

Q1 2022 Earnings Call

Company Participants

- Adriano Rudek de Moura, Chief Financial & Investor Relations Officer and Member of Executive Board
- Daniel Pimentel Slaviero, Chief Executive Officer, Member of Executive Board & Director

Other Participants

- Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Companhia Paranaense de Energia Conference Call to discuss the Results of The First Quarter of 2022. This call is being recorded and the replay maybe accessed at the company's website ir.companhia.com where the presentation is also available for download. All participants will be in listen-only mode during the conference, and later, we will have a Q&A session when further instructions will be given.

Before proceeding, we reiterate that forward-looking statements are based on the beliefs and assumptions of COPEL's management and on information currently available to the company. Such statement may involve risks and uncertainties as they refer to future events, and therefore, depend on circumstances that may or may not occur.

Investors, analysts and journalists should take into account that event related to the macroeconomic environment to the industry and the other factors may lead to results to be different from those expressed in such forward-looking statement.

Today with us, we have Mr.Daniel Pimentel Slaviero, CEO of COPEL; and Mr.Adriano Rudek de Moura, CFO of COPEL, and other officers of the company and of subsidiaries as well.

Now, I would like to give the floor to Mr.Daniel Slaviero. You may proceed.

Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Hello, Good afternoon. I thank you very much for participating in our video conference. And I start the presentation with the pleasure of sharing the delivering of another quarter with sound operating results and where I highlight the record BRL1.5 billion of EBITDA, representing a growth of over 12% quarter -- year-over-year, and the net income of

BRL670 million and the powerful cash duration of BRL1.5 billion and even without the extraordinary effects which practically didn't change our EBITDA.

We had the best result of the company's history for a third quarter with BRL1.460 billion. We started well the year, but we are aware that we have challenging much ahead of us because of the macroeconomic situation, the higher in interest rates and also the commodity prices. These results encourage us to further our strategy with the main objective of creating value for COPEL, for shareholders, our clients, and all stakeholders.

Before going to the next slide, I would like to highlight that in line with the proposal of the company's management and our dividend policy, we have approved at the last Shareholders' Meeting, the payment of BRL1.7 billion in earnings to shareholders to be paid by the end of July this year. Referring to the remaining balance of BRL3.1 billion of dividend, referring to 2021.

The highest dividends that are paid by the company and with a dividend yield of a little bit more than 16%. In the sense, the results reflect the materialization of many aspects of our strategy. The first one is the discipline in the company's cost management, focused on the operating efficiency in our business success and we posted the reduction almost 6% in PMSO net of the effect of provisions and reversals.

The intent of investments, especially in the COPEL disgrid which reflect the improvement in the services delivered to our client, the increase in the regulatory remuneration based and they can be confirmed with the evolution of our results which represented performance of 19.5% higher than the regulatory EBITDA. All this has been leading to a significant improvement in the services delivered to our concession area clients. And I would like to mention that we have already seen the results of the media complex with BRL21 million EBITDA, already in the first quarter.

And besides in line with our commitment with the impeccable execution of our startup schedule for our project, I would like to inform that at the beginning of April as we said to the market, we started up the first generating units of the Jandaira Wind Complex and we are going to Donage [ph] and this complex has 90 megawatts of installed capacity and will be in full operation at the beginning of the second half of this year. That is to say, over two years before the deadline of the delivery of the CO2 other concessions or other utilities, and this project reinforces the company strategy of sustainable development for diversification of the portfolio by means of renewable sources and the significant improvement in the energy sold by a Copel Mercado Livre .

We saw an improvement in the GSF which was 95%, marking the end of the hybrid crisis and contributing to the improvement of the results of COPEL GeT almost BRL1 billion also in the quarter. And lastly, I would like to mention, the work that we have been doing regarding the open innovation program, we have the COPEL Vote program in place on May 31. We will be holding a major event to introduce the five startups selected in the concept tests in the different sources, electromobility, metering of consumption, energy sale platform, energy efficiency among others. And the program has the objective of

bringing the company closer to the innovation ecosystem bringing solutions that might improve the services delivered to our clients.

