
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

Commission file number: 001-14668

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, Brazil

(Address of Principal Executive Offices)

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

| <u>Title of Each Class</u> | <u>Name of Each Exchange On Which Registered</u> |
|---|--|
| 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 listing of American Depositary Shares on the New York Stock Exchange.

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 period covered by this Annual Report:

145,031,081 thousand Common Shares, without par value

450,272 thousand Class A Preferred Shares, without par value

128,174,023 thousand Class B Preferred 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 No

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 Item 18

TABLE OF CONTENTS

Page

PART I

| | |
|---|----|
| Item 1. Description of Business | 1 |
| Item 2. Description of Property | 28 |
| Item 3. Legal Proceedings | 28 |
| Item 4. Control of Registrant | 30 |
| Item 5. Nature of Trading Market | 31 |
| Item 6. Exchange Controls and Other Limitations Affecting Security Holders | 33 |
| Item 7. Taxation | 35 |
| Item 8. Selected Financial Data | 40 |
| Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations ... | 45 |
| Item 9A. Quantitative and Qualitative Disclosures about Market Risk | 55 |
| Item 10. Directors and Officers of Registrant | 56 |
| Item 11. Compensation of Directors and Officers | 59 |
| Item 12. Options to Purchase Securities from Registrant or Subsidiaries | 59 |
| Item 13. Interest of Management in Certain Transactions | 59 |

PART II

| | |
|---|----|
| Item 14. Description of Securities to be Registered | 59 |
|---|----|

PART III

| | |
|---|----|
| Item 15. Defaults upon Senior Securities | 59 |
| Item 16. Changes in Securities and Changes in Security for Registered Securities and Use of Proceeds | 59 |

PART IV

| | |
|--|----|
| Item 17. Financial Statements | 59 |
| Item 18. Financial Statements | 59 |
| Item 19. Financial Statements and Exhibits | 59 |
| Index of Defined Terms | 61 |
| Technical Glossary | 62 |

PRESENTATION OF FINANCIAL INFORMATION

In this Annual Report, Companhia Paranaense de Energia – COPEL, a corporation organized under the laws of the Federative Republic of Brazil (“Brazil”), is referred to as the “Company” or “COPEL.”

References to (i) the “*real*,” “*reais*” or “R\$” are to Brazilian *reais* (plural) and the Brazilian *real* (singular) and (ii) “U.S. dollars,” “dollars” or “US\$” are to United States dollars. All amounts in Brazilian currencies that existed prior to the adoption of the *real* as the Brazilian currency on July 1, 1994 have been restated in *reais*.

References in this Annual Report to the “Common Shares,” “Class A Shares” and “Class B Shares” are to the common shares, class A preferred shares and class B preferred shares, respectively, of the Company. References to “American Depositary Shares” or “ADSs” are to American Depositary Shares, each representing 1,000 Class B Shares. The ADSs are evidenced by American Depositary Receipts (“ADRs”).

The Company’s audited financial statements as of December 31, 1998 and 1999 and for the years ended December 31, 1997, 1998 and 1999 (the “Financial Statements”) contained in this Annual Report are presented in *reais*. The Financial Statements and, unless otherwise specified, the other financial data included herein recognize certain effects of inflation and are restated in constant *reais* of December 31, 1999 purchasing power.

Certain terms are defined the first time they are used in this Annual Report. The “Index of Defined Terms” that begins on page 61 lists those terms and where they are defined. As used herein, all references to “GW” and “GWh” are to gigawatts and gigawatt hours, respectively, references to “kW” and “kWh” are to kilowatts and kilowatt hours, respectively, and references to “MW” and “MWh” are to megawatts and megawatt hours, respectively. These and other technical terms are defined in the Technical Glossary on page 62.

FORWARD-LOOKING INFORMATION

This Annual Report contains forward-looking statements. The Company and its representatives may also make forward-looking statements in press releases and oral statements. Statements that are not statements of historical fact, including statements about the beliefs and expectations of the Company’s management, are forward-looking statements. The words “anticipates,” “believes,” “estimates,” “expects,” “forecasts,” “intends,” “plans,” “predicts,” “projects” and “targets” and similar words are intended to identify these statements, which necessarily involve known and unknown risks and uncertainties. Known risks and uncertainties include those resulting from the restructuring of the Brazilian electric power industry, increasing competition in the industry from both new entrants and recently privatized electric power companies, the anticipated restructuring and privatization of the Company and the Company’s relationship with the government of the State of Paraná, as well as those relating to the cost and availability of financing, the performance of the Brazilian economy generally, the levels of exchange rates between Brazilian and foreign currencies and the Federal Government’s regulatory policy. Accordingly, the actual results of operations of the Company may be different from the Company’s current expectations, and the reader should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them in light of new information or future developments.

PART I

Item 1. *Description of Business*

General

COPEL is a fully integrated electric power company engaged in the generation, transmission and distribution of electricity in the Brazilian State of Paraná (“Paraná”), pursuant to concessions granted by an agency of Brazil’s federal government (the “Federal Government”). At December 31, 1999, the Company generated electricity at 17 hydroelectric plants and one thermoelectric plant, with total installed capacity of 4,545 MW (approximately 99% of which is hydroelectric).

COPEL holds concessions to distribute electricity in approximately 99% of the 399 municipalities in Paraná and in the municipality of Porto União in the State of Santa Catarina. At December 31, 1999, COPEL owned and operated 6,490 kilometers of transmission lines and 148,698 kilometers of distribution lines, constituting the fifth-largest distribution network in Brazil. Of the electricity supplied by COPEL to final customers during 1999, 40% was to industrial customers, 27% to residential customers, 15% to commercial customers and 18% to rural and other customers. The Brazilian electricity sector is undergoing extensive restructuring of the regulatory system, as a result of which COPEL will be subject to increasing competition in the future. See “—Legal and Regulatory Matters—Competition.”

The goals of the Company’s management include improving and expanding the Company’s transmission and distribution systems, increasing operating efficiencies and expanding the Company’s generating capacity. To achieve these goals, the Company will continue to establish partnerships with private companies through consortia or joint ventures. The Company will also continue to diversify its operations by entering businesses where the Company’s management feels it can create operating efficiencies by combining and streamlining certain operations. For example, the Company has purchased interests in telecommunications and sanitation companies. The Company is also entering into new businesses that enable it to exploit assets the Company has typically only used internally. For example, the Company is using its telephone system to create revenues by providing internet services and limited telecommunications services. See “—Operations of COPEL—Other Activities.”

Historical Background

COPEL was formed in 1954 by the government of Paraná (the “State Government”) to engage in the generation, transmission and distribution of electricity, as part of Paraná’s plan to bring the electric power sector under state control. Major expansion occurred in the early 1970s, when the Company acquired the principal private power companies located in Paraná. The period from 1970 to 1977 saw significant expansion of COPEL’s transmission and distribution network and the connection of COPEL’s network to networks in other states. In 1979, a change in state law permitted the Company to extend its generating activities to include production from sources other than hydroelectric plants. In 1994, shares of the Company were first registered for public trading in Brazil and, in July 1997, ADSs representing the Company’s 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

The State of Paraná owns (directly and indirectly) approximately 59% of the common shares of the Company and, consequently, has the ability to control the election of the majority of the members of the Board of Directors, the appointment of senior management and the direction, future operations and business strategy of the Company. In December 1998, the Paraná state legislature adopted legislation providing for the privatization of the Company. See “—The Proposed Privatization of COPEL.”

One of the significant assets of the Company is a receivable from the State Government in the amount of R\$610.1 million at December 31, 1999. The receivable bears interest at an annual rate equal

6.65% and adjusted in accordance with the IGP-DI inflation index. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of CRC Account.” In 1999, COPEL prepaid R\$181 million of state value-added tax (“ICMS Tax”) to be assessed on the Company’s sales of electricity during 2000. The amount prepaid bears interest at a rate equal to the Brazilian interbank deposit rate plus two percent per month and is to be applied against the ICMS Tax in eight monthly installments beginning January 2000. See Notes 5 and 9 to the Financial Statements.

The Proposed Privatization of COPEL

In December 1998, the Paraná state legislature passed a law authorizing the corporate restructuring of COPEL and the sale of the State Government’s interest in the Company. This law requires that a portion of the common shares of the Company to be sold by the State Government be offered to COPEL’s current and retired employees. The new controlling shareholder will also be required to maintain the benefits currently offered to employees by the Company’s pension plan, Fundação COPEL de Previdência e Assistência Social (“Fundação COPEL”), and to permit the employees to name one of the members of the Company’s board of directors. See “—Employees.”

In May 1999, the governor of Paraná created a committee to address the privatization of COPEL. The committee has five members and is responsible for recommending the structure for the sale, the timetable for the privatization process and the minimum price and conditions of payment. The committee will make recommendations to the governor of Paraná. In January 2000, the governor of Paraná issued a decree authorizing the engagement of hiring financial advisors to help prepare the sale of the State Government’s interest in the Company.

BNDES Participações S.A. – BNDESPAR (“BNDESPAR”), a wholly-owned subsidiary of Brazil’s national development bank, owns approximately 26% of the common shares of the Company. Certain contractual arrangements have been entered into between the State Government and BNDESPAR regarding the latter’s participation in the privatization of COPEL. See “Control of Registrant—Shareholders’ Agreement.”

Corporate Restructuring

In January 1999, the Company’s shareholders approved a proposal of the Company’s board of directors (the “Board of Directors”) to restructure the operations of COPEL in accordance with the new regulatory framework for Brazil’s electric power sector. Accordingly, COPEL has separated its operations into five business units, generation, transmission, distribution, information technology and telecommunications. The Company also holds interests in other entities. See “—Operations of COPEL—Other Activities.”

The Brazilian Electric Power Industry

Brazil has an installed capacity of 64.0 GW of which approximately 91% is hydroelectric. The installed capacity includes half the installed capacity of Itaipu, the largest operating hydroelectric plant in the world with 12,600 MW of capacity owned equally between Brazil and Paraguay. The Ministry of Mines and Energy approved a ten-year expansion plan (2000-2009) under which Brazil’s installed capacity is projected to increase to 104.6 GW by 2009, of which 24% is projected to be thermoelectric and 76% is projected to be hydroelectric. There are approximately 198,842 kilometers of transmission lines in Brazil.

Approximately 40.6% of Brazil’s installed generating capacity and 51% of Brazil’s high voltage transmission lines are operated by Eletrobrás. Eletrobrás is controlled by the Federal Government. Eletrobrás has historically been responsible for implementing electric policy, conservation and environmental management programs. It controls four regional subsidiaries responsible for the generation, transmission and distribution of electricity in the north, northeast and southeast of Brazil: Centrais Elétricas do Norte do Brasil S.A. – Eletronorte, Companhia Hidroelétrica do São Francisco – CHESF, Furnas Centrais Elétricas S.A. – Furnas and Centrais Elétricas do Sul do Brasil S.A. – Eletrosul (excluding Eletrosul’s gen-

eration assets that formed Centrais Geradoras do Sul do Brasil S.A. – Gerasul, which was privatized in 1998). Eletrobrás also controls Eletrobrás Termonuclear S.A. – Eletronuclear that was formed following a partial split-up of Furnas. The remaining high voltage transmission lines are owned by state-owned electric power companies. Distribution is conducted by approximately 60 state or local utilities, a majority of which have recently been privatized by federal or state governments. The privatization program is expected to continue thus decreasing public ownership of distribution and generation facilities. See “Legal and Regulatory Matters—Privatization” and “—The Proposed Privatization of COPEL.”

Legal and Regulatory Matters

The Brazilian government has undertaken extensive reforms in the Brazilian electricity sector in recent years. In general terms, these measures have been aimed at placing regulatory authority in the hands of independent agencies, increasing the role of private enterprise (including foreign investors) in electricity generation and distribution and increasing competition in the sector. These developments have resulted in profound changes in the competitive and regulatory environment in which the Company operates. It is not possible to predict the over-all impact that these changes will have on the Company and its results of operations.

Regulatory Agencies

Until recently, the electricity industry in Brazil was comprehensively regulated by the Ministry of Mines and Energy (the “MME”), acting through the National Department of Water and Electrical Energy (“DNAEE”). DNAEE had the power to grant concessions for the generation, transmission and distribution of electricity and played an important role in the rate-setting process. The principal regulatory authority for the sector has now passed to an independent agency, Agência Nacional de Energia Elétrica – ANEEL (“ANEEL”), which was created on December 26, 1996 and established in October 1997. ANEEL has responsibility for (i) acting on applications for concessions for electricity generation, transmission and distribution, (ii) reviewing applications for rate-setting, (iii) supervising and auditing the activities of electricity concessionaires, (iv) issuing regulations for the electricity sector and (v) planning, coordinating and executing water resource studies.

In the past, the construction of new generation facilities and the level of production permitted to existing facilities were subject to regulation by two committees coordinated by Eletrobrás, which included representatives of each of the major concessionary companies, including COPEL. These committees were responsible for preparing and periodically revising plans establishing the number, location, generating capacity and construction schedules of power plants to be built in each region. Supply contracts among the electricity companies within a region were based on an allocation scheme established by the committees.

In 1996, a consortium was selected by the Ministry of Mines and Energy and Eletrobrás to conduct a study regarding the reform of the electricity sector in Brazil. The objective of such reform was to focus the government’s activities on regulatory matters while transferring operation and investment responsibilities to the private sector, permitting the introduction of competition into the sector.

In August 1997, the National Council of Energy Policy (Conselho Nacional de Política Energética – CNPE) was created. The CNPE advises the President of Brazil on the formulation of energy policy in order to: (i) promote the rational use of Brazilian energy resources; (ii) assure the supply of energy to remote areas of the country; and (iii) establish rules regulating the use of natural gas, alcohol, coal and thermonuclear energy.

In 1998, two new institutions were created:

- (a) the Wholesale Energy Market, established by the Federal Government in May 1998 and instituted by the Market Agreement (a standard form agreement that must be signed by participants in the market and which establishes trade rules, allocates costs and provides for dispute resolution mechanisms for market participants; and

(b) the National System Operator (“NSO”), a not-for-profit entity created to coordinate and control the generation and transmission operations in the connected system. The objectives and principal responsibilities of the NSO include: operational planning of generation, organizing the use of the national interconnected electricity systems and international interconnections, guaranteeing access to all the agents in the sector to the transmission network in a non-discriminatory manner, and contributing to the expansion of the electricity systems at lower costs with a view for improved operational conditions in the future.

In addition, the management and supervision of the application of the rules of the Market Agreement is carried out by the Executive Committee of the Market Agreement, which is composed of representatives elected by the signatories of the Market Agreement.

Rates

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 of between 10% and 12% (the “Guaranteed Return”) on service-related assets included in the rate base and (ii) that the rates charged to each class of customer for electricity should be uniform throughout Brazil, notwithstanding the high costs of distribution to remote areas of the country. In cases where the tariffs set by the Federal Government resulted in returns below 10% or above 12%, shortfalls or excesses were credited or debited to each company’s memorandum account (the “CRC Account”).

In general, until 1975, rates were set at levels that afforded the Guaranteed Return to companies in the sector. From 1975 through early 1993, however, rates were fixed at levels that in nearly all cases did not permit electric utilities to achieve the Guaranteed Return because the Federal Government sought to use lower rates to combat inflation. The practical effects of this rate-setting and compensation system were significant fluctuations in real terms in the level of rates during the period and a substantial increase in the CRC Account balances of most utilities.

Legislative changes in 1993 abolished the Guaranteed Return concept and the requirement that electricity rates be uniform throughout Brazil. Instead, each utility was to propose a rate structure based on its particular circumstances for approval by federal regulatory authorities. The proposed rate was to be calculated taking into account the concessionaire’s desired level of remuneration as well as, among other things, operating expenditures, including personnel costs, the costs of electricity purchased from other concessionary companies, certain construction costs, depreciation and amortization charges, taxes other than income taxes and other charges. This legislation 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, to federal financial institutions and to other concessionaires in the electricity sector. In connection with these regulatory reforms, the authorities granted electric utilities significant real rate increases and established a mechanism for automatic adjustments in rates to take account of inflation.

Beginning in December 1993, however, the Federal Government introduced the *Real Plan*, which suspended the automatic adjustment process. Instead, rates were frozen and any increases required the approval of the Ministry of Finance. Rate-setting authority has now passed to ANEEL. In April 1997, COPEL was granted an increase of 13.55% in the rate charged for sales to distributors and 9.7% in the rate charged for sales to final customers. During 1998, the Company was not granted any rate increases.

In August 1998, ANEEL issued new regulations governing distribution tariffs. ANEEL has the authority to readjust and review tariffs in response to changes in energy purchase costs and market conditions. In readjusting distribution tariffs, ANEEL considers the following: (i) costs of electricity purchased for resale under Initial Supply Contracts (See “—Competition”) and from Itaipu; (ii) costs of electricity purchased under freely negotiated contracts; (iii) costs of electricity purchased in the spot market where energy that is not contracted for under the system of Initial Supply Contracts and surplus energy will be purchased and sold); and (iv) certain other charges for transmission and distribution systems.

Each distribution company's concession agreement also provides for an annual readjustment of tariffs based on certain regulatory charges, costs of electricity purchased for resale, costs for the use of hydroelectric resources and transmission costs. Tariffs are also reviewed every four years in accordance with a productivity factor. In 1999, COPEL was granted an increase of 12.65% in the rate charged for sales to final customers (9.37% effective in June, 1.64% effective in July and 1.64% effective in August). Of this increase, 2.69% represented a temporary increase to compensate for higher costs of energy purchased from Itaipu, and the temporary increase expired on June 10, 2000. However, on June 10, 2000, customers rates, which include taxes, decreased by only 1.41% because COPEL passed on to customers a 1% increase in the COFINS rate that had taken effect in January 2000. In September 1999, COPEL was granted an increase of 11.35% in the rate charged for Initial Supply Contracts.

On June 24, 2000, the Company increased its rates to final customers (retail) and distributors (wholesale) by 15.43%, pursuant to authorization from ANEEL.

ANEEL has also issued tariff regulations that govern access to the transmission system and establish transmission tariffs. The tariffs to be paid by distribution companies, generators and independent customers for use of the interconnected systems will be reviewed annually for inflation. In the future, charges for use of the transmission network will be studied and proposed by the NSO. Owners of the different parts of the transmission network, which are part of the basic network (the "Basic Network"), according to criteria established by ANEEL, are to transfer operating control of their facilities to the NSO in return for receiving regulated payments linked to availability. Network users, including generation companies, distribution companies and large customers, are to sign contracts with the NSO entitling them to use the Basic Network in return for payment of published tariffs. The other parts of the transmission network, which are not part of the Basic Network, will be made available directly to the interested users by paying specified fees. Transmission charges will be based on the nodal costs calculated according to the long range incremental costs methodology. Generation companies will pay transmission charges on the basis of the amount of power demand sold to customers. Charges for load will be determined on the basis of maximum use of the transmission system during periods of peak usage.

In June 1999, ANEEL set the monthly amount of R\$2,821/MW as the tariff for use of the Basic Network to be applied to the Initial Supply Contracts between the NSO and the distribution companies. In June 2000, ANEEL increased this tariff to R\$3,235.49/MW. ANEEL also set the amount of R\$1,550.80/MW as the tariff for the transportation of energy from Itaipu to be paid to Furnas by distribution companies that utilize energy from Itaipu. In June 2000, ANEEL increased this tariff to R\$1,755.49/MW.

The rates that energy utility companies pay for the purchase of electricity generated by Itaipu are established pursuant to a treaty between Brazil and Paraguay and are denominated in U.S. dollars. As a consequence, Itaipu rates rise or fall independently of the rates established by federal regulatory authorities for sales by electric utilities. The sale of Itaipu-generated energy does not generate any margin because the tariff for such sales is equal to the tariff paid by the utility plus sales taxes, with no margin to the utility.

Competition

In an effort to promote increased competition, ANEEL in March 1998 announced limits on the concentration of certain services and activities within the electric power sector. Under these limits, (i) no generation company may own more than 20% of Brazil's installed capacity, 25% of the installed capacity of the south/southeast/central-west region or 35% of the installed capacity of the north/northeast region, (ii) no distribution company may account for more than 20% of Brazil's distribution market, 25% of the south/southeast/central-west market or 35% of the north/northeast market, (iii) a company with generation and distribution capacity may not account for more than 30% of Brazil's installed capacity and more than 30% of Brazil's distribution market and (iv) no distributor may purchase from an affiliated generation company, or itself generate, more than 30% of its consumers' total energy requirements.

The generation and distribution companies subject to the above limits are companies or consortia that are holders of concessions, permissions or authorizations, as the case may be, to generate or distribute energy, or agents that hold shares in the controlling group of the generation or distribution company. In the case of an agent, the calculation of such limits is based on the number of common shares of the company owned by the agent. In the case of a limited liability company, the calculation is based on the participation of the agent in the capital of the company.

The company that acquires shares of a generation or distribution company as a result of a privatization of a state or federally owned electric power company is not immediately subject to the above limits provided such company has an agreement with ANEEL obligating it to comply with these limits within 24 months from the date the concession agreement is signed. At the end of this period, the Federal Government, through an auction, will sell the portion of shares that exceed the limits and indemnify the owner of the shares for 90% of the net value of the sale.

In May 1998, the Federal Government established the Wholesale Energy Market that will be instituted by the Market Agreement. The terms of this agreement were approved by ANEEL in January 1999. The following entities are required to participate in the Wholesale Energy Market: (i) generation companies with installed capacity of 50 MW or more, (ii) distribution and retail companies with annual sales of 300 GWh/year or more and (iii) companies that import or export 50 MW or more of electricity. Other generation, distribution and import/export companies are permitted to participate in the market on a voluntary basis.

During a transition period (1998-2005), purchases and sales of energy in the Wholesale Energy Market will occur pursuant to bilateral contracts (“Initial Supply Contracts”) that specify contract prices and volumes approved by ANEEL for their entire duration and replace the former system of supply contracts. The purpose of the transition period is to permit the gradual introduction of competition into the sector and to protect market participants against exposure to potentially volatile spot prices. ANEEL has established the quantities and voltages to be supplied under Initial Supply Contracts in 2000 and 2001. The quantities and voltages to be supplied in 2002 will equal the amounts supplied in 2001.

