As filed with the Securities and Exchange Commission on June 30, 1998

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934, for the fiscal year ended December 31, 1997

Commission File Number: 1-14668

Companhia Paranaense de Energia – COPEL

(Exact name of registrant as specified in its charter)

Energy Company of Paraná (Translation of registrant's name into English)	The Federative Republic of Brazil (Jurisdiction of incorporation or organization)

Rua Coronel Dulcídio, 800
80420-170 Curitiba, Paraná
The Federative Republic of Brazil
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Class B Shares, without par value*	New York Stock Exchange
American Depositary Shares (as evidenced by American Depositary Receipts), each representing 1,000 Class B Shares	New York Stock Exchange

*Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the last full fiscal year covered by this Annual Report:

At December 31, 1997, there were outstanding:

145,031,080,782 Common Shares, without par value

127,662,647,986 Class B Shares, without par value

961,647,502 Class A Shares, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days:

Yes _X_ No __

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 __ Item 18 _X_

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Companhia Paranaense de Energia – COPEL (the "Company" or "COPEL") is a corporation organized under the laws of the Federative Republic of Brazil ("Brazil").

Unless otherwise specified, in this Annual Report all references to (i) "*reais*," the "*real*" or "R$" are to Brazilian *reais* (plural) or to the Brazilian *real* (singular), the legal currency of Brazil, and (ii) "U.S. dollars" or "US$" are to United States dollars. All amounts in Brazilian currencies which existed prior to the adoption of the *real* as the Brazilian national currency on July 1, 1994 have been restated in *reais* in this Annual Report.

The Company's audited financial statements as of and for the years ended December 31, 1997, 1996 and 1995 (the "Financial Statements") contained in this Annual Report are presented in *reais*. As permitted by generally accepted accounting principles in Brazil ("Brazilian GAAP"), the Financial Statements and the other financial data presented herein recognize certain effects of changes in the purchasing power of Brazilian currency due to inflation and, unless otherwise specified, have been indexed and expressed in constant *reais* of December 31, 1997 purchasing power by using the daily changes or the monthly average values of (i) the *Unidade Fiscal de Referência* (the "UFIR") for dates and periods before December 31, 1995, (ii) the *Índice Geral de Preços—Mercado* ("IGP-M") for dates and periods from January 1, 1996 to December 31, 1996 and (iii) the *Índice Geral de Preços—Disponibilidade Interna* ("IGP-DI") for dates and periods after December 31, 1996.

Solely for the convenience of the reader, this Annual Report contains translations of certain *real* amounts into U.S. dollars. Unless otherwise specified, U.S. dollar equivalent information for amounts in *reais* has been translated at the noon buying rate in New York City for cable transfers in *reais* as certified by the Federal Reserve Bank of New York (the "Noon Buying Rate") for December 31, 1997, which was R$1.1165 to US$1.00. No representation is made that the *real* or U.S. dollar amounts shown in this Annual Report could have been or could be converted into U.S. dollars or *reais*, as the case may be, at any particular rate or at any rate. See "Selected Financial Data."

Certain terms used in this Annual Report are defined in "Annex A—Glossary" or as they first appear elsewhere herein.

PART I

Item 1. *Description of Business*

General

COPEL is a fully integrated electricity company engaged in the generation, transmission and distribution of electricity in the Brazilian State of Paraná (“Paraná”). At December 31, 1997, COPEL owned and operated 18 generation plants with a combined installed capacity of 3,340 MW (approximately 99% of which is hydroelectric), representing approximately 5.6% of the total installed generating capacity in Brazil at that date. COPEL generated 15,422 GWh of electricity in 1997, representing 91% of the electricity consumed in Paraná. The Company also has been awarded (individually or as a member of consortia) concessions that will provide it with an estimated additional installed capacity of approximately 1,320 MW scheduled to become available between late 1998 and 2001. COPEL is the seventh-largest generation utility in Brazil, determined on the basis of installed capacity (counting each of the generation subsidiaries of Centrais Elétricas Brasileiras S.A.—Eletrobrás, the Brazilian federally-owned electric power holding company (“Eletrobrás”), as a separate entity).

At December 31, 1997, COPEL owned and operated 6,282 kilometers of transmission lines, and 140,337 kilometers of distribution lines, which constituted the fifth-largest distribution network in Brazil in 1997 (based on GWh of electricity delivered to final customers). The Company serves virtually all of the municipalities in Paraná, an area of approximately 77,000 square miles (198,000 square kilometers).

During 1997, COPEL delivered 19,475 GWh of electricity (including an aggregate of 5,421 GWh purchased from other electricity generators), of which 14,230 GWh were delivered to approximately 2.6 million final customers and 5,245 GWh were delivered to distributors and others. Of the electricity supplied by COPEL to final customers during 1997, 40% was to industrial customers, 28% to residential customers, 15% to commercial customers and 17% to rural and other customers and to public services. All of COPEL’s distribution activities are conducted pursuant to concessions granted by an agency of the Federal Government. COPEL holds concessions to distribute electricity to 393 of the 399 municipalities in Paraná, and COPEL does not currently compete with other electric utilities in the area covered by these concessions. However, the regulatory structure applicable to the Brazilian electricity sector is undergoing significant change, as a result of which COPEL will be subject to increased competition from other electric utilities in the future.

The total volume of electricity sold by the Company to final customers increased by 8.8% in 1995, 6.7% in 1996 and 5.4% in 1997. Volume grew during each year in the period for all categories of customers—industrial, residential, commercial, rural and other. The Company had total assets of R$8.33 billion at December 31, 1997 and net operating revenues, operating income and net income of R$1.31 billion, R$295.1 million and R$306.7 million, respectively, for the year ended December 31, 1997.

Historical Background

COPEL was formed in 1954 by the government of Paraná (the “State Government”), under the name of Companhia Paranaense de Energia Elétrica, to engage in the generation, transmission and distribution of hydroelectric energy as part of Paraná’s plan to convert the electricity sector from a private to a public enterprise. The Company’s major period of expansion occurred in the early 1970s, when it acquired the principal private companies in the electricity sector located throughout Paraná. The period from 1970 to 1977 was characterized by a significant expansion of COPEL’s transmission and distribution network, and by the connection of COPEL’s network with other states’ grids. In 1979, a change in state law permitted the Company to extend its generation activities to include production from other sources. In 1994, shares of the Company were first registered for public trading in Brazil, and, in July 1997, American Depositary Shares (“ADSs”) representing the Company’s non-voting *ações preferenciais classe B* (“Class B Shares”) were listed on the New York Stock Exchange (the “NYSE”) in connection with the Company’s global public offering of US$575 million of ADSs and Class B Shares.

Relationship with the State Government

State law requires that the State Government directly own at least 60% of the voting *ações ordinárias* (the “Common Shares”) of the Company. At December 31, 1997, the State Government owned 85% of the Common Shares, directly and through other companies. The State Government has the ability to control the election of the majority of the members of the board of directors of the Company (the "Board of Directors"), the appointment of senior management and the direction, future operations and business strategy of the Company. The State Government has not announced present plans to privatize COPEL. Historically, each time a new Governor of Paraná has taken office, most of the members of the Board of Directors and of senior management have changed. Such changes could occur in the future and could have a material adverse effect on the Company. The next election for the office of Governor is scheduled for October 1998.

On December 19, 1997, pursuant to a written agreement with the State Government, COPEL prepaid approximately R$155 million of state value-added tax ("ICMS Tax") on revenues from sales of electricity. The amount prepaid bears interest at a rate equal to the Brazilian interbank deposit rate plus two percent and is to be applied against ICMS Tax payable by COPEL in ten monthly installments as of January 1, 1998.

One of the significant assets of the Company is a receivable from the State Government in the amount of approximately R$514.4 million at December 31, 1997. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Impact of CRC Account."

The Brazilian Electricity Sector

Approximately 97% of the electric energy generated in Brazil is produced by hydroelectric power plants. The Brazilian power sector is regulated by the Federal Government and includes 63 state or local utilities, a majority of which are publicly owned by the Federal Government or by state or municipal governments. Approximately 47% of Brazil's installed generating capacity is owned by Eletrobrás. The public ownership of distribution and generation facilities is expected to decrease as the Federal Government continues the implementation of its privatization program. See "—Privatization Proposals."

Regulation

General

The electricity industry in Brazil is comprehensively regulated by the Federal Government, acting through the Ministry of Mines and Energy ("MME"), which has exclusive authority over the electricity sector through its concessionary and regulatory powers. Regulatory policy for the sector is implemented by the MME through a recently established agency, *Agência Nacional de Energia Elétrica* (the National Agency of Electric Energy, or "ANEEL"), which assumed the former duties and responsibilities of the *Departamento Nacional de Águas e Energia Elétrica* (the National Department of Water and Electric Energy, or "DNAEE"). ANEEL's responsibilities include: (i) granting and revoking concessions for electricity generation, transmission and distribution, (ii) approving applications of electric utilities for rate increases, (iii) auditing electric utilities and (iv) issuing regulations for the electricity sector.

The construction of new generation facilities and the level of production permitted to existing generation facilities are subject to regulation by two committees that are coordinated by Eletrobrás, the *Grupo Coordenador para Operação Interligada* (Coordinating Committee for Interconnected Operation, or "GCOI") and the *Grupo Coordenador do Planejamento dos Sistemas Elétricos* (Coordinating Committee for the Planning of Electric Systems, or "GCPS"). See "—Planning and Coordination." In addition, the activities of electric utilities are subject to oversight by the *Comitê Coordenador das Atividades do Setor Elétrico* (Coordinating Committee for Activities of the Electric Sector, or "COMASE"). See "—Environmental."

Legal and Regulatory Change

The Brazilian electricity sector is undergoing rapid change in connection with the plans of the Federal Government to stimulate investment and increase competition in the sector. In 1995, the Brazilian Federal Constitution was amended to authorize Brazilian nationals or companies established in Brazil with their headquarters and management based in Brazil (irrespective of the nationality of the persons controlling such companies) to become concessionaires and to hold authorizations in the electricity sector. Previously, a company holding a concession or authorization was required to be controlled by Brazilian nationals, the Federal Government or a state government.

Two Brazilian federal statutes enacted in 1995, Law No. 8,987 of February 13, 1995 (the "Concessions Law") and Law No. 9,074 of July 7, 1995 (the "Power Sector Law"), also gave rise to substantial changes in the regulatory framework governing the Brazilian electricity sector. The Concessions Law required the renewal of most of the concessions existing at the time of its enactment and required that the granting of any new concessions for public utility services be preceded by a public bidding process. See "—Concessions."

The Power Sector Law introduced the concept of the independent power producer ("IPP") as a means of promoting investment in the electric sector. An IPP is a legal entity or consortium authorized to generate power to sell to public utility concessionaires and to the following types of unregulated customers (collectively, "Unregulated Customers"): (i) existing customers with demand of at least 10 MW and supplied at voltage level equal to or greater than 69 kV, (ii) new customers with demand of at least 3 MV at any voltage, (iii) groups of customers subject to agreement with the local distribution concessionaire, (iv) customers who do not receive supply for more than 180 days from a local distribution concessionaire and (v) certain others. Pursuant to the Power Sector Law, an Unregulated Customer is permitted to purchase energy from any electric utility in Brazil and not merely from the utility holding the concession for the area in which the Unregulated Customer is located. The Power Sector Law also provides for the formation of consortia to generate power either for public utilities, for the exclusive use of consortium members or for independent power production.

In mid-1996, the MME appointed a consortium of independent consultants to carry out a wide-ranging study of electricity sector reform. The primary objective of the reform is to allow the Federal Government to focus on its roles as policy-maker and regulator and to permit the transfer of responsibility for operations and investment to the private sector. The results of the study were made public in July 1997. An amended report (the "Interim Report") incorporating comments from various state governments, regulatory agencies and political officials was released in early 1998.

In the Interim Report, the consortium proposed a new competitive trading model, central to which is the creation of a wholesale energy market that would replace the present system of regulated generation prices and rolling supply contracts. The key recommendations of the Interim Report regarding the wholesale energy market include: (i) creation of a new entity, the Independent System Operator ("ISO"), owned jointly by electric utilities, that would be responsible for operational planning, administration of generation and transmission and planning of transmission investment in the electricity sector, (ii) separation of generation and transmission activities and assets currently held under common ownership, (iii) open access to the transmission system by generation and distribution companies and large customers, (iv) private sector participation in the construction and financing of new generating capacity, (v) competitive bidding for the award of new concessions, (vi) promotion of competition in the industry through various measures, including rate regulation, and (vii) continued public sector involvement in the financing of investments in generation, transmission and distribution, with the establishment of a public-sector financing entity to complement or facilitate private-sector finance through co-financing and the provision of guarantees and certain other types of risk coverage.

The Interim Report is being used as a basis for further discussions among the consortium, the MME, Eletrobrás and other parties. Although the Interim Report does not represent government policy or a consensus within the sector, some of its recommendations are already being implemented in the sector. For example, in March 1998 the Federal Government enacted legislation intended to introduce a wholesale energy market for the purchase and sale of electric energy. This legislation provides for the establishment of the ISO, which will take over from GCOI the responsibility for operational planning, supervision and coordination of the electricity generation and transmission systems over a period of approximately nine months, and is expected to regulate, among other things, (i) transmission tariffs and (ii) rules for sale of energy to, and purchase from, markets outside Brazil. Similarly, in March 1998 ANEEL issued regulations that establish limits on the percentage of national or regional market share permitted to any single generation or distribution utility.

It is not possible, however, to predict whether or when the Federal Government, the MME, or ANEEL will adopt further measures implementing the recommendations of the Interim Report.

Tariffs

Until early 1993, two important principles dominated the rate-setting process in Brazil: (i) that electric utilities should be guaranteed an annual real rate of return (the "Guaranteed Return") on service-related assets included in the rate base and (ii) that the rates charged to each class of customer for electric power should be uniform throughout Brazil, notwithstanding the high costs of distribution to remote areas of the country.

In 1971, the Guaranteed Return was set by DNAEE at a level between 10% and 12%, depending on the particular circumstances of each electric utility. A single set of tariffs was applied uniformly to all utility companies, regardless of their cost of service. In cases where the tariffs set by the Federal Government resulted in returns outside the range of 10% to 12%, shortfalls or excesses were credited or debited to an off-balance sheet account with the Federal Government known as the *Conta de Resultados a Compensar* (the "CRC Account"), which was recognized by the Federal Government in the late 1980s as an obligation of the Federal Government to each utility. In general, until 1975 rates were set by the Federal Government at levels that afforded the Guaranteed Return to companies in the sector.

From 1975 through early 1993, however, rates were set at levels that in nearly all cases did not permit electric utilities, including COPEL, to achieve the Guaranteed Return, as the Federal Government sought to use lower rates as a means of combating inflation. Shortfalls between the Guaranteed Return and the actual realized rate of return were accounted for in the CRC Account. The practical effects of this rate-setting and compensation system were significant fluctuations in real terms in the level of rates during the period between 1977 and 1993 and a substantial increase in the CRC Account balances of most utilities, including COPEL.

Brazilian Federal legislation enacted in early 1993 ended the policies of maintaining a Guaranteed Return and uniform electricity rates throughout Brazil. Instead, each utility was required to propose a rate structure based on its particular circumstances for approval by federal regulatory authorities. Automatic monthly adjustments in tariff rates to take account of inflation were provided for in legislation. The legislation also abolished the CRC Accounts and permitted concessionaires with positive CRC Account balances to offset such balances against obligations of such concessionaires to the Federal Government, federal financial institutions and other concessionaires in the electric sector. The balance in COPEL's CRC Account at the date of this legislation was approximately R$1.73 billion.

Beginning in December 1993, the Federal Government introduced the *Real* Plan, pursuant to which any rate increases for public utilities relating to inflation require the approval of the Ministry of Finance. No rate increases were granted to COPEL or Brazil's other public utilities between July 1994 and November 1995 and, since November 1995, rate increases granted have generally been less than the rate of inflation. Consequently, despite the considerable decrease in the rate of inflation resulting from the successful implementation of the *Real* Plan, COPEL's real rates generally have declined during this period. See "Item 9. Management's Discussion and Analysis of Financial Condition and Result of Operations — Tariffs."

Regulatory Charges

If a concession is revoked or is not renewed, all the property and facilities used in connection with the concession revert to the Federal Government against payment of compensation to the electric utility. In 1971, the Brazilian Congress created the RGR Fund, a reserve fund designed to provide funds for such compensation to such utilities. Electric utilities are required to make monthly contributions to the RGR Fund at an annual rate equal to 2.5% of Revertible Assets (defined as fixed assets and inventory, less accumulated depreciation or amortization and certain other specified amounts), provided that no utility is required to contribute more than 3% of total revenues in any one year. If a concession is revoked or not renewed, the utility is entitled to receive a payment from the RGR Fund equal to the value of its Revertible Assets as stated in its balance sheet. In recent years, virtually no concession has been revoked or failed to be renewed, and the RGR Fund has been used principally to finance generating and distribution projects. Pursuant to Federal law, the RGR Fund will be extinguished by 2002.

Electricity distributors in Brazil are required to contribute to the *Conta de Consumo de Combustível* ("CCC Account"), which was created in 1973 for the purpose of creating financial reserves to cover costs of using fossil fuel in thermal power plants (which have higher marginal operating costs than hydroelectric plants) in the integrated system coordinated by GCOI. The CCC Account comprises the contributions paid annually by each utility in the event of a rainfall shortage which would require increased use of thermal plants. The contributions of each utility are calculated on the basis of estimates of the likely cost of fuel to be used by the thermal plants in the succeeding year, with the total being split between the utilities according to their respective likely use of electricity, based on sales. Eletrobrás administers the CCC Account.

COPEL receives reimbursement from the CCC Account for a substantial part of the fuel costs of its thermal plants. In February 1998, the Federal Government provided for the gradual elimination of the CCC Account. For thermoelectric plants existing as of February 6, 1998, the subsidies from the CCC Account generally will be phased out over a three year period beginning in 2002, and thermoelectric plants constructed after that date will not be entitled to such subsidies.

The Federal Government has imposed a fee on privatized generating companies similar to the fee levied on public-sector generating companies in connection with the RGR Fund. As a result of the provisional measure, concessionaires that have been privatized will pay this fee into a new fund, *Uso de Bem Público* (the "UBP Fund"), for five years from the date that they receive their concession. Eletrobrás will receive those payments until December 31, 2002. All subsequent payments to the UBP Fund will be paid directly to the Federal Government.

All hydroelectric utilities in Brazil are required to pay fees to Brazilian states and municipalities for the use of hydrological resources. Such amounts are based on the amount of energy generated by each utility and are paid to the states and municipalities in which a plant is located or in which land was flooded by a plant's reservoir.

Concessions

The Brazilian Constitution provides that the development, use and sale of electricity may be undertaken directly by the Federal Government or indirectly through the granting of concessions. Companies or consortia seeking to construct or operate a generation, transmission or distribution facility in Brazil generally are required to apply for a concession from ANEEL. Accordingly, the Company operates substantially all of its power generation, transmission and distribution facilities pursuant to governmental concessions. The granting and renewal of any such concessions are subject to approval by ANEEL. See "—Concessions."

Planning and Coordination

The expansion of Brazil's electricity systems and the coordination of these systems are controlled by GCPS and GCOI, which include representatives of each of the major concessionary companies, including COPEL. GCPS and GCOI prepare plans for the South and Southeast regions of Brazil taken as a whole. GCPS prepares a 10-year plan, which it revises annually, establishing the number, location, generating capacity and construction schedules of electric plants to be built in each region, based on government forecasts of electric energy demand and the availability of financial resources. The construction of electric power plants and distribution and transmission facilities may be pursued only according to GCPS's 10-year plan. Further, since the allocation of generation and distribution capacity is determined by GCPS in accordance with its plan, electricity supply contracts among the electric power companies within a region are determined in accordance with this allocation scheme. GCOI, through plans developed annually, determines the level of electric power generation of each electric plant and the distribution of electric energy among the electric power companies within each region and between regions in order to ensure an adequate and reliable supply of electric energy and the efficient use of hydroelectric capacity.

In March 1998, the Federal Government introduced a new trading model for the sale and purchase of electric energy, including the establishment of an ISO which will be responsible for the operational planning, supervision and coordination of the sector. See "—Legal and Regulatory Change."

Environmental

The Brazilian Constitution gives both the Federal Government and state governments power to enact laws designed to protect the environment and to issue regulations under such laws. While the Federal Government has power to promulgate environmental regulations, state governments have the power to enact more stringent environmental regulations. Accordingly, most of the environmental regulations in Brazil have been at the state and local level rather than at the level of the Federal Government. An entity that violates applicable environmental laws may be subject to substantial fines and restrictions on otherwise permissible activities.

In order to build a hydroelectric plant, COPEL must comply with a number of environmental safeguards. An environmental impact study is prepared by experts who make recommendations as to how to eliminate, minimize or compensate for the impact of a project on the environment. The study, together with a special environmental report on the project prepared by COPEL, is then submitted to federal and state governmental authorities for analysis and approval. Once approved, the project goes through a three-stage licensing process, which includes a license to begin work, a license to complete the project (which generally will not be granted until detailed environmental programs submitted by the concessionaire have received regulatory approval) and a license to operate the project (which generally will not be granted until such programs have been substantially implemented). In addition, the

Company is required by law to devote 0.5% of the total cost of any investment in new hydroelectric plants to environmental preservation.

