

## Q1 2020 Earnings Call

### Company Participants

- Adriano Rudek de Moura, Chief Financial & Investor Relations Officer and Member of Executive Board
- Daniel Pimentel Slaviero, Chief Executive Officer, Interim Chief Business Development Officer Executive Secretary, Member of Executive Board & Director
- Unidentified Speaker

### Other Participants

- Andre Sampaio
- Gabriel Francisco
- Marcelo Sa
- Maria Carolina Carneiro
- Pedro Manfredini

### 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 2019. (Operator Instructions).

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

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 cause results to differ materially from those expressed in such forward-looking statements.

With us today in this conference call, Mr. Daniel Pimentel Slaviero, CEO of the company; and Mr. Adriano Rudek de Moura, CFO and IR Officer. Copel's presentation is available at the company's website, [www.ricopel.com](http://www.ricopel.com).

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

## Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Good afternoon, everyone. I thank you very much for your participation in our conference call. And I do hope that all of you are well as well as your families that everyone is protected and healthy.

Before tackling the most relevant subject of this conference, which is how Copel is facing the serious impacts of the COVID-19 pandemic, I would like to stress that, fortunately, the impact in the first quarter has been very minimal. And we are delivering another quarter of sound and consistent results.

We are very proud to keep on getting better results, better than prior periods. We have a relevant improvement in the net income and in adjusted EBITDA in the first quarter of 2020 compared to the same period of 2019. In the case of the net income, there was an increase of 16%, reaching BRL 594 million and the EBITDA, 11.5%, now reaching BRL 1.231 billion. Further on, we are going to go into the details of these results, but I can already tell you that the first quarter of 2020 has not been affected by the impacts of the coronavirus.

Now turning to the next page, I would like to start by saying that this unprecedented crisis comes in at a moment when Copel was sound and prepared to face this turbulence. I highlight a robust cash position of over BRL 3 billion in March of 2020. Also, we are maintaining the drop of our leverage. Now it's at 1.9x. And low maturity of our debt in 2020, especially if that is compared to the prior year.

Now turning to the next slide, here we have the main events in the quarter. Once again, the exceptional results for Copel Dis, BRL 423 million of EBITDA, a growth of 28% higher than the prior year. This means that in the last 12 months Copel Dis has already reached the regulatory efficiency of 12.2%. It's good to remind you that 3 years ago, we had an inefficiency of almost 50%. That proves that a state company, yes, can be very efficient. Congratulations to Marcio and his team that are leading these 5,000 employees and the process of transformation. I also would like to remind you that we are investing in the largest program of Copel Dis. Just one of this program, the most relevant of that is called Transformao. We will have invested \$2.9 billion by 2025. We also have the three-phase Paran program with 25 kilometers of the grid modernization.

Next week, we are going to launch a notice for the first stage of the smart grid in the amount of BRL 430 million. Just to give you an idea of the size of the program, currently we only have 4,000 consuming units with that type of technology. But we were going to reach 900,000 of consuming units within three years, and that corresponds to 20% of our total base. Now so far, this is the most ambitious program in the industry.

These programs have three objectives that are here: The Three-Phase Paran?, Smart Grid Copel and Total Reliability. They are all under the transformation program umbrella. We want to improve the quality of services and also improve our ELC and EFC, reduced costs with lower needs of displacement of our teams. And we continue having here our agenda of reducing operating costs, design and improve inefficiency. And all of that is under the regulatory review. That is going to happen in 2021.

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Another important advancement in it really is works hand in hand with our strategy for the free market. It's the increase for the Copel Comercializadora, Copel Com, an increase of 42% that places Copel Com among the largest in the industry. In the CE ranking here. I also highlighted that in addition to the conclusion of the relevant products of Copel G&T such as Baixo Iguaçu and Cutia and that is starting 2020. We cannot already address the full impacts in our EBITDA of around BRL100 million in this quarter. We can see practically the conclusion of Mata de Santa Genebra works after several delays just last week the last segment of the line and of commercial operation is going to start up from Araraquara 2 - Fernão Dias reaching 862 kilometers of operating lines allowing the company to have an APR of BRL 213 million equivalent to 87.6% of total APR. So now with this last stage of commissioning of the Fernão Dias substation will be concluding this works. Therefore, with that, well beyond and to conclude the whole works.

So ladies and gentleman, you can see that we do not have any other relevant work in the pipeline for the G&T. Just as that we had in 2019. And just now we have the Jandaira Wind Complex. And also, we have SHP, Bela Vista, and all of them are within budget and within our schedule. We are very much paying attention to opportunities to buy brownfield undertakings that might come up in the market stemming from COVID-19 crisis and we are paying a lot of attention to possible opportunities like that.