From 2003 to 2005, the electricity to be committed to Initial Supply Contracts will be reduced each year by 25% of the energy committed for 2002. Generation companies and distribution companies will be free to negotiate new contracts at market prices to replace the uncontracted volumes. Energy that is not contracted for under the system of Initial Supply Contracts and surplus energy will be negotiated directly on the spot market. The rules of the Wholesale Energy Market will not apply to electricity generated by Itaipu. Itaipu power will be the subject of specific contracts between the concessionaires operating in the south/south-east/central-west interconnected system and Furnas or Eletrosul.

To encourage private participation in the electricity sector, new regulations provide for the establishment of “authorized free market retailers” (*agentes comercializadores*). Authorized free market retailers may include generation companies wishing to sell energy directly to final customers, distribution and retail concessionaires acting outside their concession areas and independent retailers or brokers. The first such retailer, Tradener Ltda., was authorized by ANEEL in November of 1998. Tradener is currently offering power provided by COPEL to unregulated customers and distribution utilities and has signed contracts to purchase power from two other significant producers. Tradener is a joint venture between COPEL, DGW Participações and Logos Energia Ltda., a small engineering and power developer based in Paraná. See “Operations of COPEL—Other Activities.”

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 and authorizations. Companies or consortia seeking to construct or operate a generation, transmission or distribution facility in Brazil are required to apply for a concession from ANEEL. Brazil’s legislation requires that the granting of any public utility concession be preceded by a public bidding process. ANEEL

determines the winning bid based on the lowest public service tariff offered, the largest payment to the Federal Government in consideration for receipt of the concession or a combination of both such criteria.

Concessionaires may not transfer, sell or assign certain assets without the prior written consent of ANEEL. The purchase and sale of energy by the “authorized free market retailers”, the import and export of energy and the trade of exceeding energy by the self-producers are subject to prior approval of ANEEL. Spin-offs, consolidations, mergers and reorganizations of concessionaires require prior approval from ANEEL.

The development of hydroelectric plants by an Independent Power Producer – IPP (“IPP”) or a self-producer requires a concession only if the project will have in excess of 1 MW of installed capacity in the case of an IPP or 10 MW in the case of a self-producer. Simplified procedures apply to all other cases, including thermoelectric plants.

Since 1995, controlling interests in distribution and generation companies previously owned by the federal government through Eletrobrás, and in state-controlled distribution companies, have been sold to private investors. Certain state governments have also sold minority interests in major distribution companies in the same period. See “—Privatization.”

Role of the Private Sector

Various legislative and constitutional initiatives in 1995 gave rise to substantial changes in the regulatory framework governing the Brazilian electricity sector. The Brazilian Federal Constitution was amended to permit any Brazilian company to become a concessionaire in the electricity sector (regardless of the nationality of the company’s shareholders). A new federal law on public concessions (in the electricity and other sectors) required the renewal of most existing concessions and required that the granting of new concessions for public utility services be preceded by a public bidding process. New federal legislation relating specifically to the electricity sector opened the sector permitting IPPs to generate and sell electricity for their own account to certain categories of customers, permitting certain customers to purchase electricity from any power supplier and requiring that suppliers and large consumers be given open access (for a fee) to the distribution and transmission systems of concessionaires that are included in the Basic Network.

Privatization

Since 1995, a number of federal and state electric utilities have been privatized. The Federal Government has disposed of its indirect controlling interests in:

- ESCELSA, the power distribution company for the State of Espírito Santo (1995)
- LIGHT, one of the power distribution companies for the State of Rio de Janeiro (1996)
- Centrais Geradoras do Sul do Brasil S.A. – Gerasul, a generation company formed from the generation assets of Centrais Elétricas do Sul do Brasil S.A. – Eletrosul, a subsidiary of Eletrobrás (1998).

The remaining subsidiaries of Eletrobrás (Furnas, CHESF and Eletronorte) are also being prepared for privatization.

Since 1996, a growing number of Brazilian state governments have also privatized electric utilities. More than 10 generation and distribution companies have been privatized by the states, and other privatizations are under way or expected.

Regulatory Charges

Electricity companies are compensated for certain assets used in connection with a concession if the concession is revoked or is not renewed. In 1971, the Brazilian Congress created a reserve fund designed to provide funds for such compensation (the “RGR Fund”). In February 1999, ANEEL revised the

assessment of the RGR fee requiring public-sector electricity companies to make monthly contributions to the RGR Fund at an annual rate equal to 2.5% of assets in service, not to exceed 3% of total operating revenues in any year. See Note 17 to the Financial Statements. In recent years, virtually no concession has been revoked or failed to be renewed, and the RGR Fund has been used principally to finance generation and distribution projects. The RGR Fund is scheduled to be terminated by 2002.

The Federal Government has imposed a fee on IPPs similar to the fee levied on public-sector generation companies in connection with the RGR. IPPs are required to make contributions to the Fundo de Uso de Bem Público (the “UBP Fund”) for five years from the date that they receive their concessions. Eletrobrás will receive the UBP Fund payments until December 31, 2002. All subsequent payments to the UBP Fund will be paid directly to the Federal Government.

Distribution companies are required to contribute to the Conta de Consumo de Combustível (“CCC Account”). The CCC Account was created in 1973 to generate financial reserves to cover fossil fuel costs in thermal power plants in the event of a rainfall shortage which would require increased use of thermal plants. Thermal power plants have higher marginal operating costs than hydroelectric plants. Each electricity company is required to contribute annually to the CCC Account. The annual contributions are calculated on the basis of estimates of the cost of fuel needed by the thermal power plants in the succeeding year. Eletrobrás administers the CCC Account. The CCC Account, in turn, reimburses electricity companies for a substantial portion of the fuel costs of their thermal power plants.

In February 1998, the Federal Government provided for the gradual elimination of the CCC Account. Subsidies from the CCC Account will be phased out over a three-year period beginning in 2003 for thermal power plants constructed prior to February 1998. Thermal power plants constructed after that date will not be entitled to subsidies from the CCC Account. Protection from hydrological risk for centrally dispatched hydrogenerators is now provided through an Energy Reallocation Mechanism (the “ERM”). The ERM will ensure that, under normal operating conditions, hydrogenerators will receive the income associated with their assured energy entitlement by allocating generation from those in surplus to those in deficit.

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 where the plant or the plant’s reservoir is located.

Environmental Regulations

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 enacted 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. COPEL was one of the first energy concessionaires in Brazil to provide an environmental impact report (Segredo Power Plant, 1987) in connection with the construction of a power plant. More recently, the Salto Caxias Power Plant (1995-1999) was constructed pursuing the one of the most comprehensive environmental impact mitigation programs ever implemented in Brazil.

In recent years several important pieces of environmental regulation have been passed. Principally, the Lei de Crimes Ambientais (the Law against Environmental Offenses) took effect in 1998 and established a general framework of liability for infractions of environmental regulations which includes administrative, civil and punitive measures. In regard to the hydroelectric sector in particular, recent federal laws and statutes have established the Sistema Nacional de Gerenciamento de Recursos Hídricos (the National System for Management of Hydro Resources) and the Conselho Nacional de Recursos Hídricos (the National Council of Hydro Resources) to address the major environmental issues facing the hydroelectric sector and the users of hydro resources. Currently, the Brazilian Congress is discussing the poten-

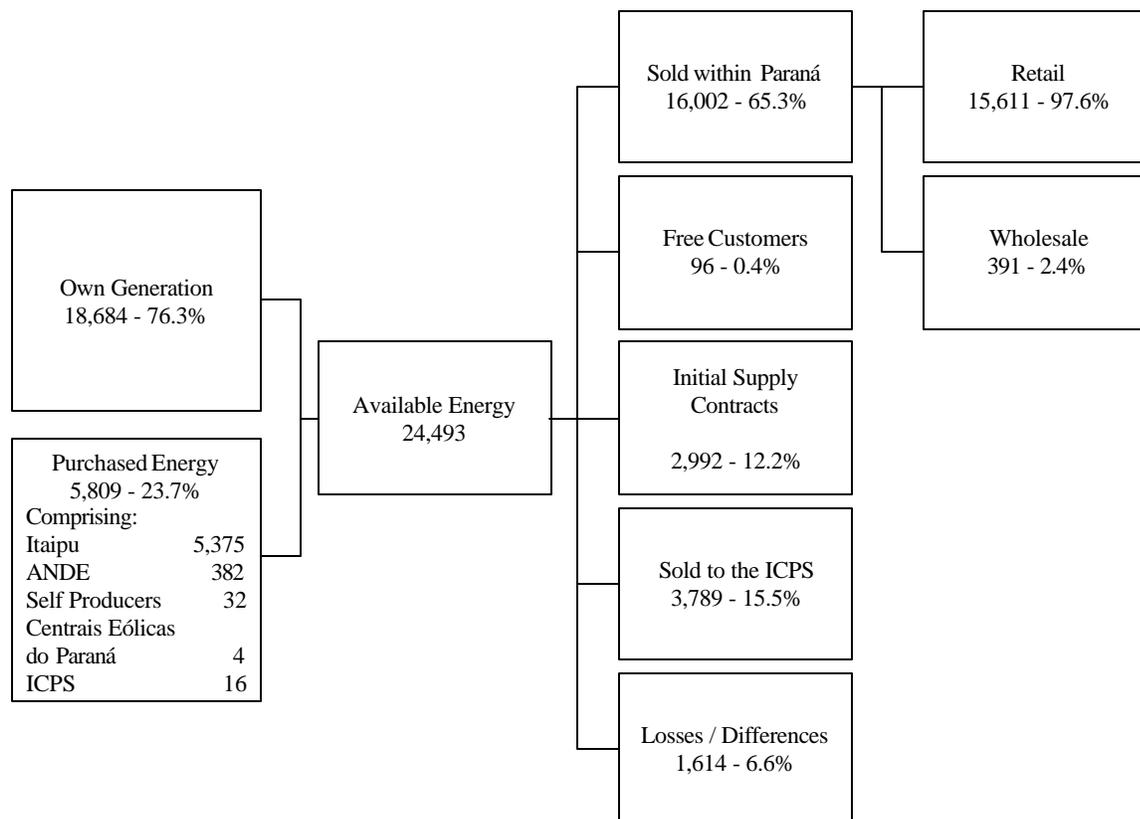
tial establishment of the Agência Nacional de Águas (the National Water Agency) which would regulate and supervise the use of hydro resources.

Currently, the Brazilian Congress is also discussing reforms to the Brazilian Forestry Code. These proposed reforms could have a significant impact on the economic viability of new ventures in the electric power sector, particularly the hydroelectric sector.

Operations of COPEL

General

During 1999, the Company produced 76% of the electricity it delivered. In addition to the energy it produces, COPEL is required, like certain other Brazilian utilities, to purchase energy from Itaipu in an amount determined by the Federal Government based on COPEL's sales of electricity. See “—Generation and Purchases of Energy—Purchases.” The following chart sets forth the sources and uses of electricity delivered by COPEL during 1999. Amounts other than percentages are in gigawatt hours.



Since 1993, the electricity COPEL generates and the electricity COPEL is required to purchase, taken together, have exceeded the amount of energy that COPEL has distributed. In prior years, COPEL 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.

In August 1998, ANEEL issued a resolution replacing the system of supply contracts with Eletrosul with the purchase and sale of energy to wholesale distributors through Initial Supply Contracts. See “—Legal and Regulatory Matters—Competition.” Initial Supply Contracts are negotiated at predetermined rates and quantities approved by ANEEL. ANEEL has established the quantities and voltages to be supplied under Initial Supply Contracts in 2000 and 2001. From 2003 to 2005, the electricity to be com-

mitted to Initial Supply Contracts will be reduced each year by 25% of the energy committed for 2002. Generation companies and distribution companies will be free to negotiate new contracts at market prices to replace the uncontracted volumes. The Company supplies electric energy under Initial Supply Contracts to five distributors.

The Interconnected Power Systems (such as the ICPS) are designed to optimize electricity generation in Brazil. Electric power generation companies 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 from the system during times of drought or other conditions that cause demand to exceed output.

The following table sets forth the total electricity generated by COPEL and purchased from Itaipu and others in the last five years.

| | Year ended December 31, | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| | (GWh) | | | | |
| Electricity generated by COPEL | 18,684 | 17,694 | 15,422 | 18,625 | 13,097 |
| Electricity purchased from Itaipu | 5,375 | 5,302 | 5,410 | 4,976 | 4,688 |
| Electricity purchased from others..... | 434 | 26 | 12 | 9 | 12 |
| Total..... | <u>24,493</u> | <u>23,022</u> | <u>20,844</u> | <u>23,609</u> | <u>17,797</u> |

The following table sets forth the total electricity sold by COPEL to final customers, distributors, Eletrosul and the Interconnected Power System—South/Southeast in the last five years.

| | Year ended December 31, | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| | (GWh) | | | | |
| Electricity delivered to final customers..... | 15,611 | 15,006 | 14,230 | 13,503 | 12,661 |
| Electricity delivered to distributors in Paraná..... | 391 | 366 | 351 | 339 | 318 |
| Electricity delivered to free customers..... | 96 | 0 | 0 | 0 | 0 |
| Electricity delivered to out of state distributors under Initial Supply Contracts | 2,992 | 160 | 0 | 0 | 0 |
| Electricity delivered to Eletrosul..... | 0 | 509 | 2,210 | 2,468 | 2,619 |
| Losses—Distribution System..... | 1,614 | 1,431 | 1,369 | 1,086 | 1,250 |
| Net energy (gains) losses for transmission..... | 0 | 0 | 0 | 24 | (200) |
| Subtotal..... | <u>20,704</u> | <u>17,472</u> | <u>18,160</u> | <u>17,420</u> | <u>16,648</u> |
| Electricity delivered to the ICPS | <u>3,789</u> | <u>5,550</u> | <u>2,684</u> | <u>6,189</u> | <u>1,149</u> |
| Total..... | <u>24,493</u> | <u>23,022</u> | <u>20,844</u> | <u>23,609</u> | <u>17,797</u> |

Generation and Purchases of Energy

Generating facilities

At December 31, 1999, COPEL operated 17 hydroelectric plants and one thermoelectric plant, with a total installed capacity of 4,545 MW. Substantially all the electricity produced by COPEL is pro-

duced by its hydroelectric plants. COPEL generated 18,684 GWh of electricity in 1999, 17,694 GWh in 1998, 15,422 GWh in 1997 and 18,625 GWh in 1996. The 5.6% increase from 1998 to 1999 reflects an increase of 3,822 GWh attributable to the opening of the Salto Caxias generating units, which was partly offset by a return to more normal hydrological conditions from the very favorable conditions in 1998. The 14.7% increase from 1997 to 1998 reflects favorable hydrological conditions during 1998. The 17.2% decrease from 1996 to 1997 reflects extremely favorable hydrological conditions at COPEL's generating facilities during 1996.

The Company's management expects annual production capacity to increase further in 2000 due to the operation of the Salto Caxias generating units for the full year.

The following table sets forth certain information relating to COPEL's principal plants in operation at December 31, 1999.

| Type | Plant | Installed Capacity (MW) | Assured Energy (1) (GWh/yr) | Placed In Service | Concession Expires |
|----------------|--------------------|----------------------------|--------------------------------|-------------------|--------------------|
| Hydroelectric | Foz do Areia | 1,676 | 5,055 | 1980 | 2023 |
| Hydroelectric | Segredo | 1,260 | 5,387 | 1992 | 2029 |
| Hydroelectric | Salto Caxias | 1,240 | 5,361 | 1999 | 2010 |
| Hydroelectric | Capivari Cachoeira | 252 | 1,104 | 1971 | 2021 |
| Hydroelectric | Guaricana | 36 | 119 | 1957 | 2026 |
| Hydroelectric | Chaminé | 18 | 102 | 1930 | 2026 |
| Thermoelectric | Figueira | 20 | 123 | 1963 | 2019 |

(1) Values used to determine volumes committed for sale under Initial Supply Contracts.

Foz do Areia. The Foz do Areia hydroelectric plant is located on the Iguaçu River, approximately 240 kilometers southwest of the city of Curitiba. The Foz do Areia plant began full operations in 1982.

Segredo. The Segredo hydroelectric plant is located on the Iguaçu River, approximately 285 kilometers southwest of the city of Curitiba. The Segredo plant began full operations in 1993. In March 1996, the Jordão River Project was completed which linked a dam to the Segredo reservoir, thereby increasing the plant's assured energy by 10%.

Salto Caxias. The Salto Caxias hydroelectric plant is located on the Iguaçu River. The Company began constructing the plant in 1994. The Company began to fill the reservoir in October 1998 and placed the final generating unit in service in October 1999. The plant has an installed capacity of 1,240 MW and an assured energy of 5,361 GWh/year.

By year-end 1999, the Company's investment in the construction of Salto Caxias totaled R\$1,450 million. The Company funded the project with cash from operations and proceeds from financings completed in 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." The cost per megawatt of installed capacity is approximately R\$1,17 million.

Capivari Cachoeira. The Capivari Cachoeira hydroelectric plant is the largest underground hydroelectric plant in Brazil. It is located on the Capivari River, approximately 50 kilometers north of the city of Curitiba. The Capivari Cachoeira plant began full operations in 1971.

Expansion of Generating Capacity

Demand for electrical energy in southern Brazil continues to grow. In 1999, the total power consumption in the Company's concession area was 15,611 GWh as compared to 15,006 GWh in 1998, an increase of 4%. The Company has invested heavily in increasing its capacity, culminating with the completion of the Salto Caxias facility in 1999. Beginning in 2000, the Company will invest substantially less as a result of limitations under Brazilian monetary regulations on the ability of state-controlled entities to borrow internationally to finance new investment. See "Management's Discussions and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources." The Company's man-

agement projects it will spend R\$144 million on generation capacity from 2000 through 2003. As a result, current investment plans will not result in significant increases in capacity.

The following table sets forth information regarding the Company's planned major generation projects for the period from 2000 to 2005.

| Facility | Estimated Installed Capacity (MW) | Assured Energy(1) (GWh/year) | Budgeted Completion Cost (R\$ million) | Expected Beginning of Operation | COPEL's Ownership Percentage | Status |
|----------------|--------------------------------------|---------------------------------|---|---------------------------------|------------------------------|--------------------|
| Machadinho | 1,140 | 4,143 | 784 | August 2002 | 5.2% | Concession awarded |
| Campos Novos | 880 | 2,978 | 533 | October 2005 | 15% | Concession awarded |
| Araucária (2) | 480 | 3,868 | 500 | October 2002 | 20% | SPC incorporated |
| Dona Francisca | 125 | 701 | 192 | February 2001 | 23% | Concession awarded |

(1) Values used to determine volumes committed for sale under Initial Supply Contracts.

(2) Thermoelectric power plant.

Machadinho. The Company owns a 5.2% interest in Machadinho Energética S.A., 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 Machadinho hydroelectric plant will be located on the Pelotas River, which marks the border between the States of Santa Catarina and Rio Grande do Sul. The Machadinho hydroelectric plant is expected to have installed capacity of 1,140 MW. When completed, the plant will be operated by Gerasul, one of the consortium members. The consortium agreement provides that COPEL will purchase electricity generated by the plant in proportion to its interest in the consortium. The work that has already been completed includes the river diversion, the laying of concrete on the intake and work on the main dam and on the powerhouse facilities. The consortium members estimate that the expenditures necessary to construct the plant will total approximately R\$784 million, of which COPEL will be responsible to contribute approximately R\$41 million. At year end 1999, COPEL had already invested R\$16 million.

Campos Novos. The Campos Novos hydroelectric plant will be located on the Canoas River in the State of Santa Catarina, and is projected to have installed capacity of 880 MW. Campos Novos Energia S.A.—ENERCAN, a consortium of seven companies, is expected to sign the concession agreement for the plant in the near future. The Company owns a 15% interest in Campos Novos Energia S.A. The Company is providing technical management in the preparation of the basic engineering project review which is close to completion. During 1999, the basic environmental project was completed and submitted to the Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis—IBAMA (the Brazilian Institute for the Environment and Renewable Natural Resources) in order to obtain the installation permit for the power development project. The consortium members estimate that the expenditures necessary to construct the plant will total approximately R\$533 million, of which COPEL will be responsible to contribute approximately R\$80 million.

Dona Francisca. The Dona Francisca hydroelectric plant will be located on the Jacuí River in the State of Rio Grande do Sul. The Company owns a 23% interest in the consortium that holds the concession for Dona Francisca. In 1999, the second stage of the river diversion was concluded. The next significant milestone will be the damming of the river, which is scheduled to occur in October 2000. The first unit is scheduled to start operating in February 2001 and the second unit is scheduled in May 2001. The plant is projected to have an installed capacity of 125 MW and 80MW of assured energy. The consortium members, including COPEL, estimate the investment necessary to construct the plant at approximately R\$192.3 million. The financial plan estimates that R\$64.1 million will come from shareholders and R\$128.2 million will come from borrowings. As of December 1999, the consortium members had invested R\$97.4 million and COPEL had invested R\$14.5 million in this project.

Santa Clara and Fundão. COPEL is involved in two consortia to build the Santa Clara and Fundão power plants. COPEL's interest will be 30% in the consortium created to construct the Santa Clara power plant and 20% in the consortium created to construct the Fundão power plant. The other consortium members include Construtora e Incorporadora Paineira Ltda., Guvel Participações Ltda. and Redentor Participações Ltda. During 1999, the consortia submitted to the Environmental Institute of Paraná, the Environmental Impact Studies and the Environmental Impact Statement, together with topographical, hydrological and electrical studies for Fundão and Santa Clara.

Lajeado. The Lajeado hydroelectric plant will be located in the State of Tocantins on the Tocantins River and will have an installed capacity of 850MW. The project began in December 1997 after the Lajeado Consortium won the bid for the project. The Lajeado hydroelectric plant construction timetable projects that operations for the first 175 MW unit will begin in December 2001. COPEL's investment in the project is exclusively funded with resources derived from fiscal incentives duly approved by SU-DAM. In 1999, COPEL invested R\$8.7 million in this project.

Thermoelectric Plants. UEG Araucária Ltda., formed in April 1998, is a partnership between COPEL, El Paso Empreendimentos e Participações Ltda. and Petrobrás Gás S.A.—Gaspetro. The partnership plans to construct a thermal plant in the Municipality of Araucária (located in the Curitiba metropolitan area). The plant is expected to have installed capacity of 480 MW and is expected to be fired by natural gas imported from Bolivia through the Brazil-Bolivia pipeline. The plant is expected to begin operating in October 2002. The capacity purchase contracts, the gas supply contracts and the plant acquisition turnkey contract are in the process of being finalized. The Company has also signed an agreement guaranteeing that it will purchase power from the plant ensuring its commercial feasibility. The estimated cost of this power plant and related links to the transmission system is R\$500 million, of which the Company's share is expected to total approximately R\$100 million.

