

Y 2017 Earnings Call

Company Participants

- Adriano Rudek de Moura, Chief Financial Officer and Investor Relations Officer
- Jonel Nazareno lurk, Chief Executive Officer
- Sergio Luiz Lamy, CEO

Other Participants

- Marcelo Sa, Analyst
- Pedro Manfredini, Analyst
- Unidentified Participant
- Vitor Sousa, Analyst

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Companhia Paranaense de Energia Copel Conference Call to present the results of the Fourth Quarter of 2017. We would like to inform you that all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call related to Copel's business perspectives, operating and financial projections and targets are beliefs and assumptions of the company's management, as well as information currently available. Forward-looking statements are not guarantees of performance, as they involve risks, uncertainties and assumptions as they refer to future events and therefore, they depend on circumstances that might or not occur. General economic conditions, industry conditions and other operating factors may affect the future performance of Copel and may lead to results that different materially from those expressed in such forward-looking statements.

Participating in this call, we have Mr. Jonel Nazareno lurk, CEO of the company; Mr. Adriano Rudek de Moura, CFO and Investor Relations Officer; Mr. Deonilson Roldo, Corporate Management Officer; Mr. Harry Francoia Junior, Institutional Relations Officer; Mr. Jose Marques Filho, Data Development Officer; Mr. Sergio Luiz Lamy, CEO of Copel GeT; Mr. Antonio Sergio de Souza Guetter, CEO of Copel Distribuicao; Mr. Antonio Justino Spinello, CEO of Copel Comercializacao; and Mr. Adir Hannouche, CEO of Copel Telecomunicacoes. The presentation that will be made by the company's management may be followed that the company's website at ir.copel.com.

Now we would like to give the floor to Mr. Adriano Rudek de Moura, CFO and Investor Relations Officer of the company.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Good morning, everybody. I thank you very much for participating in our call. I would like to start our talk by introducing the new members of the Executive Board of the company that have just taken off, starting with our new CEO, Mr. Iurk, Civil Engineer, Mathematician. He was the Business Development Officer of the company between 2013 and '17, and recently, he was President of Compagas, the company in charge of distributing natural gas in the State of Parana of which Copel holds a stake of 51%. He will be replacing Guetter, he will go back -- going back to being the CEO of Copel Distribuicao, besides being CEO. Also, we have the new Corporate Management Officer, Deonilson Roldo, the new Businesses Development Officer, Jose Marques Filho and the new Institutional Relations Officer, Harry Francoia Junior. We're honored with their presence in this call.

Now, I would like to turn the floor over to our new CEO, Jonel Iurk, who will make a brief remark about his main challenges.

Jonel Nazareno Iurk {BIO 18463563 <GO>}

Thank you, Moura. Good morning, everyone. And I also thank you very much for participating in our call. It is a great satisfaction and pride that I become the head of Copel, a company that is a benchmark in the Brazilian electric sector, and has been achieving important steps. As was mentioned by Moura, I was the member of the Copel Executive Board as Business Development Officer between 2013 and '17, and when I was able to see in depth the need and opportunity. Besides, I have been following very closely the relevant subjects that involve in this sector. I would like to reaffirm our commitment with the continuity of a transparent management and offering results that may further strengthen the Copel positioning in the market where we operate and we will be keeping focus on the efficiency of our current businesses as well as opportunities for new businesses.

Nevertheless, without all the -- our financial discipline, that will continue to require a sustainable return of our investments. We will continue to work in the conclusion of the projects that are underway and that will allow us as of this year an additional contribution to our cash generation. And we will also maintain our program of cost reduction that was established in mid-2017 that has reached in six months only a reduction of over BRL315 million vis-a-vis our budget for 2017.

I would like to mention that we will continue to strengthen our corporate governance aiming at transparency and ethics, always essential values of our company. Just to give you one example, in 2017, Copel was recognized as the best among the public companies assessed in a study and unprecedented study realized by the International Transparency Association, Brazil, that measured the level of transparency in the activities of the 100 biggest company's and 10 biggest Brazilian banks. And this result reflects the efforts undertaken in the last few years to improve further transparency of our management, including a new department, governance risk and compliance area by 2017.

FINAL

Something unprecedented in the sector and we will continue to deliver a top quality service, which is fully recognized by our clients in all of our fields of operation. And this commitment resulted for the sixth time in seven years with the leadership of Copel distribution in the perception survey of the Abradee Award. And for the first time in seven years, we also achieved the title of the best distribution company in Latin America in the opinion of consumers, and the reason for being of concessionary which includes further improved its regulatory quality indices, that are much better than the minimum required by ANEEL (inaudible).