And talking about COVID-19, we do believe that's very relevant to detail to all of you how the company is facing the crisis and which are the impacts. Well, before anything else, all employees are aware of the company's commitment, which is to ensure to our customers and consumers, electric energy supply with quality, in addition to continue contributing actively through the electric national system by the means of our efficiency in generating plants as well as transmission lines and also data connection by optic fiber from Copel Telecom. As I said before, the impacts of COVID-19 have not been relevant in none of Copel's businesses in the first quarter. We are following up several indicators on a daily basis and among them the consumption, energy level and delinquency. And so far, in the first weeks of May our drops have been lower than the national average. About low reduction, it was a little bit over 10%, and delinquency is not in the two-digit yet. Even with that load reduction, fortunately, the economic impact so far are very restricted. For instance, the grid market of the deals in April, which represents all the billings of the month, dropped just 0.3%, and the drop in the industrial and commercial sectors have been offset partially by a considerable increase in the residential consumption.

Nevertheless, we are still in full alert because and despite of seeing some slight signs of load recovery, we understand that the worst months could be May and June, considering that we do not have a second wave of contamination. This the second quarter of 2020 will surely bring the effects of COVID-19, both in load reduction as well as in delinquency, therefore in our numbers. In terms of our contingency plan, which has already been presented to the market by the end of March. When I talked about 4Q 2019's results, I think it's important to mention the four pillars. And to make an update about them.

About the first one, we are still following strictly the protocols of the Ministry of Health and the Secretary of Health in Paran. And so far we only had four confirmed cases among our employees and outsourced employees as well. Almost 70% of employees are -- were already working in home office by the end of March. And those essential activities are in

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different work scales and they do have all types of protection, hygiene measures that are recommended.

About the second item, the continuity of our works. Everything is working well and as expected. About the third pillar, which is the follow-up of the deliberation of regulating agencies. We understand that we should pay attention to this item. And I believe this is something that interests the market.

As I hope, first, I would like to congratulate Minister Bento Albuquerque on all his team and on how they are tackling the subjects so far in a proactive, transparent fashion and open to conversations. Second, we're facing an explosive combination, a drop in demand, increase in delinquency and its impacts in the GSF and spot price. But we believe this is a financial crisis, not a crisis of the electric system model. Therefore, sectorial measures should isolate the problem in the distributing company's segment and avoid them to have a cascade effect for the other links in this chain. So we do believe that a COVID account, as it has been called, is the best way to tackle the financial problem of the distributing companies. The legal framework is already there with a provisional measure BRL 950 million. In the next days, we will have the decree. And right after that, the regulation coming from ANEEL. We hope that these funds should be available by the banks by the end of May and the first week of June. And after that stage, immediately, we needed to work with the Ministry and with Aneel, which is doing an excellent work. And we will have to discuss the economic balance of distributing companies. That is crucial so that they can keep on operating in a sustainable fashion.

The fourth pillar, which is crucial to support all the other ones is to protect the financial health of the company. And here I would like to ask Moura that when he is talking about this issue, he goes into the details. And a final topic I should highlight just like several good examples that we have seen coming from industries or companies in this industry or several others in the country Copel understands that it can provide contribution to the heroic work of our healthcare professionals. Therefore, in May 8, we approved in our board of directors a donation of BRL 5 million that are going to be used to buy 200,000 tests and over 1 million masks. Along with the Secretary of Health of Paran, we are going to send those where they are best used and more needed. In addition to that of this donation, we also launched a campaign called Fatura Solidaria, which also as a donation by Copel donate the same items.

We will be paying BRL 5 for those that subscribe to our digital bill and direct debit. Well, Copel is maintaining its strategic goals and we do maintain a positive vision for the medium and long-term. And despite of all uncertainties at the moment, we're still focused in our business plan. First, I stress that we're not changing our investment plan. We are just making some special and one-time off adjustments among the months to adjust the cash flow. But we're still focusing on the approved plan by the Board of Directors, investments in the amount of BRL 2 billion and BRL 316 million have already been invested in this first quarter. And it still is on our agenda, the cost reduction and operating efficiency improvement. The figures of the first quarter already show that especially with the reduction in our headcount. And we implemented a program called performance incentive program that is linked to goals to our strategic plan and our budget. And this was a commitment that our management had to move forward in meritocracy and

starting last February, we developed a work with BCG to identify additional business opportunities, especially business and management opportunities.