Now moving to the end of my part of the presentation. I would like to reinforce the priorities that we have for the next few months. First, we have been saying over the last few calls that the process in the -- is in the final phase of the renewal of concession by the agency and the updated information that we have is that -- it is already in the hands of the State Attorney's office in the State of Parana for the final evaluation of the contract and we expect to sign this renewal in June 2022.

Also we have our eyes turn to the June transmission auction and we have already signed a partnership with the major and very well known company in this sector. We will be forming a consortium with COPEL having a stake of 49% as the law chart should big with a CapEx of approximately BRL5 billion -- one, two and three. We understand that is strategic to have a first-class partner.

And to conclude, in terms of M&As with a low leverage of the company, we believe that in spite of the of the challenging market situation, especially because of the interest rates and the commodity prices, we still considered that there are some good opportunities in the market. Especially our focus is on brownfield opportunities and we are evaluating the renewal segment always with capital allocation discipline. And all this based on the highest possible governance levels of the COPEL Group, trying to align the company to the best practices in the market. Increasing transparency and improving the decision-making process on the part of the management. And we like to say that in the last quarter of 2021, COPEL migrated to level two of the B3 governance and this is an important legacy for the company.

And to finalize my part of the presentation, I would like to highlight I like the new advancements and sustainability, which permeates our whole strategy. This week we signed the commitment for the adoption to implementation of the stakeholders capitalism metrics. And this is an initiative by the World Economic Forum. We understand that Stakeholders Capitalism takes into account the needs of all stakeholders involved and also society in general, and not only the short-term results and this is a very effective manner to create corporate value in the long-term and tackled the social priorities already consecrated in the SDO.

The objective of this work is to establish global metrics that maybe measurables and palpable. In this group, there are 180 companies from the whole world and from Latin America only five and COPEL is among. And this was headed by the sustainable development area of the company and which is responsible for implementing and tech ESG. And we are very happy and very proud of the fact that COPEL is the only company in the sector that participate simultaneously in the B3 entities, ISE, ICO2 B3 and IGPTW. And the company was recently recognized by the fourth forum of Brazil where the status -- as one of the 100 most influential companies in the mobility sector since 2008. We have an electrified weight with 700 kilometers since Paranagua in the coast and (inaudible).

And just to conclude, I would like to mention that all these fact reflect the commitment by the management with the highest standards of transparency, as I said and ESG and management and the pillars of the company for per entity and sustainable growth of our businesses.

Now Moura will be getting into the details of the first quarter.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Thank you very much, and good afternoon. I thank you very much for participating in our call. And we are very pleased with the publication of another quarter with historical results and besides the adjusted EBITDA growing over 12% vis-a-vis last year that Daniel has already highlighted.

I would like to mention the significant operating cash generation that exceeded BRL1.5 billion in this quarter, already reflecting a significant improvement in the Brazilian hydrologic scenario with a lower need to buy energy. Besides many other factors that also contributed for the improvement of this result, the growth of the great market of this a higher revenue in the remuneration of transmission assets and also a consistent plan for cost reduction.

With that, we close another quarter with a sound financial position and a cash balance of approximately BRL4 billion. And in relation to the net income, BRL650 million in spite of the growth of EBITDA of almost BRL160 million compared to the first quarter of '21. The increases of inflation and the hike in interest rate, negatively affected the cost of debt and reached almost BRL350 million, a growth of approximately BRL180 million compared to the first quarter of '21. And we also saw a reduction in the financial results of almost BRL130 million referring to the starting financial result of the debt that the state had with propel that with the CRC of over BRL1.4 billion. That was remunerate at IGP-DI plus 665 and is that was totally settled in August '21. And lastly, we are recognizing a higher part of the depreciation about BRL63 million in the quarter. Mainly, because of the effect of the renegotiation of the GSF which started to be amortized according to the remaining area of concession of each one of the plants that benefited.

One final remark about that. You can see that the non-recurrent items were not relevant in this quarter. So both the EBITDA and the net income reported that adjusted are practically at the same level. And I would like to remind you that the result of COPEL that were part of the 1Q '21 results have already been excluded for a better basis for comparison.