Lastly, we were awarded the -- in this year the Aneel Industry of consumer satisfaction promoted by the regulator and it was chosen as the highlights by the National Policy Foundation for the excellent management practices world-class considered by the entity that also included Copel Teleco in the list of the best organizations in management in Brazil, Copel Distribution. The recognition by FNO, came after a rigorous process of administration that required many months of dedication of the company and the evaluation team of the foundation.

In people management, we must continues to make up (inaudible) still have an ongoing improvement in the quality of life in the work environment of our people and I'm proud to say that by the end of 2017, we became a member of the 150 best companies to work in Brazil of the (inaudible), a survey, that shows the dedication and professionalism of each one of our over 8,000 employees and which is the result of the perception about the improvements implemented in our people management activities.

And before giving the floor to Moura, I would like to highlight one of the many achievements of Copel, during this last year, which was the invitation by the United Nation that we've received in October 2017, to host the first regional center of the Global Compact Cities Programme, that will contribute to the global development, assessing the global challenge of sustainable development objectives with many things such as, poverty, health, education, gender equality, reduction of inequalities, all aligned with our commitments -- long-term commitments.

And achievements, such as this one once again guarantees our presence in the very important sustainability Indices ISE or B3, FTSE4Good of the London exchange and MSCI ESG of Morgan Stanley. Evaluations that place us among the most committed companies in the world in the utility sector.

And I would like to once again mention that I'm extremely proud of becoming part of this company, again with the commitment of supporting many other achievements from now on. And I would like to thank, Antonio Sergio de Souza Guetter, for the relevant services delivered to Copel, when he was CEO. He had a very competent management and I wish him all the success in this new mission as ahead of Copel Distribuicao. Thank you very much, and you can count on me.

Now, I would like to give the floor to Moura.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Bloomberg Transcript

FINAL

Thank you, Jonel. I'm sure that, with your experience and your professional history, your contribution will be very relevant to Copel. I wish you all the success in the works and all the other -- as well as to the other officers that have just taken office, you may count on me.

So, on slide number three, Jonel has talked about our main achievements in 2017 in terms of institutional recognition. And before talking about our financial results, I would like to mention that during the last year, mainly in 2017, the Brazilian electricity sector evidenced once again having many entities to crisis. After three years of severe crisis, the economic environment already shows some signs of improvement, reduction in inflation rate, decrease in interest rates and we can see the beginning of a recovery -- still in recovery in some sectors.

Certainly, we will still have a challenge of -- a year of many challenges mainly due to the uncertainties in the political scenario that may affect the speed of recovery of the economy. The 1% growth in 2017 in the GDP shows the recovery and helped the performance of our business, specifically in Parana, where we concentrate most of our investments. This performance of the economy was even better, with 2.5% increase in the GDP in 2017, strongly influenced by the good performance of agro business and recovery of industry and services.

Agricultural exports were also players in the result of the Brazilian trade balance, that had a surplus of about \$67 billion in 2017, the best results in the historical series.

For Copel, 2017 was a year recognized by major challenges that we were able to evolve in many aspects that I will be mentioning during the presentation. I would like to mention the annual growth of our operating net revenue of about 7%, vis-a-vis 2017 and exceeding the barrier of 14 billion with the net income over BRL1 billion, this is one of the best results in the last few years and consolidates Copel as the biggest company in Parana, and one of the biggest in Brazil.

We invested over BRL2.5 billion in 2017 in the many businesses. And part of this investment, about 450 million, was for the conclusion of the construction of over 1,100 kilometers of transmission lines with over 100 million additional revenue per year. With these investments, our transmission assets exceed 6,000 kilometers of lines all over Brazil and give us an annual revenue of 830 million.

Distribution, we are making a gradual increment in our asset base, aiming at improving the quality of the system. In 2017, we invested about 615 million and for 2018, we have already approved investments of BRL800 million. Our distribution company is successful in the research and application of new technologies to monitor and automate our grids, with focus on Parana, by means of the (Foreign Language). This program uses the immediate implementation of intelligent networks and has been improving the quality of energy supplied to remote areas and which increases the quality of life and productivity in the field and also reduces maintenance costs.

FINAL

In generation, we invested over 975 million in projects such as, Colider and Baixo Iguacu, HPP and wind farm Potiguar and the final phase of construction and should be started up partially in 2018, contributing importantly to the growth in cash generation for the company. Of course, I must say a few words about the over 240 million investments made by Copel Telecom, focusing on increasing the client base and which is also conquered by a fiber optics retail Internet, which is attractive in the country. For this year, we will have 350 million in investments, which will allow the company continue to grow sustainably.