And I want to mention this by last because I want to highlight the process of Copel telecom divestment. This week, Aneel provided us a previous approval for the swap contract for infrastructure among the subsidiaries of Copel Group. And yesterday, our board of directors approved as a continuity, the studies for sale of 100% as well as a public notice was already -- notices ready in CCBA as well as a teaser with additional details for this business. Starting Monday, this is going to be available on our website. And any further information can be provided by Banco Rothschild. We consider that an important stage up to the moment when we can evaluate impacts that COVID-19 will bring to business. And to economy, and we expect to carry out this option by the end of the year if market conditions allow us to do so.

Once again, we thank you very much for your participation, and I will be available for your questions after Moura's presentation. Thank you.

### **Adriano Rudek de Moura {BIO 3590957 <GO>}**

Thank you very much, Daniel. Good afternoon, everyone. I also thank you very much for being with us in this conference call, and I hope all of you are doing well. Before going into the details of the results and turning to the main highlights in the quarter, I would like to stress what Daniel mentioned about Copel's financial soundness to face the crisis. Here I would like to share with you the main guidelines of our financial plans, despite fight COVID-19 impact.

As all of you know, and you're also concerned about the crisis. But we're also comfortable financially speaking and we still maintain a robust cash over BRL 3 billion. Even with the debt and interest maturities in the first quarter of 2019 close to BRL 900 and BRL 590 million approximately BRL 400 million in debt and BRL 190 million interest debt, which is not rolled out. And in addition to the CapEx of around BRL 300 million already impacted.

Today, this is the most relevant topic of my agenda and all my teams as well, because we want to protect Copel's financial health. In addition to being one of the pillars of our contingency plan, this is also a matter of survival right now. This financial plan is totally aligned to the priorities of the contingency committee that have already been mentioned by Daniel and with the subsidiaries of Copel Group's. Meetings here happen on a daily basis and the actions are focused on the short-term cash impact two to three months at the most, four months for us is still long-term. Our board of directors and our fiscal committee also, all of them are following up all the impacts on a weekly basis. I'll highlight here that we're also making very one-time off adjustments. And the monitoring is done on a daily basis.

We consider several indicators, the level of load, reading, billing, delinquency, and several simulations of possible scenarios. And I think the more relevant comments regarding our cash plan.

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Now turning to the next slide, I would like to highlight the non-recurring items in the quarter in the EBITDA, we had a negative impact of BRL 78 million, of those BRL 32 million come from impairments, a positive one coming from Colider, BRL 18 million, another negative BRL 15 million coming from, basically because the expectation review for this page. Another negative impact was the additional provision for losses stemming from delinquency in because of COVID-19. We also have a complement of provision for losses, including here an arbitrage process with (inaudible) totaling BRL 28 million and some assets write-offs of telecom of BRL 8 million. The only positive impact we registered here in this quarter was the mark-to-market of Copel Com of only BRL 4 million. Last year, the impact in the first quarter of items that are non-recurring was much lower around BRL 12 million in the EBITDA and just BRL 6 million in the net income.

With that, the adjusted results would reach BRL 1.231 billion in our EBITDA and that would represent 11.5% more than last year of the first quarter, and the net income would be BRL 596 million, 16.2% higher. As you can see, the COVID impact, if we consider provision for loss and the debt of BRL 13 million, maybe part of the FX rate variation because of the real depreciation could reach around BRL 7 million in the line of FX variation. We will be talking about something related to BRL 20 million, which is very low vis-?-vis our figures.

Now here, we don't see the operating result of the subsidiaries, I highlight that we have improved in all of the businesses, but the major contribution was effected from the distributing company an improvement of 32% vis--vis last year. And look, if we compare here 2018, that would represent an improvement of 140%. Here major contributions, in the case of this are related to manageable costs and the reduction of those manageable costs is especially in personnel with a reduction of over 780 employees since 2018.

And just in this quarter comparing to 2019, almost 400 people left the company in the test, and here also, we have an impact of the average increase in tariffs starting in June of '2019 of 3.41% in addition to an increase in the grid market in the first quarter of 2019, of 0.6%, ss Daniel already mentioned, that this is above the national average, which dropped 0.9%, and compared to the South region also it dropped to 0.3% according to the EPE.

And finally, we also had a reduction in the provision of contingency of several actions, especially the labor ones in the amount of BRL 30 million. So with this, we explained the improvement of the results coming in from the distributing company that is already over 12% of efficiency regarding the regulatory EBITDA. Congratulations, Marcio and his team. In the G&T, the results also have grown around 4% vis-?-vis the same period of last year, reaching BRL 687 million. This is still the largest contribution, built the group's EBITDA, 56% of the total, a little bit lower than what we had last year, around 60%.