COPEL has acquired a 20% interest in a partnership to construct a thermoelectric power plant called Usina Termoelétrica de São Mateus (Xisto), which will be located near the Iguaçu river in south western Paraná. The plant is projected to have installed capacity of 70 MW and begin operations in March 2003.

The Company also plans to increase the installed capacity of the Usina Termoelétrica de Figueira thermoelectric plant from 20 MW to 120 MW. The plant is projected to begin operations at increased capacity in July 2002.

Wind Power. The Company owns a 30% interest in Centrais Eólicas de Palmas Ltda., a special-purpose company formed in December 1998 to install and operate the first wind power plant in southern Brazil. The wind power plant comprises five 500 KW wind power generators amounting to an installed capacity of 2.5 MW. The facility generates 6.5 MWh annually. The plant has been in operation since February 1999.

Projects Under Study. The Company has signed letters of intent to participate in consortia to carry out seven new projects on the Tibagi and Jordão Rivers with an estimated total installed capacity of 1,300 MW. The feasibility and environmental-impact studies for the projects are being conducted to allow the Company to bid for the concessions. In particular, the feasibility of the Tibagi River projects will be greatly affected by the environmental impact studies, since these projects would be located in areas which are under environmental protection. The Company is also in the process of reviewing the hydroelectric potential of the Chopim and Ivaí rivers, which are located in the State of Paraná.

The Company has also signed a letter of intent with the Ministry of Mining and Energy for the installation of five new thermo-electric power plants in Paraná to reduce Paraná's dependence on hydraulic generation.

Purchases

COPEL purchased 5,375 GWh of electricity from Itaipu in 1999, or 22% of the total electricity generated and purchased by COPEL in 1999. The energy purchased from Itaipu represents 6% of Itaipu's supply to Brazil and 41.5% of the energy purchased from Itaipu by the southern region of Brazil. Itaipu is the largest operating 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.

The devaluation of the *real* in 1999 resulted in a substantial increase in the cost of power purchased from Itaipu. From February to May 1999, a special exchange rate of R\$1.55 to U.S.\$1.00 was temporarily available to mitigate the effects of the devaluation on purchases from Itaipu.

During December 1999, the average tariff paid by the Company for purchases of energy from Itaipu was R\$63.02 per MWh as compared to R\$45.01 during December 1998. (These figures include the transmission tariff that must be paid by distribution companies for the transmission of energy from Itaipu).

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. Residential customers, representing 28% of the Company's market for electricity, used 4,306 GWh during 1999 – an increase of 2.9% over residential use during 1998. Industrial customers, representing 40% of the Company's market for electricity, used 6,238 GWh during 1999 – an increase of 5.2% over industrial use during 1999.

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

| | At December 31, | | | | |
|--|-----------------|----------|----------|----------|----------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| Transmission and subtransmission lines (km) | | | | | |
| 230 kV and above | 1,491.7 | 1,258.2 | 1,324.3 | 1,282.3 | 1,262.3 |
| 138 kV | 3,859.1 | 3,949.7 | 3,746.9 | 3,542.4 | 3,465.8 |
| 69 kV | 1,139.7 | 1,143.9 | 1,210.9 | 1,320.6 | 1,353.2 |
| Distribution lines (km) | | | | | |
| 23 kV to 44 kV | 75,566.0 | 73,373.8 | 70,038.8 | 68,444.7 | 66,934.0 |
| Overhead distribution lines (13.8 kV to 23 kV) | 73,132.0 | 72,044.4 | 70,298.5 | 68,022.3 | 65,169.0 |
| Transformer capacity (MVA) | | | | | |
| Transmission substations | 16,475 | 14,316 | 13,596 | 12,828 | 12,831 |
| Distribution substations | 1,237 | 1,199 | 1,158 | 1,175 | 1,188 |
| Distribution transformers (MVA) .. | 5,558 | 5,313 | 5,008 | 4,698 | 4,494 |
| Total energy losses | 6.6% (1) | 8.5% | 8.6% | 7.3% | 8.8% |

(1) Not comparable to other years due to a difference in methodology instituted in 1999. In 1999 available energy equaled generation + energy purchased. Previously, available energy equaled generation + energy purchased from the interconnected system – energy sold to the interconnected system.

Transmission

COPEL transmits electricity generated by COPEL and energy received from the Interconnected Power System—South/Southeast. COPEL also has 13 industrial customers that are directly supplied with high voltage (at least 69 kV) energy through connections to COPEL's transmission lines. These industrial customers accounted for approximately 14% of COPEL's total volume of electricity sold in 1999. In addition to using transmission lines to provide energy to customers in Paraná, COPEL transmits energy through the Interconnected Power System—South/Southeast. In 1999, COPEL's transmission system was reinforced as 6 new substations were completed, 102 existing substations were upgraded, and 139 kilometers of transmission lines were built.

Companies with transmission facilities, such as COPEL, are required to allow third parties to use their transmission facilities. In 1998, for the first time, companies with transmission facilities were authorized to charge third parties for the use of their transmission facilities. Charges for use of the transmission network for each interconnected system are set by ANEEL. In addition, under the new regulatory regime, COPEL is responsible for expanding the transmission grid within its concession area. During 1999, the Company completed the construction of 5 new substations having voltage ranging from 69 kV to 500 kV and the construction of approximately 139 kilometers of new transmission lines with voltage ranging from 69 kV to 500 kV.

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's transmission system links the states in the south of Brazil to those in the southeast region of Brazil. In addition to its own transmission system, COPEL supplies energy using Eletrosul's transmission system. In 1998, for the first time, companies, such as COPEL, were charged to use the transmission facilities of other companies.

Distribution

COPEL's distribution system consists of a widespread network of overhead lines and substations with voltages up to 34.5 kV. 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, 1999, COPEL provided electricity in a geographic area encompassing 98% of Paraná and served over 2.7 million customers.

COPEL's distribution network includes 148.7 kilometers of distribution lines, 283,125 distribution transformers and 230 distribution substations. During 1999, 75,627 new clients were connected to the Company's network, including customers connected through the rural and urban electrification programs. COPEL is continuing to implement 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 965 kilometers in 1998 to 1,100 kilometers in 1999.

System Performance

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

During 1999, the Company's energy losses totaled 6.6% of available energy. The figure for energy losses in 1999 is not comparable to those in other years due to a change in methodology mandated by the concession agreement which was instituted in 1999. Specifically, of COPEL's energy losses during 1999, 44% occurred during distribution and 56% occurred during transmission (excluding losses from the transmission lines operated by Eletrobrás).

The quality and reliability of power supply also improved during 1999, as measured by such indicators as annual duration of outages per consumer and annual frequency of outages per consumer. Information regarding the duration and frequency of outages for COPEL's customers are set forth in the following chart for the years indicated.

| Quality of Supply Indicator | Year ended December 31, | | | | |
|---|--------------------------------|-------------|-------------|-------------|-------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| Duration of outages per consumer per year (in hours)..... | 12h 25min | 13h 25min | 15h 35min | 16h 32min | 18h 04min |
| Frequency of outages per consumer per year (number of outages)..... | 13.39 | 14.55 | 17.27 | 18.70 | 19.94 |

Sales to Final Customers

During 1999, COPEL supplied approximately 97% of the energy distributed directly to customers in Paraná. COPEL's concession area includes over 2.7 million customers located in Paraná and in one municipality in the State of Santa Catarina, to the south of Paraná. During 1999, the total power consumption throughout COPEL's concession area was 15,611 GWh as compared to 15,006 GWh during 1998. This increase in the total consumption was sustained by higher levels of industrial and commercial consumption, which together make up 55% of the Company's market for electricity. Residential customers, representing 28% of the Company's market for electricity, used 4,306 GWh during 1999 – an increase of 2.9% over residential use during 1998. Industrial customers, representing 40% of the Company's market for electricity, used 6,238 GWh during 1999 – an increase of 5.2% over industrial use during 1999.

The following table sets forth certain information regarding the Company's volumes of energy sold to, and revenues (in millions of constant *reais*) from sales of energy to, different categories of purchasers for the periods indicated.

| Categories of Purchaser | Year ended December 31, | | | | | | | | | |
|--|-------------------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|
| | 1999 | | 1998 | | 1997 | | 1996 | | 1995 | |
| | (GWh) | (R\$) | (GWh) | (R\$) | (GWh) | (R\$) | (GWh) | (R\$) | (GWh) | (R\$) |
| Industrial..... | 6,238 | 588 | 5,932 | 582 | 5,641 | 578 | 5,365 | 561 | 5,214 | 571 |
| Residential..... | 4,306 | 853 | 4,185 | 857 | 3,949 | 773 | 3,780 | 685 | 3,390 | 513 |
| Commercial..... | 2,384 | 392 | 2,268 | 398 | 2,111 | 371 | 1,949 | 352 | 1,783 | 334 |
| Rural and others(1)..... | 2,283 | 224 | 2,141 | 223 | 2,073 | 219 | 1,968 | 203 | 1,853 | 216 |
| Public services | 496 | 48 | 480 | 49 | 456 | 48 | 441 | 46 | 421 | 50 |
| Interconnected Power Sys- tem—South/Southeast | 3,789 | 25 | 5,550 | 31 | 2,684 | 22 | 6,189 | 37 | 1,149 | 7 |
| Other distributors | <u>3,383</u> | <u>126</u> | <u>1,035</u> | <u>38</u> | <u>2,560</u> | <u>76</u> | <u>2,807</u> | <u>85</u> | <u>2,937</u> | <u>90</u> |
| Total(2)..... | <u>22,879</u> | <u>2,255</u> | <u>21,591</u> | <u>2,178</u> | <u>19,475</u> | <u>2,086</u> | <u>22,499</u> | <u>1,969</u> | <u>16,747</u> | <u>1,782</u> |

(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 at December 31, 1999.

| Category | Number of Final Customers |
|------------------------|------------------------------|
| Industrial..... | 43,090 |
| Residential..... | 2,159,603 |
| Commercial..... | 235,671 |
| Rural and others | <u>315,257</u> |
| Total | <u>2,753,621</u> |

Approximately 40 % of the electricity sold by COPEL to final customers in 1999 was sold to industrial customers. During 1999, approximately 7% of industrial consumption was from industrial customers involved in transportation (primarily mechanical and transportation material) as compared to 5.1% during 1998. The other primary industrial consumers included those involved in the lumber and foodstuff industries, accounting for 7% and 21.4% respectively of industrial consumption. In 1999, COPEL's 20 largest industrial customers accounted for approximately 16.6% of COPEL's electricity sold to final customers and approximately 7.7% of COPEL's revenues from sales to final customers. No customer accounted for more than 1.2% of COPEL's revenues.

Tariffs

Retail tariffs. COPEL's customers are classified into two groups ("Group A Customers" and "Group B Customers"), based on the voltage level at which electricity is supplied to them 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 electricity 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 electricity 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.

Effective June 1999, COPEL was granted an increase of 12.65% in the rate charged for sales to final customers. Specifically, the tariff was increased by 9.37% in June 1999, 1.64% in July 1999 and 1.64% in August 1999. The average rate paid by final customers was R\$98.96 per MWh during 1999, having increased by 13.8% from December 1998. Residential and commercial customers, who pay relatively high rates compared to industrial customers, accounted for approximately 28% and 15%, respectively, of the Company's market for electricity during 1999. In December 1999, 40.5% of COPEL's revenues from sales to final customers were from sales to residential customers, the category with the largest participation in the revenues from sales to final customers, with an average tariff of R\$145.66 per MWh. The average tariff for the industrial category was R\$66.39 per MWh, and this sector accounted for 28% of the revenues from sales to final customers.

The following table sets forth the average tariffs (not including value-added taxes) for each category of final customer in effect in December of 1999 and 1998.

| | December 1999 | December 1998 |
|---------------------------|--------------------------|--------------------------|
| | (R\$) | (R\$) |
| <u>Tariffs</u> | | |
| Residential..... | 145.66 | 128.73 |
| Industrial..... | 66.39 | 54.15 |
| Commercial..... | 120.30 | 107.52 |
| Rural..... | 83.68 | 74.06 |
| Other..... | 85.78 | 75.41 |
| All final customers | 98.96 | 86.93 |

Low Income Residential Customers. In 1996, DNAEE issued regulations providing for discounted rates for certain low income residential customers. A "Low Income 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 R\$453 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. In 1999, the number of Low Income Customers served by the Company was 149,384.

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

| <u>Consumption</u> | <u>Discount From Base Tariff</u> |
|------------------------------------|---|
| Up to 30 KWh per month..... | 65% |
| From 31 to 100 KWh per month..... | 40% |
| From 101 to 160 KWh per month..... | 10% |

Non-retail Tariffs. In September 1999, COPEL was granted an increase of 11.35% in the rate charged for Initial Supply Contracts. During December 1999, the average tariff for COPEL for purchases and sales of energy pursuant to Initial Supply Contracts was R\$30.38 per MWh. The average tariff during December 1999 for the smaller utilities operating in the state of Paraná, such as Companhia Campo Larguense de Energia, Companhia Força e Luz do Oeste, Companhia de Luz e Força de Santa Cruz and Força e Luz Coronel Vivida, was R\$40.64/MWh.

The following table sets forth average tariffs in effect in December of 1999 and 1998.

| | December 1999 | December 1998 |
|-------------------------------|--------------------------|--------------------------|
| | (R\$/MWh) | (R\$/MWh) |
| <u>Tariffs</u> | | |
| Distributors | 40.64 | 36.20 |
| Initial Supply Contracts..... | 30.38 | 29.25 |
| Itaipu (Purchase)* | 63.02 | 45.01 |

* Furnas tariff included.

Transmission Tariffs. In June 1999, ANEEL set the amount of R\$2,821/MW as the monthly tariff for transmission through the Basic Network and in June 2000, ANEEL increased this tariff to R\$3,235.49/MW. In 1999, COPEL paid R\$121.1 million in tariffs for the use of the Basic Network and received R\$30.3 million in tariff revenues for the use of COPEL's transmission network.

Also in June 1999, ANEEL set the amount of R\$1,550.80/MW as the tariff for the transportation of energy from Itaipu to be paid to Furnas by distribution companies, such as the Company, that utilize energy from Itaipu. In June 2000, ANEEL increased this tariff to R\$1,755.49/MW.

Other Activities: Telecommunications and Information Technology

COPELte. In 1995, the Company decided to take advantage of its transmission lines to create a data and voice transmission network based on optical technology that the Company could market to corporate clients. In March 1998, COPEL was the first Brazilian electric power company to receive authorization from Anatel to provide certain limited specialized telecommunications service, including the provision of corporate telecommunications services.

During 1999, the Company completed the first fiber optic backbone in Paraná consisting of 2,400 km of optical fiber cables. The Company plans to install a total of 3,528 km that will reach 82% of the population of Paraná. Also during 1999, the Company installed over 565km of high capacity access cables in Paraná and began implementing its plan to provide for corporate data transmission in an area of Curitiba that may account for up to 30% of all corporate data traffic in Paraná.

The Company began providing telecommunications services in August of 1998. The Company currently provides services to most of the telecommunications operators in Paraná, including Global Telecom, Embratel, Brasil Telecom, Impsat and Sercomtel. The Company also services supermarket chains, drugstores, schools, banks and other large corporate clients. Revenues from the Company's telecommunications business have grown markedly and steadily – since January of 1999, increasing an average of 15% each month.

In March 2000, the Company signed a telecommunications service agreement with Global Village Telecom, the private regime competitor of Brasil Telecom. In March 2000, the Company also submitted a request to Anatel to expand its authorization so as to allow the Company to provide certain limited specialized telecommunications service throughout the country.

In 1999, the Company's revenues totaled R\$12.4 million and by December 1999 the Company had 33 clients. As of June 2000, the Company has 59 clients and the Company's management expects an increase in revenues in 2000.

COPELti. The Company is also upgrading its corporate IP network in order to offer IP services to corporate clients. Presently, the Company's corporate IP network is offered in approximately 200 municipalities in the State of Paraná. The Company is upgrading its infrastructure with equipment carrying ATM technology and access routers to enable the Company to offer Virtual Private Network ("VPN") and Virtual Private Dial Network ("VPDN"). This technology permits companies to create their

own networks by purchasing the VPN and VPDN services. The Company is also offering dedicated access to the Internet by creating a network hub to which several high-speed Internet connections from different Internet service providers converge.

ONDA ISP (“ONDA”). In February 1999, COPEL and Sercomtel created Companhia Nacional de Intervias (CNI) – each holding a 50% interest. In September 1999, CNI (49%), INEPARnet (25.5%) and América Negócios (25.5%) created ONDA. ONDA is the largest and most technologically advanced internet service provider in Paraná – making use of COPEL’s fiber optic network and ATM and VPDN services. ONDA’s connection to the Internet is carried out through a link of over 12 Mbps, currently the fastest connection provided by an ISP in Paraná.

Sercomtel. In May 1998, COPEL purchased 45% of the voting stock of Sercomtel Telecomunicações S.A. and 45% of Sercomtel Celular S.A. (jointly, “Sercomtel”) for a total of R\$225.1 million. Sercomtel holds the concessions to provide fixed and mobile telephone services in the municipalities of Londrina and Tamarana in Paraná. The Company and Sercomtel are seeking operating synergies between their telecommunications and electric power operations. Sercomtel Telecomunicações S.A., the fixed-line operator, has a total of 150 thousand installed phone lines, nine telephone stations, one public switch, 41 remote stations, 1,700 public telephones and received ISO certification in 1997. Sercomtel has acquired concessions from the Agência Nacional de Telecomunicações – ANATEL (“Anatel”) to provide cable television in Cascavel (Paraná) and Osasco and Araraquara (State of São Paulo) and radio-wave transmission television in Maringá and Londrina (State of Paraná). Sercomtel Celular S.A. has 37 radio stations covering 100% of Londrina’s urban and rural areas. In August 1999, Sercomtel Celular S.A. signed a contract with Globalstar do Brasil S.A. to offer satellite telephone services in Londrina and Tamarana. Sercomtel’s net income during 1999 was R\$9.3 million.

Other Activities: Water and Sewage

Sanepar. In 1998, Dominó Holdings S.A. was established to purchase 39.7% of the voting stock of Companhia de Saneamento do Paraná – Sanepar (“Sanepar”). Dominó Holdings S.A. is a consortium consisting of COPEL (15%), Vivendi S.A. (30%), Construtora Andrade Gutierrez S.A. (27.5%) and Banco Opportunity (27.5%). The consortium purchased its interest in Sanepar for R\$301.8 million, R\$45.3 million of which was invested by COPEL. In September 1998, Banco Opportunity purchased a portion of COPEL’s interest in Dominó Holdings, reducing the Company’s interest in Sanepar’s voting stock to 6%. The Company and Sanepar are seeking operating synergies between their operations, specifically identifying the following five convergence areas: video-based customer service, marketing, management of alternative collection agencies and metering and meter reading technology. Sanepar’s net income during 1999 was R\$59.2 million.

Other Activities: Gas

Compagás. COPEL is engaged in the distribution of refined gas through Compagás, the company that holds the exclusive rights to supply piped gas in the State of Paraná, under a concession granted by the Federal Government. Compagás’ customers include industries, government agencies, the transportation industry and others. Compagás is focusing its marketing efforts on substituting gas for fuel oil and other fuels as a means of achieving greater energy efficiency.

At year-end 1999, COPEL owned 51% of the capital stock of Compagás. The minority shareholders of Compagás are Petrobrás Distribuidora S.A. (an oil distribution company owned by Petróleo Brasileiro S.A. – Petrobrás) and Dutopar Participações Ltda. (owned by Enron), each of which owns 24.5% of the capital stock of Compagás.

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 Bolivia supplied through the Bolivia-Brazil gas pipeline. In anticipation of the pipeline, Compagás put in place a gas distribution network in Paraná consisting of 59 kilometers of pipelines. During 1999, Compagás distributed 11,682 thousand cubic meters of refined gas to eight customers. The conclusion of the southern stretch of the Brazil-

Bolivia pipeline is scheduled for March or April 2000. Upon such conclusion, after three months of testing, regular distribution through the network is scheduled to begin. When those deliveries begin, Compagás intends to expand its supply of gas to municipalities outside Curitiba. Compagás's net loss during 1999 was R\$ 860 thousand.

Other Activities: Tradener

In July 1998, COPEL entered into a joint venture with Logos Energia Ltda. to form Tradener Ltda. Tradener was the first private-sector company authorized by ANEEL to operate as an authorized free market retailer, pursuant to new regulations designed to encourage retail competition and private participation in the electric power sector. See "Legal and Regulatory Matters—Competition."

During 1999, Tradener was chosen by Itiquira Energética, an independent producer, to sell an average of 150 MW of power from the Itiquira plant to Unregulated Customers. See "—Competition." The Itiquira plant is scheduled to start operating in 2001. In December 1999, Tradener received authorization from Aneel to import 150 MW of power from Bolivia. To date, the Company has not begun importing power from Bolivia.

In terms of sales, Tradener is currently offering to Unregulated Customers and other distribution companies made available to Tradener by COPEL. In November 1999, Tradener signed two five-year power supply contracts, one contract with Volkswagen to supply an average of 10 MW of power and one contract with Carbocloro to supply an average of 109 MW of power. In December 1999, Tradener signed a two-year contract to sell an average of 50 MW of power to Elektro. In February 2000, Tradener signed a one-year contract to sell an average of 8 MW of power to Companhia de Luz e Força de Santa Cruz. Tradener expects to sell a total of approximately 200MW of power.

Other Activities: Services

ESCOELECTRIC. In December 1998, the Company decided to participate in ESCO Electric Ltda. ("ESCO"), a special purpose company created to assist clients in the use of electricity through consulting services, planning and project implementation, automation services, commissioning, operation, maintenance, training and technical assistance. ESCO will also market products and services aimed at obtaining greater energy efficiency and energy conservation. COPEL owns 40% of the share capital of ESCO.

Consulting and Other Services. The Company provides consulting services in connection with electric power projects in Brazil and abroad. In the area of generation, the Company is currently providing technical management services in connection with the Dona Francisca Hydroelectric Power Plant (primarily project elaboration, environmental permits, civil engineering work and equipment manufacturing and assembly), the Campos Novos Hydroelectric Power Plant (completion of environmental and engineering project review), Fundão and Santa Clara hydroelectric plants located on the Jordão river (environmental impact statements, topographical, hydrological and electrical studies), various hydroelectric plants on the Tibagi river (environmental studies) and the Foz do Chopim Hydroelectric Power Plant (planning and budgeting services, topographical, environmental and geological studies). The Company also provides consulting services to Centrais Elétricas do Espírito Santo S.A. in respect of the Mascarenhas Hydroelectric Power Plant in the state of Espírito Santo, specifically as regards the installation of the fourth generating unit as well as other environmental, hydrological and electrical studies.