Now going to slide number four, I would like to say a few words about the performance of the grid market of Copel distribution. The improvements in the economy in 2017 brought positive results to Copel. In 2017, the grid market of Copel Distribuicao grew by 3.4% vis-a-vis 2016 for the full year, whereas the consumption of energy in Brazil grew only 0.8% according to EPE data. The performance was even better if we compare it to the performance of the fourth quarter with a 5% almost increase.

In the State of Parana, in Brazil, we see this upward trend in economy. And another highlight is the reduction of the delinquency rate disclosed 2017 at 1.5% maybe the lowest in our history, in the last two years because of the major efforts and that can be measured by the important reduction of the provisions for losses estimated, PECLD that closed 2017 in 84 million, a reduction of almost 50% in the amount that we had in 2016. And we have the difference here of about 13 million, and this is our focus for 2018, that should happen gradually.

Another positive impact that we had was the reverse of 138 million referring to completion for -- estimated losses regarding the credit impairment due to the acquisition of gas by Compagas with Petrobras. And this contract has a clause of future compensation of balances related to the acquisition of gas volumes contracted and guarantees higher than the ones really used. And this reversal occurred due to the review of the project with a scenario for the next two year, with the estimate of fully compensating the balances by 2024. And in case the concession ends beforehand for any reason, the contract with Petrobras provides for the rights of sale of these assets. And with this reversal in spite of new posting of impairments such as Colider, Figueira and Cutia, the net results of the test of the fair value of the assets was positive by -- in the last quarter by BRL26 million.

And lastly, it is important to talk about Araucaria, and the impacts caused by the financial statement, consolidated financial statements. As we said in the financial statement and the material information filed on April 12, during the preparation of the quarterly statements of September 2017, the company management identified that Araucaria had funds in Multimarket Investment Fund that holds quotas of other investment funds which in the interim had investments in the company that was enlisted and whose main assets is a real estate project and this investment was quoted under marketable securities in the current assets. Once the company management had information that such investments referred to investments in an exclusive fund with a benchmark of 103.5% of the CDI, laid out by process of investment funds and government bonds with immediate liquidity and held for negotiations.

FINAL

Due to this reason the company management counted on the help of independent experts to check the classification and the value of this investment as well as this group of plausible impacts. And the evaluation work has finished and considering the information available we concluded that we needed to make a provision for the devaluation of payment of this investment due to specific risks such as the stage of the project and prospect -- future cash generation prospects.

We evaluated what would be the adequate period to close this position because if the nature of this investment have been identified during 2016, additional analysis would have been made and would -- and that would allow us to conclude that there are signs of impairment based on the information existing at the time. And therefore, it should be posted during 2016.

Due to the conclusions about the adequate classification and value of this investment and considering information available so far, we made a division of 137 million for impairment of this investment, base date December 31, 2016, and the reclassification of the remaining balance, 29 million non-current assets due to the expectation of the realization term. And we had to resubmit the comparative balances of 2016 and due to that the independent auditor report about the individual and consolidated accounting statement in the period that ended on December 31, 2017 was issued in relations to the relative comparative balance of 2016.

And it is not yet possible to obtain the appropriate and sufficient opinion if the position should be posted in the financial statements deferring to the period ended on 31 December, 2016, and presented in the financial statement of 2017 for comparison, or if it should be posted to previous periods. So this is related exclusively to the fact that if it was -- this will -- should be posted in 2016 or previous years and we emphasize that there will be no impact whatsoever on the results 2017.

On slide number five about the results of the fourth quarter. I would like to highlight the reversal of the loss of 271 million posted in the fourth quarter to a net income of 160 million in the fourth quarter of '17. And with this result, we reached 1.1 billion in net income in 2017, as I mentioned, 42% higher than 2016, when net income was about BRL719 million. And this results come from a combination of factors occurred growth in 2016 and '17. And we will be talking in detail during the presentation about them.

As to the comparison base, I would like to remind you that the net income referring to fourth quarter '16 is adjusted by the write-off of 137 million referring to the investment in Araucaria, whereas the EBITDA of the fourth quarter of '16 was impacted by the posting of 567 million in impairment of generation assets mainly.