Now going to the next slide. I would like to highlight the evolution of the EBITDA between the first quarter of '21 and '22 with the contribution by each one of the businesses. As you can see, on the BRL159 million of growth, GeT contributed with most of that BRL137 million, Dis BRL45 million with a negative impact of UEGA BRL40 million due to the reduction in the level of dispatch. In the case of GeT, the improvement in the hydrologic scenario as we said before reflected average GSF with 95 compared to 89. One year ago, increase the result of the purchase and sale for energy from BRL778 million to almost

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BRL800 million, and already showing a positive trend for the remainder of the year. And I would like to highlight that the increase in the remuneration of transmission assets besides improving the results of our own assets of T also helped in the equivalent or the equity income of the controlled companies or subsidiaries. This is also a positive trend for the remainder of the year, considering the expectation of the increase of IPCA and the consolidated results of the Vilas Wind Complex that are already part of debt since December 21, and the reduction of the PMSO. At this, we are maintaining the regulatory efficiency of about 20%. Although, we have recognized the protocol of '22 and increasing the provision for civil and labor lawsuit of approximately BRL30 million as well as a net complement of BRL18 million in the PCLD that we believe are one-off. And then we're offset by other cost reductions.

Another remark about the PCLD in spite of the increase of BRL18 million, the level of delinquency at this continues within a normal range below 1.5%. And in spite of that we monitor this very closely. In relation to the increase of the Grid market 5.8%. I would like to mention that the growth is much higher than the national average with a growth lower than 1% of the first quarter. And getting into more details, we see a strong recovery in the commercial sector in the state of Parana, 12% increase residential also 7.5%. And we -- if we consider the effect of the compensated energy in the consumption of the mini and microgeneration practically doubled in the first quarter from '21 from 207 gigawatts out. The net increase of the Grid market was 4.2%, still very good considering the national average.

Highlighting our three main businesses, debt practically reached BRL1 billion in a EBITDA, almost 70% of the total strong growth 11%, already considering consolidated results including UEGA reducing the EBITDA of BRL34 million in 1Q '21 to a negative of BRL6 million this year because of the low dispatch as I said. And just as a reference without the impact of UEGA, the growth would have been 15%. A very strong growth based on the execution of a consistent strategy for efficiency improvement and cost reduction, conclusion of project, new acquisitions, and mainly inefficient management in energy commercialization. It is expressive growth over 13% for the reasons that we have already mentioned, getting close to an EBITDA of about BRL400 million in the quarter, slightly lower than that.

And we're very confident in the maintenance of this level of regulatory efficiency around 20% and we continue to be focused on the execution of the strategy for the continuous improvement of operating efficiency, that is very successful.

COPEL Mercado Livre continues at the top of the largest commercialization companies in Brazil with the strategic importance, in the commercialization of energy in the COPEL Group with the strong potential for sustainable growth, capturing or tapping into opportunities for the bigger opening of the three market and in terms of results, same level of last year, undoubtedly, a more challenging year considering the higher volatility and the prices of energy.

In PMSO, I would like to highlight the reduction of cost with personnel and management, currently our biggest manageable cost that reduce in consolidated almost 9% year-on-year from 390 to 280. Basically, due to the reduction of assistant the 36 employees in the

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year. By means of PDI, voluntary dismissal. And this reduction more than offset the increase in the negotiation that we had of 11% in October last year. And in M&As, we are maintaining the levels of '21 in spite of the inflation in the period. Then the main negative impact that referred to was they provision for civil would labor lawsuits beside the increment in PCLD at this with an increase of about BRL50 million in the quarter. And net of these provisions and reversals, we see a drop has almost 6% in the consolidated PMSO.

Before we go ahead, I would like to like to mention that efficiency improvement cost reduction are pillars of our strategy and we will continue to seek opportunities by means of investments in new technologies, review of processes, and tools and prudent investment in Dis that might bring about cost reduction such as Parana Tri-Phase and intelligent or smart meters. And I still see improvement opportunities.