The Company, in conjunction with Compagás, also concluded environmental impact statements for the following segments of the natural gas distribution network: Araucária – Ponta Grossa, Campo Largo – Ponta Grossa and Araucária – São José dos Pinhais – Curitiba.

Concessions

COPEL operates under concessions granted by the Federal Government for its generation, transmission and distribution businesses. As required by law, the Company applied in 1996 for an extension of its existing generation, transmission and distribution concessions, including concessions relating to facili-

ties under construction. In October 1996, the MME approved extensions for the Company's existing generation, distribution and transmission concessions. Concessions and extensions of concessions are granted by the MME and ANEEL.

In June 1999, the MME issued a resolution extending the concessions for the Company's generation plants. In accordance with the resolution, the MME, ANEEL and the Company signed the new generation concessions in June 1999. For plants whose concessions had officially expired, the resolution extended the concessions for 20 years beginning July 1995 when the concessions had officially expired. For other plants whose terms have not expired, the Company will have the option to extend their concessions for 20 years. Also in June 1999, the MME, ANEEL and the Company signed a new concession agreement for the distribution of electric energy by the Company. The distribution concession expires in July 2015 but, pursuant to the agreement, may be extended for another 20 years. The Company's management expects that in the near future, the MME, ANEEL and the Company will sign a new transmission concession agreement.

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 tariff. Such tariffs will be calculated based upon the extent of the transmission and distribution networks used and the location of the generation facility to the final user.

Customers that may contract with other suppliers for electricity ("Unregulated Customers") are limited to: (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; and (iv) customers who do not receive supply for more than 180 days from a local distribution concessionaire. As of July 2000, existing customers with demand of at least 3 MW and supplied at voltage level equal to or greater than 69 kV will be considered Unregulated Customers.

At December 31, 1999, COPEL had 21 customers that will qualify as Unregulated Customers upon the expiration of their agreements with COPEL. Such customers represented approximately 16% of COPEL's total volume of electricity sold to final customers in the month of December 1999, and approximately 7% of COPEL's total revenues for that month.

In the generation business, IPPs may be granted concessions to build or manage generating facilities in Paraná. Further, certain clients may bid only for demand over 10 MW 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. Certain of COPEL's existing large customers have begun to make use of these alternative distribution channels.

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.

Employees

At year-end 1999, the Company had 6,536 employees (one employee per 421 customers), a decrease from 7,442 employees (one per 360 customers) at year-end 1998 and 7,991 (one per 324 customers) at year-end 1997. The decrease in employees reflects COPEL's efforts to improve operating efficiency by reducing the size of its workforce through attrition and early retirement programs. During 1999, 859 employees applied for the Company's early termination program prior to the closing of the program on May 31, 1999.

The following table sets forth the number of employees in each area of COPEL's operations at December 31, 1999.

| <u>Area</u> | <u>Number of employees</u> |
|--|----------------------------|
| Generation..... | 868 |
| Transmission | 859 |
| Distribution..... | 4,018 |
| Telecommunications..... | 205 |
| Information technology..... | 303 |
| Corporation staff and research and development.... | <u>283</u> |
| Total..... | <u>6,536</u> |

Virtually all of COPEL's employees are covered by union agreements that are renegotiated annually between the Company and the unions that represent the various employee groups. In 1999, the Company negotiated and signed labor agreements with unions representing all the employee groups, effective October 1, 1999, with two-year terms. The Company is planning to hold negotiations in October 2000 to review the remuneration provisions (salary readjustments and/or salary loss recovery) of these labor agreements with the unions representing all the employee groups.

COPEL provides a number of benefits to its employees, the most significant of which is the Company's sponsorship of Fundação COPEL. The primary purpose of Fundação COPEL is to supplement the Federal Government retirement and health benefits available to COPEL's employees. A special meeting of shareholders held in October 1998 approved a new benefit plan, which affords employees the option of a flexible defined contribution plan and eliminates the risks of underfunding for the sponsor and the participants. Approximately 97.2% of COPEL's employees had opted for the new plan at year-end 1999. For a discussion of the impact of the change in the pension plan on the Company's financial performance, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Year Ended December 31, 1999 and 1998—Total Operating Expenses—Pension and Other Benefits."

As required by federal law and corporate compensation policy, COPEL reserved R\$10.0 million for employee participation in 1999 profits. The amount, determined in accordance with an agreement with an employee committee, is subject to approval by the Board of Directors and the shareholders. Employees are entitled to participate in profits in years in which the ratio of net profits to net worth is at least 3.5% and certain performance criteria are met. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Year Ended December 31, 1999 and 1998—Employee Participation."

Research and Development

The Company continues to work closely with the Federal University of Paraná (the “Federal University”) in various research and development projects, including projects carried out at the Centro de Hidráulica e Hidrologia Professor Parigot de Souza – CEHPAR (“CEHPAR”). Research at CEHPAR focuses primarily on fluid mechanics, hydraulics, hydrology, water resources and energy studies. Several important hydropower projects in Brazil and abroad, including Itaipu, were studied and improved upon at the institution. During 1999, CEHPAR performed studies in respect of the following plants: Itabebi Power Plant (spillway and river diversion), Dona Francisca Hydroelectric Power Plant (analysis of the protection wall of the powerhouse and estimation of the pressure on the spillway steps), Itá Hydroelectric Power Plant (establishment of operating rules for spillways and inspection of hydraulic performance), Foz do Chopim Hydroelectric Power Plant (calculation of flow loss) and Campos Novos Hydroelectric Power Plant (establishment of operating rules for the spillway).

CEHPAR also continued its hydrological and meteorological studies of the Ivaí and Chopim rivers, feasibility and environmental studies for the Fundão and Santa Clara power plants and general work on the computer systems controlling the operation of the Company’s reservoirs, development of electricity price structure models and management of the Company’s hydrological information system. During 1999, CEHPAR initiated work on the following projects: review of the maximum water output of the Salto Santiago and Salto Osório power plants (both located on the Iguassu River), hydrological and meteorological studies regarding the power potential inventory of the Capivari River and the creation of a computer database with hydrological data.

The Company holds a minority interest in the Instituto Tecnológico do Laboratório Central de Pesquisa e Desenvolvimento – LACTEC (“LACTEC”). LACTEC’s objectives are to provide services, products and technological solutions to the electrical sector and other industries. LACTEC has been conducting several research projects for the Company and providing certain other technical services in the fields of electronics, mechanics, materials and chemistry. LACTEC and the Company have been working to carry out power utilization studies and improve the efficiency of public lighting in Curitiba and other cities. These programs are carried out under a program initiated by Eletrobrás to reduce power waste. LACTEC, through COPEL, has also obtained resources from the Federal Government to create a Vehicle Emissions Laboratory, the first of its kind in Southern Brazil and the most advanced in the country. The Company and LACTEC jointly founded the Centro Tecnológico Industrial do Sudoeste Paranaense – CETIS, a technological and industrial center.

Laboratório de Materiais e Estruturas – LAME (“LAME”) is a research and service center focusing on basic and applied research in the disciplines related to the development and quality control of civil engineering materials, including geotechnical engineering, characterization of rocks and soil, physical and mathematical structural models, and issues of quality control in the Company’s construction projects, including studies of roller compacted concrete and another new technologies. LAME has been directly involved in the construction of the Jordão River diversion project, Salto Caxias, Tucuçu and Dona Francisca. LAME is a joint venture between the Company and the Federal University.

Sistema Meteorológico do Paraná – SIMEPAR (“SIMEPAR”) is an innovative technological venture in atmospheric and environmental sciences supported by COPEL in association with the Agronomy Institute and the Federal University. SIMEPAR focuses on hydro-meteorological and environmental monitoring for Paraná and neighboring regions, meteorological, climatic and environmental forecasts, research and development for data oriented applications and forecasts and rendering of services in the verification and calibration of hydro-meteorological and environmental sensors and equipment. SIMEPAR has a network of 65 automatic meteorological stations, a doppler meteorological radar and a system for detection and location of atmospheric discharges.

Environment

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. The Company's management believes that COPEL is in substantial compliance with all relevant environmental regulation.

In March 2000, the Company formed an Environmental Board to replace the existing Environmental Committee. The Board includes COPEL's Executive Officers and invited representatives from various social groups and organizations.

COPEL's current environmental policies are being reviewed and updated. In this regard, COPEL's most recent generation, transmission and distribution projects were reviewed in accordance with federal and state policies which aim to preserve the natural and cultural inheritance of the populations and areas affected by these projects.

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, 1999, COPEL estimated its reimbursement liability with respect to properties condemned to be approximately R\$11.3 million.

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.

RISK FACTORS

Investor confidence and investments may be adversely affected by changes in national leadership and policies.

The Brazilian political environment was volatile when the country returned to civilian rule in 1985 after 20 years of military governance. The death of a President-elect in 1985, resignation of another President in the midst of impeachment proceedings in 1992 and rapid turnover in federal government positions at and immediately below the cabinet level hindered implementation of consistent economic and monetary policies for nearly a decade.

Fernando Henrique Cardoso, the Finance Minister who sponsored the *Real* Plan, was elected President of Brazil in October 1994 and in October 1998 was reelected for an additional four-year term that commenced January 1, 1999. Support for President Cardoso has decreased significantly since his reelection, thus affecting his ability to command the government coalition in Congress. Changes in the composition of the governing coalition, identity of controlling local parties or in the Presidency may weaken investor confidence or produce policy changes that adversely impact investments.

State and municipal defaults may adversely affect the market price of Class B Shares and ADSs.

The Company may also be adversely affected by the risks of default by state and municipal governments. In January 1999, the state of Minas Gerais suspended its payments to the federal government on approximately R\$18.3 billion of debt. Shortly thereafter, the state of Rio Grande do Sul obtained an injunction permitting it to make its debt payments into an escrow account pending resolution of the request by seven states to renegotiate their refinancing agreements with the government. Defaults by state and municipal governments may undermine investor confidence, have a negative effect on the Brazilian economy, and/or negatively impact the relevant region. If the Brazilian economy or any of the regional economies in which the Company operates were to be adversely affected by a default, the Company's operations and the market price of the Class B Shares and ADSs may be adversely affected.

Brazilian economic conditions have a direct impact on the Company's business.

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

Brazilian government policies, including monetary, taxation, credit, tariff and other policies may influence the national economy. Changes in such policies may adversely affect businesses, financial conditions and results of operations, as may legislative responses to inflation, devaluation, social instability and other political, economic or diplomatic developments.

Inflation and governmental measures to combat inflation may contribute significantly to economic uncertainty in Brazil.

For many years before the introduction of the *Real* Plan in late 1993, the Brazilian economy was extremely volatile. The Federal Government implemented a succession of programs intended to stabilize the economy and provide a basis for sustainable, noninflationary growth. Changes in monetary, credit, tariff and other policies were frequent and occasionally drastic. 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 had a material adverse effect on the Company's business, operations, financial condition and results of operations.

In December 1993, the Federal Government introduced an economic stabilization program, the *Real* Plan, 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, initially with an exchange rate of R\$1.00 to US\$1.00. The *real* appreciated through January 1995 and thereafter gradually declined in value against the dollar, reaching R\$1.2087 to US\$1.00 at December 31, 1998. Notwithstanding the success of the *Real* Plan in lowering inflation and stabilizing the Brazilian economy, the *Real* Plan also led to economic slowdown, and a rise in unemployment in most regions and sectors of the economy.

The Brazilian government significantly changed its economic model in the first quarter of 1999, when the Central Bank attempted a controlled devaluation of the *real* by widening the band within which the *real* was permitted to trade. Subsequent Central Bank intervention failed to keep the *real*-U.S. dollar exchange rate within the new band. On January 15, 1999, the Central Bank announced that the *real* would be permitted to float, subject to Central Bank intervention only in times of extreme volatility. The *real*-U.S. dollar exchange rate in the commercial exchange market, as published by the Central Bank, stood at R\$1.23 in January 1999, exceeded R\$2.00 on various occasions later in the year and finally fin-

ished the year at R\$1.78—a devaluation of more than 45%. The exchange rate was R\$1.8270 to US\$1.00 on May 31, 2000.

During 1999, the Central Bank raised interest rates to more than 40% per annum in order to reduce market volatility and inflationary effects following the devaluation. Interest rates have declined in 2000, and as of June 21, 2000 the Selic base interest rate was 17.5%.

In 1999, Brazil formally adopted inflation-targeting as an explicit monetary policy. The targets were set at 8% for 1999, 6% for 2000, and 4% for 2001, as measured by the IBGE national statistics institute's IPCA consumer price index. Factors affecting price containment included monetary policy, internal demand, good harvests and phased readjustment of government-controlled prices. While the IPCA rose 8.9%, another measure of inflation, the IGP-DI general-price index, ended the year at 20.0%, as opposed to only 1.7% in 1998.

Despite forecasts that GDP would decline by between 5% and 7%, the GDP of Brazil rose 0.8% in 1999. Preliminary estimates for 1999 indicate that Brazil's balance of payments registered a deficit of \$7.8 billion. The current account, including trade and service balances and unilateral transfers, reflects a deficit of close to US\$24.4 billion, 4.4% of the GDP. Direct foreign investments were approximately US\$31.5 billion in 1999, of which \$1.5 billion was net portfolio investment and \$30 billion was net direct investment.

Developments in other emerging market countries may adversely affect the market price of Class B Shares and ADSs.

The Brazilian securities markets are influenced by economic and market conditions in other emerging market countries. Although economic conditions are different in each nation, developments in one country may affect investors' perceptions of the risks attendant to investing in the securities of issuers in other countries, including Brazil.

The Brazilian economy and the prices of Brazilian securities have been affected by developments elsewhere in Latin America. For example, following the devaluation of the *real*, the Argentine government imposed high import tariffs on Brazilian goods such as textiles and shoes. When Ecuador missed a payment on its US\$5.9 billion Brady bond debt, it became the first nation to default on Brady bond debt and reduced investor confidence in the region. In October 1999 uncertainty followed the election of a new Argentine president who belongs to a political party different from that of his predecessor. Such developments may affect the ability of Brazilian issuers to raise needed capital in international financial markets.

There can be no assurance that the Brazilian securities markets will not be affected negatively by events elsewhere, especially in emerging markets, or that such events will not adversely affect the prices of the Company's securities.

Inflation and exchange rate instability may adversely affect the Company's financial condition and results of operations.

Until the implementation of the *Real* Plan, Brazil experienced extremely high rates of inflation and devaluation of Brazilian currency. Inflation itself, certain governmental measures to combat inflation and public speculation about possible future governmental action have historically contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

The following table sets forth the rate of Brazilian inflation, as measured by the *Índice Geral de Preços – Mercado* (the General Price Index – Market or "IGP-M"), and the devaluation of Brazilian currency against the U.S. dollar during the periods indicated.

| | Year ended December 31, | | |
|---|-------------------------|---------------|-------|
| | 1997 | 1998 | 1999 |
| | | (percentages) | |
| Inflation (IGP-M) | 7.7 | 1.8 | 20.10 |
| Devaluation (Brazilian currency vs. US\$) | 7.4 | 8.3 | 48.01 |

Under the *Real Plan*, the rate of Brazilian inflation decreased considerably. The exchange rate between the *real* and the U.S. dollar remained relatively stable from mid-1994 to year-end 1998, but extreme volatility returned in 1999. During the first quarter of 2000, inflation, as measured by the IGP-M, approximated 1.75% and the appreciation of the *real* against the U.S. dollar was 2.33%.

Inflation and devaluation may adversely affect the Company's business, prospects, financial condition and results of operations. The two financial phenomena introduce distortions into financial statements and make period-to-period comparisons difficult and unreliable. Differences between the relative rate of Brazilian inflation as compared to the rates of Brazil's trading partners, on the one hand, and the rate of currency devaluation, on the other, can cause balance sheet losses for the Company on its foreign currency-denominated liabilities. Inflation places pressure on the Company's rates and invites federal government efforts to control inflation by holding down the rates that Brazilian public utilities are permitted to charge.

There can be no assurance that Brazilian inflation will remain at modest rates or, if there is an increase in inflation, that the Company's business, prospects, financial condition and results of operations will not be adversely affected.

Item 2. Description of Property

The principal properties of COPEL consist of the generation, transmission and distribution facilities described in "Description of Business—Operations of COPEL." Of the net book value of total property, plant and equipment of COPEL at December 31, 1999 (including construction in progress), generation facilities represented 53.4%, transmission and distribution facilities represented 43.1% and other miscellaneous property and equipment represented 3.5%. The Company's management 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 electric energy 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 "Description of Business—The Condemnation Process."

Item 3. Legal Proceedings

COPEL is currently subject to numerous proceedings relating to civil, administrative, labor and tax claims. The financial statements only include reserves for probable and reasonably estimatable losses and expenses the Company may incur in connection with pending litigation. At December 31, 1999, the reserves for contingencies were R\$204.1 million, which COPEL believes to be sufficient to meet probable and reasonably estimatable losses in the event of unfavorable rulings relating to the legal proceedings in which the Company is a party, but there can be no assurance that the reserves will be sufficient.

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\$9.9 million and at December 31, 1999, COPEL had fully reserved for these claims. See Note 21 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\$29 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. COPEL believes that none of these taxes and social contributions is due. During 1998, COPEL won its lawsuit challenging its obligations to pay COFINS, a tax to finance social security. This decision was later modified by the Brazilian Supreme Court, which ruled that electric utilities were subject to COFINS. COPEL has provisioned R\$65.1 million to meet COFINS contributions due in 1999.

The Company also challenged the payment of contributions to the PASEP Program (Program for the Establishment of Public Employee's Patrimony) on the grounds that COPEL, as a mixed capital corporation, should only be required to make contributions to the PIS Program (Program for Social Integration). The rates and basis for calculation of PIS and PASEP have changed over time, resulting in significant differences in the final amounts due. In 1999, the Company benefited from a Federal Decree under which a company may settle disputed federal taxes without fines and charges due to the late payment. Based on this decree, a portion of the total amount deposited in a judicial escrow account established during the PIS-PASEP action was refunded to the Company. The remaining balance of R\$24.5 million is still being reviewed to determine the amount to be refunded to COPEL.

The Social Security authorities filed an administrative claim pursuant to which the authorities are claiming that COPEL must pay additional social security contributions for the period between 1991 to 1998. The Company has contested this claim. As of December 31, 1999, COPEL has made a provision in the amount of R\$39.8 million to cover a possible loss.

COPEL is also a party to lawsuits brought by contractors that rendered services in connection with the construction of the Segredo hydroelectric power plant. The lawsuits involve claims totaling approximately R\$223 million. The state courts of Paraná have already issued decisions against COPEL, but COPEL expects these decisions to be reversed, at least in part, on appeal. The Company has made a provision related to these lawsuits in the total amount of R\$43.5 million, but there can be no assurance that the provision will be sufficient.

Although there can be no assurance that the Company will prevail in every case, the Company's management does not believe that the ultimate disposition of these matters will have a material effect on the Company's financial condition or results of operation.

Item 4. Control of Registrant

Since 1954, the State Government has owned the majority of COPEL's Common Shares and exercised control over COPEL. In 1996, Paraná Investimentos S.A. (a company controlled by the State Government) issued debentures that were purchased by BNDESPAR. BNDESPAR exchanged the debentures for the Common Shares in the Company held by Paraná Investimentos. At December 31, 1999, the State Government directly owned 58.6% of the Common Shares. At December 31, 1999, BNDESPAR owned directly and indirectly 26.4% of the Common Shares. The State Government has announced its intention to privatize COPEL.

The following table sets forth certain information regarding the ownership of COPEL's Common Shares at December 31, 1999.

| <u>Shareholder</u> | <u>Common Shares (in millions)</u> | <u>% of total</u> |
|--|--|-------------------|
| State Government | 85,028 | 58.6 |
| BNDESPAR | 38,299 | 26.4 |
| Eletrobrás..... | 1,531 | 1.1 |
| All directors and officers as a group..... | 2 | 0.0 |

Shareholders' Agreement

On December 22, 1998, the State of Paraná and BNDESPAR (with COPEL and Paraná Investimentos as intervening parties) executed a shareholders' agreement and an option agreement (respectively, the "Shareholders' Agreement" and the "Option Agreement"). The Shareholders' Agreement will remain in effect until BNDESPAR ceases to be a shareholder of COPEL or for a period of 20 years, whichever occurs first. See "Description of Business—The Proposed Privatization of COPEL."

Under the Option Agreement, the State of Paraná is obliged to buy shares of COPEL held by BNDESPAR within 24 hours following BNDESPAR's request. The price to be paid by the State of Paraná will be tied to the ratio at which BNDESPAR exchanged its debentures for shares in COPEL and the price reached in the auction. Costs incurred due to the auction cannot be offset against the price paid to BNDESPAR. If the shares remain in BNDESPAR's ownership, BNDESPAR will have the right to require the shares it holds to be included as part of the controlling stake to be sold by the State or to sell the shares to third parties.

Pursuant to the Shareholders' Agreement, if the option to buy common shares under the Option Agreement is not exercised, the State of Paraná is obligated to acquire, within 24 hours of BNDESPAR's request, such shares for the sole purpose of including them in the privatization of the Company. In addition, the State of Paraná must purchase for inclusion in the privatization the common shares issued by the Company that are acquired by BNDESPAR. In the event the privatization occurs between July 1, 2000 and December 31, 2000, the State of Paraná shall acquire BNDESPAR's common shares for a purchase price equal to (i) the purchase price for the common shares paid by BNDESPAR, bearing interest at TJLP plus 8% per year, and (ii) 50% of the positive difference, if any, between the sale price of the common shares at auction and the amount calculated pursuant to clause (i).

If BNDESPAR does not request the State of Paraná to purchase its common shares for inclusion in the privatization, BNDESPAR has the right to place such common shares up for auction. In the event that the State of Paraná holds the privatization sale after December 31, 2000, BNDESPAR will have the right to require the inclusion of its common shares in the controlling stake of the Company to be sold or to sell its common shares in one or more lots to interested third parties.