In relation to the performance of the fourth quarter '17, I would like to mention the 20% growth in our net operating income, resulting from the higher posting of sectorial asset and liabilities known as TBA, which offsets part of the cost with distribution costs and the dispatch of our Araucaria, we generated about 195 gigawatt hours in November last year, allowing us to post 128 million in revenue and the adjustments applied to the distribution

FINAL

tariff from June 24, 2016, and the performance of the grid market of Copel Distribuicao growing by almost 5% on a quarter-on-quarter basis.

It is also important to highlight the 5% reduction in PMSO due to the salary policy applied as of October 2017, referring to only the inflation in the period and the reduction of 281 headcount over 2017. Besides, we posted 271 million in provisions for lawsuits related mainly to the civil, administrative and labor issues, and the posting of 147 million, the cost of energy purchased at Copel GeT because of the which impacts of GsF and spot price and the operating performance measures by the EBITDA was 123 million in this quarter, 4 times higher than the one that we had in the same period in '16, including beside the impacts already mentioned, and important improvements in the Copel EBITDA as we will be seeing in a few minutes.

On slide number six, we present the EBITDA reported through subsidiaries. As you can see, Copel GeT had a positive EBITDA of a BRL180 million in the fourth quarter of '17, reversing the negative EBITDA of 101 million in the same period '16. I would like to make a brief (inaudible) regarding the results presented in the fourth quarter '16 when the EBITDA of Copel GeT was negatively impacted by 526 million due to the recognition of 444 million in impairment and also 82 million on top of 127 million as of Araucaria, referring to the valuation of this investment as we mentioned. And this 82 million are 60% -- 62% of GeT stake in Araucaria and 20% is the holding stake. As a result presented in the fourth quarter '17 was impacted mainly by the higher costs with the purchase of energy to the effects of the GSF and the spot market -- spot price.

And also 93 million in provision -- non-recurring provisions. Copel Distribution grew by 13% and EBITDA in the quarter, totaling BRL111 million and this result is due to the growth of almost 5% in the grid market, the adjustment applied to the tariffs since during 2017 and a 7% reduction in manageable costs. Net of provisions and reversals, we have a higher balance mainly due to labor issues and benefits to employees.

At Copel Telco had a reduction of 3% in EBITDA of the fourth quarter of '17 on a quarter-on-quarter basis. On a year-on-year basis, coming from third-party costs necessary to increase our client base.

Slide number seven, as for EBITDA of Copel GeT with net of non-recurring impacts should make the performance of the subsidiaries more clear. Adjusted EBITDA of Copel GeT was 317 million. As you can see, 18% lower than the adjusted EBITDA of 387 million in the fourth quarter of '16, impacted by a 147 million in cost of energy purchased due mainly to the hydroelectric deficit, which reached 31% in this period.

And this factor also impacted the adjusted -- the accumulated adjusted result. In 2017, we had a positive cost of 361 million more with the purchase of energy when we compared to 2016 amounted to 61 million. In terms of the performance in 2017, I would like to mention that the EBITDA reported and the comparison basis ratio 16 was positively impacted by the effect of the recognition of 810 million in 2016 related to the RBSE, partially offset by the proceeds of 458 million in impairment and the adjustment of 82 million in Araucaria.

FINAL

On the next slide number eight, we can see that Copel Distribuicao had an improvement of 4% in the adjusted EBITDA in relation to the fourth quarter of '16, amounting to a 143 million in the period and this result comes from the growth in the grid market and the reduction of 21% in manageable costs, as I mentioned before. And in 2017 Copel Distribuicao had an adjusted EBITDA of 637 million, much better than the one delivered in the same period of previous years. And I would like to mention that our plan is to reach a regulatory EBITDA by the end of the fourth cycle, in June 2021. And the numbers obtained so far show that we are on the right track to improve the profitability, not only of Copel Distribuicao, but the whole Group.

It is important to mention that reduction in management cost of Copel Distribuicao comes from a series of measures that the company has been adopting to reduce cost in all subsidiaries, among which we have the reduction in our headcount and over 2017 276 employees left Copel Distribuicao, 175 by means of the incentivized [Technical Difficulty] and the total represent a cost of 24 million in 2017 that with the perspective of an annual reduction of 38 million starting in 2018. Starting in 2018, 38 million will be benefit without the impact of the indemnification expenses.

Slide number nine, for a better comparison, we have the recurring EBITDA per subsidiary as you can see. A comparison of all the subsidiaries and it is important to mention that Copel GeT continues to give the highest contribution in terms of EBITDA, almost 47% of the total and would be even better if it were not for the 130 impact of energy purchases coming from the spot price and the GSF, because of hydrological shortage. And Copel Distribuicao actually doubled the results in comparison with the fourth quarter of '16 being the second biggest business for the company.