Now about the investment program, we continue to comply very strictly with the plan both physical and financial including with the bringing forward some projects, such as the Santa Catarina when complex that Daniel has already mentioned. And in spite of inflation, we should continue on budget, the budget approved for 2022 that could reach BRL2.67 billion. We have already invested in the quarter BRL560 million and we are focused on the conclusion of the GeT project, the main one is (inaudible) and prudent investments in this, that all by itself has already invested almost BRL500 million in the quarter of the total BRL1.6 billion for '22.

Just reminding you that the investment estimator for '22 does not contemplate new businesses opportunities that we are analyzing with the necessary discipline, analyzing the IRR and also being followed and by the Investment Committee. And just to finalize before we go to the Q&A, I would like to remind you that we have the evolution of lever that continues around one-time and with this low leverage, we still have the impact of the non-recurrent result of 2021, such as the say of the Telecom and the renegotiation of GSF and the settlement of the CRC last year, that occurred in the third quarter of '21. Net of the affect, the adjusted leverage would be higher than 1.5, but below our reference for the ideal capital structure that would be around 2.5 times, as we said many times already.

And we continue to monitor the opportunity. So that we may reach our objectives. Always considering the drivers of our investment and dividend policies. As Daniel said, we are evaluating opportunities for M&A, preferably brownfield still for this year and by July, we will be paying BRL1.7 billion in dividend and interest on equity already approved by the Shareholders Meeting and that will certainly affect our current leverage. And lastly, we have no exchange exposure of our debt and the maturities are very well diluted and according to our financial capacity.

Once again, thank you for participating, and now, we can start the Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. We will start the Q&A session now for investors and analysts.
(Operator Instructions) (inaudible).

Q - Analyst

What about future dividends? What is your projections regarding future dividends?

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

Hi, Lucy Chu. According our policy and what I referred to it, it is linked to the cash flow capacity, the available cash flow discounted dividend -- investment discounted lower than 1.5, the payout would be 75 and between 15 and 25, 50% and higher than that. 25% that is the mandatory one. Leverage net of the extraordinary effect is already around 1.5, 1.6. So, we believe that we are going toward 2.5 and the ideal thing would be for us to stay within the parameters of the policy itself, with a target dividend of 50%. Let's say there is an excellent opportunity that justifies any move. Anyway, we are going towards 2.5 with 50% payout.

In the short run and the medium run, we have no payment of extraordinary dividend. So we have to leave this for new deals opportunities and other M&A opportunities that we are analyzing, and this will bring very good results for the company and for our shareholders.

Operator

In ordered to ask a question, please write your name and your company's name in the Q&A field.

Q - Analyst

Good afternoon, congratulations for the result. I would like to know about the sale of Compagas. Do you believe you will be able to start the process still within the first half? And you also said that Compagas should have the concession renewed in June. Are you going to sell your stake in 2022?

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

This is an excellent question, the name of the analyst was not mentioned. So we will have -- the renewal has to be organized. It's taking more time or taking longer than we would like, because of the legal requirements on the part of the agency, with the 30 year renewal and the '21 and the grand bonus and other general investment conditions and CapEx around 2.5 are going to be presented by the powers (inaudible) and the information that we have is that the process is already in the hands of the State of Parana office and for the final review and we expect to sign it over June, after the process is finished.

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Then, we estimate around 180 days to organize an auction, that will be an auction at the B3 to sell the 51%, the controlling interest that we have in Compagas. We believe it could be possible still in 2022. Let's say the approval of the sale, of course we need to have the approval by a simple majority by the Parana Assembly, state assembly, but no later than the first quarter of 2023, we believe this will be done, because our focus is on the core business. We intend to leave the businesses that are not energy generation. Our core business is to generate to distribute and to and we believe that we have the capacity to generate better returns for the company for our shareholders by focusing on our core business.

Operator

Mr.(inaudible).

Q - Analyst

What about the date of remuneration that should come before July '22. So I congratulate you for the results. Moura, could we talk about the date?