Beginning 24 months after the date of execution of the Shareholders' Agreement, the State of Paraná, in its capacity of controlling shareholder of the Company, will elect two members indicated by

BNDESPAR to the Board of Directors and designate one member to COPEL's Board of Officers. Also effective 24 months after the date of execution of the Shareholders' Agreement, the State of Paraná cannot approve, without BNDESPAR's prior authorization, the following: (i) amendment of COPEL's by-laws; (ii) reduction or increase of capital; (iii) change in COPEL's corporate purpose; (iv) grouping or split of shares issued; (v) reserves, funds or accounting provisions that affect the rights and interests of minority shareholders; (vi) cessation of corporate liquidation; (vii) merger, amalgamation, spin-off, transformation, transfer or acquisition of interests in other companies; (viii) adoption of policy with respect to minority shareholders in the case of merger, amalgamation, split-off and transfer of control in COPEL; and (ix) change in mandatory dividend.

Item 5. Nature of Trading Market

The principal trading market for the Class B Shares is the Bolsa de Valores de São Paulo (the "São Paulo Stock Exchange" or BOVESPA). Until 2000, the Class B Shares were also traded 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"). In the first quarter of 2000, protocols of intention to merge the Brazilian stock exchanges were signed. According to the protocols, private equity and debt will be traded only in the São Paulo Stock Exchange, and Brazilian federal, state and municipal public debt will be traded exclusively in, and privatization auctions will be carried out exclusively at, the Rio de Janeiro Stock Exchange. At December 31, 1999, the Company had approximately 1,508 shareholders of Class B Shares.

The following table sets forth the reported high and low closing sale prices for the Class B Shares on the São Paulo Stock Exchange for the periods indicated.

| | Nominal reais per 1,000 Class B Shares | |
|---------------------------|---|------------|
| | High | Low |
| First quarter 1998..... | 17.50 | 13.00 |
| Second quarter 1998 | 16.50 | 8.80 |
| Third quarter 1998 | 14.00 | 3.90 |
| Fourth quarter 1998..... | 12.01 | 6.90 |
| | | |
| First quarter 1999..... | 12.94 | 5.25 |
| Second quarter 1999 | 15.05 | 12.30 |
| Third quarter 1999 | 14.85 | 11.00 |
| Fourth quarter 1999..... | 17.50 | 12.40 |

In the United States, the Class B Shares trade in the form of ADSs, each representing 1,000 Class B Shares, issued by The Bank of New York, as depositary (the "Depositary") pursuant to a Deposit Agreement (the "Deposit Agreement") among the Company, the Depositary and the registered holders and beneficial owners from time to time of the ADRs. The ADSs trade under the symbol ELP. The following table sets forth the reported high and low closing sales prices for ADSs on the NYSE for the period indicated.

| | U.S. dollars per ADS | |
|---------------------------|-------------------------|-------|
| | High | Low |
| First quarter 1998..... | 15.50 | 11.56 |
| Second quarter 1998 | 14.63 | 7.75 |
| Third quarter 1998..... | 12.00 | 3.19 |
| Fourth quarter 1998..... | 10.06 | 5.75 |
| | | |
| First quarter 1999..... | 7.50 | 3.56 |
| Second quarter 1999 | 8.94 | 7.13 |
| Third quarter 1999..... | 8.50 | 5.94 |
| Fourth quarter 1999..... | 9.31 | 6.31 |

Trading on the Brazilian Stock Exchanges

Brazil used to have nine stock exchanges, of which the São Paulo Stock Exchange and the Rio de Janeiro Stock Exchange were the most significant. During 1999, the São Paulo Stock Exchange accounted for approximately 93.1% of the trading value of equity securities on all Brazilian stock exchanges, and the São Paulo Stock Exchange and the Rio de Janeiro Stock Exchange together accounted for approximately 99.7% of the trading value of equity securities on all Brazilian stock exchanges. Once the protocols of intention executed between the Brazilian stock exchanges in the first quarter of the year 2000 have been fully implemented, private debt and equity securities will only be traded on the São Paulo Stock Exchange. Since the protocol between the Rio de Janeiro Stock Exchange and the São Paulo Stock Exchange has already entered into effect, the Rio de Janeiro Stock Exchange is now exclusively responsible for electronic trading of public debt securities and for privatization auctions.

Each Brazilian stock exchange is a non-profit entity owned by its member brokerage firms. Trading on the exchange is limited to member brokerage firms and a limited number of authorized non-members. The São Paulo Stock Exchange has two open outcry trading sessions each day, from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m.. Trading is also conducted during this time on an automated system on the São Paulo Stock Exchange.

On September 20, 1999, The São Paulo Stock Exchange launched the After-Market, with the objective of expanding business opportunities and offering investors a more flexible trading schedule. After-Market trading takes place from 6:00 to 10:00 p.m., that is, after regular trading hours. All stocks traded during the regular trading session of the day may be traded on the After-Market. However, only cash market trading via BOVESPA'S electronic trading system is allowed. The maximum variation allowed for stock prices — whether positive or negative — corresponds to 2% in relation to the closing price at the regular trading session.

There are no specialists or market makers for the Company's shares on the São Paulo Stock Exchange. Trading in securities listed on the Brazilian stock exchanges may be effected off the exchanges in certain circumstances, although such trading is very limited.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares is made through the facilities of a separate clearinghouse, which maintain accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The clearinghouse for the São Paulo Stock Exchange is Companhia Brasileira de Liquidação e Custódia S.A. – CBLIC, which is controlled mainly by the member brokerage firms and banks that are not members of that exchange.

At December 31, 1999, the aggregate market capitalization of the 487 companies listed on the São Paulo Stock Exchange was approximately US\$228.5 billion. 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. For this reason, data showing the total market capitalization of Brazilian stock exchanges tend to overstate the liquidity of the Brazilian equity securities market.

The Brazilian equity market is relatively small and illiquid compared to major world markets. In 1999, the daily trading volume on the São Paulo Stock Exchange averaged approximately US\$348 million. In 1999, the five most actively traded issues represented approximately 51.2% of the total trading in the cash market on the São Paulo Stock Exchange.

Trading on Brazilian stock exchanges by nonresidents of Brazil is subject to certain limitations under Brazilian foreign investment legislation.

In September 1999, the Company's shares were included in the Ibovespa, the most commonly quoted stock market index in Brazil.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, by the National Monetary Council and by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is principally governed by Law No. 6,385, as amended (the "Brazilian Securities Law") and Law No. 6,404, as amended (the "Brazilian Corporation Law").

Under the Brazilian Corporation Law, a company is either public, a *companhia aberta*, such as the Company, or private, a *companhia fechada*. All public companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on the Brazilian stock exchanges or in the Brazilian over-the-counter market. The shares of a public company may also be traded privately, subject to certain limitations. To be listed on the Brazilian stock exchanges, a company must apply for registration with the CVM and the stock exchange where the head office of the company is located. Once this stock exchange has admitted a company to listing and the CVM has accepted its registration as a public company, its securities, under certain circumstances, may be traded on all other Brazilian stock exchanges.

Trading in securities on the Brazilian stock exchanges may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of a Brazilian stock exchange or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the relevant stock exchange.

The Brazilian securities markets are principally governed by Brazilian Securities Law, by Brazilian Corporate 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. However, the Brazilian securities markets are not as highly regulated and supervised as the United States securities markets or markets in certain other jurisdictions.

Item 6. Exchange Controls and Other Limitations Affecting Security Holders

There are no restrictions on ownership of Class A Shares, Class B Shares or Common Shares of the Company by individuals or legal entities domiciled outside Brazil.

The right to convert dividend payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legisla-

tion which generally requires, among other things, that the relevant investments have been registered with the Central Bank. Such restrictions on the remittance of foreign capital abroad may hinder or prevent Banco Itaú S.A. (the “Custodian”), as custodian for the Class B Shares represented by 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 Resolution No. 2,689 of January 26, 2000 of the National Monetary Council, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. The definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

To be eligible to invest in the Brazilian financial and capital markets, foreign investors must:

- appoint at least one representative in Brazil with powers to perform actions relating to foreign investments;
- complete the appropriate foreign investor registration form;
- register as a foreign investor with the CVM; and
- register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM.

Investors who are not resident in a tax haven (*i.e.*, countries that either have no income tax or in which the income tax rate is less than 20%) are entitled to favorable tax treatment. See “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 of the National Monetary Council (the “Annex V Regulations”), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The ADS program had been approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. 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 who are not resident in a tax haven will be entitled to favorable tax treatment. See “Taxation — Brazilian Tax Considerations.”

A Certificate of 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 of Registration, 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 Registration for five business days after such exchange, following which such holder must seek to obtain its own Certificate of Registration with the Central Bank. Thereafter, any holder of Class B Shares 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, unless such holder obtains his own certificate of registration. A holder that obtains a Certificate of Registration will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See “Taxation — Brazilian Tax Considerations.”

Under current Brazilian legislation, the Federal Government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately six 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. The imbalance in Brazil's balance of payments increased during 1998, and there can be no assurance that the Federal Government will not impose similar restrictions on foreign repatriations in the future.

Item 7. Taxation

The following summary contains a description of the principal Brazilian and U.S. federal income 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 the tax considerations that may be relevant to a decision to purchase Class B Shares or ADSs. The summary is based upon the tax laws of Brazil and regulations thereunder and on the tax laws of the United States and regulations thereunder as in effect on the date hereof, which are subject to change. **Prospective purchasers of Class B Shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of Class B Shares or ADSs.**

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may 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. Prospective holders of Class B Shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of Class B Shares or ADSs in their particular circumstances.

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 not deemed to be domiciled in Brazil for Brazilian tax purposes (a "non-Brazilian holder"). This discussion does not address all the Brazilian tax considerations that may be applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult its own tax advisor about the Brazilian tax consequences of investing in Class B Shares or ADSs.

Taxation of Dividends

Dividends paid by the Company in cash or in kind from profits of periods beginning on or after January 1, 1996 (i) to the Depository in respect of Class B Shares underlying ADSs or (ii) to a non-Brazilian holder in respect of Class B Shares will generally not be subject to Brazilian withholding tax. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding tax at varying rates. Stock dividends are not subject to Brazilian tax unless, within five years after the distribution, the stock is subsequently redeemed by the Company or the non-Brazilian holder sells the stock in Brazil.

The only Brazilian tax treaty now in effect that would (if certain conditions are met) reduce the rate of the withholding tax on dividends paid from profits generated before January 1, 1996 is the treaty with Japan, which would reduce the rate to 12.5% under the circumstances set forth in the treaty.

Distributions of Interest on Capital

Brazilian corporations may make payments to shareholders characterized as interest on the capital of the Company as an alternative form of making dividend distributions. The rate of interest may not be higher than the Federal Government's long-term interest rate (the "TJLP") as determined by the Central Bank from time to time (11% per annum for the three-month period beginning April 2000). The total amount distributed as interest on capital may not exceed the greater of (i) 50% of net income (before tak-

ing such distribution and any deductions for income taxes into account) for the year in respect of which the payment is made or (ii) 50% of retained earnings for the year prior to the year in respect of which the payment is made. Payments of interest on capital are decided by the shareholders on the basis of recommendations of the company's board of directors.

Distributions of interest on capital paid to Brazilian and non-Brazilian holders of Class B Shares, including payments to the Depositary in respect of Class B Shares underlying ADSs, are deductible by the Company for Brazilian corporate income tax purposes. Such payments are subject to Brazilian withholding tax at the rate of 15%, except for payments to persons who are exempt from tax in Brazil, which payments are free of Brazilian tax, and except for payments to persons situated in tax havens, which payments are subject to tax at a 25% rate.

No assurance can be given that the Board of Directors of the Company will not recommend that future distributions of profits will be made by means of interest on capital instead of by means of dividends.

Amounts paid as interest on capital (net of applicable withholding tax) may be treated as payments in respect of the dividends the Company is obligated to distribute to its shareholders in accordance with its Charter and the Brazilian Corporation Law. Distributions of interest on capital in respect of the Class B Shares, including distributions to the Depositary in respect of Class B Shares underlying ADSs, may be converted into U.S. dollars and remitted outside of Brazil, subject to applicable exchange controls.

Taxation of Gains

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

Gains realized by non-Brazilian holders on dispositions of Class B Shares in Brazil or in transactions with Brazilian residents may be free of Brazilian tax, taxed at a rate of 10% or taxed at a rate of 15%, depending on the circumstances. Gains on the disposition of Class B Shares obtained upon cancellation of ADSs are not taxed in Brazil if the disposition is made and the proceeds are remitted abroad within five business days after cancellation, unless the investor is a resident of a jurisdiction that, under Brazilian law, is deemed to be a "tax haven" (*i.e.*, a country that does not impose any income tax or that imposes tax at a rate of less than 20%). Gains realized through transactions with Brazilian residents or through transactions in Brazil off of the Brazilian stock exchanges are generally subject to tax at a rate of 15%. Gains realized through transactions on Brazilian stock exchanges are generally subject to tax at a rate of 10%, unless the investor is entitled to tax-free treatment for the transaction under Resolution 2,689 of the National Monetary Council Regulations, described immediately below.

Resolution 2,689, which as of March 31, 2000 superseded the Annex IV Regulations that previously provided tax benefits to foreign investors, extends favorable tax treatment to a non-Brazilian holder of Class B Shares who has (i) appointed a representative in Brazil with power to take action relating to the investment in Class B Shares, (ii) registered as a foreign investor with the CVM and (iii) registered its investment in Class B Shares with the Central Bank. Under Resolution 2,689 securities held by foreign investors must be maintained under the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank and the CVM. In addition, securities trading is restricted under Resolution 2,689 to transactions on Brazilian stock exchanges or qualified over-the-counter markets. Investors previously holding Class B Shares under the Annex IV Regulations are required to bring their investments into conformity with Resolution 2,689 by June 30, 2000. The preferential treatment generally afforded under Resolution 2,689 and afforded to investors in ADSs is not available to residents of tax havens.

There can be no assurance that the current preferential treatment for holders of ADSs and non-Brazilian holders of Class B Shares under Resolution 2,689 will be maintained.

Gain on the disposition of Class B Shares is measured by the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost of the shares sold, measured in Brazilian currency, without any correction for inflation. The acquisition cost of shares registered as an investment with the Central Bank is calculated on the basis of the foreign currency amount registered with the Central Bank. See “—Registered Capital.”

Under current law, the 10% tax rate for transactions on a Brazilian stock exchange will increase to 20% for transactions occurring on or after January 1, 2002. Brazil’s tax treaties do not grant relief from taxes on gains realized on sales or exchanges of Class B Shares.

Gains realized by a non-Brazilian holder upon the redemption of Class B Shares will be treated as gains from the disposition of such Class B Shares to a Brazilian resident occurring off of a stock exchange and will accordingly be subject to tax at a rate of 15%.

Any exercise of preemptive rights relating to the Class B Shares or ADSs will not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to the Class B Shares will be treated differently for Brazilian tax purposes depending on (i) whether the sale or assignment is made by the Depositary or the investor and (ii) whether the transaction takes place on a Brazilian stock exchange. Gains on sales or assignments made by the Depositary on a Brazilian stock exchange are not taxed in Brazil, but gains on other sales or assignments may be subject to tax at rates up to 15%.

The deposit of Class B Shares in exchange for the ADSs may be subject to Brazilian tax if the amount previously registered with the Central Bank as a foreign investment in Class B Shares is lower than (i) the average price per Preferred Share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of the deposit; 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 during the fifteen preceding trading sessions. In this case, the difference between the amount previously registered and the average price of the Class B Shares, calculated as set forth above, shall be considered a capital gain subject to income tax at a rate of 15% (unless the Class B Shares were held in accordance with Resolution 2,689, in which case the exchange would be tax-free).

The withdrawal of Class B Shares in exchange for ADSs is not subject to Brazilian tax. On receipt of the underlying Class B Shares, a non-Brazilian holder entitled to benefits under Resolution 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below in “Registered Capital.” If such non-Brazilian holder does not qualify under Resolution 2,689, it will be subject to the less favorable tax treatment described above in respect of exchanges of Class B Shares.

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 levied by some states in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant State to individuals or entities that are resident or domiciled within such State in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of Class B Shares or ADSs.

A financial transaction tax (the “IOF tax”) may be imposed on a variety of transactions, including the conversion of Brazilian currency into foreign currency (*e.g.*, for purposes of paying dividends and interest). The IOF tax rate on such conversions is currently 0%, but the Minister of Finance has the legal power to increase the rate to a maximum of 25%. Any such increase will be applicable only prospectively.

IOF may also be levied on transactions involving bonds or securities (“IOF/Títulos”) even if the transactions are effected on Brazilian stock, futures or commodities exchanges. The rate of the IOF/Títulos with respect to Class B Shares and ADSs is currently 0%. The Minister of Finance, however, has the legal power to increase the rate to a maximum of 1.5% of the amount of the taxed transaction per

each day of the investor's holding period, but only to the extent of gain realized on the transaction and only on a prospective basis.

In addition to the IOF tax, a second, temporary tax that applies to the removal of funds from accounts at banks and other financial institutions (the "CPMF tax") will be imposed on distributions by the Company in respect of ADSs at the time such distributions are converted into U.S. dollars and remitted abroad by the Custodian. The CPMF tax will be in effect until June 2002, unless its term is extended, and is currently imposed at a rate of 0.30%.

Registered Capital

Amounts invested in Class B Shares by a non-Brazilian holder who qualifies for benefits under Resolution 2,689 and obtains registration with the CVM, or by the Depositary representing an ADS holder, are 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 through dispositions of, such Class B Shares. The Registered Capital per Preferred Share purchased in the form of an ADS, or purchased in Brazil and deposited with the Depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The Registered Capital per Preferred Share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (i) the average price of a Preferred Share on the Brazilian stock exchange on which the most Class B Shares were traded on the day of withdrawal or, (ii) if no Class B Shares were traded on that day, the average price on the Brazilian stock exchange on which the most Class B Shares were traded during the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average Commercial Market Rates quoted by the Central Bank on such date or dates.

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

U.S. Federal Income 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 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 hold or dispose of 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 or currencies, holders whose functional currency is not the U.S. dollar, holders of 10% or more of the shares of the Company (taking into account shares held directly or through depositary arrangements), tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders who elect to account for their investment in Class B Shares or ADSs on a mark-to-market basis, 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 it, including the consequences under laws other than U.S. federal income tax laws, of an investment in Class B Shares or ADSs.

In this discussion, references to "ADSs" also refer to 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 U.S. federal income taxation on a net basis with respect to the ADS.

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.

Taxation of Distributions

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 the Company as a dividend to the extent that such distribution is paid out of the Company’s current or accumulated earnings and profits (“e&p”), as determined for U.S. federal income tax purposes, when such distribution is received by the Custodian or by the U.S. holder, in the case of a holder of Class B Shares. To the extent that such a distribution exceeds the Company’s e&p, it will be treated as a nontaxable return of capital, to the extent of the U.S. holder’s tax basis in the ADSs (or Class B Shares, as the case may be), and thereafter as capital gain. The amount of any distribution 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 U.S. dollars in effect on the date the distribution is received by the Custodian, or by a U.S. holder, in the case of a holder of Class B Shares. If the Custodian or U.S. holder, in the case of a holder of Class B Shares, 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, which would be ordinary loss or gain, when the *reais* are converted into U.S. dollars. Dividends paid by the Company 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, Brazilian income tax withheld 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. 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 tax advisors 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 the Company generally will not be subject to U.S. federal income tax.

A holder of an ADS that is a foreign corporation or nonresident alien individual (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 U.S. 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. Long-term capital gains recognized by an individual holder generally are subject to a maximum rate of 20 percent in respect of property held for more than one year. 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, if Brazilian tax is imposed on such gain, the U.S. holder

will not be able to use the corresponding foreign tax credit, unless the holder has other foreign source income of the appropriate type in respect of which the credit may be used.

A non-U.S. holder 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.

U.S. Backup Withholding and Information Reporting

The information reporting requirements of the Code generally will apply to distributions to a U.S. holder. Distributions to non-U.S. holders generally will be exempt from information reporting and backup withholding under current law but a non-U.S. holder may be required to establish its non-U.S. status in order to claim such exemption.

Item 8. Selected Financial Data

Background

The selected financial information presented below should be read in conjunction with the Financial Statements and the notes thereto. The Financial Statements have been audited by Arthur Andersen S/C and their reports on the Financial Statements appear elsewhere in this Annual Report.

The following paragraphs discuss some important features of the presentation of the selected financial information and the Financial Statements. These features should be kept in mind in evaluating the selected financial information and in reading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Brazilian GAAP and U.S. GAAP

The Financial Statements are prepared in accordance with Brazilian GAAP, which differ in certain material respects from generally accepted accounting principles in the United States (“U.S. GAAP”). See Note 34 to the Financial Statements for a summary of the differences between Brazilian GAAP and U.S. GAAP and a reconciliation to U.S. GAAP of shareholders’ equity as of December 31, 1997, 1998 and 1999 and net income for the years ended December 31, 1997, 1998 and 1999.

Inflation Accounting Methodology

The Financial Statements and, unless otherwise specified, all financial information included in this Annual Report recognize certain effects of inflation using the constant currency method and are restated in constant *reais* of December 31, 1999 purchasing power, all in accordance with Brazilian GAAP. Inflationary gains or losses on monetary assets and liabilities were allocated to their corresponding income or expense caption in the Statements of Income.

Difference from Financial Statements Published in Brazil

The notes to the Financial Statements include a reconciliation of shareholders’ equity and net income as presented in the Financial Statements to the statutory financial statements prepared in accordance with the Brazilian Corporation Law (the “Statutory Financial Statements”). The Statutory Financial Statements are the basis for dividend and tax determinations. The Statutory Financial Statements do not reflect inflation accounting for any period after 1995. The Statutory Financial Statements also differ from the Financial Statements in respect of certain reclassifications and presentation of comparative information. See Notes 2a and 32 to the Financial Statements.

