the Q&A session for investors and analysts. Should you need to ask a question please write your name, your company's name in the Q&A field. Maria Carolina Carneiro. Good afternoon. We have two questions. First, could you please talk about the update of the renewal process, the concession privatization of (inaudible) if you have it? And the second, can you give us more details about the investment strategy for the current year? We saw something about the participation, the net transmission auction. Thank you.

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

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(Foreign Language) I apologize, everybody, my microphone was muted. Thank you for the questions. And the first one is about Araucaria [ph] with the GSF agreement at the end of the concession, we will have December 2024 as the new date. The new decree allows us to sell the Copel up to 12 months before, which means December 2023. We already have some legal and financial advisers that we have already chosen, selected for this, and we intend to do this in the last quarter of 2023. And the value and the bonus of the concession and the assured energy, everything is being analyzed and calculated by the Ministry of Funds and Energy. For Araucaria, this is our strategic plan. As I said in the last quarter of 2023. And regarding the transmission auction, a lot were reviewed from 6-2-5 [ph], the biggest lot, one, two and three. They were revised in order to distribute energy from the Northeast to the Southeast. Our intention is to establish partnerships and consortiums with other companies that may have the same expertise, the same know-how at the same size as Copel. And the objective is to participate in more than one lot. And it also decreases the use of our own capital for transmission expansion. So we are -- we see this as a positive fact because you need companies that are bigger, have more expertise, more know-how. So we see this as a very positive change. And this is very strategic for us and we intend to do this with one or maybe two partners, not more than that.

Daniel you talked about the sale of control 50%, which has already been submitted in terms of the schedule. We have already submitted this to the Ministry of Mines and Energy and all the processes are underway. The new concession contract has already been approved. And in the transmission auction, we will be participating with the same will and the same quality, such as we did in December last year, be very careful, very prudent in terms of starting the opportunities. And we are very competitive regarding the lots that you mentioned. And such as was the case in December, always respecting our capital allocation discipline, such as we did in December. We made some bids but we reached the limit that we had already established as being a good business for us, and this has to do with our discipline in capital allocation. And the same discipline will be used in any investment, prospective investment that we might consider.

Operator

In order to ask a question, please write your name and the company name and the question. Wallace Randolph [ph]. Good afternoon. How do you see the impact of the GSF in the next few periods or quarters?

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

2021 due to the hybrid crisis, we have the worst GSF at least of the last 10 years. It was in the history of the company around 70% or 71%. And unfortunately, we already have more rain -- more rainfall and we already see a recomposition of the reservoirs in the North and the Northeast and also in the Southeast is a big reservoir for the elected quarter. A little bit less of impact in the South so far, but we see that the GSF will bounce back to levels close to historical levels, close to 80, 82 and some more bullish people say, 85. So we will be bouncing back to the levels that we had before because 2021 was really a dot totally outside the curve.

Operator

Marcelo Sa. A question similar to Daniel is, so I'm going to consolidate them. I would like to understand your expectation for the sale of the BNDES stake in the company. Could it be done in the -- with the result of the first quarter being priced in June, July? And the Eletrobras offering, how could it affect your decision.

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

Marcelo Antonio. What do we see here the window for the use of the fourth quarter figures is a very narrow window because in our case, we published the results, and the results of the first [ph] quarter will be on May 11, which means that the window cannot be used. And as you said, we would have a second window for the figures of the first quarter, which would be up to mid-July. And I believe this would be a more reasonable window, but we still have the price factor that is very sensitive as far as the BNDES is concerned and the Electrobas issue.

If they have the capitalization up to May 13, I believe that the first quarter will have a good window so that the BNDES may make this offering. I would like to remind you that this is being discussed by the BNDES and the syndicate of advisers and with a very small involvement on the part of the company. Now if this is delayed, I believe the issue will be more complex because the size of the offering also -- with all the consequences that it will have on the electric sector, I believe that it would be reevaluated by the BNDES. But as far as we are concerned, we are leaving all the processes already, and we believe it will be more based on the figures of the first quarter of 2022.