In the case of Copel Telco, the 2017 EBITDA reached 134 million supported mainly by the growth in the client base, very consistent with the previous year. Bottom line, consolidated EBITDA in the quarter grew by 5% compared to the same pace of the previous year and 15% on the year-to-date in comparative stages.

Now on slide number 10, we can see more details of the recurrent operating income increased 19% in the fourth quarter vis-a-vis the same period in '16, reaching almost of BRL4 billion -- unprecedented in this quarter BRL4 billion. One of best results in the last few years. And you can see that the retail revenue had a growth of 14%, explained basically by the adjustments of -- tariffs adjustments at Copel Distribuicao in June in 2017 with the adjustment of the PE by 10% and by the highest average price of the contracts for Copel GeT and Copel Commercialization with the free clients.

The wholesale revenue grew by 29%, mainly because of the dispatch of Araucaria which generated about 195 gigawatts hour in November last year. As I mentioned before, we recorded a 128 million in revenue from Araucaria as we said and availability of the grids increased by 8% impacted by the growth of the grid market of Distribuicao and the tariff adjustment of Copel which adjusted TUSD by 0.85% as of June 24, 2017.

Besides, of course, the increase in revenue due to the start-up of new transmission assets. Telco revenue grew by 10% due to the increase in the client base of Copel Telco.

FINAL

As we mentioned that the recognition of TDA reflects mainly the higher costs with the purchase of energy by Copel Distribuicao impacted by the GSF and also by the spot price in the period.

And lastly, the 10% reduction in other operating revenues reflect the lower revenue from construction and some assets that contributed to this line items in the fourth quarter of '16, have already started up in the last 12 months. On slide 11, we show you the recurrent operating costs and expenses, 3.5 billion in the fourth quarter of '17, 23% higher than the same period in 2016, explained mostly by the increase in the cost of energy purchased amounting to 1.8 billion, with growth of 534 million vis-a-vis the fourth quarter of '16, are also coming from the GSF and the spot price in the period, as we mentioned before.

In GeT we had an increase of 130 million in the cost with the purchase of energy. In the distribution company, the cost related to GSF and in the line of sectorial financial assets and liabilities, which is offset by the tariffs. And the charges for the use of the grid grew by 24% due to the higher cost risk, the charges of the system services due to the adjustment of the transmission -- Itaipu energy transmission tariff and also the TUSD due to the increase in the rate that started to remunerate the assets related to the RBSE provision of reversals adjusted by extraordinary events had 91 million more than what we had in the fourth quarter of '16. And this growth stems from the higher balances related to civil and administrative lawsuits and also labor and benefits to employees and the manageable costs had a drop of 4% in comparison to the fourth quarter of '16 and already reflecting endeavors to control costs which we detailed in slide number 12.

Now where you can see that the cost with personnel and management have a drop of 8% even after the 1.63% adjustment applied to salaries as of October '17, and a 20 million provision for indemnification for retirement. And this performance reflects among other measures the policy adopted by the company of not replacing are not filling these vacancies and we have been, therefore, decreasing our headcount. And in 2017 we had 8,245 employees, a reduction of 286 people over the year.

So, related to payroll cost, I would like to mention that the voluntary redundancy plan was closed at the end of March this year, and we had about 600 people participating and they will confirm by December this year their decision. And the impact of this addition will be disclosed when we disclosed the results of the first quarter of '18.

The cost of third-party services and others had a reduction of 8%, mainly due to the review of our contracts. Just to give an idea, this reduction of 600 people, we expect savings of about BRL150 million for the next few years net of the impact of indemnification. So, this is a very significant reduction. And as we said before, the idea is to continue with the policy of not hiring other people to fill in these vacancies.

On slide 13, our leverage, an important item in our agenda. We can see that the net debt-EBITDA ratio closed 2017 at 3.1 times lower than the limit of 3.5 times considering the figures reported. It's important to mention that in December, we promoted the uniformization of our financial indices applicable to the securities issued by the company with another -- the bank shareholders general meeting, which approved the removal of

Bloomberg Transcript

guarantees of the calculation of the consolidated net financial debt, a reduction of about BRL1.5 billion of the calculation of the net debt.

And we have decided that the additional cash generation from the new project, as well as the combination of many initiatives, some already implemented and mentioned during this meeting such as a reduction in costs and the physical and financial guideline of some projects, and the evaluation of the sale of some assets, nonstrategic assets have already reflected to improve our leverage. And if we consider the adjusted EBITDA numbers without the extraordinary impact which show a very positive trend, we already see a trend to reduce our leverage in 2017.