COMASE, which is composed of representatives of ANEEL, Eletrobrás and 28 major electric utilities, also is involved in planning and coordination for the Brazilian energy sector. One of the primary roles of COMASE is to advise GCPS on prioritizing projects to ensure that socio-environmental concerns are adequately addressed in expansion plans for the electricity sector.

Privatization Proposals

General

In April 1995, President Fernando Henrique Cardoso announced his intention to continue the privatization program instituted by the Federal Government in 1990, pursuant to which certain government-owned companies, including those in the energy sector, would be sold to the private sector. The Federal Government currently plans to privatize federally-owned distribution and generation facilities, but is expected to maintain control over the transmission of electricity and Brazil's interests in Itaipu. In accordance with constitutional constraints, the Federal Government must maintain ownership of generation and research in the field of nuclear energy. The Brazilian Congress has evaluated several legislative proposals to end certain government monopolies on the ownership of voting shares of companies in the electricity sector, and in 1995 and 1996 the Federal Government sold shares that it had directly or indirectly held in the state-owned power distribution company for the Brazilian state of Espírito Santo and in one of the state-owned power distribution companies for the State of Rio de Janeiro. In addition, the Federal Government is in the process of breaking up Eletrobrás into smaller generation transmission and distribution companies and privatizing such companies. Similarly, in 1996 and 1997 several Brazilian states, including São Paulo, Rio Grande do Sul, Bahia, Mato Grosso, Mato Grosso do Sul and Ceará privatized their electricity assets.

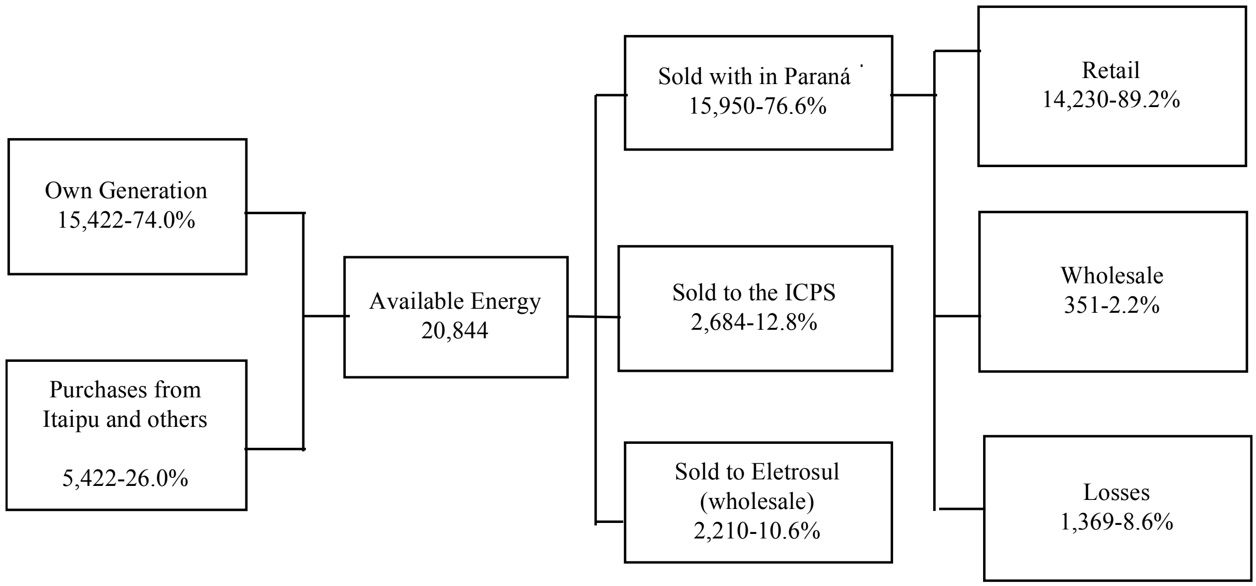
The State of Paraná

Pursuant to state law, the State Government is required to own directly at least 60% of the voting shares of the Company. Legislative approval would be required in order to change the existing requirement with respect to State ownership. At December 31, 1997, the State Government directly and indirectly owned approximately 85% of the Common Shares of the Company. The State Government has not announced any present intention to privatize COPEL.

Operations of COPEL

General

During the year ended December 31, 1997, COPEL produced approximately 79% of the energy it delivered. In addition to the energy it produces, COPEL is required, like certain other Brazilian utilities, to purchase energy from Itaipu at a fixed price in an amount determined by the Federal Government based on COPEL's sales of electricity. See "—Generation—Purchases." Since 1993, the amount of energy produced by COPEL and the amount of COPEL's required purchases, taken together, have exceeded the amount of energy that COPEL has distributed. COPEL has sold most of its excess energy to Eletrosul, a subsidiary of Eletrobrás ("Eletrosul"), and to other utilities in the South of Brazil through a transmission network known as the "Interconnected Power System—South/Southeast" (or "ICPS") that links the states in the South and Southeast of Brazil. COPEL also transfers energy to and from the Interconnected Power System—South/Southeast in response to temporary excesses and shortfalls in its available electricity. The following chart sets forth the sources and uses of electricity delivered by COPEL during 1997. Amounts are in GWh, except percentages.



Electricity sold to Eletrosul is primarily used for resale to other utilities in the states in the South and Southeast of Brazil. This electricity is sold at prices annually agreed upon pursuant to a contract signed between COPEL and Eletrosul and subject to ANEEL's approval, and is not subject to the optimization rate (as defined below) for sales of electricity to the Interconnected Power System—South/Southeast.

Pursuant to regulations governing the Interconnected Power Systems (such as the ICPS) that are designed to optimize electric energy generation in Brazil, electric utilities are required to transfer excess energy into the Interconnected Power Systems. These transfers do not result in cash payments to the transferor. Rather, the transferor receives a credit in Brazilian currency for the energy transferred at a rate (the "optimization rate") which reflects only the operating cost associated with the energy (and does not include profit or return on investment). Credits may be applied against costs of energy received by a utility from the system during times of drought or other conditions that cause a transferor's electricity demand to exceed its output.

The following table sets forth the total electricity generated by COPEL and purchased from Itaipu, Eletrosul and the Interconnected Power System—South/Southeast since 1993 and the average cost to COPEL of such electricity during 1997.

	Year ended December 31,					Average cost for
	1997	1996	1995	1994	1993	1997(1)
			(GWh)			
Electricity generated by COPEL (2)	15,422	18,625	13,097	12,526	11,065	16.6
Electricity purchased from Itaipu	5,410	4,976	4,688	4,268	3,525	28.9
Electricity purchased from others	12	9	12	14	12	5.9
Subtotal	20,844	23,609	17,797	16,808	14,602	n.a.
Net electricity purchased from the ICPS	0	0	0	0	660	n.a.
Total	20,844	23,609	17,797	16,808	15,262	n.a.

(1) In R$ per MWh. The average cost of electricity generated by COPEL includes depreciation and amortization, personnel expense, regulatory charges and costs of third-party services, materials, supplies and other operating expenses to the extent such costs are allocable to COPEL's generation activities.
(2) During the period from 1993 through 1997 the Company had 18 generation facilities in operation. Variations in generation reflect changes in rainfall and expansion of the generating capacity of existing generation facilities.

The following table sets forth the total electricity sold by COPEL to final customers, distributors, Eletrosul and the Interconnected Power System—South/Southeast since 1993 and the average price charged by COPEL for such electricity during 1997.

	Year ended December 31,					Average price for
	1997	1996	1995	1994	1993	1997(1)
			(GWh)			
Electricity delivered to final customers	14,230	13,503	12,661	11,637	11,129	87.5
Electricity delivered to distributors	351	339	318	299	279	28.4
Electricity delivered to Eletrosul	2,210	2,468	2,619	2,435	2,805	23.8
Losses on COPEL's system	1,369	1,086	1,250	1,093	972	n.a.
Net energy (gains) losses for transmission	0	24	(200)	123	77	n.a.
Subtotal	18,160	17,420	16,648	15,587	15,262	77.9
Net electricity delivered to the ICPS	2,684	6,189	1,149	1,221	0	6.6
Total	20,844	23,609	17,797	16,808	15,262	n.a.

(1) In R$ per MWh. Average tariff rate during 1997 after deduction of ICMS Tax.

Generation

General

COPEL operates three major hydroelectric plants, twelve smaller hydroelectric plants and three small thermoelectric plants. Substantially all of the energy produced by COPEL is produced by its hydroelectric plants, which had a combined total of 55 generating units with an installed capacity of 3,340 MW and a firm capacity of 1,473 MW at December 31, 1997. Two thermoelectric plants serve local areas not connected to the Interconnected Power System—South/Southeast, and the third is used primarily to provide backup capacity for the hydroelectric plants.

COPEL generated 15,422 GWh of electricity in 1997, as compared with 18,625 GWh in 1996, a 17.2% decrease. The relatively high amount of power supplied by COPEL in 1996 was due to a period of higher than normal rainfall in the region in 1996 and to a drought in the southeast region of Brazil during 1997. In 1997, the weighted average operating cost of COPEL's generation plants was R$13.42 per MWh.

The following table sets forth certain information relating to COPEL's principal plants in operation at December 31, 1997.

Location	Plant	Installed Capacity	Firm Capacity	Average Operating Cost(l)	Placed in Service	Concession Issued	Concession Expires
Hydroelectric:		*(MW)*	*(MW)*				
Iguaçu	Foz do Areia	1,676	604	9.81	1980	1973	2023
Iguaçu	Segredo	1,260	633	15.75	1992	1979	2029
Capivari	Capivari Cachoeira	252	132	15.59	1971	1971	2021
Chopin	Júlio de Mesquita Filho	50	52	8.60	1970	1966	2026
Arraial....................	Guaricana	36	13.6	15.04	1957	1976	2026
São João.................	Chaminé	18	11.6	17.48	1930	1976	2026
Thermoelectric:	Figueira	20	7	82.08	1963	1969	2019

(1) Calculated by dividing the sum of operating expenses for each plant in 1997 (including personnel expense, electricity purchased for resale, depreciation and amortization net of special monetary correction, regulatory charges, costs of third-party services, materials and supplies and certain other expenses permitted by ANEEL), measured in constant *reais* of December 31, 1997, by the number of MWh generated by the relevant plant during 1997.

Major Plants in Operation

COPEL's three largest plants are Foz do Areia and Segredo, both of which are situated on the Iguaçu River, and Capivari Cachoeira, which is situated on the Capivari River. Foz do Areia, Segredo and Capivari Cachoeira together constitute approximately 95% of COPEL's total installed generating capacity.

Foz do Areia. The Foz do Areia hydroelectric plant, which is the largest hydroelectric plant owned and operated by COPEL, is located on the Iguaçu River, approximately 240 kilometers southwest of the city of Curitiba. The Foz do Areia plant, which began full operations in 1982, has an installed capacity of 1,676 MW and a firm capacity of 604 MW and generated 6,655 GWh in 1997.

Segredo. The Segredo hydroelectric plant is also located on the Iguaçu River, approximately 285 kilometers southwest of the city of Curitiba. The Segredo plant began full operations in 1993. The plant has an installed capacity of 1,260 MW and a firm capacity of 633 MW and generated 6,754 GWh in 1997. In March 1996, a project was completed by which a dam known as the Jordão River Project was linked to the Segredo reservoir, thereby increasing the plant's firm capacity by 56 MW.

Capivari Cachoeira. The Capivari Cachoeira hydroelectric plant, which is the largest underground hydroelectric plant in Brazil, is located on the Capivari River, approximately 50 kilometers north of the city of Curitiba. The Capivari Cachoeira plant, which began full operations in 1971, has an installed capacity of 252 MW and a firm capacity of 132 MW and generated 1,195 GWh in 1997.

Expansion of Generating Capacity

The Company's total volume of electricity sales to final customers grew 7.0% in 1993, 4.6% in 1994, 8.8% in 1995, 6.7% in 1996 and 5.4% in 1997, representing a compound growth rate of 6.5% per annum, as compared to a compound growth rate of 6.3% per annum during the period from 1993 to 1997 for Brazil's South-Southeast-Midwest region (which includes the Company's concession area). GCPS has projected that the average annual growth of demand for electric power during the period from 1997 to 2005 will be approximately 3.5% for the South-Southeast-Midwest region and 5.8% for Paraná. Based on such projections, the energy requirements of the region would grow from 217,467 GWh in 1997 to 305,555 GWh in 2005, which would require an additional 23,500 MW of installed capacity.

To meet the anticipated growth in the Paraná market, the Company has planned capital expenditures for 1998 through 2003 of approximately R$1,143 billion relating to generation projects. The Company invested a total of approximately R$355 million during 1997 in generation projects.

The following table sets forth certain information regarding the Company's planned capital expenditures for its major generation projects for the period from 1998 to 2003.

Facility	Estimated Installed Capacity	Estimated Annual Production	Budgeted Completion Cost	Expected Beginning of Operation	Ownership Percentage	Status
	(MW)	*(GWh)*	*(R$ million)*			
Segredo	1,260	5,545	7.3(1)	In operation	100%	Construction completed
Salto Caxias	1,240	5,170	324.0	December 1998	100%	Concession awarded/ under construction
Machadinho	1,140	4,003	34.7	August 2000	5.2%	Concession awarded
Dona Francisca	125	701	31.8	January 2001	23.0%	Concession awarded
Jordão River	6.5	57	4.7(1)	In operation	100%	Construction completed

(1) Includes the estimated cost of (i) providing compensation to landowners whose property was expropriated in connection with construction of the relevant facility and whose claims have not yet been settled and (ii) implementation of certain environmental programs.

In addition to the projects set forth in the table above, the Company anticipates an additional R$739 million in capital expenditures during the period from 1998 to 2003 related to other new generation projects for which it intends to bid.

Salto Caxias. The Salto Caxias hydroelectric plant, one of the largest hydroelectric generation projects currently under construction in Brazil, is located on the Iguaçu River. When completed, the facility is expected to have an installed capacity of 1,240 MW and a firm capacity of 630 MW. The Company estimates that the plant will be able to produce over 5,000 GWh per year (assuming average hydrological conditions). Work on the project began in 1994, and COPEL anticipates that the first of four generating units will be installed and operational in December 1998 and that the plant will be fully operational by 2000.

At December 31, 1997, COPEL had invested R$713 million on the construction of Salto Caxias and estimates that an additional R$324 million will be necessary to complete construction. COPEL will continue to fund the construction of Salto Caxias with cash from operations and proceeds from financings completed in 1997 and is considering an agreement with Eletrobrás whereby Eletrobrás would fund up to 20% of the cost of constructing Salto Caxias in exchange for a corresponding ownership interest in the project. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." Based on projected completion costs, COPEL expects that the cost per kW of installed capacity for Salto Caxias will be approximately R$836.

Upon the completion of the Salto Caxias project, COPEL may form a subsidiary to hold the assets of the Salto Caxias project and, following the resolution of certain outstanding regulatory uncertainties, particularly with respect to regulations addressing the wholesale market, sell a majority of the voting shares of such subsidiary to private investors. COPEL currently intends that, even if a majority of its interest in Salto Caxias were sold, it would retain (i) management functions, in exchange for a management fee, and (ii) the right to purchase up to 100% of the firm capacity of Salto Caxias.

Machadinho. COPEL owns a 5.2% interest in a consortium of private and public sector companies that plans to construct, finance and operate the Machadinho hydroelectric plant pursuant to a 35-year concession granted in January 1997. The facility is to be built on the Uruguay River on the border between the states of Santa Catarina and Rio Grande do Sul and is expected to have installed capacity of 1,140 MW, of which the consortium will have the right to approximately 958 MW. The consortium members, including COPEL, are currently determining the extent of the firm capacity which the Machadinho plant will have. Based on preliminary projected completion costs (which are subject to adjustment), COPEL estimates that the cost per kW of installed capacity for this plant will be approximately R$554. When completed, the plant will be operated by Eletrosul, which is one of the consortium members. The consortium agreement provides that COPEL will purchase a portion of the output proportional to its interest in the consortium. Preliminary work on the Machadinho project has started and an engineering procurement contract has already been signed. The consortium members estimate the investment necessary to construct the plant at approximately R$668 million, of which COPEL will be responsible for approximately R$35 million.

Dona Francisca. COPEL is a member of a consortium of private and public sector companies that won the bid for the construction and operation of the Dona Francisca hydroelectric plant. COPEL expects to have a 23.0% interest in the consortium. The facility will be built on the Jacuí River in the State of Rio Grande do Sul and is projected to have an installed capacity of 125 MW. The consortium will have the right to use up to 72 MW of such installed capacity, of which COPEL will be entitled to approximately 16 MW. The consortium members, including COPEL, estimate the investment necessary to construct the plant at approximately R$138.0 million, of which COPEL expects to be responsible for approximately R$31.8 million.

Campos Novos. COPEL is a member of a consortium of private and public sector companies that is planning to bid for the construction and operation of the Campos Novos hydroelectric plant. The facility will be built on the Canoas River in the State of Santa Catarina. The facility is projected to have installed capacity of 880 MW, of which the consortium will have the right to use up to 340 MW. Each consortium member is responsible for its pro rata share of the costs of preparing the bid and, if the consortium is the winning bidder, each consortium member will be responsible for its pro rata share of the costs of the project, which have yet to be determined.

Araucária. COPEL is a member of a consortium formed to construct a 444 MW thermal power plant in the city of Araucária in the east of Paraná. The combined-cycle thermal power plant will be fired by natural gas obtained from the gas pipeline currently under construction between Bolivia and Brazil. The members of this consortium include BHP Power Inc., British Gás do Brasil Limitada, EPC Gás do Brasil Corporation and Petrobrás Distribuidora S.A. The estimated cost of this power plant and related links to the transmission system is R$280 million, of which the Company's share is approximately R$56 million. The Araucária plant is expected to begin operating in the first half of 2000.

Projects Under Study. COPEL currently is considering other potential thermal power plants in Pato Branco and São Mateus do Sul, as well as certain small hydroelectric generation projects such as the Salto Natal and Salto Bandeirantes power plants.

Purchases

COPEL purchased 5,410 GWh of electricity from Itaipu in 1997, or approximately 26% of the total electricity generated and purchased by COPEL in 1997. Itaipu is the largest hydroelectric power plant in the world, with an installed capacity of 12,600 MW. Pursuant to a 1973 treaty between Brazil and Paraguay, Brazil purchases a substantial majority of the electricity generated by Itaipu. Electric utilities operating under concessions in the Midwest, South and Southeast regions of Brazil are required by law to purchase Brazil's portion of the energy generated by Itaipu in proportion to the volume of electricity that they historically have provided to customers. The rates at which these companies are required to purchase Itaipu's energy are fixed to cover Itaipu's operating expenses and payments of principal and interest on Itaipu's U.S. dollar-denominated borrowings, as well as the cost of transmitting the power to their concession areas. These rates are denominated in U.S. dollars and have been above the national average cost for bulk supply of power. COPEL's cost for energy purchased from Itaipu in 1997 was approximately 8.5% above the national average for bulk supply of power.

COPEL also sells electricity to, or purchases electricity from, the Interconnected Power System—South/Southeast at a price determined by ANEEL, depending upon whether COPEL has excess energy or an energy shortfall. Prior to 1993, COPEL also purchased electricity from Eletrosul in order to meet the energy needs of its concession area.

Transmission and Distribution

General

Electricity is transferred from power plants to customers through transmission and distribution systems. Transmission is the bulk transfer of electricity from generating facilities to the distribution system by means of the transmission grid. Distribution is the transfer of electricity from the transmission system to final customers. At December 31, 1997, COPEL had 146,619 kilometers of power lines, comprised of 6,282 kilometers of transmission lines and 140,337 kilometers of distribution lines. In 1997, COPEL invested R$48.8 million and R$170.2 million, respectively, in the construction and acquisition of property, plant and equipment in connection with the expansion of its transmission and distribution systems. COPEL's energy losses for 1997 were 8.6%, resulting primarily from losses in both transmission and distribution and, to a lesser extent, from illegal connections.

The following table sets forth certain information concerning the Company's transmission and distribution systems at the dates presented.

	At December 31,				
	1997	**1996**	**1995**	**1994**	**1993**
Kilometers of transmission and subtransmission lines					
230 kV and above	1,324.3	1,282.3	1,262.3	1,262.3	1,262.4
l38 kV	3,746.9	3,542.4	3,465.8	3,465.8	3,461.9
69 kV	1,210.9	1,320.6	1,353.2	1,354.0	1,348.0
Kilometers of distribution lines					
23 kV to 44 kV	70,038.8	68,444.7	66,934.0	64,998.7	63,238.7
Overhead distribution lines (13.8 kV to 23 kV)	70,298.5	68,022.3	65,169.0	62,973.3	61,126.3
Transformer capacity (MVA)					
Transmission substations	13,596	12,828	12,831	12,799	12,862
Distribution substations	1,158	1,175	1,188	1,108	1,043
Distribution transformers (MVA)	5,008	4,698	4,494	4,253	4,048
Total energy losses (%)	8.6%	7.3%	8.8%	8.4%	7.8%

Transmission

COPEL transmits both energy generated by COPEL and energy received from the Interconnected Power System—South/Southeast through its transmission lines. COPEL also has seven industrial customers that are directly supplied with high voltage (at least 138 kV) energy through connections to COPEL's transmission lines. These industrial customers accounted for approximately 11% of COPEL's total volume of energy sold in 1997. In addition to using transmission lines to provide energy to customers in Paraná, COPEL transmits energy through the Interconnected Power System—South/Southeast. Brazilian utilities are not permitted to charge fees for transmission through the Interconnected Power System—South/Southeast.