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

And answer the question, after Matthews, what was approved was payment up to July this year, the end of July and we are making our best endeavors to bring this forward a little bit. We don't have a final date yet. We are going to submit this to our Board of Directors during the next meeting to validate this, but we intend to bring this forward.

Operator

(Operator Instructions) (inaudible).

Q - Analyst

With a hike in interest rate, is there a negative impact for the company? Thank you.

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

Matthews, was asking the X data would be May 2. So they have already been started to be negotiated. (inaudible) unfortunately, there is a significant hike in the SELIC and the CDE 12.75, and they are already impacting our results, BRL183 million increase in the cost of debt. We believe that is stabilized unless there is a significant change on the part of the monetary authority, the central bank. But unfortunately, there is a significant impact, because all our debts are based on the SELIC or the CDI, but as we said, we have no dollar debt or euro or any other currency, our only debt is in real. So this protects the company to an extent.

Operator

(inaudible) Shareholder.

Bloomberg Transcript

Q - Analyst

Electric mobility. Are you preparing yourselves for this revolution 5G in the smart grid? Okay, but what about infrastructure for electric mobility? I wish you all the best success.

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

Mathews, there is no doubt whatsoever that electric (Technical Difficulty) first distribution company to make a corridor of electric waves over 700 kilometers connecting Parana (inaudible) and in this endeavor of Copel vote, we are dealing with startups that are developing electro mobility. So that we may extend this to the north, and I have no -- or we have no doubt whatsoever that this will be part of a strategy. Our growth and development strategy. On the consumption side, because we will have a whole fleet of cars and buses and trucks in the future that will be hybrid first, and later on totally electric. And you need a very robust infrastructure. And this is why, this is our position always. And in terms of the infrastructure, the chargers et cetera we are analyzing specific opportunities, that could be monetized. So to say, but the infrastructure itself be it by Copel or any other partner in Parana will be giving support to this trend in electro mobility.

Operator

(Operator Instructions) (inaudible) Investments.

Q - Analyst

Do you intend to invest in biomass generation? But how could you enter?

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

Good afternoon, Rafael. This is a very important question, because it is part of the expansion of electric energy supply in the electric planning of the PDE by the ministry. The expansion of biomass and Copel is also looking at all generation segments, namely as Daniel said, we go fotovoltaica and we are also structuring or studying the possibility of biomass, both sugarcane biogas as well as urban waste. The opportunities does exist and we are study all the opportunities for the expansion of energy generation as well as Copel generate and transmission investment strategies according to the guidelines of the group.

Operator

(inaudible).

Q - Analyst

Net income of the first quarter was under pressure because of increase in costs and expenses. What we intend to do regarding your operating expenses and costs?

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

And so it was not the increase in operating costs and the company. On the other hand, quite opposite we reduce our PMSO dropped 6% and the payroll cost which is the highest

one dropped by 9%. And this was all because of a major program that we had in place or voluntary dismissal program, what we call PDI, so over 600 people left the company, so the company or the group has less than 3,000 direct headcount for the first time.

So, this issue of false reduction and efficiency increase is a very important part of the company. We can do this, not to the detriment of the quality delivered, quite the opposite. What we had was an increasing financial cost. The first one was because of the debt restatement, because of the increase in the interest rates. And as was mentioned, the CRC account. The CRC was a debt that the government of Parana had with the company. And at the time, when it was renegotiated, I think it was 2014 or '15 the rates were very attractive. But with the possibility are the part of the debtor to make the prepayment and this is what they did. And from our viewpoint, in spite of having lost these financial revenue have the money in cash and the money can be invested in the projects that we have.

So we believe it was quite adequate, but if you analyze your concern is our concern. We must have a very strict control over our costs, mainly with the two digit inflation impacting all the services and the labor and all the materials. And we believe that from now on there might be other programs for the voluntary dismissal, but not as big as the one that we had, they would be more specific, more directed to certain areas, where we might have carried out some actions. And all the macro site the investment plan as was said here has this as the objective when you make a strong investment in such as the one that we have been making. You have three benefit to improve the services to our customers. It improved the regulatory asset base and it reduces costs. Mainly, when you implement this part with, when you have remote operation, so you don't need to have people carrying out the reading and more human intervention. And in the case of G&T with artificial intelligence in the substations and with the remote and centralized operation, you can save a lot. And we are unify all our operations of jet bringing everything to one single command center in Curitiba. It was already unified, but this is going to be very close or closer to us. And just to conclude, we have been building -- we have been building a relationship with third parties and outsourcing a few things that can be more efficient if done externally, then in house.