The G&T results already boasting a full impact by the conclusion of the new undertakings generation as Colider, Cutia, Baixo Iguaçu and also transmission lines, such as, (inaudible) and Lot E, which is still under construction, but it has been partially built, and we already have results stemming from that. And that contribution of BRL 104 million last year. That contribution was already partial of BRL 56 million. But an increment in the quarter in the G&T was over BRL 50 million. So this is even clearer when we compare the performance

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since 2018, where the increase was up 20%. When compared to this quarter that is BRL 115 million better.

Another positive impact was (when it was dispatched) in the first quarter, which contributed with BRL 8 million. And in this case, the effect - impairment effect was not considered here, I already mentioned, we are just talking about adjusted results. On the negative note, there was a high -- I highlighted that there was a drop in the CCE revenue coming from short-term energy sales, reflecting basically the difference between the energy balance of the first quarter of 2019 and first quarter of 2020, where the surplus of energy this year was lower, especially in January of 2020 also being affected by a drop in the average spot price of 25% and the average in the quarter of 30%.

Additionally, G&T revenue has also been impacted by the TEO, the optimization energy tariff. Because of this huge hydric crisis that we have seen in the South of Brazil may be one of the largest in the case, another negative impact in the G&T was increased provisions for labor claims, which affected the quarter in BRL 14 million. And finally, I also should say that we have not seen major relevant impacts on our G&T stemming from COVID-19 in the first quarter. At telecom, and despite of the reduction in the revenue because of commercial reevaluation. And the objective here was to improve the customer mix. Our operating results have improved mainly by the significant reduction in personnel costs as well as customers' activation improving to an operating cash generation of BRL 52 million, 30% better than 2019. I also should highlight the contribution coming from Copel Com that is especially positive and very strategic for Copel's group, especially as part of our strategy to commercialize energy.

Adjusted EBITDA already is over BRL 8 million in the quarter, almost BRL 1 million, including mark-to-market compared to 2019, that was BRL 4 million in that same comparison base. So here you see a relevant improvement. In the first quarter, the sold energy already went over the 4 average gigawatts, as Daniel has mentioned, a growth of over 40%. And we are already considered one of the largest in the industry according to CCEE ranking. Copel COM also had no relevant impact coming from COVID in the first quarter. We do not have any contracts being canceled. The other results that include in addition to Copel Com that already mentioned, also Compagas, Elejor and Holding, are stable when compared to 2019.

Here we have the performance of manageable costs, or PMS. And here we have the two first quarters of 2020 and 2019. For better comparison, we are excluding the impacts of the impairment, which we already mentioned.

On the line P, you can see a drop of 2%, BRL 13 million less and payments for employees and managers and BRL 2 million in benefits, which is being negatively affected by an increase in the provision for profit sharing program. And if we do not consider that impact in the profit sharing program, line P would have reduced 5%, especially with the reduction of 516 employees in the last 12 months, as I mentioned. Remember, we already laid off 1,200 employees since January of 2018. In summary, without the inflation impact, P line would have dropped around 8%. We are still looking for opportunities here under this line.

Materials and third-party services have been affected by the increase in the maintenance efforts to increase even more the quality in the energy supply, especially outsourced services in the for ELC and EFC. Others reduction is broken down basically by the reduction of litigation and claims provisions of around BRL 16 billion and it is that was BRL 30 million, as I already said; and also by the reduction of asset write-off impacts of Copel telecom, almost BRL 13 million. The only negative impact here was delinquency in our case, which increased the provision in BRL 13 million.

I highlight that in despite of major advances in the past years, we are still looking for more efficiency and as we already said, efficiency and cost reductions are still in our agenda more than ever, and we are very confident about this work forward efficiency improvement that we are doing with BCG, and we hope ready to integrate something of that in 2020.

In the next two slide, we have our operating cash generation performance. We see a consistent improvement in the operating result year-on-year, especially, as we said, by the works conclusions, the reduction of personnel costs and efficiency improvement in our.

Compared to the first quarter of 2019, the major reduction is related to an asset and operating liability - operating liabilities and assets variation is specifically lower payment of suppliers because of the conclusion of construction works and higher expenses of income tax because of a higher interest on equity.

Finally, I would like to remember that cash generation of BRL 1.2 billion in the first quarter was enough to cover for our investment plan as well as to pay for interest and that's without needing - rolling out, and that allows us a reduction in our gross debt and improves our leverage.