As part of an effort to provide higher quality service and to lower costs, COPEL has been automating and upgrading its transmission system since 1992. At December 31, 1997, 57 of COPEL's 105 transmission substations had been upgraded, and COPEL expects to upgrade another 14 substations during 1998 at a cost of approximately R$2.5 million. Pursuant to the Power Sector Law, companies with transmission facilities, such as COPEL, will eventually be required to permit third parties to use their transmission facilities upon payment of fees in amounts that have yet to be determined, although this requirement is not yet in effect. In addition, under the new regulatory regime, COPEL will be responsible for the expansion of the transmission grid within its concession area. Accordingly, COPEL has prepared an expansion plan for its transmission grid for the period from 1998 to 2003 that includes, among other things, (i) the construction of 36 new substations having capacities ranging from 69 kV to 500 kV, (ii) the improvement of 81 existing substations, (iii) the upgrading of two substations from 69 kV to 138 kV and (iv) the construction of approximately 1,507 kilometers of new transmission lines with capacities ranging from 69 kV to 500 kV.

COPEL is studying the possibility of participating in a consortium to construct a 500 kV transmission line between northern Argentina and Paraná. This new transmission line, which is expected to have a length of 330 kilometers and a total capacity of approximately 1,000 MW, would allow COPEL to purchase excess energy from Argentine generators for resale in Paraná. COPEL is also studying the possibility of a transmission line to link substations near the Salto Caxias plant to the proposed transmission line from Argentina.

The Company's planned capital expenditures for the years 1998 through 2003 include approximately R$877 million relating to transmission projects.

Two federally-owned companies, Eletrosul and Furnas, also maintain significant transmission systems in Paraná. Furnas is responsible for the transmission of electricity from Itaipu, while Eletrosul has a transmission system linking the states in the south of Brazil to the southeast region of Brazil. In addition to its own transmission system, COPEL supplies energy using Eletrosul's transmission system. COPEL presently is not charged for the use of Eletrosul's system.

Distribution

COPEL's distribution system consists of a widespread network of overhead lines and substations with voltages of 34.5 kV and below. Electricity is supplied to smaller industrial customers at the higher end of the voltage range and is supplied to residential and commercial customers at the lower end of the range. At December 31, 1997, COPEL provided electricity to a geographic area encompassing 99% of Paraná and served approximately 2.6 million customers.

COPEL's distribution network includes over 840,000 power poles carrying approximately 140,337 kilometers of distribution lines. The distribution network includes 266,468 distribution transformers with transforming capacity of 5,008 MVA and 228 distribution substations containing transformers with transforming capacity of 1,158 MVA. During 1997, 81,995 new connections were made, including those achieved through the rural and urban electrification programs. COPEL is implementing compact grid design distribution lines in urban areas where there is a large concentration of trees in the vicinity of the distribution grid. The total extension of the compact grid design distribution lines was increased from 124 km in 1995 to 455 km in 1996. In 1997, 292 km of distribution lines were installed.

System Performance. COPEL determines its energy losses based on the energy distributed by the Company to final customers through its own distribution network. The rate of losses from distribution is generally greater than the rate of losses from transmission for most Brazilian electricity companies. Some Brazilian utilities calculate energy losses as a percentage of energy carried through both the transmission network and the distribution network, which has the effect of reducing a company's stated rate of losses. Management believes that COPEL's conservative approach to determining energy losses provides a more accurate measure of the Company's performance system because, in determining losses, COPEL excludes the Interconnected Power System—South/Southeast and transmission lines operated by Eletrobrás.

During 1997, COPEL had total average energy losses equal to 8.6% of energy sold to final customers and small distributors, compared to losses of approximately 7.3% in 1996 and approximately 8.8% in 1995. Specifically, of COPEL's energy losses (as a percentage of energy sold to final customers) during 1997, 4.8% occurred during distribution and 3.8% occurred during transmission (excluding losses from the transmission lines operated by Eletrobrás).

The following table sets forth information on the duration and number of outages in the Company's distribution network for the periods indicated.

	Year ended December 31,				
	1997	**1996**	**1995**	**1994**	**1993**
Total duration of outages (average hours per customer per year).........	14.2	15.3	16.5	20.3	20.5
Number of outages (per customer per year)......	14.5	16.8	17.5	21.5	22.5

COPEL has implemented a program to automate and improve the maintenance and repair of its transmission and distribution systems. This program has two components: (i) the installation of an advanced computer system that allows COPEL to maintain a complete database of all previous service interruptions anywhere in its transmission network and (ii) the automation of sub-stations.

COPEL's planned capital expenditures for the years 1998 through 2003 include approximately R$740.5 million relating to distribution projects.

Sales to Final Customers. For the year ended December 31, 1997, COPEL supplied approximately 91% of the energy distributed directly to customers in Paraná. COPEL's concession area encompasses approximately 2.6 million final customers located in Paraná and in one municipality in the State of Santa Catarina, to the south of Paraná.

The following table sets forth certain information regarding the Company's volumes of energy sold to, and revenues from sales of energy to, different types of purchasers for the periods indicated. Volume figures and revenue figures are expressed in this table in GWh and in millions of constant December 31, 1997 *reais*, respectively.

	Year ended December 31,									
	1997		1996		1995		1994		1993	
Type of Purchaser	GWh	R$	GWh	R$	GWh	R$	GWh	R$	GWh	R$
Industrial	5,641	473	5,365	460	5,214	468	4,915	507	4,718	370
Residential	3,949	633	3,780	561	3,390	420	2,988	388	2,851	285
Commercial	2,111	304	1,949	288	1,783	274	1,605	272	1,526	201
Rural and others	2,073	179	1,968	166	1,853	177	1,732	183	1,659	148
Public services	456	39	441	38	421	41	397	42	375	31
Interconnected Power System—South/Southeast	2,684	18	6,189	30	1,149	6	1,221	3	n.a.	n.a.
Eletrosul and other distributors(1)	2,561	63	2,807	70	2,937	74	2,735	71	3,084	58
Total(2)	19,475	1,709	22,499	1,613	16,747	1,460	15,593	1,466	14,213	1,093

(1) Includes street lighting, municipalities and government agencies.
(2) Figures in GWh do not include COPEL's own consumption or energy losses.

The following table sets forth the number of final customers of COPEL in each category of final customer at December 31, 1997.

Customer Type	Number of Final Customers
Industrial	40,857
Residential	2,023,102
Commercial	225,650
Rural and others	296,257
Public services	2,838
Total	2,588,704

The average rate paid by COPEL's customers (net of ICMS Tax) was R$87.5 per MWh during 1997, as compared to R$82.8 per MWh during 1996. Residential and commercial customers, who pay relatively high rates compared to industrial customers, accounted for approximately 28% and 15%, respectively, of energy sold to final customers in 1997. Approximately 40% of the energy sold by COPEL to final customers in 1997 was sold to industrial customers, including customers in the pulp and paper processing, chemicals and cement industries. In 1997, COPEL's 20 largest industrial customers accounted for approximately 17.4% of COPEL's energy sold to final customers and approximately 8.8% of COPEL's revenues from sales to final customers. No one customer accounted for more than 1.2% of COPEL's revenues.

Tariffs. COPEL's customers are classified into two different groups ("Group A Customers" and "Group B Customers"), based on the voltage level at which the energy is supplied and on whether they are industrial, commercial, residential or rural. Each customer falls within a certain tariff level defined by law and based on the customer's classification, although some flexibility is available according to the nature of each customer's demand. Under Brazil's regulatory framework, residential customers (other than Low Income Residential Customers (as defined below)) pay the highest tariff rates, followed by commercial and rural customers and then industrial customers, which pay the lowest rates.

Group A Customers receive energy at 2.3 kV or higher. Tariffs for Group A Customers are based on the actual voltage level at which energy is supplied and the time of year and the time of day energy is supplied. Tariffs are comprised of two components: a "capacity charge" and an "energy charge." The capacity charge, expressed in *reais* per KW, is based on the higher of (i) contracted firm capacity and (ii) power capacity actually used. The energy charge, expressed in *reais* per MWh, is based on the amount of electricity actually consumed.

Group B Customers receive energy at less than 2.3 kV. Tariffs for Group B Customers are comprised solely of an energy charge and are based on the classification of the customer, i.e., residential, rural, low voltage industrial, commercial and service customers and municipalities requiring power for street lighting.

In 1996, DNAEE issued regulations providing for discounted rates for certain low income residential customers. A "Low Income Residential Customer" is any customer (i) whose energy consumption is less than 160 KWh per month, (ii) who has monthly earnings of less than three minimum salaries (currently equal to approximately R$390 per month), (iii) whose dwelling has an area of less than 50 square meters and a "low income appearance" (as defined in the relevant regulations of DNAEE) and (iv) who is the sole individual billed at the residence. At year end-1996, based on surveys conducted to verify the status of residential customers, the Company estimated that approximately 55% of residential customers qualified as Low Income Residential Customers entitled to discounted rates. In 1997, however, following additional research, the Company determined that only 15% of residential customers qualified as Low Income Residential Customers. The decrease in the percentage of Low Income Residential Customers recognized by the Company and the corresponding decrease in the percentage of customers benefiting from reduced rates contributed to an increase approximately 13% in revenue from residential customers from 1996 to 1997. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following table sets forth the current minimum discount rates approved by DNAEE and available for each type of Low Income Residential Customer.

Consumption	Discount From Base Tariff
Up to 30 KWh per month	65%
From 31 to 100 KWh per month........	40%
From 101 to 160 KWh per month......	10%

Other Activities

Compagás

COPEL is engaged in the gas distribution industry through its unconsolidated majority-owned subsidiary, Compagás, which was formed in 1994 to distribute piped gas throughout Paraná pursuant to an exclusive concession covering the entire State. At December 31, 1997, the total outstanding capital of Compagás was approximately R$1.4 million, and COPEL owned approximately 51% of the capital stock of Compagás at that date. The minority shareholders of Compagás are Petrobrás Distribuidora S.A., an oil distribution company owned by Petrobrás, and Dutopar Participações Limitada, each of which owns 24.5% of the capital stock of Compagás. The Company projects that its investment in Compagás will not exceed R$36 million through 2002.

Although Compagás is not expected to begin supplying natural gas to customers until the second half of 1998, Compagás has entered into agreements to purchase refined gas from an oil refinery owned by Petrobrás located in the city of Araucária and natural gas from the Bolivia-Brazil gas pipeline. Compagás is focusing its marketing efforts on the replacement of fuel oil and other products as a means of achieving greater energy efficiency.

Cable Television Lines

In order to take advantage of its existing distribution infrastructure, COPEL has entered into contracts with four cable television companies pursuant to which COPEL leases the use of part of its power poles for the placement of cable television lines. The cable companies currently pay R$1.90 per month for each power pole leased. At December 31, 1997, approximately 150,000 power poles were leased for aggregate annual fees of approximately R$3.4 million. In addition, at December 31, 1997, COPEL leased approximately 698,000 power poles to telephone companies for a lease price of R$0.54 per month for each power pole.

Year 2000 Compliance

Many computer systems and software applications, including certain of those owned and operated by the Company, are affected by a programming limitation that may result in their failure to operate or to provide correct information when using dates after December 31, 1999 (the "Year 2000 problem"). Failure to correct all affected systems and applications prior to January 1, 2000 could have an adverse effect on the Company, due to the dependence of the Company and certain suppliers and customers on such systems and applications.

The Company is implementing a plan, developed in 1996, to convert its current computer systems and software applications so as to address the Year 2000 problem. The implementation of this plan is expected to cost approximately R$1.65 million during 1998 and 1999, and the Company expects that the conversion of its systems and applications will be substantially completed by December 1998. During 1999, the Company plans to conduct certain tests to ensure that its plan to convert its systems and applications has been effectively implemented.

There can be no assurance, however, that the Company has identified or will identify all of the systems and applications that may be affected by the Year 2000 problem. Moreover, any failure on the part of the Company's suppliers or major customers to address any Year 2000 issues that may affect them could result in business interruptions that could have an adverse impact on the Company. The Company has contacted such suppliers and customers to determine whether they are taking steps to remedy any existing Year 2000 problem.

Research and Development

COPEL contributes to the research and development activities of many research institutes, including CEHPAR—Centro de Hidráulica e Hidrologia Professor Parigot de Souza, which carries out basic and applied research in the areas of hydraulics and hydrology. Hydraulic model studies generated by CEHPAR have been used in the construction of major hydroelectric power plants throughout Brazil, including Itaipu.

Expenditures on company-sponsored research and development for the years 1997, 1996 and 1995 were approximately 2.6% of the Company's revenues, or R$41.3 million, R$39.8 million and R$35.4 million, respectively.

Concessions

General

COPEL currently has concessions granted by the Federal Government for its generation, transmission and distribution businesses. See "—Regulation—Concessions." As required by the Power Sector Law, the Company applied in 1996 for an extension of all of its existing generation, transmission and distribution concessions, including concessions relating to facilities under construction. In October 1996, the MME approved the extension of the Company's existing generation, distribution and transmission concessions. The related concession contracts, however, have not yet been finalized.

Generation

At December 31, 1997, COPEL had 20 concessions or authorizations for generation facilities. Each of the concessions was renewed by the MME in October 1996, although execution of concession agreements is pending. Concessions representing over 99% of the Company's installed capacity currently in service have remaining terms of over twenty years. Although the Company's concession for its work relating to Salto Caxias expires in 2010, the Company, pursuant to applicable law, has the right to extend the term of that concession for an additional 20 years.

Distribution and Transmission

At December 31, 1997, COPEL had concessions for distribution and transmission covering 393 of the 399 municipalities in Paraná and one municipality in the State of Santa Catarina. Pursuant to such concessions, COPEL supplied electricity to approximately 98% of the total area of Paraná. In October 1996, DNAEE renewed COPEL's distribution concessions for a period of 20 years, dating from July 1995. The Company's transmission concessions will be extended for periods of between 20 years and 30 years based on whether the lines are used for generation or distribution. COPEL has requested that the concessions permit it to automatically add certain costs to base tariffs and to apply for tariff increases in the event it experiences certain other cost increases. Concession agreements will not be executed, however, until the wholesale energy market is finalized and the negotiations regarding COPEL's distribution concessions are concluded. See "—The Brazilian Electricity Sector—Regulation—Concessions."

In addition, pursuant to the Power Sector Law and related regulations, distribution companies were required to submit to ANEEL, not later than July 8, 1996, a plan for "regrouping" their operations according to specified technical and economic guidelines, and to create consolidated concessions in accordance with those guidelines, in order to receive extensions of distribution concessions. The Company has requested that ANEEL consolidate all of the Company's existing distribution concessions into a single concession, but this request has not been granted to date.

There exists substantial uncertainty as to when the concession agreements will be executed, what the terms of such agreements will be and the extent, if any, to which changes in the regulatory structure will give rise to further changes in the terms of the concessions.

Competition

COPEL has been granted concessions to generate and distribute electricity in an area comprising substantially all of the area of Paraná and does not face competition from the three small utilities that have been granted concessions for the remainder of the State. As a result of recent legislation, however, it may become possible for other suppliers to offer electricity to COPEL's existing customers at prices lower than those currently charged by COPEL. Furthermore, pursuant to the Concessions Law, distribution and transmission companies will be required to permit the use of their lines and ancillary facilities for the distribution and transmission of electricity by and to third parties upon payment of a toll (the methodology for the regulation of which has yet to be defined by the Federal Government) and to enable utilities and Unregulated Customers to contract with other suppliers for electricity. As of December 31, 1997, COPEL had 10 customers that qualified as Unregulated Customers. Such customers represented approximately 14.7% of COPEL's total volume of electricity sold to final customers in the month of December 1997, and approximately 5.9% of COPEL's total revenues for that month.

In the generation business, IPPs may be granted concessions to build or manage generation facilities in Paraná. Further, certain clients may elect to bid for concessions pursuant to the Concessions Law in order to obtain the right to generate electricity for their own use, in which case any such client would be deemed a self-producer.

In the transmission business, the new legislation provides for competitive bidding for transmission concessions that will form part of the wholesale energy market. To the extent that new participants are granted transmission concessions in COPEL's concession area, COPEL may face significant competitive pressures to charge transmission rates below those it would otherwise be entitled to charge.

In addition, COPEL may face competition in the distribution of energy to large industrial customers. New and existing large customers of COPEL now have several alternatives, including (i) installing their own lines directly from a generation company, (ii) paying a toll to a distribution and transmission company while arranging for a supply contract with a generation company, (iii) negotiating a contract with a distribution company and (iv) self-generation. COPEL is a public sector company which will face competition from international private sector operators in the new environment, many of which have more experience in deregulated markets than COPEL.

Brazilian law requires that all of COPEL's concessions be subject to a competitive bidding process upon their expiration. COPEL intends to apply for the extension of each concession upon its expiration. COPEL may face significant competition from third parties in bidding for renewal of such concessions or for any new concessions. The acquisition of certain concessions by third parties or by certain large industrial clients could adversely affect COPEL's results of operations.

Environmental Issues

COPEL's construction and operation activities are subject to comprehensive federal, state and municipal environmental regulation. COPEL has created an Advisory Committee that is responsible for the implementation of COPEL's environmental policies through environmental impact studies and related programs. Management believes that COPEL is in substantial compliance with all relevant environmental regulation.

In connection with the construction of the Segredo plant, COPEL was one of the first Brazilian companies to prepare a special environmental report and to implement a major environmental program for the construction of a hydroelectric plant. The construction of the Segredo plant involved the development of 26 different environmental programs in order to eliminate, minimize or compensate for any eventual environmental impact. The cost of implementing such programs amounted to approximately R$10 million, representing 1.1% of the cost of the entire project.

COPEL has also developed and is implementing a major environmental program in connection with the construction of the Salto Caxias plant. The cost of this program is expected to amount to approximately R$317 million (which is included in COPEL's budget for Salto Caxias). Of that amount, approximately R$140 million relates to the resettlement of individuals from areas where reservoirs are planned, approximately R$95 million relates to payments by COPEL for condemnation of land and approximately R$27.8 million relates to social welfare programs for resettled parties and environmental rehabilitation.

The Condemnation Process

Although COPEL receives concessions from the Federal Government to construct hydroelectric projects, it does not receive title to the land on which the projects are located. Land required for the implementation of COPEL's projects may only be condemned pursuant to specific legislation. COPEL generally negotiates with communities and individual owners occupying the land so as to resettle such communities in other areas and to compensate individual owners. COPEL's policy of resettlement and compensation generally has resulted in the settlement of condemnation disputes. At December 31, 1997, COPEL estimated its reimbursement liability with respect to properties condemned to be approximately R$4.2 million.

Employees

COPEL's workforce at December 31, 1997 consisted of 7,991 employees, compared with 8,602 employees at December 31, 1996 and 8,836 employees at December 31, 1995, reflecting COPEL's efforts to improve operating efficiency by reducing the size of its workforce through attrition and early retirement and early termination programs.

The following table sets forth the number of employees in each area of COPEL's operations at December 31, 1997.

Area	Number of employees
Distribution	3,834
Engineering/Construction	648
Administrative	1,355
Generation/Transmission	2,097
Other	57
Total	7,991

Virtually all of COPEL's employees are covered by union agreements that are renegotiated annually. As of December 31, 1997, the Company had negotiated and signed labor agreements with unions representing approximately 7% of the Company's workforce. The Company currently is negotiating labor agreements with unions representing the remaining 93% of the Company's workforce, the primary union being the *Sindicato dos Trabalhadores nas Concessionárias de Energia Elétrica e Alternativa no Estado do Paraná*, which represents approximately 55% of the Company's workforce. The Company is currently appealing to the Superior Labor Court (*Tribunal Superior do Trabalho*) a lower court judgment awarding the Company's employees a wage increase of 11.6%, effective as of October 1997. If the Company is unsuccessful in its appeal, the Company estimates that it will have a liability of R$8.3 million for back wages from October 1997 through mid-March 1998.

COPEL has undertaken a number of initiatives to provide benefits for its employees, the most significant of which is the *Fundação COPEL de Previdência e Assistência Social* ("Fundação COPEL"), whose primary purpose is to supplement the retirement and health benefits granted to COPEL's employees by the Federal Government. Contributions to Fundação COPEL are made both by COPEL, as the sponsor, and the employees, as beneficiaries, based on actuarial studies periodically prepared by an independent actuary, to cover future cash payments to the beneficiaries. In accordance with the rules governing Fundação COPEL, COPEL is required to fund any deficiencies in the reserves necessary to pay such benefits to employees.