As of and for the year ended December 31,

| | 1999 | 1998 | 1997 | 1996 | 1995 |
|--|--|----------------|----------------|----------------|----------------|
| | (millions of constant reais except per share data) | | | | |
| Income Statement Data: | | | | | |
| <i>Brazilian GAAP</i> | | | | | |
| Net operating revenues | 1,737 | 1,713 | 1,599 | 1,536 | 1,377 |
| Operating expenses | <u>(1,397)</u> | <u>(1,313)</u> | <u>(1,239)</u> | <u>(1,194)</u> | <u>(1,453)</u> |
| Operating income (loss)..... | 340 | 400 | 360 | 342 | (76) |
| Equity in results of investees | 4 | (10) | - | - | - |
| Other income (expense)..... | 56 | 189 | 133 | 60 | 51 |
| Income taxes and employee participation..... | <u>(111)</u> | <u>(129)</u> | <u>(119)</u> | <u>(96)</u> | <u>58</u> |
| Net income | <u>289</u> | <u>450</u> | <u>374</u> | <u>306</u> | <u>33</u> |
| <i>U.S. GAAP</i> | | | | | |
| Net operating revenues | 1,737 | 1,713 | 1,599 | n.a. | n.a. |
| Net income (loss)..... | (283) | 249 | 182 | 166 | 256 |
| Net income (loss) per thousand shares (in reais)..... | (1.03) | 0.91 | 0.71 | 0.68 | 1.06 |
| Balance Sheet Data: | | | | | |
| <i>Brazilian GAAP</i> | | | | | |
| Current assets | 723 | 747 | 1,360 | 515 | 409 |
| Recoverable rate deficit (CRC)(1)..... | 610 | 619 | 628 | 665 | 699 |
| Long-term assets | 891 | 976 | 860 | 820 | 819 |
| Property, plant and equipment, net | 6,522 | 5,223 | 6,500 | 6,326 | 6,143 |
| Construction work in progress | 953 | 2,088 | 1,339 | 1,089 | 865 |
| Total assets | 9,480 | 9,355 | 10,173 | 8,840 | 8,318 |
| Current loans and financing | 302 | 208 | 439 | 294 | 193 |
| Current liabilities | 703 | 664 | 839 | 813 | 553 |
| Long-term loans and financing | 1,117 | 1,101 | 908 | 583 | 538 |
| Long-term liabilities | 2,971 | 2,749 | 2,747 | 2,303 | 2,091 |
| Shareholders' equity | 5,807 | 5,941 | 6,588 | 5,724 | 5,674 |
| <i>U.S. GAAP</i> | | | | | |
| Total assets | 10,807 | 10,811 | 10,821 | 9,684 | 9,321 |
| Long-term liabilities | 3,282 | 3,213 | 3,083 | 2,646 | 2,685 |
| Shareholders' equity | 6,757 | 6,965 | 6,998 | 6,380 | 6,116 |
| Other Financial Data: | | | | | |
| Dividends (2) | 110 | 163 | 183 | 154 | 35 |
| Capital expenditures on property, plant and equipment..... | 718 | 922 | 745 | 668 | 596 |

(1) Including both current and long-term CRC accounts receivable.

(2) Amounts shown for 1996, 1997, 1998 and 1999 represent Interest on Capital, which the Company elected to pay in lieu of dividends. Such amount exceeded the Mandatory Dividend required under the Brazilian Corporation Law by approximately R\$22.8 million in 1997, R\$44.1 million in 1998 and R\$4.8 million in 1999. See "History of Dividend Payments" and Note 23 to the Financial Statements.

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 the Company's results of operations. The Company does not hedge its obligations under its foreign currency-denominated indebtedness.

There are two legal exchange markets in Brazil—the commercial rate exchange market (the “Commercial Market”) and the floating rate exchange market (the “Floating Market”). There is ordinarily no significant difference in rate or liquidity between these two markets. Most trade and financial foreign-exchange transactions are carried out on the Commercial Market. These transactions include the purchase or sale of COPEL shares or the payment of dividends or other distributions with respect to COPEL shares. Purchases and sales of foreign currencies may only be carried out through a financial institution authorized to operate in these markets.

Between March 1995 and January 1999, the Central Bank maintained a band within which the exchange rate between the *real* and the U.S. dollar fluctuated, and the Central Bank intervened in the foreign exchange market from time to time. From January 20, 1998 through December 31, 1998, the band was between R\$1.1164 and R\$1.2085 per US\$1.00. In early January 1999, the Central Bank attempted a controlled devaluation of the *real* by widening the band within which the *real* was permitted to trade, but subsequent Central Bank intervention failed to keep the rate within the new band. On January 15, 1999 the Central Bank announced that the *real* would be permitted to float, with Central Bank intervention to take place only in times of extreme volatility. Both the level of international reserves and the value of the *real* continued to decline. From January 20, 1999 through December 31, 1999, there was no exchange rate band between the *real* and the U.S. dollar, and the *real* value of the dollar was allowed to float. See “Description of Business—Risk Factors.”

The following table sets forth the period-end, average, high and low Commercial Market Rate (through February 21, 1995) and Noon Buying Rate (from February 22, 1995), expressed in *reais* per U.S. dollar for the periods indicated.

| <u>Period</u> | <u>Period-end</u> | <u>Average for Period(1)</u> | <u>High</u> | <u>Low</u> |
|-----------------------------------|-------------------|----------------------------------|-------------|------------|
| 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 |
| 1998..... | 1.2085 | 1.1640 | 1.2090 | 1.1160 |
| 1999..... | 1.8090 | 1.8640 | 2.2000 | 1.2074 |
| 2000 (through May 31, 2000) | 1.8270 | 1.7890 | 1.8560 | 1.7230 |

(1) Average of the rates on the last day of each month in the period.

Source: Central Bank through February 21, 1995; Federal Reserve Bank of New York thereafter.

At June 15, 2000 the Commercial Market Rate was R\$1.8079 to US\$1.00.

History of Dividend Payments

General

In accordance with the Company's 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 Dividend”) 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, 1999 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) | |
| | (<i>Reais</i>) | (US\$) | (<i>Reais</i>) | (US\$) | (<i>Reais</i>) | (US\$) |
| 1995..... | 0.1139 | 0.0756 | 0.1897 | 0.1326 | n.a. | n.a. |
| 1996 (3) | 0.6342 | 0.4489 | 0.6342 | 0.4489 | 0.6342 | 0.4489 |
| 1997 (3) | 0.6390 | 0.4639 | 0.7029 | 0.5103 | 0.7029 | 0.5103 |
| 1998 (3)(4) | 0.5706 | 0.2825 | 0.6271 | 0.3104 | 0.6271 | 0.3104 |
| 1999 (5) | 0.3836 | 0.2132 | 0.5921 | 0.3291 | 0.4221 | 0.2346 |

- (1) *Real* amounts are expressed in constant *reais* of December 31, 1999 purchasing power. 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\$163.4 million with respect to fiscal year 1998 was made on May 20, 1999.
- (5) The payment of interest on capital in the aggregate amount of R\$110.0 million with respect to fiscal year 1999 was made on April 26, 2000.

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, 1999, COPEL's legal reserve was R\$146.1 million, or approximately 6.63% 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 Board of 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 the Statutory Financial Statements prepared using the method required by the Brazilian Corporation Law, which differ from financial statements, such as the Financial Statements included herein. See "—Background—Difference from Financial Statements Published in Brazil."

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, noncumulative 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 therefore, 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 Dividend 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 Dividend 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 Board of 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 "Taxation—Brazilian Tax Considerations—Taxation of Dividends" and "—Distributions of Interest on Capital."

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

The Financial Statements and, unless otherwise specified, all financial information included in this Annual Report recognize certain effects of inflation using the constant currency method and are restated in constant *reais* of December 31, 1999 purchasing power, all in accordance with Brazilian GAAP. See "Selected Financial Data" and Note 2 to the Financial Statements.

Rates

The Company's results of operations have in the past been significantly affected by fluctuations in the allowable levels of 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. Despite the restructuring of the electric power sector in Brazil, government regulatory authorities continue to closely regulate and restrict the rates charged by the Company for generation and distribution of electricity. See "Description of Business—Legal and Regulatory Matters—Rates."

In April 1997, COPEL was granted an increase of 13.55% in the rate charged for sales to distributors and 9.7% in the rate charged for sales to final customers. During 1998, the Company was not granted any rate increases. In 1999, COPEL was granted an increase of 12.65% in the rate charged for sales to final customers (9.37% effective in June, 1.64% effective in July and 1.64% effective in August). Of this increase, 2.69% represented a temporary increase to compensate for higher costs of energy purchased from Itaipu, and the temporary increase expired on June 10, 2000. However, on June 10, 2000, customers rates, which include taxes, decreased by only 1.41% because COPEL passed on to customers a 1% increase in the COFINS rate that had taken effect in January 2000. In September 1999, COPEL was granted an increase of 11.35% in the rate charged for Initial Supply Contracts.

On June 24, 2000, the Company increased its rates to final customers (retail) and distributors (wholesale) by 15.43%, pursuant to authorization from ANEEL.

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 that 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 1995 to 1999.

| | Year ended December 31, | | | | |
|--|-------------------------|-----------|-----------|-----------|-----------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| Electricity Sales: | | | | | |
| Sales to final customers: | | | | | |
| Average price (R\$/MWh):(1) | | | | | |
| Industrial customers..... | 94.33 | 98.19 | 102.39 | 104.71 | 109.58 |
| Residential customers | 197.97 | 204.85 | 195.67 | 181.03 | 151.17 |
| Commercial customers..... | 164.26 | 175.59 | 175.71 | 180.06 | 187.60 |
| Rural and other customers(2)..... | 98.19 | 104.04 | 105.62 | 103.21 | 116.92 |
| Public service customers..... | 96.20 | 102.07 | 104.79 | 106.11 | 118.94 |
| All customers | 133.98 | 140.60 | 139.70 | 136.79 | 133.09 |
| Volume (GWh): | | | | | |
| Industrial customers..... | 6,238 | 5,932 | 5,641 | 5,365 | 5,214 |
| Residential customers | 4,306 | 4,185 | 3,949 | 3,780 | 3,390 |
| Commercial customers..... | 2,384 | 2,268 | 2,111 | 1,949 | 1,783 |
| Rural and other customers(2)..... | 2,283 | 2,141 | 2,073 | 1,968 | 1,853 |
| Public service customers..... | 496 | 480 | 456 | 441 | 421 |
| All customers | 15,707 | 15,006 | 14,230 | 13,503 | 12,661 |
| Total revenues (thousands of constant R\$)..... | 2,104,364 | 2,109,728 | 1,988,012 | 1,847,000 | 1,694,968 |
| Sales to distributors and others: | | | | | |
| Average price (R\$/MWh)(1) | 21.03 | 10.35 | 18.71 | 13.56 | 23.87 |
| Volume (GWh) | 7,172 | 6,586 | 5,245 | 8,996 | 4,086 |
| Total revenues (thousands of constant R\$)..... | 150,851 | 68,187 | 98,144 | 121,985 | 97,543 |
| Electricity Purchases: | | | | | |
| Purchases from Itaipu: | | | | | |
| Average cost (R\$/MWh)(3) | 52.90 | 38.51 | 41.23 | 42.99 | 49.03 |
| Volume (GWh) | 5,375 | 5,302 | 5,410 | 4,976 | 4,688 |
| Percentage of total Itaipu production purchased..... | 6.4 | 6.4 | 6.4 | 6.1 | 6.1 |
| Total cost (thousands of constant R\$)(4) | 284,354 | 204,178 | 223,052 | 213,930 | 229,901 |
| Purchases from others: | | | | | |
| Average cost (R\$/MWh)(3) | 47.02 | 20.48 | 170.93 | 45.81 | 4.84 |
| Volume (GWh) | 419 | 27 | 12 | 9 | 12 |
| Total cost (thousands of constant R\$)(4) | 19,708 | 545 | 1,972 | 393 | 59 |

(1) Rates for electricity sales and purchases are stated in constant *reais* and 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) The Company's purchases of electricity generated by Itaipu are stated in constant *reais* and 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.
- (4) See "Description of Business—Operations of COPEL—Purchases" 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. Beginning in 1971, the Federal Government was required to set electricity tariffs to provide a minimum real 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 real return below the 10% to 12% range, each electric power company 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 Note 5 to the Financial Statements. See "Description of Business—Legal and Regulatory Matters—Rates."

In 1993, 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. Amounts that had been accumulated in each utility's CRC Account up to 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\$990.8 million in 1994 and R\$595.3 million in 1993. In addition, as described below, R\$735.9 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\$735.9 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\$43.9 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 330 equal monthly installments, which include interest and principal amortization, with the last monthly installment due on October 30, 2025. 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 11 to the Financial Statements.

Special Liabilities

Special liabilities were R\$527.7 million in 1999 and R\$610.4 million in 1998. Special liabilities reflects contributions 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. See Note 22 to the Financial Statements.

Results of Operations for the Years Ended December 31, 1999 and 1998

Operating Revenues

The Company's net operating revenues increased by 1.4% to R\$1,736.5 million in 1999 from R\$1,712.9 million in 1998. A R\$82.7 million increase in electricity sales to distributors, and a R\$18.3 million increase in the revenues received from third parties for use of COPEL's transmission facilities, were largely offset by a R\$80.9 million increase in taxes on sales to final customers, which are deducted in arriving at net operating revenues.

Electricity Sales to Final Customers. The Company's revenues from electricity sales to final customers decreased by 0.3% to R\$2,104.4 million in 1999 from R\$2,109.7 million in 1998. Average prices were lower in constant *real* terms, because the rate of inflation exceeded the increases in nominal rates, but this effect was almost entirely offset by higher volume resulting from higher demand. The number of customers increased to 2.8 million in 1999 from 2.7 million in 1998, and average consumption per final customer increased by 1.8%.

Taxes on Sales to Final Customers. Revenues from sales to final customers include certain taxes collected from customers, which are deducted in arriving at net operating revenues. See Note 24 to the Financial Statements. The amount of the deduction increased by 15.6% to R\$598.9 million in 1999 from R\$518.1 million in 1998, primarily because of a change concerning the social contribution tax known as COFINS. The Company has disputed the application of COFINS to its revenues. It did not provide for COFINS in 1998, based on a determination of a Brazilian court, but did provide for it in 1999. As a result, revenue from electricity sales to final customers net of taxes decreased by 5.4% to R\$1,505.4 million in 1999 from R\$1,591.7 million in 1998.

Electricity Sales to Distributors. Revenues from electricity sales to distributors and the ICPS increased by 121% to R\$150.9 million in 1999 from R\$68.2 million in 1998, primarily because of a change in the mix of sales. The total volume sold increased by 8.9%, but the Company sold nearly three times as much electricity to independent distributors under Initial Supply Contracts and sold 32.7% less electricity to the ICPS. Sales under Initial Supply Contracts were at much higher average prices than sales to the ICPS, and as a result the average price of sales to distributors more than doubled.

Use of Transmission Plant. Beginning in September 1998, COPEL has charged other parties for the use of its transmission plant, producing R\$12.0 million of revenues in 1998 and R\$30.3 million in 1999, when COPEL collected these charges for a full year.

Other Revenues. Other revenues increased by 21.7% to R\$49.9 million in 1999 from R\$41.0 million in 1998, primarily due to increases in revenues from leasing fiber optic lines to a provider of mobile telecommunications service and leasing space on lampposts to cable companies.

Operating Expenses

Total operating expenses increased by 6.4% to R\$1,397.2 million in 1999 from R\$1,312.7 million in 1998, primarily due to higher costs for energy from Itaipu and higher payments for use of transmission facilities, which were partly offset by lower personnel costs and pension costs.

Electricity Purchased for Resale. Electricity purchased for resale increased by 48.6% to R\$304.1 million in 1999 from R\$204.7 million in 1998. The increase was primarily due to an increase in the average cost of electricity purchased from Itaipu, reflecting the devaluation of the *real* against the U.S. dollar since the tariffs for Itaipu electricity are fixed in dollars. Electricity purchased from others than Itaipu, including the Paraguayan producer Administración Nacional de Eletricidad — ANDE, accounted for 7.2% of the

volume of purchased energy in 1999, while in prior years more than 99% of purchased energy was from Itaipu.

Use of Transmission Plant. COPEL began to pay for the use of other utilities' transmission plant in September 1998, resulting in R\$62.9 million of expense in 1998 and R\$121.1 million in 1999. The increase reflected the effect of a full year of payments, partly offset by lower rates charged by other parties to transport energy acquired from Itaipu.

Depreciation and Amortization. Depreciation expense increased by 5.2% to R\$319.4 million in 1999 from R\$303.6 million in 1998, primarily because the completion of the Salto Caxias power plant increased the book value of plant in service. See Note 14 to the Financial Statements.

Personnel. Personnel expenses decreased by 16% to R\$319.1 million in 1999 from R\$379.7 million in 1998. The decrease was due to the reduction in the number of employees, from 7,442 at the end of 1998 to 6,536 at the end of 1999, and the effect of inflation on salaries and benefits in constant *real* terms, offset by a reduction in the proportion of payroll expenses capitalized following the completion of the Salto Caxias plant.

Regulatory Charges. Regulatory charges increased 9% to R\$129.0 million in 1999 from R\$118.3 million in 1998, due to a 23% increase in expenses for the fuel usage quota, which is computed by ANEEL and charged to all hydroelectric power concessionaires in order to reduce thermoelectric production costs. See "Description of Business—Legal and Regulatory Matters—Regulatory Charges" and Notes 17 and 25 to the Financial Statements.

Third-Party Services. Third-party services, consisting primarily of miscellaneous expenses such as technical consulting fees, maintenance services and travel expenses, increased by 1.6% from R\$99.2 million in 1998 to R\$100.8 million in 1999.

Pension and Other Benefits. Expenses for pension and other benefits decreased by 89% to R\$8.2 million in 1999 from R\$74.5 million in 1998. In 1998, the Company changed from a defined benefit plan to a defined contribution pension plan, and its current contributions to the pension plan decreased from R\$32 million in 1998 to R\$20 million in 1999 as a result of the change. In addition, the Company agreed in connection with the change to pay R\$561.9 million to the plan over a period of 20 years, of which it recognized R\$24.6 million in the income statement for 1998 and charged the balance to shareholders' equity. The Company also provisioned R\$13.1 million in 1998 for underfunding of the plan, which it reversed in 1999 when the performance of plan assets resulted in overfunding.

Other Expenses. Other expenses increased by 106.9% to R\$63.1 million in 1999 from R\$30.5 million in 1998 largely as a result of accruals for legal contingencies due to a government audit of social contributions. See Note 25 to the Financial Statements.

Operating Income

As a result of the foregoing factors, operating income decreased by 15.2% to R\$339.4 million in 1999 from R\$400.2 million in 1998.

Equity in Results of Investees

COPEL had equity of R\$4 million in net income of affiliates in 1999, compared to equity of R\$10.4 million in net loss in 1998. The amounts in both periods were primarily attributable to Sercomtel S/A – Telecomunicações. See Note 13 to the Financial Statements.

Other Income (Expense)

Other income decreased by 70.5% to R\$55.8 million in 1999 from R\$189.0 million in 1998. The decrease was primarily due to the effect in 1998 of gain upon reversal of a provision, together with lower net financial income in 1999 primarily because of the devaluation of the *real*.

Financial Income (Expense), Net. Net financial income decreased by 38% to R\$78.7 million in 1999 from R\$126.9 million in 1998, primarily as a result of (i) a 76% decrease in income from temporary cash investments due to a reduction in the average cash balances invested during 1999, because of the devaluation of the *real*, and lower real interest rates due to inflation, (ii) higher interest rates on loans and financing because of the devaluation and (iii) inflationary gain on obligations to the pension fund. See Note 26 to the Financial Statements.

Non-operating Income (Expense), Net. The Company had net non-operating expense of R\$22.8 million in 1999, compared with net non-operating income of R\$62.1 million in 1998. In 1998, the Company recognized R\$107.8 million upon the reversal of a provision for the social contribution tax COFINS, when a court held that the tax was inapplicable to the Company. See Notes 19 and 27 to the Financial Statements.

Income Tax

The provision for income tax and social contributions decreased by 9.9% to R\$100.6 million in 1999 from R\$111.7 million in 1998. This decrease was primarily due to a decrease of 31% in pretax income, partially offset by an increase in the statutory income tax rate and a change in the Brazilian tax legislation that made remuneration of construction work in progress non-deductible for tax purposes.

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 1999, COPEL allocated R\$10.0 million for distribution among its employees in respect of 1999 profits as compared with R\$16.8 million in 1998, reflecting lower net income in 1999.

Net Income

As a result of the foregoing factors, net income decreased by 35.9% to \$288.6 million in 1999 from R\$450.3 million in 1998.

Results of Operations for the Years Ended December 31, 1998 and 1997

Operating Revenues

The Company's net operating revenues (operating revenues net of ICMS Tax and other value-added taxes) increased 7.1% to R\$1,712.9 million in 1998 from R\$1,599.2 million in 1997, primarily due to an increase in electricity sales to final customers, partially offset by a decrease in electricity sales to distributors.

Electricity Sales to Final Customers. The Company's revenues from electricity sales to final customers increased by 6.1% to R\$2,109.7 million in 1998 from R\$1,988.0 million in 1997. This increase was primarily due to (i) a 3.45% increase in the number of final customers to 2.7 million at year-end 1998 from 2.6 million at year-end 1997, (ii) a 1.9% increase in average consumption per final customer, (iii) the first full year's effect of the 9.7% tariff increase granted by DNAEE in April 1997 for sales to final

customers other than residential customers and (iv) a further decrease in the percentage of residential customers classified as Low Income Residential Customers entitled to discounted rates. See “Description of Business—Operations of COPEL—Transmission and Distribution—Tariffs.”

Electricity Sales to Distributors. Revenues from electricity sales to distributors decreased by 30.5% to R\$68.2 million in 1998 from R\$98.1 million in 1997, despite a 25.6% increase in volume to 6,586 GWh in 1998 from 5,245 GWh in 1997. Revenues from sales to distributors other than sales through the ICPS decreased by 50.5% to R\$37.6 million in 1998 from R\$76.0 million in 1997, as a 59.6% decrease in volume to 1,036 GWh in 1998 from 2,560 GWh in 1997 was partially offset by a higher average tariff reflecting the first full year’s effect of a 13.6% rate increase granted by DNAEE in April 1997 for sales to distributors. Revenues from sales through the ICPS increased by 38.5% to R\$30.6 million in 1998 from R\$22.1 million in 1997, on volume of 5,550 GWh in 1998 as compared with 2,684 GWh in 1997.

The shift from the higher-margin direct sales to distributors to the lower-margin sales through the ICPS is attributable to the fact that COPEL’s projected firm capacity for 1998 did not increase from 1997 to 1998, whereas projected sales to final customers increased significantly. For this reason, less power was available for the Company to commit to the more profitable contract sales to distributors in 1998, as compared with 1997. Favorable hydrological conditions resulted in electricity generation in 1998 far in excess of projections. The excess energy was sold through the ICPS at the “optimization rate.” See “Description of Business—Operations of COPEL—General.”