Now turning to the next slide. We can see the history of our investments since 2018. There was a slight reduction for investments to include relevant projects for 2020 of the BRL 2 billion that were forecasted. Most of that is for this BRL 1.74 billion have already been invested. Out of those BRL 200 million have already been invested in the first quarter of 2020. And our G&T, major investments are related to the conclusion of some works; and Lot E transmission, where we already invested BRL 100 million in the first quarter.

In telecom, we have had to adjust what was needed to activate more clients, which added up to BRL 200 million in the first quarter. And as we said, we are doing everything so that we do not off track this original plan of BRL 2 billion, even with the uncertainties stemming from COVID-19. Remember that in this last year for investment. They are the base of remuneration that is going to be recalculated for next year.

In the last slide, also important, our leverage is below 2x in the last 12 months. This is another reason to celebrate. And now the challenges we have been saying is to maintain our capital allocation discipline in all aspects. With a strong governance and the definition of investment strategy and also to look for new business opportunities. We are working hard towards those goals. We are also evaluating our dividends policy, and that's going to



take into consideration that leverage level. And that's going to be one of the items to be considered, among others.

Also, we have a low level of maturities in 2020 after December is lower than BRL 1 billion. And today, we are paying BRL 350 million regarding amortization, and also the payment of the first emission of Copel G&T with no rollout. And so for the rest of the year, we would have just BRL 500 million to be paid. And that's very low when compared to prior history last year. Let me just remind you, our debt payment went over BRL 3.6 billion.

Finally, I also highlight the reduction of our debt charges and the amount of 20% vis-?-vis the first quarter of last year, not considering any FX rate variation, which is very low, considering that we do not have any relevant exposure in dollar-denominated currencies. And the ones that we have are unhedged, so we wouldn't have any impact.

So this is my summary. I once again thank you very much for your participation, and I am available to take your questions in the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

We now will start the Q&A session (Operator Instructions) Our first question is from Mr.Andre Sampaio, Santander.

### Q - Andre Sampaio {BIO 19422379 <GO>}

Good afternoon. I would like to understand better. Actually, this is an update about Foz do Areia. Did you have anything recent about this asset? And if you can also tell us about the wages contract? Thank you.

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

Hello, Andre, thank you for your question. About Foz do Areia, at the end of last year, we already created the PE, and we transferred the asset there. And this was sent to now in February, and on March 3 we manufacturing interest by the terms of the decree that allows the extension for more 30 years if the controlling interest is sold. Well the debate with the industry has been interrupted, the debate around the granting bonus. So because now everyone is focused on COVID, but we expect that we can resume that so that we can understand how much that grant bonus is going to cost. And the auction that should be done, that's how the decree is determined. This should happen in 2021. But the plan is still up. Not the plan is still up. This is part of our strategy and also our internal studies show that the sale of this control is good for the company.

Now about Weather and the gas contract. right now, in the first quarter, differently from the last 24 months, it generated 40 days. Because in the beginning of our replacement

supply contract with Petrobras or because the spot price went up in addition to the marginal TMO costs. So it operated in the merchant mode, and you can see that you will have impact there, both in revenue as well as supply costs. And obviously, there is a positive operating result. About guidance and negotiations with suppliers, Petrobras, the direct contracts that we have with the Bolivian. I would like Bertol, who is the General Manager of G&T add to that.

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## A - Unidentified Speaker

About the current contracts that we have with Petrobras. It is valid up to December 31, 2020. This contract allows the generation of Araucaria thermal plant out of the merit order. And as Daniel mentioned, when you generate at 681,000. And since this is indexed by brand and oil prices dropping, we asked an LD approval for a new figure, and this has been approved at BRL 475. So we do have a good expectation that the weather, as Daniel has mentioned, because of the hydric prices here in the South region being more severe than in the last nine years. And today, the soft supply is basically being met by the Regional-Inter exchange of Southwest and south and a slow local production, and we expect that it's going to be dispatched in the short period of time with a recovery of the load and also with the stored energy supply in the South. About the contract that we were discussing with why PFB Show and Petrobras for auctions a, minus 4a minus 5 of existing energy. These auctions have been suspended. They were postponed to the future. And this is under our radar if possible negotiation. So that we can become even more efficient. And those auctions will be defined - the dates will be defined by the federal administration.

## Q - Andre Sampaio {BIO 19422379 <GO>}

Okay. Thank you very much.

## A - Unidentified Speaker

So, we thank you, Andre, very much.