Pursuant to applicable law and regulations governing employee profit sharing plans in Brazil, COPEL has allocated approximately R$24.5 million for distribution among its employees in respect of 1997 profits, according to certain criteria negotiated between COPEL and its employees. Employees are entitled to participate in net profits in years when the ratio of net profits to net worth is at least 3.5%. The amount of the employees' participation in net profits is based on various performance criteria, and is negotiated between officers of the Company and employee representatives, subject to the approval of the Board of Directors and the shareholders prior to distribution.

Insurance

COPEL maintains insurance for fire, accidents involving third parties and certain other risks associated with the transportation and assembly of equipment. COPEL does not have insurance coverage for business interruption risk because it does not believe that the high premiums are justified by the low risk of major interruption, considering the energy available in the Interconnected Power System—South/Southeast. COPEL believes that it maintains insurance that is both customary in Brazil and adequate for the businesses in which it is engaged.

Item 2. ***Description of Property***

The principal properties of COPEL consist of the generation, transmission and distribution facilities described in "Item 1. Description of Business—Operations of COPEL." Of the net book value of total property, plant and equipment of COPEL at December 31, 1997 (including construction in progress), generation facilities represented 53.1%, transmission and distribution facilities represented 37.5% and other miscellaneous property and equipment represented 9.4%. The Company believes that its facilities generally are adequate for its present needs and suitable for their intended purposes.

Although COPEL receives concessions from the Federal Government to construct hydroelectric projects, it does not receive title to the land underlying the projects. Land required for the implementation of COPEL's projects may only be condemned pursuant to specific legislation. See "The Brazilian Electricity Sector—Regulation—Concessions."

Item 3. ***Legal Proceedings***

COPEL is the defendant in several lawsuits brought by industrial customers alleging that increases in electricity tariffs during a price freeze imposed by the Federal Government from March through November 1986 (the "Cruzado Period") were illegal. COPEL had officially decided on the increases before the freeze took effect, but the relevant publication did not appear until after the effective date of the freeze. The plaintiffs further allege that all COPEL's tariff increases after the Cruzado Period were illegal in part because they included the Cruzado Period increases in the amounts that served as the basis for calculating the further increases. In the aggregate, the claims amount to approximately R$8.6 million. At December 31, 1997, COPEL had reserved R$8.5 million for these claims. See Note 29(a) to the Financial Statements.

If all the companies that were industrial customers of COPEL during the Cruzado Period were to bring suit against COPEL and receive favorable judgments with respect to the tariff increases during the Cruzado Period, COPEL estimates that the relevant aggregate liability would be approximately R$24 million. COPEL has not sought to quantify the cost to COPEL if all such customers sued and won favorable judgments regarding tariff increases after the Cruzado Period, but COPEL's management is of the view that such circumstances could have a material adverse effect on the financial condition and results of operations of COPEL.

COPEL is actively contesting all the claims that have been brought regarding these rate increases. Some of the cases have been decided at the trial court level in favor of COPEL, and some have been decided in favor of the customers. All the cases that have been decided have been appealed, and there have not as yet been any judgments on appeal. There has, however, been a judgment in an appellate proceeding involving two utilities other than COPEL in which the Superior Tribunal of Justice ruled that the plaintiffs were not entitled to reimbursement for tariff increases introduced after the Cruzado Period.

COPEL is also a party to certain lawsuits pursuant to which it is disputing the legality or constitutionality of certain federal taxes and social contributions assessed against COPEL. There has been no final decision in any of these suits. COPEL believes that none of these taxes and social contributions is due. COPEL has, however, fully reserved for these contingent liabilities, in the aggregate amount of R$138.8 million at December 31, 1997. See Notes 21 and 29 to the Financial Statements.

COPEL is currently appealing to the Superior Labor Court (*Tribunal Superior do Trabalho*) a lower court judgment awarding COPEL's employees a wage increase of 11.6%, effective as of October 1997. If COPEL is unsuccessful in its appeal, COPEL estimates that it will have a liability of up to R$8.3 million for back wages from

October 1997 through mid-March 1998. See "Item 1. Description of Business—Employees." At March 31, 1998, COPEL had reserved approximately R$6.0 million against this contingent liability.

COPEL is also a party to actions before various courts and governmental agencies involving environmental, tax, civil and labor claims arising in the ordinary course of business totaling approximately R$73.8 million, including certain actions with respect to which COPEL considers the probability of loss to be remote. Several of these suits involve claims by contractors that rendered services in connection with the construction of the Segredo facility. In two of the actions related to the Segredo facility, the lower courts have ruled against COPEL and COPEL has appealed; no decisions have been rendered in the others. At December 31, 1997, COPEL had reserved R$43.5 million for claims of contractors related to the Segredo facility. See Notes 22 and 29 to the Financial Statements.

A final judgment in favor of COPEL was rendered by the Brazilian Supreme Court in October 1997 in connection with a group of lawsuits brought by labor unions and individual employees seeking compensation for lost wages resulting from implementation of an anti-inflationary plans in early 1989.

Item 4. ***Control of Registrant***

Since 1966, the State Government has owned the majority of COPEL's Common Shares and exercised control over COPEL. Pursuant to state law, the State Government must own at least 60% of the Common Shares. The State Government directly owns 60%, and indirectly owns an additional 25%, of the Common Shares.

The following table sets forth certain information regarding the ownership of COPEL's Common Shares at December 31, 1997.

Shareholder	Common Shares	% of total
State Government....................................	87,019,373,000	60.0
Paraná Investimentos (1)..........................	36,308,000,000	25.0
All directors and officers as a group	18	0.0

(1) The State Government holds a controlling interest in this company.

Item 5. ***Nature of Trading Market***

The Company's Class B Shares are listed for trading under the symbol "CPL6" on the *Bolsa de Valores de São Paulo* (the "São Paulo Stock Exchange"), which is the principal trading market for the Class B Shares, and on the *Bolsa de Valores do Rio de Janeiro* (the "Rio de Janeiro Stock Exchange") and the *Bolsa de Valores do Paraná* (the "Paraná Stock Exchange") under the symbol "CPEL BN."

In the United States, the Class B Shares trade primarily in the form of American Depositary Receipts (the "ADRs") evidencing ADSs, each of which represents 1,000 Class B Shares, issued by The Bank of New York, as depositary (the "Depositary") pursuant to a deposit agreement, dated March 21, 1996 and amended and restated as of July 29, 1997, among COPEL, the Depositary, and the registered holders and beneficial owners from time to time of ADRs.

Between March 1996 and July 1997, the ADRs traded in the U.S. over-the-counter market, and dealers' prices for the ADRs were quoted in the "pink sheets" published by the National Quotations Bureau, Inc. Since July 29, 1997, the ADRs have been listed on the NYSE under the symbol "ELP." At December 31, 1997, there were 7 record holders of ADRs.

At December 31, 1997, seven record holders of ADRs, representing approximately 28 million ADSs or approximately 21.7% of COPEL's outstanding Class B Shares, had addresses in the United States. It is not practicable for COPEL to determine the number of Class B Shares, including Class B Shares held in the form of ADRs, beneficially owned by U.S. persons.

Market Price Information

The table below sets forth, for the periods indicated, the high and low closing sales prices for the Class B Shares on the São Paulo Stock Exchange, expressed in historical *reais*, and for the ADRs on the NYSE.

	Closing sales prices			
	São Paulo Stock Exchange		New York Stock Exchange(2)	
	Nominal *reais* per 1,000 Class B Shares		U.S. dollars per 1,000 Class B Shares	
	High	Low	High	Low
1997(1)				
First quarter	15.90	12.10	n.a.	n.a.
Second quarter	21.06	19.95	n.a.	n.a.
Third quarter	25.50	15.50	19.25	14.38
Fourth quarter	20.00	10.50	18.13	9.63

(1) The Class B Shares were not publicly traded prior to January 17, 1997.
(2) The ADRs were not traded on the NYSE prior to July 29, 1997.

Trading on the Brazilian Stock Exchanges

Of Brazil's nine stock exchanges, the São Paulo Stock Exchange is the most significant, accounting for approximately 93% of the value of the equity securities traded on all Brazilian stock exchanges in 1997. At December 31, 1997, the market capitalization of the ten largest issuers listed on the São Paulo Stock Exchange was R$139.4 billion. During 1997, daily trading volume on the São Paulo Stock Exchange averaged approximately R$684.4 million. In 1997, the ten most actively traded issues represented approximately 82% of the total trading in the cash market on the São Paulo Stock Exchange. In 1997, COPEL accounted for approximately 0.7% of the total trading in the cash market on the São Paulo Stock Exchange.

Although all the outstanding shares of an exchange-listed company may trade on a Brazilian stock exchange, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons that rarely trade their shares. This is particularly true in the case of mixed-capital companies, such as COPEL, of which more than half of the voting shares must by law be owned by Brazilian governmental entities. For this reason, data showing the total market capitalization of Brazilian stock exchanges tends to overstate the liquidity of the Brazilian equity securities market.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are principally governed by Law No. 6,385 of 1976, as amended (the "Brazilian Corporation Law"), and by regulations issued by the CVM and the *Conselho Monetário Nacional* (the "National Monetary Council"). These laws and regulations, among others, provide for disclosure requirements, restrictions on insider trading and price manipulation and protection of minority shareholders. Nonetheless, the Brazilian securities markets are not as highly regulated and supervised as U.S. securities markets.

Item 6. *Exchange Controls and Other Limitations Affecting Security Holders*

There are no restrictions on ownership of Class B Shares by individuals or legal entities domiciled outside Brazil. Pursuant to current laws of the State of Paraná, the State Government is required to own directly at least 60% of the Common Shares. Not more than two-thirds of the capital stock of COPEL may consist of non-voting preferred shares such as the Class B Shares.

As a mixed-capital company rendering public services, COPEL is not eligible for bankruptcy pursuant to Brazilian corporate law, although those of its assets that are not directly linked to providing public services are subject to seizure and attachment by creditors, and the State Government, for so long as it remains COPEL's controlling shareholder, is contingently liable for the Company's obligations. Due to their public nature, assets considered essential to continue providing electric energy to the public are not subject to seizure and attachment.

The right to convert dividend payments and proceeds from the sale of securities into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the *Banco Central do Brasil* (the "Central Bank"). Restrictions on the remittance of foreign capital abroad could hinder or prevent Banco Itaú S.A. (the "Custodian"), which acts as custodian on behalf of the Deposition with respect to the ADSs, or holders who have exchanged ADRs for Class B Shares from converting dividends, distributions or the proceeds from any sale of such Class B Shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. Holders of ADSs could be adversely affected by delays in, or refusal to grant any, required government approval for conversions of Brazilian currency payments and remittances abroad of the Class B Shares underlying the ADSs.

Under Annex IV to Resolution No. 1,289 of the National Monetary Council (the "Annex IV Regulations"), qualified foreign investors registered with the CVM and acting through authorized custody accounts managed by a local agent may buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of capital registration for each transaction. Investors under the Annex IV Regulations are also entitled to favorable tax treatment. See "Item 7. Taxation—Brazilian Tax Considerations."

Resolution No. 1,927 of the National Monetary Council, which is the restated and amended Annex V to Resolution No. 1,289 (the "Annex V Regulations"), provides for the issuance of depositary receipts in foreign markets representing shares of Brazilian companies. The ADSs have been approved under the Annex V Regulations by the Central Bank and the CVM. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADSs will be entitled to favorable tax treatment. See "Item 7. Taxation—Brazilian Tax Considerations."

A certificate of foreign capital registration has been issued in the name of the Depositary with respect to the ADSs and is maintained by the Custodian on behalf of the Depositary. Pursuant to the certificate, the Custodian and the Depositary are able to convert dividends and other distributions with respect to the Class B Shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for Class B Shares, such holder will be entitled to continue to rely on the Depositary's certificate of foreign capital registration only for five business days after such exchange, after which such holder must seek to obtain its own registration certificate with the Central Bank. Thereafter, unless the Class B Shares are held pursuant to the Annex IV Regulations by a duly qualified investor, such holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such Class B Shares, and such holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See "Item 7. Taxation—Brazilian Tax Considerations."

There are two principal foreign exchange markets in Brazil: the commercial exchange rate market (the "Commercial Rate Market") and the floating exchange rate market (the "Floating Rate Market"). Most trade and financial foreign-exchange transactions, including transactions relating to the purchase or sale of shares or the payment of dividends with respect to shares or ADRs, are carried out on the Commercial Rate Market. Purchases of foreign currencies in the Commercial Rate Market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

The Federal Government is authorized by law to impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance in Brazil's balance of payments. For approximately nine months in 1989 and early 1990, the Federal Government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Federal Government directives. There can be no assurance that the Federal Government will not impose similar restrictions on foreign repatriations in the future.

Item 7. *Taxation*

There is no income tax treaty between Brazil and the United States. The tax authorities of the two countries held discussions that did not, but may eventually, culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of Class B Shares or ADSs.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of Class B Shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of Class B Shares, which has registered its investment in Class B Shares with the Central Bank as a U.S. dollar investment (in each case, a "non-Brazilian holder"). It is based on Brazilian law as currently in effect. Any change in such law may change the consequences described below.

The following discussion does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult such holder's own tax adviser concerning the Brazilian tax consequences of an investment in Class B Shares or ADSs.

Taxation of Dividends

As a result of tax legislation adopted on December 26, 1995, dividends calculated based on the profits accrued since January 1, 1996, including dividends paid in kind or paid by the Company in respect of Class B Shares underlying the ADSs, are exempt from withholding tax. Stock dividends relating to profits generated prior to December 31, 1995 are not subject to withholding tax in Brazil unless the stock is redeemed by the Company within five years from such distribution or the non-Brazilian holder sells the stock in Brazil within this five-year period.

Taxation of Interest on Capital

Pursuant to Brazilian law, COPEL may pay interest on capital in lieu of dividends as an alternative form of making distributions to shareholders. A payment of interest on capital may be treated as a deductible expense for tax purposes, provided that it does not exceed the lesser of (i) the product of (A) a certain long-term interest rate determined by the Central Bank, multiplied by (B) total shareholders' equity (determined in accordance with the Brazilian Corporation Law), less certain deductions prescribed by the Brazilian Corporation Law and (ii) the greater of (A) 50% of current net income (before taking into account such distributions or tax deductions) and (B) 50% of retained earnings.

Payments of interest on capital to shareholders are subject to 15% withholding tax, and Brazilian law does not require COPEL to gross up shareholders with respect to such withholding taxes except to the extent that any amount distributed in the form of interest on capital (net of such withholding taxes) plus the amount, if any, distributed as dividends in a given year does not equal or exceed the Mandatory Distribution (as defined in "Item 8. Selected Financial Data—History of Dividend Payments—General").

Taxation of Capital Gains

Gains realized outside Brazil by a non-Brazilian holder on the disposition of ADSs to another non-Brazilian holder are not subject to Brazilian tax.

The deposit or withdrawal of Class B Shares in exchange for ADSs or of ADSs in exchange for Class B Shares is not subject to Brazilian tax. On receipt of the underlying Class B Shares, a non-Brazilian holder who qualifies under the Annex IV Regulations will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below under "—Registered Capital."

Non-Brazilian holders are not subject to tax in Brazil on gains realized on sales of Class B Shares that occur abroad to persons who are not resident in Brazil or on the proceeds of a redemption of, or a liquidating distribution with respect to, Class B Shares. Non-Brazilian holders are generally subject to a withholding tax imposed at a rate of 15% on gains realized on sales or exchanges of Class B Shares that occur in Brazil to or with a resident of Brazil outside the Brazilian stock exchanges. Non-Brazilian holders are subject to income tax at a rate of 10% on gains realized on sales or exchanges in Brazil of Class B Shares that occur on a Brazilian stock exchange unless such a sale is made within five business days of the withdrawal of such stock in exchange for ADSs and the proceeds thereof are remitted abroad within such five-day period, or unless such a sale is made under the Annex IV Regulations by certain qualified institutional non-Brazilian holders that register with the CVM. These rules also apply to the sale in Brazil of ADSs by a non-Brazilian holder to a resident of Brazil. "Gains realized" as a result of a transaction on a Brazilian stock exchange by an investor under the Annex IV Regulations are not subject to tax. Such "gain realized" is the difference between the amount, in Brazilian currency, realized on the sale or exchange and the acquisition cost, without any correction for inflation, of the shares sold. The "gain realized" as a result of a transaction that occurs off a Brazilian stock exchange will be calculated based on the foreign currency amount registered with the Central Bank and taxed at a rate of 15%. There is no assurance that the current preferential treatment for holders of ADSs and non-Brazilian holders of Class B Shares under the Annex IV Regulations will continue in the future or that it will not be changed in the future. Reductions in the rate of tax provided for by Brazil's tax treaties do not apply to the tax on gains realized on sales or exchanges of Class B Shares.

The sale or assignment of preemptive rights is treated differently for purposes of taxation in Brazil depending on (i) whether the sale or assignment is made by the Depositary or by the investor, and (ii) whether the transaction occurs on a stock exchange. Although sales or assignments made by the Depositary on a stock exchange are not subject to taxation, other sales or assignments may be subject to taxation at a rate of up to 15%.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of Class B Shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled or resident within a Brazilian state to individuals or entities resident or domiciled within such state. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of Class B Shares or ADSs.

Pursuant to Presidential Decree No. 2,219, of May 2, 1997, *reais* resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including in connection with an investment in the Class B Shares, the ADSs and those made under Annex IV Regulations) and the conversion into foreign currency of proceeds received by a non-Brazilian holder are subject to a financial transaction tax ("IOF"). However, the IOF tax rate is currently zero. Under Law No. 8,894 of June 21, 1994, the IOF tax rate may be increased at any time to a maximum of 25% by a decision of the Minister of Finance, but only in relation to future exchange transactions. If the rate of IOF tax is increased, however, holders of the Company's securities may be liable for payment of such taxes.

On August 15, 1996, the Brazilian Congress approved Constitutional Amendment No. 12 creating a new temporary tax *(Contribuição Provisória sobre Movimentação ou Transmissão de Valores e de Créditos e Direitos de Natureza Financeira*, the "CPMF") of 0.20%, which may be raised at any time by the Federal Government up to a ceiling of 0.25%, on debits to accounts held with banks and other financial institutions, including withdrawals of financial investments, and money transfers which are applied to such transactions occurring on or after January 25, 1997. The funds arising from the CPMF are to be applied exclusively to the public health system. The CPMF, which is imposed on Brazilian issuers of securities, is scheduled under current law to expire in January 1999 and may be collected under the terms of the constitutional amendment for a maximum of two years only. Such tax should not affect the non-resident investor, unless such investor holds a bank account in Brazil.

Registered Capital

The amount of an investment in Class B Shares held by a non-Brazilian holder that qualifies under Annex IV Regulations and obtains registration with the CVM, or by the Depositary representing such holder, is eligible for registration with the Central Bank; such registration (the amount so registered is referred to as "Registered Capital") allows the remittance outside Brazil of foreign currency, converted at the Commercial Market Rate, acquired with the proceeds of distributions on, and amounts realized with respect to dispositions of, such Class B Shares. The Registered Capital for each Class B Share purchased and deposited with the Depositary will be equal to its purchase price (in U.S. dollars). The Registered Capital for a Class B Share that is withdrawn upon surrender of an ADS will be the U.S. dollar equivalent of (i) the average price of a Class B Share on the Brazilian stock exchange on which the greatest number of such shares was sold on the day of withdrawal, or (ii) if no Class B Shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of Class B Shares were sold in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar value of Class B Shares is determined on the basis of the average of the U.S. dollar/*real* commercial selling rates quoted by the Central Bank Information System (the "Commercial Market Rate") on such date (or, if the average price of Class B Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of Class B Shares).

A non-Brazilian holder of Class B Shares may experience delays in effecting such registration which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

United States Tax Considerations

The statements regarding U.S. tax law set forth below are based on U.S. law as in force on the date of this Annual Report, and changes to such law subsequent to the date of this Annual Report may affect the tax consequences described herein. This summary describes the principal tax consequences of the acquisition, ownership and disposition of Class B Shares or ADSs, but it does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to acquire Class B Shares or ADSs. This summary applies only to purchasers of Class B Shares or ADSs who will hold the Class B Shares or ADSs as capital assets and does not apply to special classes of holders such as dealers in securities, traders in securities electing to mark to market, holders whose functional currency is not the dollar, holders of 10% or more of the shares of the Company, tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax and persons holding Class B Shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

Each holder should consult such holder's own tax advisor concerning the overall tax consequences to him, including the consequences under foreign state and local laws, of an investment in Class B Shares or ADSs.

In this discussion, references to "ADSs" also refer to shares of Class B Shares, references to a "U.S. holder" are to a holder of an ADS (i) that is a citizen or resident of the United States of America, (ii) that is a corporation organized under the laws of the United States of America or any state thereof, or (iii) that is otherwise subject to United States federal income taxation on a net basis with respect to the ADS (including a nonresident alien or foreign corporation that holds, or is treated as holding, an ADS in connection with the conduct of a U.S. trade or business), and references to a "non-U.S. holder" are to a holder that is a non-resident alien individual or foreign corporation.