And by the way, I would like to mention about the success of the unit operation of Sanepar, which occurred in December last year, and (inaudible) the total investment in Sanepar 485 million improving the cash generation at the time. And right now, we are focused on rolling out the debt that has an average duration of about four years, and we are evaluating many alternatives for finding -- an initiative for cash generation, which is reflected and we already see a higher attractiveness in our financial rate. And I emphasize that we will continue to follow rigorous financial discipline in the evaluation of the investments, as well as making a weighted average so that the projects underway may be finalized as quickly as possible according to initial expectations and also regulatory demands and the contract deadlines in order to preserve the funds flow for these projects.

Talking about nonstrategic asset sale, as we mentioned, in the last quarter, I would like to remind you that the Board has already approved on February 21st the plans for the analysis for divestment and we are already in the final stage of hiring financial and legal advisors to help us in this evaluation.

And lastly, on slide number 14 we talk about the results of the loss of 271 million in the fourth quarter of 2016, to a net income of 160 due to the factors that we have already mentioned. And in the year to-date, the net income was over 1.1 billion, an increase of 42% vis-a-vis the result of 2016, mainly Copel Distribuicao that reversed a loss of 180 million and had a net income of 247 million.

And, I would like to mention, the proposal by the management to be decided by the shareholders meeting contemplating the total distribution of 289 million in dividends and interest on equity and 266 million have already been declared in December 2017, corresponding therefore to a 25% payout. The payment date for the total amount will be defined by the shareholders meeting as well.

And, these were the main highlights of the fourth quarter. And now we are available to answer any questions that you might have.

Questions And Answers

Operator

(Operator Instructions).

Q - Unidentified Participant

This is (inaudible), HSBC. Thank you for the opportunity, for the presentation. I would like to know about Copel's strategy for this year. You have many nonstrategic assets, are you evaluating the possibility of divesting from some of these assets? And secondly, could you talk about the company's deleveraging strategy? You have many projects that are underway still, are you going to eliminate some of your CapEx, and are they on schedule? And what about your cash flow, could it help you in terms of deleveraging the company?

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

Thank you very much for the questions. These are two important questions, and two important items in our agenda. Divestment, as I mentioned, there is a plan already approved by our Board, and we are in the final phase of hiring the legal and financial advisors, and this will be completed by the end of this month and we will be submitting to our Board in May, some proposals, so that we can go ahead. So the evaluation is very thorough and very wide-ranging, it evaluates all assets.

Regarding leverage, as I mentioned, I think we are on the right track and there will be a very relevant contribution in terms of cash generation from the new projects. I do not see additional risks or additional delays in the main projects, that should be started up as of 2018, and the expected contribution as of 2018 or '19, because some of the projects will be generating cash as of 2019, that would be around BRL500 million additional. So this is a very important contribution for us to reduce our leverage. And of course, if we sell some assets, we will be able to reduce our debt even further.

Q - Unidentified Participant

Could you talk about the asset divestment? What you believe is important to maintain and what you intent to sell?

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

So, I cannot get into many details, but the idea is to present the more detailed plan in May. And the idea is to achieve some cash impact, so within 2018, and I would say around the last quarter of 2018, that would be a reasonable timeline for us to -- and again provided, the shareholders and the Board approve our plan. Thank you.

Operator

Vitor Sousa from Brasil Plural.

Q - Vitor Sousa

Good morning, everyone. Congratulations for the new position in COPEL, Mr. lurk. And her question was very much linked to my question. So, in 2019, it should be drop in -- vis-a-vis 2018, there will be a drop in projects that will be already in operation. My doubt has to do with the cash flow of the company. Would you be investing in a new cycle of investments,

new greenfield projects or would it be more sense for Copel to pay out these funds to shareholders in the State of Parana? Okay. So this is my doubt. Are you going to get into a new cycle of investments because of the opportunities in this sector or will you be paying out additional dividends?

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

Vitor, can you hear? Okay. Thank you for the question. 2019 is a little bit far, but if we were to think about the use of this cash, we have to keep in mind that we have a concession that will be ending in 2023, a very important one and we would have to be prepared for these additional investments that might be around BRL5 billion, and we have to think about that. We are evaluating all the business opportunities of course, and we are being very vigorous in participating in our auctions. We participated in some of them and not -- and the idea is to continue to look for opportunities. If we find a good project, we have to analyze all of the financials and then we make the investment. Of course, we will be evaluating other things as well, but our focus is to generate cash and reduce our leverage so that we may have more cash to invest in the future.