Use of Transmission Plant. In September 1998, for the first time, COPEL was authorized to charge third parties for the use of its transmission plant, producing R\$12.0 million of revenues. See “Description of Business—Operations of COPEL—Transmission.” As discussed below, COPEL was also required to pay third parties for the use of their transmission facilities for the first time in 1998, resulting in R\$62.9 million of expense. See “Description of Business—Legal and Regulatory Matters—Rates.”

Other Revenues. Other revenues increased by 11.7% to R\$41.0 million in 1998 from R\$36.7 million in 1997, due to the increase in services rendered by the Company to other parties (primarily consulting services), revenue from equipment rentals and an increase in the subsidies received by COPEL for the operation of thermoelectric power plants. Services rendered by the Company to other parties increased largely on account of an increase in technical consulting services provided by the Company to the other members of the consortium for construction of the Dona Francisca and Machadinho hydroelectric power plants. The increase in revenue from equipment rentals was due to the rental of equipment destined for sale or future use. The increase in the subsidies received by the Company was due to an increase in capacity at the Figueira thermoelectric power plant beginning in July 1998.

Operating Expenses

Operating expenses increased by 5.9% to R\$1,312.7 million in 1998 from R\$1,239 million in 1997, primarily due to the current-year portion of the costs of changing the Company’s pension plan from a defined benefits plan to a defined contribution plan, a new requirement that COPEL pay third parties for the use of their transmission facilities, increases in regulatory charges and increases in electricity purchased for resale, partially offset by declines in depreciation and amortization and in third-party services.

Electricity Purchased for Resale. Electricity purchased for resale decreased by 9% to R\$204.7 million in 1998 from R\$225 million in 1997, primarily because certain transportation costs previously included in Itaipu’s charges were paid directly to the third parties providing transportation. The amount of energy purchased from Itaipu also declined by 2% because Itaipu produced less in 1998 than in 1997. These effects were partly offset by an increase in the cost of the electricity that COPEL was required to purchase from Itaipu, which in turn reflected the devaluation of the *real* against the U.S. dollar since the tariffs COPEL pays for Itaipu electricity are fixed in dollars, and the full year effect of a 7% increase in April 1997 in the tariff charged for energy from Itaipu and an additional 2.1% increase in January 1998.

Use of Transmission Plant. In 1998, for the first time, COPEL was required to pay third parties for the use of their transmission plant, resulting in R\$62.9 million of expense. See “Description of Business—Legal and Regulatory Matters—Rates.”

Depreciation and Amortization. Depreciation expense decreased by 6% to R\$ 303.6 million in 1998 from R\$323.0 million in 1997. This decrease in depreciation expense was primarily due to a reduction in the recorded value of certain assets due to the write-off of the effects of an earlier monetary re-statement (see Note 4 to the Financial Statements), partially offset by an increase in the depreciation rates established by ANEEL. See Note 14 to the Financial Statements.

Personnel. Personnel expenses increased by 1% to R\$379.7 million in 1998 from R\$376.2 million in 1997, primarily due to (i) an increase of R\$10.7 million in the Company’s provision for contingent liabilities in connection with labor disputes, (ii) payment of R\$35.4 million to settle a dispute relating to wage increases, (iii) an increase of R\$8.6 million in 1998 from 1997 in severance payments as a result of the continued operation of the Company’s workforce reduction program and (iv) a reclassification of certain medical benefits from third party services to personnel, offset in part by (i) a reduction in the number of employees by 7.1% during 1998 and (ii) increased construction activities resulting in an increase in the percentage of payroll expenses capitalized as “construction work in progress.”

Regulatory Charges. Regulatory charges increased 9.9% to R\$118.3 million in 1998 from R\$107.6 million in 1997. This increase resulted primarily from the imposition of R\$6.4 million of new fees to cover ANEEL’s inspection expenses and an increase of 12.8% in compensation for land usage, to R\$22.6 million in 1998 from R\$20.1 million in 1997. See “Description of Business—Legal and Regulatory Matters—Regulatory Charges” and Notes 17 and 25 to the Financial Statements.

Third-Party Services. Third-party services, consisting primarily of miscellaneous expenses such as technical consulting fees, maintenance services and travel expenses, decreased by 15.2% from R\$117 million in 1997 to R\$99.2 million in 1998. This decrease resulted primarily from a reclassification of certain medical benefits from third party services to personnel, reduced expenses for publication of legal notices (resulting in turn from a lower level of public biddings in connection with procurement activities) and a lower level of payments for outsourced activities.

Pension and Other Benefits. Pension and other benefits increased by 97.6% to R\$74.5 million in 1998 from R\$37.7 million in 1997 largely as a result of the change from a “defined benefit” pension plan to a “defined contribution” pension plan. The participant rights under the new plan generated an obligation amounting to R\$561.9 in 1998. R\$24.6 related to 1998 was charged to operating expenses. In addition, the Company recognized a provision of R\$13.1 million for the deficit of Fundação COPEL as of December 31, 1998, computed based on actuarial practices in Brazil. See Note 29 to the Financial Statements.

Other Expenses. Other expenses increased by 54% to R\$30.5 million in 1998 from R\$19.8 million in 1997 largely as a result of (i) a 28.3% increase in rental expenses, (ii) an increase of more than 10 times in provisions for doubtful accounts due to an increase in overdue receivables and (iii) a decrease of R\$8.3 million in the recovery of expenses due to a reduction in maintenance services related to public lighting systems rendered by the Company to customers, mainly to municipalities. These effects were partially offset by a decrease in the cost of operating services due to the reclassification of cost of maintenance services performed by the Company’s employees from other expenses to personnel expenses. See note 25c to the Financial Statements.

Operating Income

As a result of the foregoing factors, operating income increased by 11.1% to R\$400.2 million in 1998 from R\$360.2 million in 1997.

Equity in Results of Investees

In 1998, the Company made an investment in Sercomtel. Equity pick-up in investees reflects a loss in value in the Company's investment in Sercomtel. See Note 13 to the Financial Statements.

Other Income (Expense)

Other income (expense) increased by 41.6% to R\$189.0 million in 1998 from R\$133.5 million in 1997, due to an increase in nonoperating income (expense), net, partially offset by a decrease in financial income (expense), net.

Financial Income (Expense), Net. Net financial income decreased by 22.2% to R\$126.9 million in 1998 from R\$163.1 million in 1997 primarily as a result of: (i) lower interest income reflecting lower cash balances (see "—Liquidity and Capital Resources") and (ii) net exchange loss attributable primarily to the effect of the devaluation of the *real* in the second half of 1998 on the Company's indebtedness, especially in relation to the Company's IDB loan and Japanese yen denominated indebtedness. The decrease was largely offset by lower interest payments on loans and financings during 1998 and lower debt balances in 1998.

Nonoperating Income (Expense), Net. The Company had net nonoperating income of R\$62.1 million in 1998, as compared with net nonoperating expense of R\$29.5 million in 1997. The increase in non-operating income in 1998 was largely due to the reversal of a provision for the social contribution tax COFINS. See Notes 19 and 27 to the Financial Statements.

Income Tax

The Company's provision for income tax and social contributions increased by 24.8% to R\$111.7 million in 1998 from R\$89.5 million in 1997. This increase was primarily due to an increase of 17.2% in income before taxes partially offset by a decrease in employee participation expense and a decrease in the tax benefit relating to the payment of interest on capital in lieu of dividends. The increase was also partially offset by a tax benefit relating to a deduction in 1998 of remuneration of construction work in progress. See Note 20b to the Financial Statements.

Employee Participation

In 1998, COPEL allocated R\$16.8 million for distribution among its employees in respect of 1998 profits as compared with R\$29.9 million in 1997. This decrease primarily reflects the decrease in the number of employees at the Company and management's concerns over Brazil's economic situation in January 1999 when management determined the amount to be allocated to the profit sharing plan.

Net Income

As a result of the foregoing factors, net income increased 20.3% to \$450.3 million in 1998 from R\$374.3 million in 1997.

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 1999 were funds generated by operating activities and cash on hand. In 1999, net cash provided by operating activities was R\$804.1 million, compared to R\$830.5 million in 1998.

Capital expenditures for property, plant and equipment were R\$718.0 million in 1999 and R\$922.0 million in 1998. The following table sets forth the Company's capital expenditures for the periods indicated.

| | Year ended December 31, | | |
|--------------------|-------------------------|--------------|--------------|
| | 1999 | 1998 | 1997 |
| | (millions of reais) (1) | | |
| Generation: | | | |
| Salto Caxias | 352.8 | 526.2 | 379.1 |
| Other | 5.0 | 35.8 | 54.1 |
| Transmission | 199.0 | 172.4 | 59.6 |
| Distribution | 131.5 | 144.6 | 207.7 |
| Other | <u>29.7</u> | <u>43.0</u> | <u>44.5</u> |
| Total | <u>718.0</u> | <u>922.0</u> | <u>745.0</u> |

(1) In constant *reais* of December 31, 1999.

COPEL plans to make capital expenditures aggregating approximately R\$349 million in 2000 and R\$351 million in 2001, as part of its R\$1.4 billion capital expenditure program for the years 2000 through 2003. Of total budgeted capital expenditures over this period, R\$144 million is for generation, R\$355 million is for transmission, R\$485 million is for distribution, R\$36 million is for telecommunications businesses, R\$34 million is for information technology and R\$323 million is for the Company's investees and investments in new projects.

Of the R\$349 million the Company is projected to spend in 2000, management estimates that approximately 90% will be financed by cash flow from operating activities and 10% from borrowings. 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 noncontrolling interests in other existing electric utilities, in communications services or in other areas, each of which may require additional domestic and international financing.

State-owned companies, including the Company, are subject to restrictions under resolutions of the National Monetary Council on their ability to obtain financing from domestic and international sources. These restrictions could limit the ability of COPEL to access external sources of funding if its internally-generated funds are insufficient to meet its budgeted capital expenditures.

Total debt outstanding at December 31, 1999 was R\$1,419 million. Approximately R\$616.1 million of the total debt outstanding at December 31, 1999 was denominated in, or indexed to, the U.S. dollar, and approximately R\$241 million was indexed to a basket of foreign currencies. The increase in total debt outstanding in 1999 resulted primarily from the devaluation of the Brazilian currency against the U.S. dollar and the Japanese yen.

U.S. GAAP Reconciliation

The Company prepares its financial statements in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. The differences are described in Note 34 to the Financial Statements. For 1999, U.S. GAAP net loss was R\$283.1 million, compared to R\$288.6 million net income under Brazilian GAAP. Shareholders' equity at December 31, 1999 was R\$6,757.1 million under U.S. GAAP compared to R\$5,806.6 million under Brazilian GAAP.

The differences between Brazilian GAAP and U.S. GAAP that have the most significant effects on net income and shareholders' equity include: (i) differences in inflation accounting methodology and indices, (ii) certain differences that arise because of the Company's use of nonregulated accounting policies resulting in differences in the treatment of capitalized interest, differences in the accounting for consumers' contributions to the cost of expanding the power supply systems and differences in the accounting for rate shortfalls, (iii) differences in the accounting for pensions and other post-retirement benefits, (iv) differences related to deferred income taxes effects of inflation accounting and (v) differences in the calculation of earnings (loss) per share. See Note 34 to the Financial Statements.

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, 1999, the Company had outstanding approximately R\$616.1 million of indebtedness denominated in U.S. dollars and approximately R\$241 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\$183.7 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\$87.2 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, 1999, the Company had outstanding approximately R\$1.4 billion in loans and financing, of which approximately R\$424.7 million bore interest at fixed interest rates and approximately R\$994.3 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, 1999, would result in an additional cash outflow of approximately R\$8.9 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 the Board of Directors, which consists of seven to nine members, and the Board of Executive Officers, which consists of seven members (each, an “Executive 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 corporate strategy, the general orientation of the Company’s business and the election and supervision of the Company’s Executive Officers.

The members of the Board of Directors are elected to serve for two-year terms and may be re-elected. Of the nine members of the Board of Directors, eight are elected by the holders of the Common Shares (as a result of which, at present, seven are chosen by the State Government and one is chosen by Eletrobrás). In addition, pursuant to state law, one member is elected by the Company’s employees. The terms of the current members of the Board of Directors expire in April 2001. The current members are as follows:

| <u>Name</u> | <u>Position</u> | <u>Since</u> |
|---------------------------------------|-----------------|--------------|
| Ney Aminthas de Barros Braga..... | Chairman | 1991 |
| Alexandre Fontana Beltrão..... | Director | 1995 |
| Raimundo Barretto Bastos..... | Director | 1999 |
| Eduardo Guy de Manuel..... | Director | 1995 |
| Fabiano Braga Côrtes..... | Director | 1995 |
| Ingo Henrique Hübert..... | Director | 1995 |
| Lubomir Antônio Ficinski Dunin..... | Director | 1996 |
| Maria Aparecida Rodrigues Praça | Director | 1999 |
| Nicolau Imthou Klüppel..... | Director | 1998 |

Set forth below is brief biographical information 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. He has served on the Board of Directors since 1991 and is now its Chairman. Mr. Barros Braga served as President of Itaipu from 1985 until 1990, as Governor of the State of Paraná from 1961 to 1966 and from 1979 to 1982, as the Federal Minister of Education from 1974 to 1978, as a Federal Senator from 1967 to 1974, as Federal Minister of Agriculture in 1966, and as a Federal Congressman from 1959 to 1961.

Alexandre Fontana Beltrão. Mr. Fontana Beltrão received a civil engineering degree from the Federal University of Paraná and a Master’s 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.

Raimundo Barretto Bastos. Mr. Bastos received an electrical engineering degree from the Polytechnic School of the Federal University of Bahia and completed a post-graduate course in corporate finance at the Graduate Economics School of Getúlio Vargas College . He is the Chief Financial and Investors Relations Officer of Centrais Elétricas Brasileiras S.A. – Eletrobrás.

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 Boards of Directors of the Higher Institute of Business Administration Studies – ISAD and of the Brazilian Institute for Quality and Productivity in Paraná.

Fabiano Braga Côrtes. Mr. Côrtes received a law degree from the Law School of Curitiba. 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.

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. Mr. Hübert served as the Chief Executive Officer of ABS – Indústria de Bombas Centrífugas Ltda. from 1991 to 1995, and as an executive officer of INCEPA – Indústria Cerâmica do Paraná S.A. from 1988 to 1991.

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

Maria Aparecida Rodrigues Praça. Ms. Praça received a Business Administration degree from the State College of Education, Science, and Languages of Paranavaí, in the State of Paraná, in 1992. She has been working at COPEL since 1977 and was appointed COPEL’s acting Employees Representative Member on the Company’s Board of Directors at the 87th Board of Officers’ Ordinary Meeting held on December 20, 1999, replacing the recently retired Mr. Carlos José de Carvalho. Ms. Praça shall serve in this capacity until a Shareholders’ Meeting is held to officially fill the vacant position. She currently belongs to the Administrative and Financial staff of COPEL.

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 and Secretary of the Water Treatment and Sewage Municipal Department of Curitiba from 1993 to 1996. Mr. Klüppel is currently the head of the Paraná Agency for the Development of Water Resources and Management of the Environment.

Board of Executive Officers

The Company’s Board of Executive Officers meets weekly and is responsible for the day-to-day management of the Company. Each Executive Officer also has individual responsibilities established by the shareholders.

The Executive Officers are elected by the Board of Directors for three-year terms but may be removed by the Board of Directors at any time. The terms of the current members of the Board of Executive Officers expire in March 2003. The current members are as follows:

| Name | Position | Since |
|--|---|---------------|
| Ingo Henrique Hübert..... | Chief Executive Officer | 1995 |
| Ferdinando Schauenburg..... | Chief Financial Officer and Chief Investor Relations Officer | 1996 and 2000 |
| Mario Roberto Bertoni..... | Chief Officer of Corporate Partnerships | 1995 |
| Lindolfo Zimmer..... | Chief Marketing Officer | 1995 |
| José Maria Araque Ruiz | Chief Planning Officer | 1997 |
| Miguel Augusto Queiroz Schünemann..... | Chief Administrative Officer | 1995 |

Deni Lineu Schwartz..... Chief Officer of Govern- 1997
mental Relations

Set forth below is brief biographical information for each of the Executive Officers:

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 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. He 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 Master's 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. He 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. He has been employed by the Company since 1972.

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. He has been employed by the Company since 1969.

Deni Lineu Schwartz. Mr. Schwartz received a civil engineering degree from the Federal University of Paraná. Mr. Schwartz has 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 and 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 2001, are as follows:

| <u>Name</u> | <u>Since</u> |
|--------------------------------------|--------------|
| Eduardo Marques Dias (Chairman)..... | 1995 |
| Dirceu Pires de Araújo..... | 1995 |
| Norton José Siqueira Silva | 1995 |
| Fric Kerin | 1995 |
| Xisto Vieira Filho (1) | 1999 |
| <u>Alternates</u> | |
| César Ribeiro Ferreira | 1992 |

| | |
|---------------------------------------|------|
| Miguel Arão Ribas Droppa | 1995 |
| Rosangela Heinz Gavinho Ferraz | 1995 |
| Getulio Miranda de Paula Garcia | 1995 |
| José Carlos Muniz de Brito Filho..... | 1999 |

(1) To be replaced at the next shareholders' meeting.

Item 11. *Compensation of Directors and Officers*

For the year ended December 31, 1999, the aggregate amount of compensation paid by the Company to all directors and executive officers was approximately R\$2.1 million.

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, 1999.

Item 13. *Interest of Management in Certain Transactions*

See “Description of Business—Relationship with the State Government,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Impact of CRC Account” and Notes 9 and 11 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*

Not applicable.

PART IV

Item 17. *Financial Statements*

Not applicable.

Item 18. *Financial Statements*

Reference is made to pages F-1 through F-45.

Item 19. *Financial Statements and Exhibits*

(a) The following Financial Statements are filed as part of this Form 20-F:

Independent Auditors’ Report

Balance Sheet

Statement of Income

Statement of Changes in Shareholders’ Equity

Statement of Changes in Financial Position

Notes to the Financial Statements

(b) List of Exhibits

Estatutos sociais of the Company, as amended to the date of filing (filed by incorporation by reference to the Company's Forms 6-K filed on March 11, 1999 and on June 27, 2000).

Agreement, dated December 17, 1999, by and between the Company and the State Government relating to the prepayment of ICMS Tax, as amended on April 13, 2000 and May 15, 2000.

INDEX OF DEFINED TERMS

| | <u>Page</u> | | <u>Page</u> |
|--|-------------|--------------------------------------|-------------|
| Adjusted Net Income | 43 | Guaranteed Return | 4 |
| ADRs | ii | ICMS Tax | 2 |
| ADSs | ii | ICPS | 9 |
| American Depositary Shares | ii | IGP-M | 27 |
| Anatel | 20 | Initial Supply Contracts | 6 |
| ANEEL | 3 | IOF tax | 37 |
| Annex V Regulations | 34 | IOF/Títulos | 37 |
| authorised free market retailers | 6 | IPP | 7 |
| Basic Network | 5 | LACTEC | 24 |
| BNDESPAR | 2 | LAME | 24 |
| Board of Directors | 2 | Low Income Customer | 18 |
| Brazil | ii | Mandatory Dividend | 42 |
| Brazilian Corporation Law | 33 | MME | 3 |
| Brazilian Securities Law | 33 | National Monetary Council | 33 |
| CCC Account | 8 | non-Brazilian holder | 35 |
| CEHPAR | 24 | non-U.S. holder | 39 |
| CHESF | 7 | NSO | 4 |
| Class A Shares | ii | NYSE | 1 |
| Class B Shares | ii | ONDA | 20 |
| Code | 39 | optimization rate | 10 |
| Commercial Market | 42 | Option Agreement | 30 |
| Common Shares | ii | Paraná | 1 |
| Company | ii | Paraná Stock Exchange | 31 |
| COPEL | ii | R\$ | ii |
| CPMF tax | 38 | <i>reais</i> | ii |
| CRC Account | 4 | <i>real</i> | ii |
| CRC Account Agreement | 47 | Registered Capital | 38 |
| Cruzado Period | 28 | RGR Fund | 7 |
| Custodian | 34 | Rio de Janeiro Stock Exchange | 31 |
| Deposit Agreement | 31 | Sanepar | 20 |
| Depositary | 31 | São Paulo Stock Exchange | 31 |
| DNAEE | 3 | Sercomtel | 20 |
| dollars | ii | Shareholders' Agreement | 30 |
| e&p | 39 | SIMEPAR | 24 |
| Eletronorte | 7 | State Government | 1 |
| Eletrosul | 9 | Statutory Financial Statements | 40 |
| ERM | 8 | TJLP | 35 |
| ESCO | 21 | U.S. dollars | ii |
| Executive Officer | 56 | U.S. GAAP | 40 |
| Federal Government | 1 | U.S. holder | 38 |
| Federal University | 24 | UBP Fund | 8 |
| Financial Statements | ii | Unregulated Customers | 22 |
| Floating Market | 42 | US\$ | ii |
| Fundação COPEL | 2 | VPDN | 19 |
| Furnas | 7 | VPN | 19 |
| Group A Customers | 17 | Wholesale Energy Market | 6 |
| Group B Customers | 17 | | |

TECHNICAL GLOSSARY

Average Tariff or Rate: Total sales revenue divided by total megawatt hours (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.

COMASE: Comitê Coordenador das Atividades 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.

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 electricity which COPEL can deliver from a specified power plant with a 95.0% degree of certainty, determined in accordance with certain prescribed statistical models.

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

Gigawatt (GW): one billion watts.

Gigawatt hour (GWh): One gigawatt of power supplied or demanded for one hour, or one billion watt hours.

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.

Installed Capacity: The level of electricity 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.

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

kilovolt (kV): one thousand volts.

kilowatt (kW): one thousand watts.

kilowatt hour (kWh): One kilowatt of power supplied or demanded for one hour, or one thousand watt hours.

Megawatt (MW): one million watts.

Megawatt hour (MWh): One megawatt of power supplied or demanded for one hour, or one million watt hours.

Megavolt Ampère (MVA): One thousand volt ampères.

NSO: National System Operator, an entity responsible for operational planning, administration of generation and transmission and planning of transmission investments in the electricity sector.