For purposes of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), holders of ADRs will be treated as owners of the ADSs represented by such ADRs and a holder's initial tax basis in an ADS generally will be such holder's cost for the ADS.

Taxation of Dividends

A U.S. holder will recognize ordinary dividend income for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property distributed by COPEL as a dividend to the extent that such distribution is paid out of current or accumulated earnings and profits ("e&p") of COPEL, as determined for U.S. federal income tax purposes, when such distribution is received by the Custodian. To the extent that such a distribution exceeds COPEL's e&p, it will be treated as a non-taxable return of capital, to the extent of the U.S. holder's tax basis in the ADS, and thereafter as capital gain (provided that the ADS is held as a capital asset). The amount of any distribution for U.S. federal income tax purposes will include the amount of Brazilian tax withheld on the amount distributed and the amount of a distribution paid in *reais* will be measured by reference to the exchange rate for converting *reais* into dollars in effect on the date the distribution is received by the Custodian. If the Custodian does not convert such *reais* into U.S. dollars on the date it receives them, it is possible that the U.S. holder will recognize foreign currency loss or gain when the Custodian (or Depositary) does convert such *reais* into U.S. dollars. Dividends paid by COPEL will not be eligible for the dividends received deduction allowed to corporations under the Code.

Distributions out of e&p with respect to the ADSs generally will be treated as dividend income from sources outside of the United States and generally will be treated separately along with other items of "passive" (or, in the case of certain U.S. holders, "financial services") income for purposes of determining the credit for foreign income taxes allowed under the Code. Subject to certain limitations, the Brazilian withholding tax paid in connection with any distribution with respect to the ADSs may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder if such U.S. holder elects for that year to credit all foreign income taxes, or such Brazilian withholding tax may be taken as a deduction. Under new rules enacted by Congress in 1997 and other guidance recently released by the U.S. Treasury, foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial. U.S. holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares to holders with respect to their ADSs that are made as part of a *pro rata* distribution to all shareholders of COPEL generally will not be subject to U.S. federal income tax.

A non-U.S. holder generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to ADSs that are treated as dividend income for U.S. federal income tax purposes, and generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to ADSs that are treated as capital gain for federal income tax purposes unless such holder would be subject to U.S. federal income tax on gain realized on the sale or other disposition of ADSs, as discussed below.

Taxation of Capital Gains

Upon the sale or other disposition of an ADS, a U.S. holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized in consideration for the disposition of the ADS (excluding the amount of any distribution paid to the Custodian but not distributed by the Custodian prior to the disposition) and the U.S. holder's tax basis in the ADS. Such gain or loss generally will be subject to U.S. federal income tax and will be treated as capital gain or loss. The deductibility of capital losses is subject to certain limitations. Gain realized by a U.S. holder on a sale or disposition of ADSs generally will be treated as U.S. source income. Consequently, in the case of a disposition of Class B Shares in Brazil (which unlike a disposition of ADSs, would be taxable in Brazil), the U.S. holder might not be able to use the foreign tax credit for Brazilian tax imposed on gain.

A non-U.S. holder of an ADS will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of an ADS unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States, or (ii) such holder is an individual who is present in the United States of America for 183 days or more in the taxable year of the sale and certain other conditions are met.

Item 8. ***Selected Financial Data***

The selected financial and statistical data of the Company presented in the following table should be read in conjunction with, and are qualified in their entirety by reference to, the Company's Financial Statements and the notes thereto appearing elsewhere herein. The selected financial information for each of the years in the four-year period ended December 31, 1997 set forth below has been derived from the Company's Financial Statements, which have been audited by Arthur Andersen S/C, independent public accountants, as indicated in their report included elsewhere herein, and such information has been stated in constant *reais* of December 31, 1997.

The Company's Financial Statements are prepared in accordance with Brazilian GAAP, which differ in certain important respects from U.S. GAAP. See "Presentation of Financial Information" and Note 35 to the Financial Statements. *Real* amounts have been translated into U.S. dollars solely for the convenience of the reader at the rate of R$1.1165 per US$l.00, the Noon Buying Rate on December 31, 1997.

The Financial Statements and, unless otherwise specified, all financial information included in this Annual Report, have been restated to recognize certain effects of inflation and expressed in constant *reais* of December 31, 1997 purchasing power. Such restatement has been effected in accordance with Brazilian GAAP using the integral restatement method (*correção integral*), which was required by the CVM to be used for financial statements of public corporations through December 31, 1995. Inflationary gains or losses on monetary assets and liabilities have been allocated to their corresponding income or expense caption in the income statement.

	As of and for the year ended December 31,					
	1997	1997	1996	1995	1994	1993
	In thousands of U.S. dollars	*In thousands of constant reais as of December 31, 1997*				
Income Statement Data;						
Brazilian GAAP						
Operating revenues(1)	1,557,792	1,739,275	1,653,670	1,490,131	1,496,057	1,111,095
Industrial customers	423,879	473,261	460,212	468,134	508,263	369,781
Residential customers	567,018	633,076	560,653	419,810	387,544	284,774
Commercial customers	272,228	303,943	287,604	274,054	272,333	199,758
Rural and other	160,656	179,373	166,405	177,486	182,385	63,530
Public services	35,043	39,126	38,374	41,011	42,167	115,675
Distributors	56,082	62,616	69,707	73,700	70,676	58,087
Interconnected Power System-South/Southeast	16,936	17,793	30,236	6,217	3,153	—
Other revenues	26,948	30,087	40,479	29,719	29,538	19,491
Value-added tax on sales to final customers	(384,301)	(429,072)	(394,922)	(361,904)	(362,689)	(246,542)
Net operating revenues	1,173,491	1,310,203	1,258,748	1,128,227	1,133,368	864,553
Total operating expenses(2)	(909,175)	(1,015,095)	(977,973)	(1,190,057)	(1,080,054)	(890,150)
Electricity purchased for resale	(165,124)	(184,362)	(175,595)	(188,406)	(228,059)	(289,990)
Depreciation and amortization	(237,035)	(264,650)	(236,741)	(249,222)	(245,888)	(228,568)
Personnel	(276,073)	(308,236)	(282,918)	(348,662)	(310,812)	(188,515)
Regulatory charges	(78,973)	(88,174)	(85,707)	(115,038)	(122,602)	(79,137)
Third party services	(85,842)	(95,842)	(83,167)	(67,801)	(48,310)	(11,448)
Materials and supplies	(23,933)	(26,722)	(22,585)	(33,848)	(28,884)	(13,674)
Pension and other benefits	(27,635)	(30,855)	(28,920)	(145,557)	(36,115)	(33,424)
Other expenses	(14,558)	(16,254)	(62,340)	(41,523)	(59,387)	(45,398)
Operating income (Loss)	264,315	295,108	280,775	(61,830)	53,316	(25,597)
Other income (expense)	97,997	109,414	49,254	41,401	112,377	(120,903)
Interest income(3)	124,734	139,266	81,641	75,201	108,813	—
Interest expense	(42,454)	(47,400)	57,870	(57,923)	(36,863)	—
Net exchange gains/(losses)(4)	32,517	36,305	36,740	28,122	25,810	—
Non-operating expenses, net	(21,679)	(24,205)	(23,447)	(20,672)	(13,784)	(9,879)
Net income	274,786	306,688	251,194	27,421	139,786	179,837
Number of shares outstanding (millions)(5)	—	273,655	241,711	241,711	241,711	241,711
Net income per thousand shares of capital stock(6).	1.00	1.12	1.04	0.12	0.58	0.74
U.S. GAAP						
Total revenues	1,557,792	1,739,275	1,671,925	1,442,341	1,371,396	—
Net income	133,593	149,157	136,190	210,274	772,636	—
Net income per thousand shares of capital stock	0.52	0.58	0.56	0.87	3.19	—
Balance Sheet Data:						
Brazilian GAAP						
Current assets	998,058	1,114,332	422,049	335,064	256,610	262,812
Recoverable rate deficit (CRC)(7)	460,703	514,375	544,760	572,868	619,181	—
Long-term assets	630,821	704,312	671,743	670,932	670,466	113,550
Property, plant and equipment, net(8)	4,769,728	5,325,401	5,182,632	5,032,561	5,039,914	5,070,619
Construction work in progress(9)	982,290	1,096,727	891,698	708,752	443,891	369,314
Total assets	7,465,288	8,334,995	7,242,598	6,815,300	6,489,513	5,866,471
Current loans and financing	322,554	360,132	240,507	158,171	48,435	181,313
Current liabilities	615,445	687,145	666,096	453,112	276,916	575,077
Long-term loans and financing	666,470	744,114	478,282	440,861	369,252	522,286
Long-term liabilities	2,015,548	2,250,360	1,886,901	1,712,811	1,571,876	1,302,918
Shareholders' equity	4,834,295	5,397,490	4,689,601	4,649,377	4,620,722	3,988,477
U.S. GAAP						
Total assets	7,940,877	8,865,989	7,934,039	7,637,256	7,370,144	—
Long-term liabilities	2,262,491	2,526,071	2,168,421	2,200,163	2,171,575	—
Shareholders' equity	5,134,864	5,733,076	5,227,000	5,010,842	4,949,945	—
Other Financial Data:						
Non-cash pension	—	—	—	109,018	12,700	—
Dividends (10)	134,848	150,000	125,593	28,557	11,566	4,322
Capital expenditures in property, plant and equipment(11)	546,661	610,347	546,520	488,485	275,046	231,783

(1) Operating Revenues is defined as Electricity Sales to Final Customers plus Electricity Sales to Distributors, plus Interconnected Power System—South /Southeast and Eletrosul plus Other Revenues.

(2) The Company's Financial Statements as of and for the year ended December 31, 1995 reflect the Company's recognition in 1995 of primarily non-cash expenses associated with the underfunding of Fundação COPEL in the amount of R$121.6 million (R$109.0 million of which was comprised of the pension plan deficit applicable to 1995 and the remainder of which was comprised of the reversal of the

deficit with respect to 1994 recognized in 1994), net of a related deferred tax credit of R$36.4 million. The financial statements as of and for December 31, 1995 filed with the CVM and published in Brazil did not reflect such recognition. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Restatement of Certain Items" and Note 30 to the Financial Statements.

(3) Interest Income is defined as Income on Temporary Cash Investments plus Charges on Overdue Receivables plus Charges on Long-Term Receivables and CRC account receivables.
(4) Net Exchange Gains/(Losses) include valuation (devaluation) of foreign currencies in relation to the *real*.
(5) The number of outstanding shares is, under Brazilian GAAP, equal to the number of shares outstanding at the end of the period indicated. Under U.S. GAAP, such number is determined based on a weighted average for the period indicated.
(6) Income per share data is presented per thousand shares, in accordance with the practice in Brazil of trading and quoting shares in thousand share lots.
(7) CRC account receivables include both current and long-term CRC account receivables.
(8) Property, Plant and Equipment, Net is net of Accumulated Depreciation and does not include Construction Work in Progress.
(9) Prior to 1996, a portion of the interest associated with Construction Work in Progress was expensed as incurred, as Interest on Loans and Financing, and was offset by Remuneration on Work in Progress. See Note 26 to the Financial Statements.
(10) Amounts shown for 1996 and 1997 represent Interest on Capital, which the Company elected to pay in lieu of dividends. Such amount exceeded the Mandatory Distribution required under the Brazilian Corporation Law by approximately R$58.6 million in 1996 and 18.7 million in 1997. See Note 23(d) to the Financial Statements.
(11) Capital Expenditures in Property, Plant and Equipment are net of maintenance charges which are expensed as incurred.

Exchange Rates

The Company will pay any cash dividends and make any other cash distributions with respect to Class B Shares in Brazilian currency. Accordingly, exchange rate fluctuations will affect the U.S. dollar amounts received by the holders of ADSs on conversion by the Depositary of dividends and distributions in Brazilian currency on the Class B Shares represented by the ADSs. Fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar will also affect the U.S. dollar equivalent of the price of the Class B Shares on the Brazilian stock exchanges. Exchange rate fluctuations may also affect COPEL's results of operations. COPEL does not hedge its obligations under its foreign currency-denominated indebtedness.

On August 1, 1993, the *cruzeiro real* replaced the *cruzeiro* as the unit of Brazilian currency, with each *cruzeiro real* being equal to 1,000 *cruzeiros.* Beginning in December 1993, the Federal Government began implementation of the *Real* Plan, which was intended to reduce inflation. As part of the *Real* Plan, in March 1994, the Federal Government introduced a new unit of account, the URV (the "*Unidade Real de Valor*"), linked to the movements in the exchange rate of the *cruzeiro real* to the U.S. dollar and intended to be transformed into the new unit or currency, the *real*. Certain contracts and public utility rates were required to be indexed to the URV. The URV ceased to exist upon the introduction of the *real*. On July 1, 1994, the *real* replaced the *cruzeiro real* as the unit of Federal currency, with each *real* being equal to 2,750 *cruzeiros reais* and initially having an exchange rate of R$1.00 to US$1.00.

The issuance of *reais* was initially subject to quantitative limits backed by a corresponding amount of U.S. dollars in reserves, but the Federal Government subsequently expanded those quantitative limits and allowed the *real* to float, with parity between the *real* and the U.S. dollar (R$1.00 to US$1.00) as a ceiling. In March 1995, the Central Bank announced that it would intervene in the market and buy or sell U.S. dollars, and established a band within which the *real*/U.S. dollar exchange rate could fluctuate. The Central Bank initially set the band with a floor of R$0.86 per US$1.00 and a ceiling of R$0.90 per US$1.00 and provided that after May 2, 1995, the band would be between R$0.88 and R$0.98 per US$1.00. Shortly thereafter, the Central Bank reset the band between R$0.88 and R$0.93 per US$1.00. The following table sets forth the *real*/U.S. dollar exchange rate bands as set by the Central Bank for all dates following March 1995. There can be no assurance that the current band will not be altered in the future.

	***Real*/U.S. dollar exchange rate band**	
	Floor	**Ceiling**
March 6 to March 10, 1995	.86	.90
March 10 to June 22, 1995	.88	.93
June 22, 1995 to January 30, 1996	.91	.99
January 30, 1996 to February 18, 1997	.97	1.06
February 18, 1997 to January 20, 1998	1.05	1.14
January 20, 1998 to present	1.12	1.22

The following table sets forth, for the periods indicated, the period-end, average, high and low Commercial Market Rate or, as the case may be, Noon Buying Rate, expressed in *reais* per U.S. dollar. Amounts expressed in *reais* have been translated from the predecessor currencies in effect during the relevant period at the rates of exchange at the time the successor currency took effect. Accordingly, *cruzeiros reais* have been translated into *reais* at the rate of CR$2,750.00 to R$1.00 and *cruzeiros* have been translated into *reais* at the rate of Cr$2.75 to R$1.00.

Period	Period-end	Average for period(1)	High	Low
1993	0.1186	0.0328	0.1186	0.0046
1994	0.8460	0.6450	1.0000	0.1186
1995	0.9722	0.9228	0.9722	0.8450
1996	1.0393	1.0080	1.0413	0.9733
1997	1.1165	1.0805	1.1166	1.0394

(1) Represents the average of the exchange rates on the last day of each month during 1997.
Source: Central Bank through February 21, 1995; Federal Reserve Bank of New York since February 22, 1995.

History of Dividend Payments

General

In accordance with its *estatuto social* (the "Charter") and the Brazilian Corporation Law, the Company regularly pays annual dividends for each fiscal year within 60 days after the declaration at the annual shareholders' meeting. To the extent amounts are available for distribution, the Company is required to distribute as dividends an aggregate amount (the "Mandatory Distribution") equal to at least 25% of Adjusted Net Income (as hereinafter defined). Dividends are allocated pursuant to the formula described in "—Dividend Priority of Class A Shares and Class B Shares" below. Under the Brazilian Corporation Law, the Company is not permitted to suspend the minimum dividend payable with respect to the Class A Shares for any year. Brazilian law permits, however, a company to suspend the payment of all other dividends if the Board of Directors and the Audit Committee report to the shareholders' meeting that the distribution would be incompatible with the financial circumstances of the company. The Company is not subject to any contractual limitations on its ability to pay dividends.

The following table summarizes the recent history of dividend payments on the Company's Common, Class A and Class B Shares. *Real* amounts are expressed in constant *reais* of December 31, 1997 purchasing power. U.S. dollar amounts are based on the Commercial Market Rate or, as the case may be, the Noon Buying Rate on the respective payment dates.

Year declared	Dividend Payment History (per 1,000 shares)(1)					
	Common Shares		Class A Shares		Class B Shares(2)	
	Reais	**US$**	***Reais***	**US$**	***Reais***	**US$**
1993	0.0178	0.0102	0.0178	0.0102	n.a	n.a
1994	0.0478	0.0380	0.0478	0.0380	n.a	n.a
1995	0.0933	0.0796	0.1554	0.1326	n.a	n.a
1996(3)	0.5196	0.4489	0.5196	0.4489	0.5196	0.4489
1997(3)(4)	0.5235	0.4639	0.5759	0.5103	0.5759	0.5103

(1) *Real* amounts are expressed in constant *reais* as of December 31, 1997. U.S. dollar amounts are calculated by dividing the amount of dividends paid per share, expressed in historical *reais*, by the Commercial Market Rate or, as the case may be, the Noon Buying Rate on the respective dates when the indicated dividends were first made available by the Company for payment.
(2) No Class B Shares were outstanding prior to February 15, 1996.
(3) Represents interest on capital. See Note 23(d) to the Financial Statements.
(4) The payment of interest on capital in the aggregate amount of R$150 million with respect to fiscal year 1997 was made in the form of an interim payment in the amount of R$74.6 million made on December 10, 1997 and a final payment in the amount of R$75.4 million made on April 30, 1998. The *real* amounts shown represent the sum of the historical per-share amounts paid on each of these dates; the U.S. dollar translations shown represent the sum of the U.S. dollar figures obtained by converting each such per-share payment into U.S. dollars using the Noon Buying Rate in effect on the date when the indicated dividend was first made available by the Company for payment.

Shareholders who are not residents of Brazil must register with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted in foreign currency outside of Brazil. The Class B Shares underlying the ADSs will be held in Brazil by the Custodian, as agent for the Depositary, which will be the registered owner on the records of the Company.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the Depositary for distribution to holders of ADRs. In the event that the Custodian is unable to convert immediately the Brazilian currency received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the Brazilian currency that occur before such dividends are converted and remitted. See "—Exchange Rates." Dividends in respect of the Class B Shares paid to shareholders, including holders of ADSs, are exempt from Brazilian withholding tax with respect to profits accrued as from January 1, 1996. See "Item 7. Taxation—Brazilian Tax Considerations."

Calculation of Adjusted Net Income

Dividends with respect to a fiscal year are payable from (i) retained earnings from prior periods and (ii) after-tax income for such period less required allocation to legal and other reserves (as described below) ("Adjusted Net Income").

A Brazilian company is required to maintain a legal reserve, to which it must allocate a minimum 5% of net income for each fiscal year until such reserve reaches an amount equal to 20% of the company's capital stock (calculated in accordance with the Brazilian Corporation Law). At December 31, 1997, COPEL's legal reserve was R$88.5 million, or approximately 7% of such capital stock at that date.

In addition to deducting amounts for the legal reserve, under the Brazilian Corporation Law net income may also be adjusted by deducting amounts allocated to two other reserves. One is a contingency reserve against future losses. The other is a reserve for specified categories of earnings that are required to be recognized currently, but that will be realized in subsequent periods. These include earnings attributable to indexation for inflation of assets and liabilities. Such reserves may only be established if they are proposed by the Board of Directors or Executive Officers at a shareholders' meeting and a resolution creating such reserves is adopted at that shareholders' meeting.

The amounts available for distribution are determined on the basis of financial statements prepared using the method required by the Brazilian Corporation Law, which differ from financial statements, such as the Financial

Statements included herein, that are prepared using the integral restatement method *(correção monetária integral)* permitted to be used for the financial statements of public corporations pursuant to applicable regulations of the CVM.

Dividend Priority of Class A Shares and Class B Shares

According to the Company's Charter, Class A Shares and Class B Shares are entitled to receive annual, non-cumulative minimum dividends, provided that Class A Shares have a dividend priority over the Class B Shares, and Class B Shares have a dividend priority over the Common Shares. To the extent funds are available therefor, dividends are to be paid in the following order: (i) the Class A Shareholders have the right to receive a minimum dividend equal to 10% of the total share capital represented by the Class A Shares outstanding as at the end of the fiscal year in respect of which the dividends have been declared; (ii) to the extent there are additional amounts to be distributed after all amounts described in clause (i) have been paid, the Class B Shareholders have the right to receive a minimum dividend per share equal to (A) the Mandatory Distribution divided by (B) the total number of shares of capital stock outstanding as at the end of the fiscal year in respect of which the dividends have been declared; and (iii) to the extent that there are additional amounts to be distributed after all amounts described in clauses (i) and (ii) have been paid, the Common Shareholders have the right to receive an amount per share equal to (A) the Mandatory Distribution divided by (B) the total number of shares of capital stock of the Company outstanding as at the end of the fiscal year in respect of which dividends have been declared. To the extent that there are additional amounts to be distributed after all amounts described in the preceding sentence have been paid, under the Brazilian Corporation Law dividends per share are to be paid equally to the Class B Shareholders and Common Shares up to the amount per share paid to the Class A Shareholders (as described in clause (i) of the preceding sentence). Any remaining amount to be distributed will be divided equally among all shareholders of capital stock of the Company.