## Operator

Next question is from Carolina Carneiro, Credit Suisse.

## Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon and thank you very much for the call. I have two questions. The first one, if you can please comment on the volume and the delinquency performance in your region for the distributing company. We have seen distributing companies making provisions and adjusting provisions for losses based on initial data. But if you, of course, can give us a little bit more color on how the performance is -- because I know that in the first quarter, we just had the beginning of the crisis. But from March to now do you have anything new, any new data that you can share with us.

Now my second question. You mentioned in the beginning of the call, Daniel, the level of operating efficiency. You mentioned the consulting company and you mentioned what you already developed in terms of targets. And it's everything based in meritocracy. Can you

give us more details about the work of this consulting company? And what kind of measures we could expect based on these studies, please? Thank you.

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

Okay, Carol. Thank you very much for your question.

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About the delinquency volume, as I mentioned in the call in the first quarter, unfortunately, we did not have any impact, and if we did, very little. And that is because of the quarantine process. Because in the Paran state, we did not have a severe lockdown as you saw in other areas of the country. This is one thing.

The second has to do with the diversification of the economic sector here. And agri business is very relevant in the state. We have the corpoative. And that area, they did not stop so they are in that segment of customers, consumption even increases. So after the fourth, or the third to the fourth week after March 18 and 19, that when we started seeing consumption dropping or the load dropping more precisely. Over April, they improved, and they went over 15%, 14%, 15%. If we compare to the averages before the crisis. And then by the end of April and beginning of May, we already saw a slight signs of a recovery. And in Brazil, the national average is above that. So the system, the interconnected system from the national system operator, in the case, 18% have dropped. About the impacts we have provisioned what Moura mentioned, BRL 13 million of possibility of losses. I would say that this is one of the main subjects of our agenda and how this is happening. This in the regulated market, in the free market up to March would not have any significant changes. But in April we started seeing renegotiations. And we are trying to discuss to renegotiate always maintaining the net credit value of the contract. We have flexibility because some segments, for instance, shopping malls, hotels, that really have serious problems and we do want to avoid utilization. We have only one or two of those cases. So I don't know, Max, if you anything else that you would like to add. I think that's it.

Now about item two, operating efficiency and the scope of the BCG's work. Here we have three major lines. First, a matter of capital allocation. We review the capital structure of the company considering that continuous reduction of leverage, how we can generate value to the company under that structure review in that structure, we analyze our dividend policy to look for best practices in the market. And see how all of that can be addressed. But this is one topic.

The second topic has to do with efficiency itself at Copel G&T. And also in our Holding. What is the right holding model? What is the structure, which services, and then I'm talking about something that's very common in the market. Of shared service centers, how we kind of structure that, what is the best efficiency that we can get? And what are the gains that all of that could provide us? Well, this is not very much under the scope of BCG, but Copel Dis is discussing it. And over the second half of the year is already running a pilot, and that's what we are -- we have been saying. The call center. We have today 450 employees that are ours just for call center. So we might be able to have the same efficiency and reduce costs in an outsourced situation for instance.

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And the third one has to do with services, new businesses and what companies in the industry are doing in this category of distributor generation, energetic efficiency and what we are seeing around. So over the year, we expected that we can continue implementing the efficiency process and cost reduction once as well without hurting the opportunities for cost reduction that we might have. So, a last topic, I already mentioned, but just to conclude, these investments that we are making in automation and optimization process, the Smart Grid, the Three-Phase Parana all of them have, as I mentioned in the call, the cost reduction aspect because we have automatic reclosers. So this reduces cost. So we have seen that it has already been reducing all subsidiaries. And if you reduce the cost of the PLR, you will see that there was even more significant reduction, but there were some services that ended up growing. These services, basically were very specific and they are the first factors that really end up dropping a line like branches falling and so on and pruning as well. So, I think, I addressed your questions.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Yes, that's very clear. Thank you.

## Operator

Next question is from Marcelo Sa, Banco Itau.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Hello, everyone. Thank you very much for your call. I have a question about what's happening related to COVID and what we see on the newspaper. The papers say that for the companies to have access to resources, they will have to sign a commitment. They have to commit themselves not to digitalize anything in the future. And I would like to understand what is the that is going to have you not go against the government in the future if you sign it, you are not going to file a lawsuit or anything. How's that working? Thank you.