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

Well, you summarized very well. I don't have anything to add.

Operator

(Operator Instructions) And the next question comes from Alison Luiza (inaudible) minority shareholder. The dividend declared without a predefined date for payment, do you think they will be paid this year in the first or the second half? What do you believe will be the date?

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

Basically, we have BRL1.3 billion that will be decided by the shareholders' meeting, and then the date will be approved during this meeting. So this means that we cannot say anything about the specific date. I would like to remind you that according to our dividend policy, the idea is to pay two per year, one equivalent to the first half of the year paid at the end of the year and another one until June or by June, referring to the end of the previous year. So this is our intention. And this will be appreciated by the shareholders' meeting and by the Board of Directors meeting as well.

Operator

Julian. What is your strategy for generation, contracting of energy? What is the expectation of energy prices for the next few years?

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

Hi, Julian, our expectation for long-term prices has not changed. It continues to be around BRL170, BRL180 long term, five years plus. Our strategy for commercialization has been the following: when we acquire an investment, the brownfield investment we can add this synergy within the portfolio or within the strategy that Copel debt has. One is sold in A+4, A+5, A+6 and a small percentage in A+1 always leaving a natural hedge between 15% and 18%. So in the water crisis, this showed that the natural hedge was not even enough. But if you look at the other years, this is an excellent practice and that is bringing about very good results for the company. We have been executing the maintenance of the strategy with some improvements, with some fine-tuning in terms of the allocation of the GSF and the long-term perspective for us continues to be BRL170 and BRL180.

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

Perfect, Daniel. Leaving this hedge of 15% to 18% in order to cope with the exposure of the GSF and also in the projection of the future prices of spot -- future spot price. This is very important because in the water crisis that we had this year, the -- it was more difficult to manage this exposure. But in A+1 is always a year where we always get better prices, always selling in the long run. And for the short run, we are still working with the three market people here, over BRL200 or BRL230, BRL240 or BRL220 for the short term.

Operator

I would like to remind you that in order to ask questions, you should write your name, your company name. And Mr. Iniki Peretti. Good afternoon. About the leverage of the company that closed 2021 lower than 1x EBITDA. Do you consider acquisitions in renewables or transmission to reach a more efficient leverage or an increase in the payout? Thank you.

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

I'm going to answer the second part and then -- well, it went out to the -- the two major drivers for us to have this leverage lower than one, which we to a more adequate structure around 2.5%. It has two ways, as we said before. One, investment and the other one is the dividend payout policy. And the policy itself preserves investments because we talked about free cash flow, the discounted cash flow. So we always prefer to prospect good businesses, good opportunities and the payout of 65% is already very adequate for the present moment. And one last point is that this leverage already will suffer a correction over 2022 because the figures of 2021 had two extraordinary factors, two non-recurring factors that we mentioned, the sale of Telecom and GSF. So naturally when the results go back to the adjusted levels, this leverage will have a natural trend already in terms of going up gradually more.

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

This adjusted leverage excluding the non-recurring effect, the sale of the Telecom and the GSF reconciliation, we would be around 2.6, so a little bit higher than 1.5. So these are

the two drivers to reach 2.5%. We're not going to do this overnight. This will depend on finding good opportunities and the alternative of paying more dividends is possible because we do have a dividend policy that allows for that.

Operator

(inaudible) Minority shareholder. Considering the hybrid crisis and the need to look for clean alternatives. What about the company's strategies for wind energy, solar energy and others?

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

Certainly investment, right -- certainly is based on investments in renewable energy. We already have hydro in a matrix at 94% is between water and wind, 6% only with the thermal plant. And in this moment of crisis, having a diversified portfolio has shown to be very important and very strategic and this played a very important role in the results obtained for 2021. But today, we have Jandaira that will be ready around the middle of this year, and we will have practically 900 megawatts in renewable wind or solar. And our objective is in three to five years' time, we intend to double that, having one-fourth of the company portfolio, around 25% in wind and solar. And especially solar because I believe that it has attributes such as the ease of implementation and normally, it is more competitive in terms of CapEx. Undoubtedly, the growth driver that we see for the company in generation is based on wind and solar.