Payment of Dividends

COPEL is required to hold an annual shareholders' meeting by April 30 of each year at which, among other things, an annual dividend may be declared by decision of the shareholders on the recommendation of the Executive Officers, as approved by the Board of Directors. The payment of annual dividends is based on the financial statements prepared for the fiscal year ending December 31. Under Brazilian law, dividends are required to be paid within 60 days following the date the dividend is declared to shareholders of record on such declaration date, unless a shareholders' resolution sets forth another date of payment, which must occur prior to the end of the fiscal year in which such dividend was declared. COPEL is not required to adjust the amount of paid-in capital for inflation for the period from the end of the last fiscal year to the date of declaration or to adjust the amount of the dividend for inflation for the period from the end of the relevant fiscal year to the payment date. Consequently, the amount, in real terms, of dividends paid to holders of Class B Shares may be substantially reduced due to inflation. Annual dividends are paid to shareholders on a pro rata basis according to the date when the subscription price is paid to COPEL.

Pursuant to Brazilian law, COPEL may pay interest on capital in lieu of dividends as an alternative form of making distributions to shareholders. A payment of interest on capital may be treated as a deductible expense for tax purposes, provided that it does not exceed the lesser of (i) the product of (A) a certain long-term interest rate determined by the Central Bank, multiplied by (B) total shareholders' equity (determined in accordance with the Brazilian Corporation Law), less certain deductions prescribed by the Brazilian Corporation Law and (ii) the greater of (A) 50% of current net income (before taking into account such distributions or tax deductions) and (B) 50% of retained earnings.

Shareholders who are not residents of Brazil must register with the Central Bank in order for dividends, sales proceeds or other amounts with respect to their shares to be eligible to be remitted in foreign currency outside of Brazil. The Class B Shares underlying the ADSs are held in Brazil by the Custodian, as agent for the Depositary, which is the registered owner of the Company's shares.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian on behalf of the Depositary, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the Depositary for distribution to holders of ADRs. In the event that the Custodian is unable to convert immediately the Brazilian currency received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADRs may be adversely affected by devaluations of the Brazilian currency that occur before such dividends are converted and remitted. Dividends in respect of the Class B Shares paid to holders who are not Brazilian residents, including holders of ADSs, generally are not subject to Brazilian withholding tax, although payments of interest on capital may, in certain circumstances, be subject to withholding tax. See "Item 7. Taxation—Brazilian Tax Considerations—Taxation of Dividends" and "—Interest on Capital."

Item 9. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion is based on and should be read together with the Financial Statements and notes thereto appearing elsewhere in this Annual Report.

The Financial Statements are presented in accordance with Brazilian GAAP. They recognize certain effects of inflation and restate data from prior periods in constant *reais* of December 31, 1997 purchasing power. Such restatement has been effected using the integral restatement method *(correção monetária integral)*, which was required by the CVM to be used for financial statements of public corporations through December 31, 1995. In periods of inflation, monetary assets generate inflationary loss and monetary liabilities generate inflationary gain, due to the decline in purchasing power of the currency. In the Financial Statements, inflationary gains or losses on monetary assets and liabilities have been allocated to their corresponding income or expense captions in the income statement. Inflationary gains or losses without a corresponding income or expense caption have been allocated to other net operating income/expense. The detail relating to such gains and losses is set forth in Note 33(c) to the Financial Statements.

Background

Brazilian Political Environment

The Brazilian political environment was marked by high levels of uncertainty after the country returned to civilian rule in 1985, ending 20 years of military government. The death of a President-elect in 1985 and the resignation of another President in the midst of impeachment proceedings in 1992, as well as rapid turnover at and immediately below the cabinet level, adversely affected the implementation of consistent economic and monetary policies, including consistent policies in the area of government-owned enterprises.

Mr. Fernando Henrique Cardoso was elected President of Brazil in October 1994 and took office in January 1995. He has generally sought to continue the economic stabilization and liberalization policies he had developed as Finance Minister from May 1993 through April 1994. Although some important groups remain opposed to significant elements of his program and the implementation of policies of economic stabilization and liberalization is subject to significant compromises and accommodations, President Cardoso is the leader of a coalition of political parties that represents a majority of the Federal Congress, his party controls the state governments of the States of São Paulo, Rio de Janeiro and Minas Gerais, and his policies have broad political support. Elections will be held in October of 1998 in which the President, Vice-President, state Governors and the members of the Chamber of Deputies, as well as one third of the members of the Senate, will be elected. The outcome of these elections could have a strong impact on whether the economic reforms of the Cardoso administration can continue. There can be no assurance that President Cardoso will be reelected, and, more generally, there can be no assurance that the political consensus in favor of the economic reform program pursued by the Cardoso administration will be sustained following the election.

Brazilian Economic Environment

The financial condition and results of operations of COPEL are dependent on general economic conditions in Brazil, and in particular on (i) economic growth and its impact on demand for electricity, (ii) the cost and availability of financing and (iii) exchange rates between Brazilian and foreign currencies.

For many years, the Brazilian economy was extremely volatile, and the Federal Government implemented a succession of programs intended to stabilize the economy and provide a basis for sustainable, non-inflationary growth. COPEL was affected by economic instability and by such programs in a variety of ways, particularly when they resulted in contractions in demand or very high real interest rates or prevented COPEL from raising rates to keep pace with the rate of inflation.

Until the introduction of the *Real* Plan, measures by the Federal Government intended to influence the course of Brazil's economy, such as changes in monetary, credit, tariff and other policies, were frequent and occasionally drastic. See “Item 6. Exchange Controls and Other Limitations Affecting Security Holders.” In particular, actions to control inflation, interest rates or consumption included freezing bank accounts, imposing capital controls, introducing high tariffs and other strong measures. Changes in policy, social instability and other political and economic developments, and the Brazilian government’s responses to such developments, not infrequently have had a material adverse effect on COPEL’s financial condition and results of operations.

Beginning in December 1993, the Federal Government introduced the *Real* Plan, an economic stabilization program intended to reduce the rate of inflation by reducing certain public expenditures, collecting liabilities owed to the Federal Government, increasing tax revenues, continuing to privatize government-owned entities and introducing a new currency. The *real* was introduced as Brazil’s currency on July 1, 1994, based on a new unit of account, the URV, introduced earlier in the year. Since taking office in January 1995, President Cardoso has continued to implement the *Real* Plan. The *real* generally appreciated against the dollar through January 1995. Since January 1995, the *real* has gradually declined in value against the dollar, reaching R$1.1164 to US$1.00 at December 31, 1997. Under the *Real* Plan, the rate of inflation has decreased significantly and there has been sustained growth in real gross domestic product. See “—Effects of Inflation and Devaluation” and “Item 1. Description of Business—Regulation—Tariffs.” Notwithstanding the success of the *Real* Plan to date, there can be no assurance that it will continue in effect or continue to be successful.

Developments in the Asian currency markets that began in October 1997 prompted a significant decrease in capital inflows into Brazil and placed significant pressure on the value of the *real*. As a response to the crisis and in order to stabilize the *real*, the Federal Government together with the Central Bank adopted measures that included selling dollar reserves, raising domestic interest rates, reducing government spending, and reducing the average minimum maturity required for foreign borrowings. Some of these measures adversely affected the Company. Developments in other emerging market countries may in the future adversely affect the Brazilian economy and the market for securities of Brazilian companies, including the Company.

Tariffs

The Company’s results of operations have in the past been significantly affected by fluctuations in the allowable levels of tariff rates charged by the Company for generation and distribution of electricity. The rate-setting process in Brazil has historically been affected by government attempts to control inflation.

The Company was granted rate increases for bulk energy supply and distribution in November 1995. Rates were increased by 21.72% for sales to distributors and by an average of 11.98% for sales to all classes of customers except residential customers. Although there was no change in the basic rate for residential customers, a significant reduction in discounts for residential customers created an effective increase of 42.0% with respect to such customers. See “Results of Operations for the Years Ended December 31, 1996 and 1995” and “Item 1. Description of Business—Operations of COPEL—Transmission and Distribution.” The overall effect to COPEL was an increase of 21.15% in the average rates charged to all customers. These increases were to be effective for one year, from November 1995 to November 1996. On April 7, 1997, COPEL was granted an additional average increase of 13.55% in the rate charged for sales to distributors and 9.7% in the rate charged for sales to final customers.

Notwithstanding such increases, in recent years tariff increases generally have been less than the rate of inflation. See “—Effects of Inflation and Devaluation.” As a result, sales to final customers measured in constant December 31, 1997 *reais* decreased for all classes of customers, except residential customers, from 1995 to 1996 and have declined generally in the period from 1994 to 1997. The Company has applied to ANEEL for an additional rate increase of 4.2%, but ANEEL has not granted the Company’s request to date.

Analysis of Electricity Sales and Cost of Electricity Purchased

The Company bills for the electricity it sells and pays for the electricity it purchases on the basis of an “energy charge” and, in the case of its Group A Customers (industrial customers who receive energy at higher voltages), a “capacity charge.” The capacity charge, expressed in *reais* per KW, is based on the higher of (i) contracted firm capacity and (ii) power capacity actually used. The energy charge, expressed in *reais* per MWh, is based on the amount of electricity actually consumed.

The following table sets forth the volume and average rate components of electricity sales and purchases for the years 1993 to 1997.

	Year ended December 31,				
	1997	1996	1995	1994	1993
	(In constant reais as of December 31, 1997 except as otherwise indicated)				
Electricity Sales: (1)					
Sales to final customers:					
Industrial rate	83.89	85.79	89.78	103.41	78.29
Residential rate	160.31	148.32	123.85	129.71	99.64
Commercial rate	143.96	147.52	153.70	169.71	130.55
Rural rate	86.53	84.56	95.79	104.06	80.01
Public service rate	85.86	86.94	97.45	106.09	93.58
Total sales to final customers:					
Volume (GWh)	14,230	13,503	12,661	11,637	11,129
Industrial customers	5,641	5,365	5,214	4,915	4,718
Residential customers	3,949	3,780	3,390	2,988	2,851
Commercial customers	2,111	1,949	1,783	1,605	1,526
Rural and others(2)	2,073	1,968	1,853	1,732	1,659
Public services	456	441	421	397	375
Average rate	114.46	112.07	109.04	119.68	92.75
Total revenues (thousands of R$)	1,628,779	1,513,248	1,380,495	1,392,691	1,033,517
Sales to distributors and other (3):					
Volume (GWh)	5,245	8,996	4,086	3,955	3,084
Average rate	15.33	11.11	19.56	18.67	18.83
Total revenues (thousands of R$)	80,409	99,943	79,917	73,828	58,087
Electricity Purchases:					
Purchases from Itaipu:					
Volume (GWh)	5,410	4,976	4,688	4,268	3,525
Percentage of total Itaipu production purchased	6.4%	6.1%	6.1%	6.2%	5.9%
Average cost (R$/MWh)(4)	33.78	35.22	40.17	53.44	82.28
Total cost (thousands of R$)(5)	182,746	175,273	188,358	228,059	289,990

(1) Rates for electricity sales and purchases have been computed by dividing (i) the corresponding sales or purchases without deduction of ICMS Tax by (ii) MWh of electricity sold.
(2) Includes rural customers, street lighting, government agencies and COPEL's own consumption.
(3) Sales to distributors and other includes sales to distributors, the Interconnected Power System—South/Southeast and Eletrosul.
(4) The Company's purchases of electricity generated by Itaipu are paid for on the basis of a capacity charge expressed in U.S. dollars per KW plus a "wheeling" (or transportation) charge expressed in *reais* per KWh.
(5) See "Item 1. Description of Business—Operations of COPEL—General" for an explanation of COPEL's expenses relating to electricity purchases.

Impact of CRC Account

Until 1993, utilities in Brazil were guaranteed an annual rate of return on service-related assets included in the base rate. Law No. 5,655, dated May 20, 1971, required the Federal Government to set electricity tariffs to provide a minimum *reais* return of 10% per annum and a maximum of 12% per annum on certain qualifying investments for utilities. In cases where the tariffs set by the Federal Government resulted in revenues giving a minimum *reais* return below the 10% to 12% range, each electric utility was allowed to credit the difference to its CRC Account. Accumulated shortfalls in the rate of return credited to CRC Accounts were recognized in the late

1980s as liabilities of the Federal Government to electric utilities. See "Item 1. Description of Business—The Brazilian Electricity Sector."

Through the enactment of Law No. 8,631 on March 4, 1993 ("Law 8,631"), the Federal Government eliminated the system of guaranteed rates of return for utilities. As a result, utilities were no longer permitted to add credits to the CRC Account. Pursuant to Law 8,631 and the implementing legislation, amounts that had been accumulated in each utility's CRC Account up to March 4, 1993 were recognized by the Federal Government as credits. Utilities were then permitted to offset their CRC Account balances against amounts owed to the Federal Government and to federal financial institutions. By offsetting its CRC Account balances against amounts owed by COPEL to the Federal Government and federal financial institutions, COPEL reduced its current liabilities and increased its shareholders' equity by R$811.8 million in 1994 and R$487.7 million in 1993. In addition, as described below, R$602.9 million of COPEL's CRC Account balance was assumed by the State Government. Such amount is treated as a long-term receivable and is recorded as capital reserves under shareholders' equity in its nominal amount, as opposed to its present value.

After offsetting all amounts owed to the Federal Government and to federal financial institutions to the extent permitted by law, in August 1994 COPEL assigned the remainder of its CRC Account balance, equal to R$602.9 million, to the State Government pursuant to an assignment agreement (the "CRC Account Agreement"). The CRC Account Agreement provided that the State Government was required to pay the Company the remainder of the CRC Account in 240 monthly installments commencing on April 15, 1995. Interest on the CRC Account accrues at the rate of 6.65% per annum in real terms, and the Company has been accruing interest income on the CRC Account since August 1994. Beginning in December 1996, the State Government suspended payments under the CRC Account Agreement. Pursuant to an oral understanding between the Company and the State Government, the Company offset unpaid amounts equal to approximately R$36 million in respect of the period from December 1996 through June 1997 against dividends paid to the State Government on June 23, 1997. In October 1997, the Company and the State Government agreed to extend the term of the CRC Account Agreement to October 30, 2025. There can be no assurance that future payments will be made in a timely manner. Pursuant to the terms of the CRC Account Agreement, if the State Government fails to make payments on a timely basis, COPEL may, after notifying the State Government, withhold dividends payable to the State Government, and COPEL will have a lien on certain amounts deposited by the State Government with *Banco do Estado do Paraná* as a further guarantee of payment. See Note 12 to the Financial Statements.

Special Liabilities

Special liabilities were R$747.3 million in 1997, R$720.3 million in 1996 and R$693.4 million in 1995. Special liabilities represent assets contributed to COPEL by certain residential, rural and industrial customers to enable COPEL to provide service to such customers in cases where, in the absence of such contributions, COPEL would not realize a profit on the investment made to provide such service. Eventual liquidation of these special liabilities is dependent upon future determinations by ANEEL.

Deferred Tax Assets and Liabilities

The Company recorded deferred tax assets in the amount of R$47.2 million in 1997, R$62.1 million in 1996 and R$46.2 million in 1995. Such assets arise when COPEL records provisions that are not deductible for tax purposes in the year in which they are accrued. The provisions are reflected in the balance sheet, but the corresponding tax benefits are not recognized until the related provisions are recognized. Such timing differences give rise to the deferred tax asset. See Note 20 to the Financial Statements.

The Company recorded long-term deferred tax liabilities in the amount of R$462.1 million in 1997, R$379.5 million in 1996 and R$259.1 million in 1995. Under Brazilian GAAP, the Company is required to write up the value of its assets in accordance with the rate of inflation. However, taxes are not incurred on the amount of such write-ups until such time as the asset is realized, whether via disposition or depreciation. See Note 20 to the Financial Statements.

Restatement of Certain Items

The Company's Financial Statements as of and for the year ended December 31, 1995 (the "1995 Financial Statements") reflect the Company's recognition in 1995 of primarily non-cash expenses associated with the underfunding of Fundação COPEL, the Company's pension plan, in the amount of R$121.6 million (R$109.0 million of which was comprised of the pension plan deficit applicable to 1995 and the balance of which related to a reversal of the deficit with respect to 1994 recognized in 1994), net of a related deferred tax credit of R$36.4 million. Adjustments to the 1995 Financial Statements related to the underfunding primarily were reflected in net income and shareholders' equity. The financial statements for and as of December 31, 1995 filed with the CVM and published in Brazil did not reflect such recognition, and, as a result, the Company's independent accountants delivered a qualified opinion with respect to such financial statements. The 1995 Financial Statements, which are set forth elsewhere in this Annual Report, do not contain a qualified opinion. See "—Results of Operations for the Years Ended December 31, 1996 and 1995" and Note 30 to the Financial Statements.

Effects of Inflation and Devaluation

Brazil experienced extremely high and generally unpredictable rates of inflation for many years. The rate of inflation as measured by the IGP-M was 870% for 1994, 15% for 1995, 9% for 1996 and 7% for 1997.

Inflation and devaluation of the Brazilian currency have had a substantial effect on the value of the Company's assets and liabilities. Inflation results in purchasing-power gains on local currency monetary liabilities and purchasing-power losses on local currency monetary assets; devaluation results in gains on assets denominated in foreign currencies and losses on liabilities denominated in foreign currencies. In years when devaluation has continuously exceeded inflation, the Company has recorded monetary losses and, in years when inflation has continuously exceeded devaluation, the Company has recorded monetary gains.

The Company's results of operations have also been impacted by inflation. The Company's tariff rates, which are currently established by ANEEL, have generally not kept pace with inflation rates. When electricity rates fail to keep up with inflation rates, the Company experiences a loss of purchasing power. Inflation also affects the fixed amounts specified in bills sent to customers due to the loss of purchasing power between the date such rates are set, the date on which customers are billed and the date on which payment is received from customers. These losses are at times offset to varying degrees by similar mismatches in the tariff rates paid by the Company to its suppliers and monetary gains on such of the Company's liabilities as are not indexed to take account of inflation (its "unindexed liabilities"), which arise from the gain of purchasing power the Company experiences between the date when services (such as services from construction contractors) or products (such as parts for the Company's distribution or generation facilities) are received and the date the Company makes corresponding payments. The Company's terms of payment for its unindexed liabilities have generally provided for longer periods than the periods granted to the Company's customers, resulting in a net positive inflation effect. Another account where inflation has had a significant effect is personnel expenses. The Company has in the past negotiated a percentage salary increase with its employees every October to apply for the next calendar year. To the extent such increase is higher or lower than the actual inflation rate for the applicable year, the Company will experience a corresponding purchasing power loss or gain, respectively. The Company expects to continue this practice of renegotiating employment contracts annually. Monetary gains and losses arising from inflation and devaluation are recorded in the Company's statements of operations in each relevant account.

Since the substantial reduction in Brazil's inflation rate following implementation of the *Real* Plan, the Company's cash flow receipts have been affected by inflation and currency devaluation to a much lesser extent. As a result, the value of the Company's receipts is more stable, allowing for greater flexibility in the Company's financial planning.

Results of Operations for the Years Ended December 31, 1997 and 1996

Net Operating Revenues

The Company's net operating revenues (operating revenues net of ICMS Tax and other value-added taxes) increased 4.1% to R$1,310.2 million in 1997 from R$1,258.7 million in 1996, primarily due to higher average tariff rates, an increase in the number of final customers and an increase in average consumption per final customer, partially offset by the effects of inflation and by a decrease in revenues from sales to distributors, the Interconnected Power System—South and Eletrosul. The higher average tariff rates resulted from the increase in tariffs granted in April 1997 with respect to all classes of customers other than residential customers and from a reduction in the percentage of residential customers entitled to discounted rates.

Electricity Sales to Final Customers. The Company's revenues from electricity sales to final customers increased by 7.6% to R$1,628.8 million in 1997 from R$1,513.2 million in 1996. This increase was primarily due to (i) the 9.7% tariff increase granted by DNAEE in April 1997 with respect to such customers, (ii) a 3.3% increase in the number of final customers to 2,588,704 at year-end 1997 from 2,506,709 at year-end 1996 and (iii) a decrease in the percentage of residential customers classified as Low Income Residential Customers entitled to discounted rates, which resulted in an effective increase in rates paid by residential customers. See "Item 1. Description of Business—Operations of COPEL—Transmission and Distribution."