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

Hello, Marcelo. Thank you very much for your question, really. This is on the news today that large distributing companies sent a note to the ministry with some comments and creditors as well. I would like to tell you that we have not invited to sign this document, and we would not sign under those terms and conditions because the COVID account, as we understand, it is the most efficient way to address the financial problem. But about the renouncing that composition for the future as we understand it, this is a demand from the banks. But this is an uncomfortable position. I understand that this cost can be improved. And I think Aneel and the Ministry will be sensitive to it because considering that we are (fighting the) problem in the right fashion addressing the financial area and then the economic area because we do not have the dimension, the extension of this crisis. We don't know how it's going to be. So I believe that this is a very good perfect rationale. But in the future, it has to be analyzed and that might be a reason to have discrepancies among the companies, of course, analyzed case-by-case with the regulating agency and they do have the final word on the subject. So I think that this demand in despite of being an are upcoming from the banks, and that's the information that we have. I'm sure that it could be improved because the judiciary is always a possibility. And now just to conclude

this question, Marcelo, we need to see if this is constitutional to waive these rights. So I'm sure this is going to undergo adjustments. But what's important here is to see how timely it is. We need to get signals from the Minister and we didn't have them during the week. And I believe that today or in the beginning of next year, the decree is going to be published so that by the end of the month, so that in the first week of June, the latest, these funds can be available to distributing companies.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

That's great. Very clear. Thank you.

And I'll -- to add to what we have in that decree, just to understand, if there is anything that is addressing the financial-economic balance in the future or anything that is open or a term so that -- or specific scheduling for an altitude, do you have any specific information regarding the second stage of this decree? I don't know if you had access to that final part of the decree?

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

Marcelo, that's a very good question as well. About that, we did not have access to that previous version. And we have - I don't know if we will have access. But we have discussed some concepts, and I'm sure that the rebalance - the economic and financial rebalance is going to be tackled in the future and according to analysis. So I think this is fine. They know as this is going to be in that decree. I don't know how. But we understand that right after this initial moment, and it's also important to address the subject and turn the page because we have the cost of the operation: How much this is going to cost? What's going to be the spread? And what is that cost? And I think this is one of the key factors to turn it successful. So we need to overcome that stage. So that we can start opening the negotiations for the economic aspect because the impact is starting in April will be there. And this and the distributing companies are the lungs of the electric system. And they only have 18% of what they collect and that equation needs to be quickly addressed. The economic side of it, so that we can avoid any risk of covenants and so on.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Okay. Thank you very much.

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

Thank you, Marcelo.

**Operator**

Next question from Gabriel Francisco from XP Investimentos.

**Q - Gabriel Francisco** {BIO 20569389 <GO>}

Hello, Daniel. Congratulations on the results. And my question is to Copel G&T, the customers on the free market, do you have any details of sectorial exposure of these customers and which of them are commercial ones, which are industrial ones, so that we

can have an idea of how much the company can or not be affected in the free market. Basically, that is my question. Thank you.

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

Hello, Gabriel. Thank you. Our portfolio of large free consumers, is really large. And they are very well diversified among the different economic segments. So we are not exposed to a single segment. Therefore, we are following that up. And one or another notification that we get of acts of god and force majeure have been addressed very fast. First saying that we do believe in the contract. And by using that reason, acts of God and force majeure, they have to list all losses in a very precise fashion, so that we can actually apply that cost. And we haven't had anything coming back in that sense. So our exposure to customers and clients, that is very much based and guaranteed among our clients and consumers. And just to give you an idea, we checked the consumption of free market consumers for G&T, in April it was higher than what was contracted. The take of contracts have a variation of 8%. And in April, it was higher than what was contracted. So up to April, we do not have any changes in our free market consumers in their contracts.

**Q - Gabriel Francisco** {BIO 20569389 <GO>}

Perfect. That's very clear. So you allow me another topic, please. Do you have an update on the contracting status of G&T for 2020? Next year as well, but focusing 2020. That's my last question. Thank you.

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

That's fine, Gabriel. No problem. We have here as a policy and that accompanies a strategy to maintain a natural hedge of the GSF between 18% and 20% in 2020, that hedge is all backed up. So we do not have any decontracted energy because of that. But we're having a load review and even an anticipated announcement, and we end up having a spot price impact, and that is at the minimum. With this review that's going to be anticipated to June as announced by CCE. The trend is to have the spot price at a minimum for the next few months. And our seasonalization for the year, and this is a strategy of the different companies, we end up saying more or less or using more or less energy in the short-term at this rate. In the first quarter and over the first half of the year, we will be kind of penalized for that because we still have some surplus of energy because of this natural hedge that we always have. But on the other hand, we will be benefited over the second half of the year when we're going to buy -- we won't need to - we will need to buy energy and it's going to be closed at the minimum price. So we had a guarantee check for the G&T to buy 300 average megawatts over the first half of the year to avoid exposure, and we're not executing that, that guarantee because of the price perspective. This has been a little bit more challenging, I think Moura mentioned. And that's the prices has been challenging as Moura said. So in the South, we have a good part of good potential, and we have a strong charge there. So we will now go through the drought period and then we have the wet period. Let's see how it's going to happen, but reservoirs here in the South are below 15% of your capacity. This is the third or fourth worst situation in history.