Q - Vitor Sousa

Thank you. About -- what you said about concessions in generation that will be ending by 2023, you have two concessions that are the most relevant in our portfolio. What about the negotiation with the federal government and Ministry of Mines and Energy and that refers to these concessions? Do they intent to renew, to extend, will there be a public auction or bidding process? So, what about your negotiations regarding these concessions that are about to end?

A - Sergio Luiz Lamy

Good morning, Vitor. This is Sergio Lamy, Copel GeT. For the major asset of GeT, this concessions ends in 2023, it's the (inaudible) or for the HPP. And of course, this is part of Copel's strategies to look for the renewal of these concessions, such as we did in the past when we were able to get the concession in 2015 of the Governador Parigot de Souza. Many studies are being carried out. They are still on the way. And in relation to the current regulation, as Moura mentioned, we only have three alternatives. One is the possibility of renewals in measure 179 and we have already reached this. The other one is to take the concession until the end and participating in the concession auction. And the third one that we are still studying has to do with the provisional measures that was published by the federal government in January, the decree that is to say for the privatization of assets and the evaluating of possibility of fitting ourselves in to this possibilities, but again the studies have not been concluded yet. What I can tell you is that in Brazil it is even difficult to project your past, because even that can change. So we have to wait for more favorable regulations that may facilitate our objective of recovery or reconquering this concession again. Thank you.

Operator

Pedro Manfredini from Itau BBA

FINAL

Bloomberg Transcript

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good morning. Thank you. My doubt has to do with the headcount reductions. You said about 180 million in cost reduction in terms of your headcount. Do you intend to continue that in the next few years? Are you still having a reduction in your headcount and what about third-party services the renegotiation of costs, can we expect this to be renegotiation for the next few years?

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

Guilherme, thank you for the question. With the relation of the incentivized voluntary redundancy program that ended in March, the addition was very relevant 600 people adhered, and they will come to a final decision by December this year. And these reductions together with the reduction that has already occurred in 2017 of about 160 or 170, would give us a savings of 150 million net of the indemnification amount. So, it's hard to imagine whether they will confirm or not, but this is our target. This is a very aggressive target in fact, and most of these people are allocated in distribution, which is included in improvement in our regulatory EBITDA. So that will be a very relevant reduction in terms of cost. We do not intend to renew this areas. So our idea is to improve productivity and make enough investments in technology so that we can really develop this or use this idle capacity that we would have, so we could consider this as an expected cost reduction. 2019, so this reduction would be permanent.

Q - Pedro Manfredini {BIO 21633245 <GO>}

What about renegotiating the third-party services? Do you intend to continue with this aggressive cost reduction policies?

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

So, let me understand your questions. Are you talking about the distribution companies, Guilherme?

Q - Pedro Manfredini {BIO 21633245 <GO>}

No, I'm talking in general, the reduction that you achieved so far in services.

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

Well, this comes from the measures that we are putting in place, the cost reduction process that was established in mid-2017. And this will continue. Our work team is multifunctional, we are still active, and we have already reviewed our budget for 2018 with a significant reduction as mentioned at the beginning of the presentation, we were able to reduce BRL350 million already based on the budget approved in -- for 2017 -- in 2017 and we have a target that very ambitions for 2018. And we have been emphasizing this in all the calls, all our talks with you that cost reduction is part of our agenda and we will continue and personnel is the higher costs and I'm very happy with this participation of all these people in our redundancy program. Thank you .

Operator

Giulano [ph] from UBS.

Q - Marcelo Sa {BIO 16454581 <GO>}

This is Marcelo Sa in fact. I have two questions. I would like to better understand your strategy to sell energy, you have a considered volume of energy. What do you think in terms of prices for the second half, have you allocated this over the year, more concentrated in the first half or the second half, how do you see the long-term entity price?

And the next question has to do with your cash flow. When we look at the results for the quarter it was a very bad in terms of cash flows, 700 million cash burn out in the quarter, and if you exclude the cash burn worth BRL320 million between dividends. So as you have the CapEx of around 3 billion for this year, I believe that you will continue to burn cash unless you sell something very relevant. So my question is probably, let's say you don't sell any relevant assets, could you consider the capitalization of the company such as happened in the past or are you not considering this possibility?