Electricity Sales to Distributors, the Interconnected Power System—South/Southeast and Eletrosul. Revenues from sales to distributors, the Interconnected Power System—South/Southeast and Eletrosul decreased by 19.5% to R$80.4 million in 1997 from R$99.9 million in 1996, primarily as a result of a decrease in the volume of electricity sold by COPEL to such purchasers, partially offset by a 13.5% rate increase granted by DNAEE in April 1997 with respect to sales to distributors and an increase in rates charged to the Interconnected Power System—South/Southeast and Eletrosul. Due to unusually favorable hydrological conditions in the South region of Brazil during 1996, the amount of energy generated by COPEL, together with the amount COPEL was required to purchase from Itaipu, exceeded demand for energy in COPEL's distribution area, and COPEL consequently sold excess energy to the Interconnected Power System—South/Southeast. In 1997, levels of rainfall in the south of Brazil returned to more normal levels, as a result of which COPEL did not sell as much excess energy.

Total Operating Expenses

Total operating expenses increased 3.8% to R$1,015.1 million in 1997 from R$978.0 million in 1996, primarily due to increases in electricity purchased for resale, depreciation and amortization, personnel expenses and third-party services, partially offset by a decline in other expenses.

Electricity Purchased for Resale. Electricity purchased for resale increased by 5.0% from R$175.6 million in 1996 to R$184.4 million in 1997. This increase was primarily due to an increase in the volume of energy that COPEL was required to purchase from Itaipu. See "Item 1. Description of Business—Operations of COPEL—Generations—Purchases."

Depreciation and Amortization. Depreciation expense increased by 11.8% to R$264.7 million in 1997 from R$236.7 million in 1996. This increase in depreciation expense was primarily due to the increase in property, plant and equipment in service that resulted from (i) investments made during 1997 in transmission and distribution systems and (ii) the completion of construction on the Rio Jordão project in late 1996, which resulted in an increase in "property plant and equipment in service" and a corresponding decrease in "construction work in progress" that are reflected in the balance sheet as of December 31, 1996.

Personnel. Personnel expenses increased by 8.9% to R$308.2 million in 1997 from R$282.9 million in 1996 primarily due to (i) a decline in construction, resulting in a decrease in the percentage of payroll expenses capitalized as "construction work in progress," (ii) a change in the Company's procedure in allocating personnel expenses to construction projects and (iii) an increase in costs associated with the reclassification of certain meal expenses for employees from "other expenses" in 1996 to "personnel" in 1997, partially offset by a decrease in the number of employees. Prior to 1997, COPEL allocated a portion of payroll expenses to "construction work in progress" on the basis of an estimate of the percentage of employees engaged in construction work. Starting in 1997, COPEL allocated such expenses on the basis of actual employee hours spent on construction. As a result of the use of this new procedure in 1997, the amount of payroll expense allocated to "construction work in progress" was lower in 1997 than it would have been under the procedure used in 1996 and prior years.

Third-Party Services. Third-party services, consisting primarily of miscellaneous expenses such as technical consulting fees, maintenance services and travel expenses, increased by 15.1% from R$83.2 million in 1996 to R$95.8 million in 1997. This increase primarily resulted from increases in maintenance services for distribution lines and other miscellaneous expenses. Maintenance costs increased in large part because certain municipalities transferred ownership of public lighting systems to COPEL. COPEL records maintenance costs associated with public lighting systems under "third party services." These maintenance costs are, however, generally recovered from customers and recorded under "other expenses." Maintenance costs recorded under "third party services" also increased. Chose to use third-party contractors for a greater proportion of maintenance work on COPEL's own transmission and distribution lines in 1997 than in 1996. See Note 25(c) to the Financial Statements.

Other Expenses. Other expenses decreased by 73.9% to R$16.3 million in 1997 from R$62.3 in 1996 largely as a result of (i) an increase in "other income" recorded as part of this line item that resulted from the recovery from customers of maintenance costs associated with public lighting systems, (ii) a decrease in cost of services resulting from the increased use of third-party contractors for maintenance work on COPEL's transmission and distribution networks in 1997 as compared to 1996, (iii) reclassification of certain meal expenses for employees from "other expenses" in 1996 to "personnel" in 1997 and (iv) a non-recurring provision for doubtful accounts of R$8.1 million in 1996. COPEL records the cost of maintenance performed by its own employees under "other expenses." See Note 25(c) to the Financial Statements

Operating Income

As a result of the foregoing factors, operating income increased by 5.1% to R$295.1 million in 1997 from R$280.8 million in 1996.

Total Other Income

Total other income increased by 121.9% to R$109.4 million in 1997 from R$49.3 million in 1996, due to an increase in financial income (expense), net and a slight increase in non-operating expenses, net.

Financial Income (Expense), Net. Net financial income increased by 83.7% to R$133.6 million in 1997 from R$72.7 in 1996 primarily as a result of interest income from the short-term investment of cash proceeds from the Company's issuance in 1997 of eurobonds, commercial paper and class B shares and American Depository Shares representing the shares. See "—Liquidity and Capital Resources." This increase was partially offset by a decrease in income earned from fines charged to customers for late payments due to regulations issued by DNAEE in December 1996 that limited such fines to 2% of the amount of the unpaid bill.

Non-Operating Expenses, Net. Net non-operating expenses increased by 3.4% to R$24.2 million in 1997 from R$23.4 million in 1996 due to an increase in losses on retirement of assets that was largely offset by the effect of a non-recurring provision for obsolete inventories made by the Company in 1996. See Note 27 to the Financial Statements.

Total Income Tax

The Company's provision for income tax and social contributions increased by 25% to R$73.3 million in 1997 from R$58.6 million in 1996. This increase was primarily due to an increase of 23% in income before taxes and to an increase in the statutory tax rate from 30.56% in 1996 to 33% in 1997, partially offset by a tax benefit relating to payment of interest on capital in lieu of dividends that was larger in 1997 than in 1996. See Note 20(c) to the Financial Statements.

Employee Participation

In 1996, the Company adopted an employee profit sharing plan in which employees are entitled to participate in net profits in years when the ratio of net profits to net worth is at least 3.5% and according to certain criteria negotiated between COPEL and its employees. In 1997, COPEL allocated approximately R$24.5 million for distribution among its employees in respect of 1997 profits as compared with R$20.2 million in 1996. This increase resulted primarily from the increase in COPEL's income after taxes in 1997, as compared with 1996. Such amount is distributed among employees in proportion to their monthly wages. See "Item 1. Description of Business—Employees."

Net Income

As a result of the foregoing factors, net income increased 22.1% to R$306.7 million in 1997 from R$251.2 million in 1996.

Results of Operations for the Years Ended December 31, 1996 and 1995

Net Operating Revenues

The Company's net operating revenues (operating revenues net of ICMS Tax and other value-added taxes) increased 11.6% to R$1,258.7 million in 1996 from R$1,128.2 million in 1995, primarily due to increases in the number of customers and the average amount sold per customer, and to higher average tariff rates per MWh. The higher average tariff rates resulted from the increase in tariffs granted in November, 1995 with respect to all classes of customers other than residential customers and from a reduction in discounts to residential customers.

Electricity Sales to Final Customers. The Company's revenues from electricity sales to final customers were R$1,513.2 million in 1996, an increase of 9.6% from sales of R$1,380.5 million in 1995. This increase was due primarily to: (i) the increase in tariffs granted in November 1995, (ii) a 33.6% increase in revenues derived from sales to residential customers, primarily resulting from a reduction in the amount of the discount of the tariff charged to residential customers, which had the effect of increasing the average rate paid by all residential customers, coupled with increased volumes of consumption and a change in the criteria used to determine customers entitled to such discount that resulted in fewer customers being classified as Low Income Residential Customers and (iii) a 6.7% increase in volumes sold, primarily resulting from an increase in usage by commercial customers and an increase in the overall number of customers to 2.5 million in 1996 from 2.4 million in 1995. The increase in the average rate paid by residential customers was partially offset by decreases (in real terms) of rates paid by other classes of customers. These rates decreased in real terms because the rate of inflation exceeded increases in tariff rates. See "—Tariffs."

Electricity Sales to Distributors, the Interconnected Power System—South/Southeast and Eletrosul. Electricity sales to distributors, the Interconnected Power System—South/Southeast and Eletrosul increased 25% to R$99.9 million in 1996 from R$79.9 million in 1995, primarily as a result of an increase in the amount of electricity sold to the Interconnected Power System—South/Southeast. Such increase in sales was partially offset by a 43.2% decrease in the average rate paid for sales to distributors from 1995 to 1996, primarily as a result of increased sales to the Interconnected Power System—South/Southeast in 1996. See "Item 1. Description of Business—Operations of COPEL—General." Sales to the Interconnected Power System—South/Southeast increased because COPEL had excess capacity due to unusually favorable hydrological conditions in Paraná at the same time that the Southeast region was experiencing a drought. Consequently, COPEL sold its excess capacity to the Southeast region through the Interconnected Power System—South/Southeast.

Other Revenues. Other revenues increased by 35.9% to R$40.5 million in 1996 from R$29.7 million in 1995. This increase was due primarily to penalties paid by certain industrial customers for use of power at a voltage lower than the contracted voltage, and to an increase in charges for connection to COPEL's distribution system as a result of the increase in the number of customers from 1995 to 1996.

Total Operating Expenses

Total operating expenses decreased 17.8% to R$978.0 million in 1996 from R$1,190.1 million in 1995. This decrease was primarily due to reductions in personnel expenses, regulatory charges and pension and other benefits as discussed below.

Electricity Purchased for Resale. Electricity purchased for resale declined by 6.8% to R$175.6 million in 1996 from R$188.4 million in 1995. The volume of purchased energy increased by 6.0% to 4,984 GWh in 1996 from 4,700 GWh in 1995 because the amount COPEL was required to purchase from Itaipu increased for such year as a result of an increase in total production by Itaipu. The decrease in the cost of energy purchased was due to the fact that substantially all of the energy was purchased from Itaipu at a rate fixed in U.S. dollars, and the rate of depreciation of the *real* as compared to the U.S. dollar was less than the rate of inflation in 1996. See "—Effects of Inflation and Devaluation."

Personnel. Personnel expenses decreased by 18.9% to R$282.9 million in 1996 from R$348.7 million in 1995, primarily due to: (i) the implementation during the second half of 1995 and the first half of 1996 of an early retirement program (for which the Company recognized an associated expense of R$35.7 million, of which R$24.9 million was incurred in 1995 and R$10.8 million in 1996) and (ii) salary increases which lagged behind the IGP-M inflation index in 1996.

Regulatory Charges. Regulatory charges decreased by 25.5% to R$85.7 million in 1996 from R$115.0 million in 1995, primarily due to a decrease in the amount electric utilities were required to contribute to the RGR Fund to an annual rate equal to 3% of Revertible Assets through January 1, 1996 and thereafter equal to 2.5% of Revertible Assets. In addition, this amount was capped at an amount equal to 3% of total operating revenues, net of

ICMS Tax, in 1996, as compared to 12% in 1995. See "Item 1. Description of Business—Regulation—Regulatory Charges" and Note 18 to the Financial Statements.

Pension and Other Benefits. Expenses for pension and other benefits decreased to R$28.9 million in 1996 from R$145.6 million in 1995, a decrease of 80.1%. In 1995, the Company recognized a R$109.0 million non-cash expense associated with the underfunding of the Fundação COPEL. See "—Restatement of Certain Items."

Operating Income (Loss)

Operating income (loss) increased to income of R$280.8 million in 1996 from a loss of R$61.8 million in 1995. The loss in 1995 resulted, to a significant extent, from the one-time R$109.0 million non-cash expense associated with the underfunding of the Fundação COPEL described above, which under Brazilian GAAP is treated as an operating expense. See "—Restatement of Certain Items."

Total Other Income (Expense)

Total other income (expense) increased 18.8% to R$49.3 million in 1996 from R$41.4 million in 1995, primarily due to increases in interest income and net exchange gains.

Financial Income (Expense), Net. Net financial income (expense) increased to R$72.7 million in 1996 from R$62.1 million in 1995 as a result of higher cash balances in 1996, increased net exchange gains, an increase in other financial items net and an increase in the amount of interest that was capitalized (rather than treated as interest expenses) as a result of changes in regulations promulgated by DNAEE. Such increased amounts were offset partially by greater amounts of interest paid that resulted from an increase in outstanding indebtedness in 1996. Net exchange gains increased from R$28.1 million in 1995 to R$36.7 million in 1996 as a result of the devaluation of the U.S. dollar as compared to the *real.* See "Item 8. Selected Financial Information—Exchange Rates" and Notes 3(a)(i) and 26 to the Financial Statements.

Non-Operating Expenses, Net. Non-operating expenses increased by 13.5% to R$23.4 million in 1996 from R$20.7 million in 1995 as a result of a loss on the disposition of vehicles and a provision for obsolete inventories.

Total Income Tax

Total income tax increased to R$58.6 million in 1996 from a tax benefit of R$47.9 million in 1995 mainly due to the reversal of income tax on inflationary profit of R$51.8 million recognized in 1995 resulting from COPEL's optional payment of tax on inflationary profit in a single installment in 1995. Higher taxes were paid in 1996 despite the fact that the statutory tax and social contribution tax rates decreased in 1996 as compared with 1995 from 43.0% to 25.0% and from 9.1 % to 7.4%, respectively. Additionally, COPEL took advantage of certain provisions of Brazilian law that permitted the deduction of interest on capital paid to shareholders for income tax purposes. In 1996, the Company elected to declare interest on capital of R$125.6 million rather than dividends. See Note 23 to the Financial Statements. The provision for income tax in 1996 was R$79.3 million and was reduced by R$20.6 million due to deferred tax credits recognized in connection with provisions for other taxes. See Note 20 to the Financial Statements.

Employee Participation

In 1996, the amount that employees were entitled to share in pursuant to the Company's employee profit sharing program was R$20.2 million. See "—Results of Operations for the Years Ended December 31, 1997 and 1996—Employee Participation" and "Item 1. Description of Business—Employees."

Net Income

Net income increased to R$251.2 million in 1996 from R$27.4 million in 1995, primarily as a result of a (i) non-recurring recognition of a deficit in the Fundação COPEL in 1995, (ii) certain other benefits and tax credits, (iii) higher sales revenues and (iv) a reduction in operating expenses mainly related to personnel.

Liquidity and Capital Resources

COPEL's business is capital intensive. The principal capital requirements of the Company historically have been to finance the expansion and upgrading of its electricity distribution and transmission system and to finance the expansion of its generation business. Historically, the Company has financed its liquidity and capital requirements primarily with cash provided by its operations and, to a lesser extent, by external financing.

The Company's principal sources of funds in 1997 were the proceeds of the Company's $575 million global offering of Class B Shares and ADSs, the proceeds of the Company's $150 million offering of 9.75% Notes due 2005, a long-term borrowing of R$130 million from Eletrobrás, funds generated by operating activities and short-term borrowings. In 1997, COPEL's funds generated from operations increased to approximately R$662.3 million from approximately R$526.2 million in 1996. See "—Results of Operations for the Years Ended December 31, 1997 and 1996." COPEL's funds generated from operations were R$376.1 million in 1995.

Capital expenditures increased to R$610.3 million in 1997 from R$546.5 million in 1996 and R$488.5 million in 1995. In 1997, the Company's expenditures on its distribution and transmission systems were R$219.0 million and its expenditures on generation facilities were R$354.9 million, including approximately R$310.6 million for the Salto Caxias hydroelectric facility. The following table sets forth the Company's capital expenditures for the periods indicated.

	Year ended December 31,		
	1997	**1996**	**1995**
	(In millions of December 31, 1997 reais)		
Total Generation			
Generation (excluding Salto Caxias)	44.3	61.3	89.1
Salto Caxias	310.6	269.8	117.3
Transmission	48.8	46.9	52.5
Distribution	170.2	97.1	170.0
Other	36.4	71.4	59.6
Total	610.3	546.5	488.5

Total debt outstanding as of December 31, 1997 was R$1,119.8 million, as compared with R$730.4 million at December 31, 1996 and R$608.7 million at December 31, 1995. Of the R$1,119.8 million of total debt outstanding at December 31, 1997, R$375.7 million was short-term debt (including the current portion of long-term debt) and R$744.1 million was long-term debt. Approximately R$404.3 million of the total debt outstanding at December 31, 1997 was denominated in, or indexed to, the U.S. dollar and approximately R$135.6 million was indexed to a basket of foreign currencies. The increase in total debt outstanding from 1995 to 1996 was due primarily to an increase in short-term commercial paper borrowings and in long-term borrowings from Eletrobrás, and the increase in total debt outstanding from 1996 to 1997 resulted from an increase in long-term borrowings from Eletrobrás, the issuance of short-term debentures that were purchased by *Banco Nacional de Desenvolvimento Econômico e Social,* the government-owned national development bank of Brazil, and the issuance in the international capital markets outside the United States of the Company's 9.75% Notes due 2005 (the "Notes"), the effects of which were partially offset by a decrease in outstanding commercial paper. Among COPEL's long-term borrowings is a loan from the Inter-American Development Bank with approximately R$135.6 million outstanding, payment of which is guaranteed by the Federal Government. In connection with such loan, and in connection with the Notes, the Company is subject to a number of covenants, including limitations on indebtedness and certain financial maintenance covenants.

In May 1997, the Company sold the Notes in the international markets in an aggregate principal amount of US$150 million. The Notes bear interest at a rate of 9.75% per annum and will mature on May 5, 2005. Holders of the Notes may require the Company to redeem their Notes for 99.099% of their then-outstanding principal amount, plus accrued and unpaid interest, on May 5, 2002. In addition, the Company may call the Notes on such date at 99.722% of their then-outstanding principal amount, plus accrued and unpaid interest. The Notes also contain certain covenants limiting the ability of the Company to create liens on its assets.

The Company had working capital of R$427.2 million at December 31, 1997, as compared with a working capital deficit of R$244.1 million at December 31, 1996. The increase in working capital was due to an increase in current assets reflecting (i) the proceeds of the Company's global offering of ADSs and Class B Shares in July 1997 and the investment of such proceeds in short-term debt instruments pending application of such proceeds in the business of the Company, and (ii) prepayment of a portion of ICMS Tax with respect to 1998 gross operating revenues. See "Item 1. Description of Business—General—Relationship with State Government." Current liabilities remained essentially constant as an increase in loans and financing was largely offset by a decrease in dividend liabilities that resulted from payment during 1997 of a portion of dividends declared in respect of that year. COPEL did not pay during 1996 any part of dividends declared in respect of that year. In 1997, the Company elected to declare interest on capital of R$150 million, rather than pay dividends. Such amount was R$18.7 million higher than the amount of the Company would have been required to pay as dividends. See Note 23(d) to the Financial Statements.

COPEL plans to make capital expenditures aggregating approximately R$734 million in 1998 and R$563 million in 1999, as part of its R$3.0 billion capital expenditure program for the years 1998 through 2003. Of total budgeted capital expenditures, approximately R$1.14 billion is budgeted for generation, R$877 million is budgeted for transmission and R$740 million is budgeted for distribution. The Company's capital expenditure program includes actual and planned expenditures for the completion of Salto Caxias of approximately R$324 million.

Capital expenditures for the Company's generation, transmission and distribution businesses are expected to be financed by cash flow from operating activities and by external financing including investment by private sector partners in the construction, financing and operation of Salto Caxias, borrowings from Eletrobrás and other parties, and from the issuance of debt or equity securities in the local and international capital markets. The ability of the Company to generate cash sufficient to meet its planned expenditures is dependent upon a variety of factors, including the ability of the Company to maintain adequate tariff levels, to obtain regulatory and environmental authorizations, to access domestic and international capital markets, to arrange for private sector partnerships on satisfactory terms and to a variety of operating and other contingencies. In addition, COPEL may seek to invest in controlling or non-controlling interests in other existing electric utilities, in communications services or in other areas, each of which may require additional domestic and international financing.

U.S. GAAP Reconciliation

The Company's net income under Brazilian GAAP was R$306.7 million in 1997, R$251.1 million in 1996 and R$27.4 million in 1995. Under U.S. GAAP, the Company would have reported net income of R$149.2 million in 1997, R$136.1 million in 1996 and R$210.3 million in 1995.

The Financial Statements recognize the effects of inflation as permitted under Brazilian GAAP. See Note 35 to the Financial Statements. The reconciliation to U.S. GAAP of the Company's net income and total stockholders' equity does not reverse the effects of such inflation accounting.

The principal differences other than inflation accounting between Brazilian GAAP and U.S. GAAP that affect the Company's net income, as well as stockholders' equity, relate to the treatment of the following items: (i) capitalized interest, (ii) amortization on capitalized interest, (iii) tax incentive investments, (iv) pension and other post-retirement benefits, (v) cumulative amortization on special liabilities, (vi) reversal of deferred charges, (vii) deferred tax effects on the foregoing adjustments, (viii) income tax on special monetary correction and (ix) recoverable rate deficit account. See Note 35 to the Financial Statements for a description of these differences as they relate to the Company and a reconciliation to U.S. GAAP of net income and total stockholders' equity.

Item 9A. *Quantitative and Qualitative Disclosures about Market Risk*

COPEL is exposed to market risk from changes in both foreign currency exchange rates and interest rates. Foreign exchange rate risk exists to the extent the Company's costs are denominated in currencies other than those in which it earns revenues. Similarly, the Company is subject to market risk deriving from changes in interest rates which may affect the cost of its financing. COPEL does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks since, in the view of management, these risks are not material at present, and the Company does not hold or issue derivative or other financial instruments for trading purposes.