**Q - Gabriel Francisco** {BIO 20569389 <GO>}

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Understood, Daniel. Thank you very much.

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

Thank you, Gabrielle.

## Operator

Now Manfredini has another question. Mr. Pedro Manfredini. Go ahead.

**Q - Pedro Manfredini** {BIO 21633245 <GO>}

Daniel and Moura, thank you for the call. I have a question. And that's about the renegotiation of the contracted capacity of industrial clients in the regulated market. We also have seen that there is a discussion about that negotiation in the companies. And they still - they want to declare Force measure and are now saying that there's a bilateral relationship between distributors and also clients. Can you tell us more about that, that negotiation? For the industrial market as well. That's not under its USP. And what size, how large is that negotiation? How is this only second on this program that you launched, which is very interesting of helping COVID have a donation for those that decide to choose for direct debit. So what is the level of banking of your customers? What is the range of customers that do pay their bills in direct debit? And if you have seen an improvement in that, I don't know you feel, if you had that type of comparison, since you launched the plan and how you are now?

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

Manfredini, thank you for participating and thank you for your question. About that first part, about the USP renegotiation, if I well understood you, you're talking about the discussion regarding contracted energy versus consumed energy. There was a partial announced decision and that they're analyzing and how that is going. And if that's it, what we see is that we most of customers are demanding the contracted energy. And we're discussing that in the court. And in the first quarter we have been able to be successful because we're waiting for now some ruling. And as we have seen there are three votes against it. I think one of them wanted to talk to the other agents. But our expectation is that this will remain there because this is one of the backbones of the electric system. So we do not intend to have any changes. We do not expect changes on that topic. Otherwise, we are going to take with them that the other links of the chain. About Copel's situation and the donation program and that's a very nice initiative and it's part of the social responsibility of the company. And so many other companies are also helping with more or less, and that shows social corporate responsibility about the company. So we're following the same path. About the banking level of Copel's customers. Today we have 4.7 million of consumer units over 1.1 million already have the digital bill and I think 700,000 with the direct debit to their accounts. So what we expect is to increase that target, these figures, because also this will bring benefits to the company. And there is something important here. The culture of Paran people, they are good payers. Our delinquency up to before the crisis was less than 2%, let's see how it's going to behave. It might increase and come down. But there is something very particular here. 47% of our customers do not pay on the due date, but they pay in the next 30 days. And the fact that they are in the digitization process, and we're encouraging them to pay electronically is that so we don't

have that detachment, although this also has profit for our financial results. Just last year we had BRL 233 million in financial charges. I don't know if I addressed your question.

**Q - Pedro Manfredini** {BIO 21633245 <GO>}

Yes. That's what I wanted to know. Thank you very much.

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

Well, thank you.

## Operator

Thank you, Manfredini, and thank you, everyone. Well, unfortunately we don't have much more time. I would like to thank you very much for your participation. I will turn the floor to Daniel.

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

Well, just my final remarks here. As I said, I think we already mentioned the main topics about Copel, about the our strategic foundations and our positive long-term strategy. I think also we have to mention Copel Telecom, we have taken a significant step this week, and if it were not by COVID crisis, we would be already in the final approval stages of the process. But considering that the market is stressed and also, there are a lot of things that are out in the open, GDP growth expectation and everything else, we're holding back the final valuation. But the fact that Aneel has already given an initial approvment that meets one of an first points, legal safety and the easy model for investors, not only investors, fiber optical fiber and telecommunications but other investors as well after this crisis.

Well, at a certain moment, one day, this crisis will be over, and we want to have. Our strategic plant is in line. And also, we are attentive to brownfield opportunities. And we'll be talking to financial agents and we will analyze that and maybe we're able to seize a good opportunity. So once again, thank you very much. We know this is going to be over and the foundations of this company in the mid and the long-term are very sound, and we're working on our strategic plan. Once again, thank you very much.

## Operator

Ladies and gentlemen, the conference call for Copel and first quarter results for 2020 has ended. Thank you very much.

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