Operator

(Operator Instructions) (inaudible) Oliveira. How do you see the divestment scenario for Compagas for 2022, the price increase of gas and the existence of just a handful of players in Brazil, do you think they will be stumbling blocks for the process?

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

We have the gas distribution. We see the gas distribution system as very important investment made by Gaspetro and also the opening of the G&A in the (inaudible). So we see the beginning of a journey of opening that tends to further appreciate this kind of asset and also investment that we made in Rio Grande do Sul with very interesting figures involved. Undoubtedly, in the GeT sector, competition is much smaller than in Telecom, in the case of Copel Telecom, we had 14 companies in the data room and tests, 7 or 8 due diligences and 3 or 4 that they did and in the open outcry system. So we do not expect the degree of competition in terms of GeT, but we understand that one additional player besides Codan and Copa, being very active in this sector than they might be interested and look for investments. And regarding the price of gas. Well, we are right in the middle of a crisis, a very big crisis, when you make this kind of investment or the size of investment, of course, you think in the long run, we are bullish.

So one of the possibilities is to renew the concession. We have already at the public hearing and many other stages and in a few weeks, we will have the final conditions so that we may renew and also the payment of the concession bonus, which is one of the conditions for renewal here in Parana.

Operator

Lilian. It's very good to see you all. How do you see the supply chain for solar and wind, any cost pressures or shortage of equipment, any opportunity of acquisition of brownfield assets and in which sectors?

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

We're living a very critical period, not only in terms of commodities, but also the solar panels and maritime transportation and many things that you mentioned yourself in the introduction, and we are following this very closely. But in spite of all that, all the processes that are placed in the market generate a good competition. Equinergia, which was recently had some assets and other hydro assets than some others in transmission and other smaller ones.

We try to observe everything that makes sense according to our policy for wind, 150 mega solar, 100 preferably brownfield -- not only brownfield but preferably brownfield. But as we said at the beginning, we are not in a hurry because we consider that this is not a very favorable moment due to all the circumstances that we have already referred to plus the interest rate. So the process is not so attractive in terms of funding. And of course, we are already looking at some opportunities, but very, very carefully, as I said, and the same caution that we showed in the transmission auction. If it is not attractive enough for us with a reasonable spread over our cost of capital that may bring return to the company. So we are not going to do this. There are some other things in terms of hydro and solar and wind. We do have the necessary expertise in all these areas. And we may have some synergies and in one or two projects. And in some cases, we may get a return, which may be better than the average in the market.

Operator

The Q&A session has come to an end. Mr. Daniel Slaviero, you may proceed and make the closing remarks.

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

We only have the three of us in the video, but we also have marks from Copel distribution (inaudible) is from Copel Mercado Livre, you're not seeing them and on behalf of their whole T and Ds [ph] and Mercado Livre the over 3,000 direct employees. We recognize that 2021 was undoubtedly the best year in our current history. And we are very pleased to report that we are very proud of that but it also brings about a very big center of responsibility. And we want to continue to grow and bring in results for our shareholders. And the fourth quarter showed the electric sector is very complex, very competitive. Is that any dot outside the curve could bring about results different from those expected by the company and by the market.

So we reiterate our commitment of continuing to execute our strategy and to continue with our vision of 2030, as I mentioned. And we are confident in the capacity of an integrated company such as Copel with a nationwide structure and with a very sound base in Parana state that develops and grows more than the average -- over 5 million

consumer unit. We see many opportunities for the company, for all shareholders, for the whole sector and for Brazil. Thank you very much, and we will continue to do our work with Copel and our stakeholders. Thank you.

Operator

Copel's conference call has come to an end. Thank you very much for participating, and we wish you all a very good day. Thank you.

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