Exchange Rate Risk

At December 31, 1997, the Company had outstanding approximately R$404.3 million of indebtedness denominated in U.S dollars and approximately R$135.6 million of indebtedness indexed to a basket of foreign currencies that comprised Deutsche marks, Japanese yen, Dutch guilders, Swiss francs and U.S. dollars. In addition, the Company's payments for purchases of energy from Itaipu are denominated in U.S. dollars. The Company does not have substantial revenues denominated in any of the above foreign currencies and, due to applicable regulations that require the Company to keep excess cash on deposit in *real*-denominated deposits with Brazilian banks, the Company does not have monetary assets denominated in such currencies. The potential loss to COPEL that would result from a hypothetical 20% change in foreign currency exchange rates would be approximately R$114.5 million, primarily due to the increase in the Company's *real*-denominated financial statements in the principal amount of the foreign currency indebtedness described above (which increase would be reflected as an expense in the Company's income statement). A hypothetical and instantaneous change of 20% in foreign currency exchange rates would result in an additional annual cash outflow of approximately R$55 million, reflecting the increased cost in *reais* of servicing foreign-currency indebtedness and purchasing energy from Itaipu. The above sensitivity analyses assume a simultaneous unfavorable 20% fluctuation in each of the exchange rates affecting the foreign currencies in which the foreign-currency indebtedness described above, the related interest expense and the expenses relating to purchase of energy described above are denominated.

Interest Rate Risk

At December 31, 1997, the Company had outstanding approximately R$1.1 billion in loans and financing, of which approximately R$345.9 million bore interest at fixed interest rates and approximately R$773.9 million bore interest at floating rates of interest (primarily the *Taxa de Juros de Longo Prazo*, a long-term interest rate reported by the Central Bank). Pursuant to applicable regulations, COPEL invests excess cash primarily in short-term instruments. A hypothetical, instantaneous and unfavorable change of 100 basis points in interest rates applicable to floating rate financial assets and liabilities held at December 31, 1997, would result in an additional annual cash outflow of approximately $14 million. The above sensitivity analyses are based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial assets and liabilities. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g. U.S. dollars; currencies in the currency basket). As a result, the Company's interest rate risk sensitivity model may overstate the impact of interest rate fluctuations for such financial instruments as consistently unfavorable movements of all interest rates are unlikely.

Item 10. *Directors and Officers of Registrant*

COPEL is managed by its *Conselho de Administração* ("Board of Directors"), which consists of nine members, and its *Diretoria* ("Board of Officers"), which typically consists of six members (each, an "Officer"). The State Government has the ability to control the election of the Board of Directors and, therefore, the direction and future operations of the Company.

Board of Directors

The Company's Board of Directors ordinarily meets once every three months. Its responsibilities include the establishment of the policy and general orientation of the Company's business and the election and supervision of the executive officers of the Company.

The members of the Board of Directors are elected to serve for two-year terms, subject to reelection. Of the nine members of the Board of Directors, eight are elected by the holders of the Common Stock (as a result of which, at present, seven are appointed by the State Government and one is appointed by Eletrobrás). In addition, pursuant to state law, one member is appointed by the Company's employees. The terms of the current members of the Board of Directors expire in 1999. The current members of the Board of Directors are as follows:

Name	Position	Since
Ney Aminthas de Barros Braga	Chairman	1991
Ingo Henrique Hübert	Secretary	1995
Alexandre Fontana Beltrão	Director	1995
Benedito Aparecido Carraro	Director	1995
Fabiano Braga Côrtes	Director	1995
Eduardo Guy de Manuel	Director	1995
Lubomir Antônio Ficinski Dunin	Director	1996
Nicolau Imthon Klüppel	Director	1998
Justiniano Antão do Nascimento	Director	1997

Set forth below is a brief resume for each of the members of the Board of Directors:

Ney Aminthas de Barros Braga. Mr. Barros Braga pursued a career in the military where he attained the rank of general. Currently, he is Chairman of the Board of Directors and has served on the Board of Directors since 1991. Previously, Mr. Braga was President of Itaipu from 1985 until 1990, Governor of the State of Paraná from 1961 to 1966 and from 1979 to 1982, Federal Minister of Education from 1974 to 1978, Senator from 1967 to 1974, Minister of Agriculture of the Federal Government in 1965 and 1966, and a Congressman from 1959 to 1961.

Ingo Henrique Hübert. Mr. Hübert received an electrical engineering degree from the Federal University of Paraná. He is the Chief Executive Officer of the Company. He has been a member and Secretary of the Board of Directors since 1995. Previously, Mr. Hübert served as the Chief Executive Officer of ABS—Indústria de Bombas Centrífugas Ltda. from 1991 to 1995, and he was an executive officer of INCEPA—Indústria Cerâmica do Paraná S.A. from 1988 to 1991.

Alexandre Fontana Beltrão. Mr. Fontana Beltrão received a civil engineering degree from the Federal University of Paraná and a Masters degree in Regional Economics and Development from the Polytechnic School of São Paulo. Previously, Mr. Fontana Beltrão served as the Secretary of Science, Technology and Higher Education for Paraná and as the Chief Executive Officer of the Technology Institute of Paraná—TECPAR.

Benedito Aparecido Carraro. Mr. Carraro received an electrical engineering degree from the Federal University of Santa Catarina. He is the Manager of Planning and Engineering of Eletrobrás.

Fabiano Braga Côrtes. Mr. Côrtes received a law degree from the Law School of Curitiba. Previously, Mr. Côrtes served as the Chief Operating Officer of Itaipu in 1988, and he was a Federal Congressman from 1983 to 1986, Chief of Staff of the Governor of the State of Paraná from 1979 to 1983 and President of the House of Representatives of the State of Paraná from 1979 to 1980.

Eduardo Guy de Manuel. Mr. Manuel received an electrical engineering degree from the Technological Institute of Aeronautics—ITA. He is Chief Executive Officer of SIGMA DATSERV, President of the Commercial Association of Paraná and a Member of the Board of Directors of the Higher Institute of Business Administration Studies—ISAD and of the Brazilian Institute for Quality and Productivity in Paraná.

Lubomir Antônio Ficinski Dunin. Mr. Dunin received an urban architecture degree from the Federal University of Paraná and a Civil Engineering degree from the Federal University of Paraná. He is Secretary of the State of Paraná for Planning and General Coordination and Secretary of the State of Paraná for Urban Development.

Nicolau Imthon Klüppel. Mr. Klüppel has a degree in civil engineering from the Federal University of Paraná. He was the Assistant to the Mayor of Curitiba for Recycling Solid Waste and the Environment from 1989 to 1992, as well as Secretary in the Water Treatment and Sewage Municipal Department of Curitiba from 1993 to 1996. Mr. Klüppel is currently the head of the State of Paraná Agency for the Development of Water Resources and the Management of the Environment.

Justiniano Antão do Nascimento. Mr. Nascimento received an economics degree from the Paraná Foundation for Social Studies and postgraduate degrees from universities in Paraná and elsewhere. Mr. Nascimento serves as a market relations official in distribution at COPEL.

Board of Officers

The Company's Board of Officers meets weekly and is responsible for the day-to-day management of the Company. Each Officer also has individual responsibilities established at the general shareholders' meeting.

The Officers are elected by the Board of Directors for a three-year term but may be removed by the Board of Directors before the expiration of such term. The terms of the current members of the Board of Officers expire in March 2000. The current members of the Board of Officers are as follows:

Name	Position	Since
Ingo Henrique Hübert	Chief Executive Officer	1995
Miguel Augusto Queiroz Schünemann	Chief Administrative Officer	1995
Ferdinando Schauenburg	Chief Financial Officer	1996
Mario Roberto Bertoni	Chief Engineering and Construction Officer	1995
Lindolfo Zimmer	Chief Operations Officer	1995
José Maria Araque Ruiz	Chief Distribution Officer	1997
Deni Lineu Schwartz	Chief Strategic Projects Officer	1997

Set forth below is a brief biographical description of each of the Company's executive officers:

Miguel Augusto Queiroz Schünemann. Mr. Schünemann received a civil engineering degree from the University of Paraná. Previously, he served as head of the Department of Coordination of Planning and Energy Studies at COPEL and has been employed by the Company since 1969.

Ferdinando Schauenburg. Mr. Schauenburg received an economics degree from the Federal University of Paraná. Previously, he served as consultant to the Chief Executive Officer of the Company, and served as Director of the Secretariat of Planning and General Coordination of the State of Paraná from 1991 until 1994.

Mario Roberto Bertoni. Mr. Bertoni received an electrical engineering degree from the Federal University of Paraná. Previously, Mr. Bertoni served as Chief Distribution Officer and Technical Superintendent of Distribution of the Company and has been employed by the Company since 1973.

Lindolfo Zimmer. Mr. Zimmer received degrees in economics and mechanical engineering from the Federal University of Paraná and a Masters degree in economic engineering and industrial business administration from the Federal University of Rio de Janeiro. Previously, Mr. Zimmer served as Manager of COPEL's Division of Mechanical Maintenance of the Operations Department, and has been employed by the Company for more than 17 years.

José Maria Araque Ruiz. Mr. Ruiz received an electrical engineering degree from the Federal University of Paraná. Previously Mr. Ruiz served as Assistant Manager of Distribution at COPEL, and has been employed by the Company since 1972.

Deni Lineu Schwartz. Mr. Schwartz received a civil engineering degree from the Federal University of Paraná. Previously Mr. Schwartz served as Secretary of Transportation for the State of Paraná (1983-1985 and 1995-1997), as a member of the Brazilian Federal Congress from 1993 to 1994, and as Brazilian Federal Minister for Urban Development and Environment from 1986 to 1987, in addition to several terms as a member of the House of Representatives of the State of Paraná.

Audit Committee

The Company's Audit Committee, which generally meets every three months, consists of five members and five alternates (deputy members) elected by the shareholders at the annual meeting for one-year terms. The primary responsibility of the Audit Committee, which is independent of management and of the external auditors appointed by the Board of Directors, is to review the Company's financial statements and report on them to the shareholders. The Audit Committee is also charged with issuing special reports on proposed changes in capitalization, corporate budgets and proposed dividend distributions or any corporate reorganization. The Audit Committee has general responsibility for supervising the activities of management and reporting on them to the shareholders.

The current members and alternates of the Audit Committee, whose terms expire in April 1998, are as follows:

	Since
Norton José Siqueira Silva (Chairman).....................	1995
Dirceu Pires de Araújo..	1995
Eduardo Marques Dias...	1995
Fric Kerin..	1995
Rogério Ferreira Morgado	1997
Alternates	
César Ribeiro Ferreira..	1992
Miguel Arão Ribas Droppa.......................................	1995
Rosangela Heinz Gavinho Ferraz..............................	1995
Getulio Miranda de Paula Garcia..............................	1995
Carlos Alberto de Carvalho Alonso	1992

Item 11. ***Compensation of Directors and Officers***

For the year ended December 31, 1997, the aggregate amount of compensation paid by the Company to all directors and executive officers was approximately R$1,295,894.

Item 12. ***Options to Purchase Securities from Registrant or Subsidiaries***

There were no outstanding options to purchase Class B Shares of the Company from the Company at December 31, 1997.

Item 13. ***Interest of Management in Certain Transactions***

See "Item 1. Description of Business—Relationship with the State Government," "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—Background—Impact of CRC Account" and Notes 11 and 12 to the Financial Statements for a description of certain transactions between the Company and the State Government.

PART II

Item 14. ***Description of Securities to be Registered***

Not applicable.

PART III

Item 15. ***Defaults upon Senior Securities***

Not applicable.

Item 16. ***Changes in Securities, Changes in Security for Registered Securities and Use of Proceeds***

(a) Under amendments to the Brazilian Corporation Law adopted in 1997, a shareholder no longer has redemption rights in the event the shareholders decide to split (*cisão*), dissolve or liquidate the Company.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

(e) Pursuant to a registration statement on Form F-1 (File No. 333-7148) filed by COPEL (the "Form F-1 Registration Statement") which was declared effective by the Securities and Exchange Commission (the "Commission") on July 29, 1997, COPEL registered for sale pursuant to the Securities Act of 1933, as amended (the "Act"), an aggregate of 27,777,777,000 Class B Shares (the "Firm Shares") and an aggregate of 4,166,666,000 Class B Shares (the "Option Shares" and, together with the Firm Shares, the "Offered Shares") that were the subject of an overallotment option granted to the U.S. and International Underwriters (each as defined in the Form F-1 Registration Statement).

Lehman Brothers Inc. and Kleinwort Benson North America LLC acted as managing underwriters in connection with the offering of the Firm Shares that commenced on July 29, 1997 and the offering of the Option Shares that commenced on August 4, 1997 (together, the "Offering"). The Offered Shares were offered for an aggregate offering price of $575,000,000, and all of the Offered Shares were sold pursuant to the Offering prior to December 31, 1997.

COPEL estimates that, from the effective date of the Form F-1 Registration Statement to December 31, 1997, it incurred the following fees and expenses in connection with the offering pursuant to the Form F-1 Registration Statement: (i) $ 7,550,000 of underwriters discounts and commissions, (ii) $121,212 of SEC registration fees, (iii) $30,500 of National Association of Securities Dealers, Inc. filing fees, (iv) 137,100 of New York Stock Exchange listing fees, (v) $775,000 of legal fees and expenses, (vi) 230,000 of accounting fees and expenses, (vii) $230,000 of printing and engraving expenses and (ix) approximately $350,000 of miscellaneous expenses. A portion of these expenses has been reimbursed by the underwriters and the Depositary.

The aggregate net proceeds to COPEL of the Offering, after deduction of underwriting discounts and the offering expenses described above, was approximately $565,000,000. Of that amount, prior to December 31, 1997 COPEL had applied approximately $237 million for the purposes described under the caption "Use of Proceeds" in the Form F-1 Registration Statement, including approximately (i) $68.4 million for the construction of plant, building and facilities, (ii) $105.6 million for the purchase and installation of machinery and equipment and (iii) $64.8 million for repayment of indebtedness, with the remainder being reflected in an increase in working capital (primarily in the form of short term certificates of deposit with Banco do Estado do Paraná, the state bank of Paraná). None of the above uses of proceeds constituted direct payments to directors or officers of, or holders of more than ten percent of any class of equity securities of, COPEL or to others.

PART IV

Item 17. ***Financial Statements***

Not applicable.

Item 18. ***Financial Statements***

Reference is made to Item 19(a) for a list of all financial statements filed as part of this Annual Report.

Item 19. ***Financial Statements and Exhibits***

(a) List of Financial Statements

Financial Statements of Companhia Paranaense de Energia—COPEL as of December 31, 1997, 1996 and 1995 and for the years ended December 31, 1997, 1996 and 1995

(b) List of Exhibits

Estatutos sociais of the Company, as amended to the date of filing.

CRC Account Agreement, dated August 4, 1994, by and between the Company and the State Government (filed by incorporation by reference to Exhibit 10.1 to Form F-1 dated June 30, 1997, file no. 333-7148).

Amendment to CRC Account Agreement, dated October 1, 1997, by and between the Company and the State Government.

Agreement, dated December 19, 1997, by and between the Company and the State Government relating to the prepayment of ICMS Tax.

Signature

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA PARANAENSE DE ENERGIA – COPEL

By:____________________________________
Ingo Henrique Hübert
Chief Executive Officer

By:____________________________________
Ferdinando Schauenburg
Chief Financial Officer

Date: June __, 1998

ANNEX A

GLOSSARY

ANEEL: *Agência Nacional de Energia Elétrica*, the National Agency of Electric Energy.

Average Tariff or Rate: Total sales revenue divided by total MWh sold for each relevant period, including in the case of the Company, unbilled electricity. Total sales revenue, for the purpose of computing average tariff or rate, includes both gross billings before deducting value-added tax and unbilled electricity sales upon which such taxes have not yet accrued.

BNDES: *Banco Nacional de Desenvolvimento Econômico e Social,* the National Bank for Economic and Social Development, the government-owned national development bank of Brazil.

Capacity Charge: A charge for sales of energy that is based on the amount of firm capacity contracted by a customer and that is independent of the amount of energy actually consumed by that customer.

Central Bank: *Banco Central do Brasil*—the Central Bank of Brazil.

COMASE: *Comitê Coordenador das Ativadades do Setor Elétrico*, the Coordinating Committee for Activities of The Electric Sector.

Distribution: the transfer of electricity from the transmission lines at grid supply points and its delivery to customers through distribution lines at voltages between 13.8 kV and 44 kV.

Distributor: An entity supplying electrical energy to a group of customers by means of a distribution network.

DNAEE: *Departamento Nacional de Águas e Energia Elétrica*, the National Department of Water and Electric Energy.

Eletrobrás: *Centrais Elétricas Brasileiras S.A.*—Eletrobrás, the federally-owned electric power company.

Eletrosul: *Centrais Elétricas do Sul do Brasil S.A.*—Eletrosul.

Energy Charge: A charge for sales of energy to a customer that is dependent upon the amount of energy actually consumed by that customer.

Final Customer: A party that uses electricity for its own needs.

Firm Capacity: The level of electric power which COPEL can deliver from a specified power plant with a 95.0% degree of certainty, determined in accordance with certain prescribed statistical models.

FURNAS: *Furnas Centrais Elétricas S.A.*

Generating Unit: An electric generator together with the turbine or other device that drives it.

Gigawatt (GW): 1,000,000,000 watts (1,000 megawatts).

Gigawatt Hour (GWh): One gigawatt of power supplied or demanded for one hour.

GCOI: *Grupo Coordenador para Operação Interligada*, the Coordinating Committee for Interconnected Operation.

GCPS: *Grupo Coordenador de Planejamento dos Sistemas Elétricas*, the Coordinating Committee for the Planning of Electric Systems.

High Voltage or Tension: A class of nominal system voltages equal to or greater than 100,000 volts and less than 230,000 volts.

Hydroelectric Plant: A generating unit that uses water power to drive the electric generator.

ICMS Tax: Tax on the distribution of goods and services calculated as a percentage of the sales price at the time.

IGP-DI: *Índice Geral de Preços—Disponibilidade Interna*, a measure of inflation.

IGP-M: *Índice Geral de Preços—Mercado*, a measure of inflation.

Installed Capacity: The level of electric power which can be delivered from a particular generating unit on a full-load continuous basis under specified conditions as designated by the manufacturer.

Interconnected Power System: Systems or networks for the transmission of energy, connected together by means of one or more links (lines and/or transformers).

Interconnected Power System—South/Southeast: The Interconnected Power System that links the distribution and transmission lines of the South, Southeast and Midwest.

IPP: Independent Power Producer: A legal entity or consortium holding a concession or authorization for power generation for sale for its own account to public utility concessionaires or Unregulated Customers.

ISO: Independent System Operator. An entity responsible for operational planning, administration of generation and transmission and planning of transmission investments in the electricity sector.

Itaipu: *Itaipu Binacional*, a hydroelectric facility owned equally by Brazil and Paraguay.

Kilovolt (kV): 1,000 volts.

Kilowatt (KW): 1,000 watts.

Kilowatt Hour (KWh): One kilowatt of power supplied or demanded for one hour.

Megawatt (MW): 1,000,000 watts (1,000 kilowatts).

Megawatt Hour (MWh): One megawatt of power supplied or demanded for one hour.

MME: Ministry of Mines and Energy.

MVA: One thousand Volt Amperes.

Optimization Rate: A subsidized rate for the sale of energy to the Interconnected Power Systems that reflects only the operating cost associated with such energy (and does not include profit or return on investment for the seller).

Self-producer: an electric-intensive user that holds a concession, permission or authorization to produce energy for its own consumption.

South Region: The States of Paraná, Rio Grande do Sul and Santa Catarina.

Southeast Region: The States of São Paulo, Rio de Janeiro, Minas Gerais and Espírito Santo.

State Government: The government of the Brazilian State of Paraná.

Substation: An assemblage of equipment which switches and/or changes or regulates the voltage of electricity in a transmission and distribution system.

Thermoelectric Plant: A generating unit which uses combustible fuel, such as coal, oil, diesel natural gas or other hydrocarbon as the source of energy to drive the electric generator.

Transmission: The bulk transfer of electricity (in lines with capacity between 500 kV and 34.5 kV) from generation facilities to the distribution system at load center station by means of the transmission grid.

UFIR: *Unidade Fiscal de Referência-UFIR*, a measure of inflation.

Unbilled electricity: Electricity which has been delivered to a customer, but for which the utility has yet to deliver a bill.

Unregulated Customers: (i) existing customers with demand of at least 10 MW and supplied at voltage level equal to or greater than 69 kV; (ii) new customers with demand of at least 3 MW at any voltage; (iii) groups of customers subject to agreement with the local distribution concessionaire; (iv) customers who do not receive supply for more than 180 days from a local distribution concessionaire; and (v) certain others.

URV: *Unidade Real do Valor,* the inflation index introduced during the implementation of the *Real* Plan.

Utility: An entity which is the holder of a concession or authorization to engage in the generation, transmission or distribution of electric energy in Brazil.

Volt: The basic unit of electric force analogous to water pressure in pounds per square inch.

Watt: The basic unit of electrical power.

Wheeling: A transportation charge expressed in *reais*.