A - Sergio Luiz Lamy

Good morning. This is Sergio Lamy from GeT. In relation to our strategy in energy availability, we are taking a very conservative stand in this regard because of the negative prospect about GSF so far this year, and maybe for the next few years. Just to remind you, the Brazilian reservoirs had a much lower level already in 2012 and ever since then we didn't see a recovery of these levels. So this is a very critical issue of the MRE. And also with the impacts of the GSF, I think they will continue for some time, so our strategy besides of course, looking for the best price for your product and we have a very well aligned strategy in this regard, regarding selling over time in a very consistent manner.

Of course, you have to leave a provision to cover the GSF deficit. Just to give an idea, this strategy is a winning strategy. Copel GeT for 2018, has something -- about 68% of energy already contracted in long-term contracts, still 32% is non-contracted or terminated and this happened due to the fact that by the end of last year, we were not 100% sure that we would be 100% successful in the negotiations regarding surpluses of Colider plant. And when we made the projection, the projection was 85% energy contracted. And as it was successful, the negotiator (inaudible) Colider plant. In fact, it's a very good position for us, because we are projecting a leveraged spot price higher of BRL200 megawatt hour, 220, 228 per megawatt hour. So, the energy that is in long-term contract besides covering the very strict expectations that we have in terms of the GSF for the second half of this year, it will also allow us to sell at a very satisfactory price. I don't know whether I have answered your question or not.

Q - Marcelo Sa {BIO 16454581 <GO>}

For the long-run, how do you see the price of energy? You're selling energy, let's say, from 2019 on, given liquidity in the market, what can you see about that?

A - Sergio Luiz Lamy

So, what I can tell you that we see that there is liquidity, but liquidity decreases as time goes by. Liquidity is higher in the short run, and for longer period you can see that liquidity starts to go down. So there is no adequate strategy of making very large sales for the long run, just to give you an idea, we will close 2018 with 60% of the energy to be delivered in 2019 already contracted 70%. I'm talking about 2020, I correct myself.

Thank you, speakers. It will be 60% and 40% to be sold in 2019, and this strategy has been proving to be very adequate. But I would like to emphasize the fact that this year, we are selling energy up to 2024, but the amount are smaller and the prices are not extremely attractive. Would you like to add something to that? Filho [ph] will be adding to what I said.

A - Jonel Nazareno lurk {BIO 18463563 <GO>}

Good morning, Marcelo. Thank you for the question. The prices for 2019 are 205, 207 for conventional for 2020, 170 in 2021, and 155. Today we will have a sales 30 megawatt auction for 2019, 2020, 2021?

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay. Thank you.

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

Regarding your second question, just to make it clear, our investment plan for 2018 is 3,900 million. It is totally aligned with our funding and our cash generation that is estimated. We have some facts to be trimmed in, if we can sell an asset, of course, this will be helpful, but this is not really mandatory for this year, and also because we have most of the investments, we are talking about 900 million approximately, that our investments in Cutia Wind Farm and that we are finishing this year. And with investments already linked to the BNDES funding. So this is effectively signed with them and negotiations are going very well. So, I would say that our plan is fully aligned with the funding capacity that we've have and cash flow is one of the most critical points in this regard.

Q - Marcelo Sa {BIO 16454581 <GO>}

And what about the capital increase, are you considering that?

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

This was an alternative that was studied around the middle of 2017, it's no longer on our agenda. And we expect in 2018 to have an improvement in cash generation as I said, coming from our projects, and also positive impacts in terms of our cost reductions, counting also on the improvement of the economy, that is what everybody expects.

Q - Marcelo Sa {BIO 16454581 <GO>}

Just to confirm. When you talk about improvement in cash generations, if you look at December 2018, the net debt, could we expect this to drop or will it continue to go up?

Because when we model, we cannot really see a positive cash generation this year, so in fact, we believe it is negative and net debt, will go up?

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

Maybe your math is wrong, but we believe net debt will be dropping or -- no, it will be stable. Our expectation is still have this at a stable level and the debt-equity ratio will improve for the reasons that we mentioned. So, we intend to keep our net debt at the level that it is today. Okay. We have new funding, as I said, from the BNDES to support Cutia, this is a new funding and other things that will be happening over the year to maintain those levels. Thank you.

Operator

As there are no more questions. I would like to give the floor back to Mr. Adriano Rudek de Moura for his closing remarks.

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

I would like to end. Giving a special thanks to those who have helped us to get the financial statements of 2017. These was very tough week. And I would like to thank you for your understanding and the patience on the part of your shareholders and investors that understood the reason for that. Thank you very much and have a very good day.

Operator

Thank you very much. Copel's conference call is closed. We thank you for participating. And wish you all a very good day. Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.