Operator

(inaudible).

Q - Analyst

How will you be using the funds from the Compagas sale?

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

Not yet. We do not have the final calculation about the minimum price and I do not believe that we will have the premium that we had in the sale of telecom. But some kind of interest will exist for a gas distribution company in the market that is being opened and in a state such as Parana, the only certainty that we have is that we will not be investing in energy. We don't know whether this is going to be in transmission auctions or in the

increase in our commercialization, but it will be in the energy business. This is the guideline of our strategy.

Operator

(inaudible).

Q - Analyst

What is the projection for your generation matrix? Will you be keeping the thermal one and according to the last quarter of 2021, you talked about investment in sustainable energy. What is the target to develop this matrix in percentage terms? And what about the project for the stock ups?

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

Thank you, (inaudible). Thank you, Matthews. I'm going to answer part of the question that (inaudible) will add to what I say. First of all, our matrix is totally renewable 87%. And in the last few years, we have been making a very big investment in pure renewable energies or namely wind and we turned (inaudible) in place. We will have 13% of our generation from this source objective for 3 to 5 years is to have at least 25% wind and solar, which are pure renewable. And thermal, well there is a very good debate that is going on and we are dealing with us in the company, and one of the major external consultant tech companies in the country is working with us in order for us to build our vision for Copel 2030. We have already said this during the last call, and by the end of the current year, we expect to be able to bring our vision and this is an ongoing discussion. Gas certainly will be important for the energy matrix of the country. As a country, I have no doubt whatsoever that yes we will continue to be very important.

Q - Analyst

If Copel wishes do you have a stronger position or a bigger footprint there resides at (inaudible)?

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

This is a discussion that is still ongoing. We already have a plan that last year as a supplement of our portfolio. It was really strategic, it was very necessary for the results that we delivered in 2021, that there will be an auction, a capacity auction at the end of the year and we have the condition to participate in competitive conditions, it would depend on the geopolitics of the world.

And we're still evaluating this, weather we are going to expand or not, but regardless at Aaailandia TPP or UEGA is an excellent asset and we intend to participate in the auction to have a medium and long-term supply. Just to conclude the innovation part, we are very enthusiastic about the program, because it really brings us closer to innovation and to the startup. Well so to say, we have been very much linked to generation and distribution in terms of research and development. And this has or gives us the opportunity to improve our services at our operating income and the first ones selected will be presented to you on May 31st and this could mean a partnership or service contract or even a new

investment. And on the 31st our new businesses area, (inaudible) with the officer we will get into the phase number two to bring new options on board, new companies to the Copel aqua system.

Operator

Please stand by, we are waiting for new questions. The Q&A session has come to an end. So Daniel Slaviero, will make the closing remarks.

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

Once again, I thank you very much for your participation, analysts and investors in our call and we're very happy to deliver another quarter of sound result in all the business areas and the special highlight is Jet. Distribution and also the maintenance of Copel as the biggest trader in the country.

But, of course, we have to continue to be very careful because the year is very challenging, the macroeconomic situation and the situation not only in the world, but specifically in Brazil are challenging and we have to continue to have austerity, which is one of the guidelines of this management, but we will continue to contribute to the development of energy generation and also delivering better services to our customers and bringing benefits to our shareholders to the company to society general. And we are very happy with everything that we have been doing. And we have our eyes turned to the future as well, because we believe that it will be a new cycle that will start as of 2023.

Thank you very much. I thank all of our colleagues here. The colleagues of the holding company, subsidiaries and I thank all our people for the results delivered during this quarter.

Operator

Copel's conference call has come to an end. Thank you very much for your participation. We wish you a very good day. Thank you.

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