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 generating 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*.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Company certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMPANHIA PARANAENSE DE ENERGIA – COPEL

By: /s/ INGO HENRIQUE HÜBERT
Name: Ingo Henrique Hübert
Title: Chief Executive Officer

By: /s/ FERDINANDO SCHAUENBURG
Name: Ferdinando Schauenburg
Title: Chief Financial Officer and
Chief Investor Relations Officer

Date: June 30, 2000

COMPANHIA PARANAENSE DE ENERGIA - COPEL

Financial Statements As of and For the Years Ended

December 31, 1999, 1998 and 1997

INDEX TO FINANCIAL STATEMENTS

| | <u>Page</u> |
|--|-------------|
| Report of Independent Public Accountants..... | F-2 |
| Balance Sheet..... | F-3 |
| Statement of Income | F-5 |
| Statement of Changes in Shareholders' Equity | F-6 |
| Statement of Changes in Financial Position | F-7 |
| Notes to the Financial Statements..... | F-8 |
| Statement of Cash Flows | F-44 |



Report of Independent Public Accountants

To the Board of Directors and Shareholders of

Companhia Paranaense de Energia - COPEL

We have audited the accompanying balance sheets of COMPANHIA PARANAENSE DE ENERGIA - COPEL (a Brazilian corporation) as of December 31, 1999 and 1998, and the related statements of income, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1999, all adjusted for price-level changes as of December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with generally accepted auditing standards in Brazil, which are substantially the same as those followed in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Companhia Paranaense de Energia - COPEL as of December 31, 1999, and 1998, and the results of its operations, changes in its shareholders' equity and changes in its financial position for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles in Brazil (Notes 2 and 3).

During the year ended December 31, 1998, the Company reversed the special monetary restatement (Law No. 8,200/91), as explained in Note 4.

Accounting practices of the Company used in preparing the accompanying financial statements conform with generally accepted accounting principles in Brazil, but do not conform with accounting principles generally accepted in the United States of America (US. GAAP). A description of the significant differences between Brazilian GAAP and US. GAAP, and the approximate effect of those differences on shareholders' equity and net income, are set forth in Note 34 of the Notes to the financial statements.

Curitiba, Brazil

ARTHUR ANDERSEN S/C.

February 24, 2000

COMPANHIA PARANAENSE DE ENERGIA - COPEL

BALANCE SHEET

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
as of December 31, 1999)*

ASSETS

| | December 31, | |
|--|-----------------------|-----------------------|
| | 1999 | 1998 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 180,446 | 255,146 |
| Accounts receivable | 292,519 | 264,147 |
| Services in progress | 14,298 | 18,410 |
| Allowance for doubtful accounts | (6,796) | (14,005) |
| Materials and supplies | 12,977 | 12,631 |
| Recoverable Rate Deficit (CRC) | 10,335 | 9,262 |
| Prepayment of value-added tax (ICMS) | 182,392 | 147,604 |
| Other accounts receivables | 32,025 | 49,917 |
| Prepaid expenses | 5,056 | 3,804 |
| | <hr/> 723,252 | <hr/> 746,916 |
| LONG-TERM ASSETS: | | |
| Deferred income tax | 191,308 | 206,288 |
| Judicial deposits | 64,109 | 87,689 |
| Recoverable Rate Deficit (CRC) | 599,797 | 609,814 |
| Long-term receivables and other | 35,473 | 72,524 |
| | <hr/> 890,687 | <hr/> 976,315 |
| INVESTMENTS | 390,171 | 320,207 |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| In service | 9,429,890 | 7,833,347 |
| Accumulated depreciation | (2,907,397) | (2,609,904) |
| | <hr/> 6,522,493 | <hr/> 5,223,443 |
| Construction work in progress | 953,395 | 2,087,920 |
| | <hr/> 7,475,888 | <hr/> 7,311,363 |
| Total assets | <hr/> <hr/> 9,479,998 | <hr/> <hr/> 9,354,801 |

The accompanying notes are an integral
part of these financial statements.

COMPANHIA PARANAENSE DE ENERGIA - COPEL

BALANCE SHEET

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
as of December 31,1999.)*

LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, | |
|---|-------------------------|-------------------------|
| | 1999 | 1998 |
| CURRENT LIABILITIES: | | |
| Suppliers | 86,099 | 64,467 |
| Loans and financing | 301,584 | 207,760 |
| Advanced billings of electric power..... | 13,079 | 14,836 |
| Provision for income tax and social contribution tax..... | 4,572 | - |
| Taxes, other than income taxes | 81,891 | 82,208 |
| Dividends proposed | 101,796 | 146,901 |
| Accrued payroll costs | 51,182 | 66,974 |
| Pension plan | 19,692 | 32,287 |
| Regulatory charges | 20,022 | 25,757 |
| Other accrued liabilities | 22,826 | 23,102 |
| | <u>702,743</u> | <u>664,292</u> |
| LONG-TERM LIABILITIES: | | |
| Loans and financing | 1,117,391 | 1,100,532 |
| Special liabilities | 527,654 | 610,443 |
| Deferred income taxes | 607,372 | 290,994 |
| Other taxes | 129,468 | 66,988 |
| Advanced billings of electric power..... | 24,044 | 42,128 |
| Pension plan | 478,156 | 547,917 |
| Other liabilities | 86,608 | 90,174 |
| | <u>2,970,693</u> | <u>2,749,176</u> |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock..... | 2,202,276 | 1,647,654 |
| Capital reserves | 2,220,374 | 2,760,119 |
| Income reserves | 1,383,912 | 1,515,776 |
| | <u>5,806,562</u> | <u>5,941,333</u> |
| Credits for capital increase..... | - | 17,784 |
| | <u>5,806,562</u> | <u>5,941,333</u> |
| Total liabilities and shareholders' equity | <u><u>9,479,998</u></u> | <u><u>9,354,801</u></u> |

The accompanying notes are an integral
part of these financial statements.

COMPANHIA PARANAENSE DE ENERGIA - COPEL

STATEMENT OF INCOME

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
as of December 31, 1999, except per share amounts)*

| | Year Ended December 31, | | |
|---|--------------------------------|--------------------|------------------|
| | 1999 | 1998 | 1997 |
| OPERATING REVENUES: | | | |
| Electricity sales to final customers..... | 2,104,364 | 2,109,728 | 1,988,012 |
| Value-added taxes on sales to final customers | (598,930) | (518,059) | (523,705) |
| Electricity sales to distributors | 150,851 | 68,187 | 98,144 |
| Use of transmission plant | 30,348 | 12,017 | - |
| Other revenues | 49,876 | 41,027 | 36,723 |
| Net operating revenues | 1,736,509 | 1,712,900 | 1,599,174 |
| OPERATING EXPENSES: | | | |
| Electricity purchased for resale | (304,062) | (204,723) | (225,024) |
| Use of transmission plant..... | (121,087) | (62,857) | - |
| Depreciation and amortization..... | (319,391) | (303,640) | (323,020) |
| Personnel..... | (319,100) | (379,714) | (376,219) |
| Regulatory charges | (128,967) | (118,269) | (107,621) |
| Third party services | (100,777) | (99,246) | (116,980) |
| Materials and supplies | (32,401) | (39,269) | (32,616) |
| Pension and other benefits | (8,225) | (74,528) | (37,660) |
| Other expenses | (63,149) | (30,499) | (19,839) |
| Total operating expenses | (1,397,159) | (1,312,745) | 1,238,979 |
| OPERATING INCOME | 339,350 | 400,155 | 360,195 |
| EQUITY IN RESULTS OF INVESTEES | 3,981 | (10,405) | - |
| OTHER INCOME (EXPENSE): | | | |
| Financial income (expense), net..... | 78,680 | 126,937 | 163,090 |
| Non-operating income (expenses), net..... | (22,834) | 62,106 | (29,544) |
| Total other income (expense)..... | 55,846 | 189,043 | 133,546 |
| INCOME BEFORE TAXES | 399,177 | 578,793 | 493,741 |
| Provision for income taxes | (100,559) | (111,714) | (89,508) |
| INCOME BEFORE EMPLOYEE PARTICIPATION..... | 298,618 | 467,079 | 404,233 |
| Employee Participation | (10,000) | (16,799) | (29,904) |
| NET INCOME | 288,618 | 450,280 | 374,329 |
| Earnings per Thousand Outstanding Shares | | | |
| at Year end, in Units of Brazilian Reais | 1.05 | 1.65 | 1.37 |

The accompanying notes are an integral
part of these financial statements

COMPANHIA PARANAENSE DE ENERGIA - COPEL

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
as of December 31, 1999)*

| | Capital Stock | Capital Reserves | Income Reserves | Retained Earnings | Subtotal | Credits for Capital Increase | Total |
|---|--------------------------|-----------------------------|----------------------------|------------------------------|------------------|---|------------------|
| BALANCE AS OF DECEMBER 31, 1996 | 788,431 | 3,606,781 | 1,164,691 | 146,222 | 5,706,125 | 17,784 | 5,723,909 |
| Capital paid in | 778,158 | - | - | - | 778,158 | - | 778,158 |
| Remuneration of construction work in progress | - | 36,946 | - | - | 36,946 | - | 36,946 |
| Realization of income reserve | - | - | (291,694) | 291,694 | - | - | - |
| Net income for the year..... | - | - | - | 374,329 | 374,329 | - | 374,329 |
| Distribution of net income: | | | | | | | |
| Legal reserve | - | - | 18,464 | (18,464) | - | - | - |
| Dividends proposed | - | - | - | (183,083) | (183,083) | - | (183,083) |
| Deferred income taxes on price-level adjustments | - | - | - | (142,334) | (142,334) | - | (142,334) |
| BALANCE AS OF DECEMBER 31, 1997 | 1,566,589 | 3,643,727 | 891,461 | 468,364 | 6,570,141 | 17,784 | 6,587,925 |
| Prior year adjustments (Note 29)..... | - | - | - | (362,862) | (362,862) | - | (362,862) |
| Reversion of Special Monetary Correction (Note 4).. | - | (931,351) | - | 343,929 | (587,422) | - | (587,422) |
| Remuneration of construction work in progress | - | 30,992 | - | - | 30,992 | - | 30,992 |
| Capitalization of reserves | 81,065 | (851) | (80,214) | - | - | - | - |
| Tax Incentive | - | 17,602 | - | - | 17,602 | - | 17,602 |
| Realization of income reserve | - | - | (92,850) | 92,850 | - | - | - |
| Net income for the year..... | - | - | - | 450,280 | 450,280 | - | 450,280 |
| Distribution of net income: | | | | | | | |
| Legal reserve | - | - | 24,195 | (24,195) | - | - | - |
| Dividends proposed | - | - | - | (163,435) | (163,435) | - | (163,435) |
| Income reserves | - | - | 804,931 | (804,931) | - | - | - |
| Deferred income taxes on price-level adjustments | - | - | (31,747) | - | (31,747) | - | (31,747) |
| BALANCE AS OF DECEMBER 31, 1998 | 1,647,654 | 2,760,119 | 1,515,776 | - | 5,923,549 | 17,784 | 5,941,333 |
| Remuneration of construction work in progress | - | 6,095 | - | - | 6,095 | - | 6,095 |
| Capitalization of reserves | 554,622 | (554,622) | - | - | - | - | - |
| Tax incentive | - | 8,782 | - | - | 8,782 | - | 8,782 |
| Reimbursement of credits for capital increase | - | - | - | - | - | (17,784) | (17,784) |
| Realization of income reserve | - | - | (230,570) | 230,570 | - | - | - |
| Net income for the year..... | - | - | - | 288,618 | 288,618 | - | 288,618 |
| Distribution of net income: | | | | | | | |
| Legal reserve | - | - | 13,858 | (13,858) | - | - | - |
| Dividends proposed | - | - | - | (110,000) | (110,000) | - | (110,000) |
| Income reserves | - | - | 395,330 | (395,330) | - | - | - |
| Deferred income tax on price-level adjustments | - | - | (310,482) | - | (310,482) | - | (310,482) |
| BALANCE AS OF DECEMBER 31, 1999 | 2,202,276 | 2,220,374 | 1,383,912 | - | 5,806,562 | - | 5,806,562 |

The accompanying notes are an integral part of these financial statements.

COMPANHIA PARANAENSE DE ENERGIA - COPEL

STATEMENT OF CHANGES IN FINANCIAL POSITION

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
as of December 31,1999.)*

| | Year ended December 31, | | |
|---|--------------------------------|------------------|------------------|
| | 1999 | 1998 | 1997 |
| SOURCES OF FUNDS: | | | |
| Funds generated from operations: | | | |
| Net income for the year..... | 288,618 | 450,280 | 374,329 |
| Items not requiring working capital - | | | |
| Depreciation and amortization..... | 319,391 | 303,640 | 323,019 |
| Long-term monetary variations..... | 142,242 | 82,978 | (41,236) |
| Equity in results of investees | (3,981) | 10,405 | - |
| Disposal of property, plant and equipment and other | 35,450 | 35,169 | 47,432 |
| Long-term liabilities provisions..... | 88,966 | 3,225 | 12,390 |
| Deferred income tax | (16,202) | (30,228) | 32,729 |
| | <u>854,484</u> | <u>855,469</u> | <u>748,663</u> |
| Funds from Shareholders: | | | |
| Capital paid in and credits for capital increase..... | - | - | 778,158 |
| Funds from third-parties: | | | |
| Long-term loans and financing..... | 107,143 | 267,380 | 639,499 |
| Consumers' contribution – special liabilities | 18,934 | 31,764 | 34,809 |
| Transfer from long-term to current assets | 37,061 | 20,868 | 49,374 |
| Advanced billing of electric power and other..... | - | - | 60,846 |
| Other taxes | 21,566 | - | - |
| Other long-term liabilities | 8,486 | - | - |
| Total sources | <u>1,047,674</u> | <u>1,175,481</u> | <u>2,311,349</u> |
| APPLICATION OF FUNDS: | | | |
| Judicial deposits and other | 22,426 | 36,305 | 57,670 |
| Property, plant and equipment..... | 718,034 | 922,004 | 744,961 |
| Investments | 43,440 | 297,928 | 20,764 |
| Transfer from long-term to current liabilities: | | | |
| Long-term loans and financing..... | 164,303 | 118,906 | 292,812 |
| Other taxes | 6,594 | 31,463 | 51,272 |
| Pension plan..... | 15,171 | 34,043 | 111,795 |
| Advanced billings of electric power and other | 12,037 | 10,178 | 29,714 |
| Dividends proposed..... | 110,000 | 163,435 | 183,083 |
| Reimbursement of advances for capital increase..... | 17,784 | - | - |
| Total applications..... | <u>1,109,789</u> | <u>1,614,262</u> | <u>1,492,071</u> |
| INCREASE (DECREASE) IN WORKING CAPITAL.... | <u>(62,115)</u> | <u>(438,781)</u> | <u>819,278</u> |
| REPRESENTED BY: | | | |
| Current assets | | | |
| Beginning of the period | 746,916 | 1,360,102 | 515,133 |
| End of the period..... | 723,252 | 746,916 | 1,360,102 |
| Increase (decrease) in current assets | <u>(23,664)</u> | <u>(613,186)</u> | <u>844,969</u> |
| Current liabilities | | | |
| Beginning of the period | 664,292 | 838,697 | 813,006 |
| End of the period..... | 702,743 | 664,292 | 838,697 |
| (Increase) decrease in current liabilities..... | <u>(38,451)</u> | <u>174,405</u> | <u>(25,691)</u> |
| Total increase (decrease) in working capital..... | <u>(62,115)</u> | <u>(438,781)</u> | <u>819,278</u> |

The accompanying notes are an integral
part of these financial statements.

COMPANHIA PARANAENSE DE ENERGIA - COPEL

NOTES TO THE FINANCIAL STATEMENTS

(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais, as of December 31, 1999, unless otherwise indicated)

1. THE COMPANY AND ITS OPERATIONS

Companhia Paranaense de Energia - COPEL (“COPEL” or the “Company”) is a mixed-capital corporation (sociedade de economia mista), organized under the laws of Brazil and controlled by the Paraná State Government.

The Company’s principal business is the researching, planning, construction and operation of electricity generation plants and the transmission and distribution of electric energy in the State of Paraná. In addition Copel is authorized to participate in other companies, in the energy and telecommunications areas.

As concessionaire of electric utility services, the Company is subject to regulations set by *Agência Nacional de Energia Elétrica – ANEEL* (“the Department of Energy”, formerly DNAEE – Departamento Nacional de Energia Elétrica), an agency of the Federal Government.

In March 1994, the Company obtained its registration with Comissão de Valores Mobiliários – CVM (the “CVM”), the Brazilian Securities Commission (equivalent to US SEC) as a publicly held company and its shares are now traded on all of the Brazilian stock exchanges, mainly São Paulo and Rio de Janeiro stock exchanges.

In July 1997, the Company registered with the United States Securities Exchange Commission (the “SEC”) and its shares were listed on the New York Stock Exchange (“NYSE”), through an American Depositary Shares (ADS) program.

COPEL has 18 power plants in operation, 17 hydroelectric and 1 thermoelectric, with an installed capacity of 4,545 MW (3,306 MW as of December 31, 1998).

2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS

a. Presentation of Financial Statements and Requirements of Brazilian Legislation

Until December 31, 1995, publicly-traded companies were required to prepare financial statements pursuant to two methods: (i) the corporate law method, which was and remains valid for all legal purposes; and (ii) the constant currency method, to present supplementary price-level adjusted financial statements, pursuant to the standards prescribed by the CVM.

On December 26, 1995, the Brazilian Government enacted Law No. 9,249 which, among several changes in tax legislation and corporate law, eliminated accounting for the effects of inflation as from January 1, 1996, for tax and financial reporting purposes.

On March 19, 1996, the CVM issued the Instruction No. 248 stating that quarterly and annual financial statements should be prepared in accordance with the corporate law method (which no longer accounts for the effects of inflation). However, companies are allowed to present supplementary price-level adjusted financial information, following the standards previously adopted. If a company elects to present the price level adjusted financial statements for use outside Brazil, such statements must also be disclosed in Brazil.

In December 13, 1999, due to the high inflation rates in 1999, the Brazilian Institute of Accountants (the “IBRACON”) issued Communication No. 99/006, establishing that, the financial statements should be prepared in accordance with the constant currency method for being in accordance with Brazilian generally accounting principles.

For Brazilian official financial reporting purposes, the Company elected to prepare its 1999, 1998 and 1997 financial statements under both the corporate law and constant currency methods. However, the corporate law financial statements are not presented herein because of the nonrecognition of the effects of inflation. The reconciliation of shareholders' equity and net income under both methods is presented in Note 32.

Based on the fact that, effective January 1, 1998, according to SFAS52 and international accounting standards, the Brazilian economy ceased to be "hyperinflationary", the company's financial statement presented in 1998 had not been price-level adjusted in accordance to the constant currency method, but the restated balances as of December 31, 1997 became the new basis of accounting from January 1, 1998. However, due to IBRACON Communication 99/006, requiring to apply the constant currency method in 1999, the Company opted for applying the same procedure for 1998 and, therefore, reprocessed the price-level financial statements as of and for the year ended December 31, 1998.

The accompanying financial statements are a translation and adaptation from those originally issued under the constant currency method. The principal change refers to the updating of all historical amounts to reflect the purchasing power of the currency as of December 31, 1999. Also, certain reclassifications and changes in terminology have been made and these notes have been expanded, in order to conform more closely to reporting practices prevailing pursuant to generally accepted accounting principles in the United States of America ("US GAAP").

a (i). The Corporate Law method

The corporate law method does not require accounting for the effects of inflation as well as the monetary restatement of the accounts from prior year being presented and under inflationary conditions prevailing in Brazil, the financial statements prepared according to the corporate law method did not present useful information to their readers, and do not permit meaningful period-to-period comparisons of financial information. However, they were and remain the basis for determining income taxes and shareholders' rights, such as the computation of cash dividends and distribution of share dividends.

a (ii). Constant currency method

Under the constant currency method, all historical Brazilian real amounts in the financial statements and notes are expressed in the constant purchasing power of that currency at the latest balance sheet date, in accordance with standards prescribed by the CVM for publicly-traded entities. These standards required that all transactions and balances recorded in a company's statutory accounts under the corporate law method be monetarily restated to reflect the changes caused by inflation (as measured by a specific inflation index) from the date they occurred or were generated to the latest balance sheet date. Accordingly, all relevant nonmonetary assets and liabilities and shareholders' equity accounts, all components of the statements of income, changes in shareholders' equity and changes in financial position and the notes thereto were monetarily restated to reflect the changes in the inflation index to the latest balance sheet date.

Also, significant monetary assets and liabilities which include anticipated inflation and prefixed interest are adjusted to their present values at the balance sheet date based on the average National Association on Investment and Development Banks ("ANBID") interest rates. The gains and losses on monetary assets and liabilities attributable to changes in index, calculated on a monthly basis, were allocated to the corresponding income or expense components in the statement of income.

With the change in legislation, the CVM did not define a specific index to be used for the preparation of optional price-level adjusted financial statements. In March 1996, IBRACON recommended the General Market Price Index ("IGP-M") as the index to be used for this purpose, prospectively, as from January 1, 1996.

The Company's Management believed that the General Price Index computed by Fundação Getúlio Vargas is the most appropriate and consistent measure of the general price inflation in Brazil and elected IGP-DI (which differs from IGP-M only with regard to the cut-off date for price data collection) for purposes of remeasurement of its financial statements under the constant currency method as from January 1, 1997. Had the Company used the IGP-M for this purpose, the impact on the financial statements for the three years ended December 31, 1999 would not have been material.

The Company is using the IGP-DI index, because it had used this index for purposes of preparing its US GAAP reconciliation for prior periods, to restate its Brazilian GAAP financial statements. The use of IGP-DI for all purposes avoids minor adjustments in the reconciliation of Brazilian GAAP to US GAAP that would otherwise be necessitated by the use of two different indices.

The price-level adjustments to reflect the currency purchasing power at the latest balance sheet date does not purport to change the financial statements from prior-periods in any way, but only to update the amounts to a constant currency measurement unit.

US GAAP allows enterprises located in countries with highly inflationary economies to prepare financial statements restated for general price-level changes pursuant to standards substantially equivalent to those established by the CVM, with the use of an appropriate index.

b. Price-Level Indices

The Tax Reference Unit – UFIR (the “UFIR”) was the index defined by the government for purposes of computing inflation adjustments in the financial statements under the corporate law method up to December 31, 1995, it was also the index selected by the CVM for constant currency financial statements. The UFIR has at times differed from the inflation reflected in the National Consumer Price Index (INPC) and in the General Price Index (IGP-DI and IGP-M). The following table compares the variation in these indices for the periods indicated.

| | <u>Year Ended December 31,</u> | | |
|---|--------------------------------|-------------|-------------|
| | <u>1999</u> | <u>1998</u> | <u>1997</u> |
| | <u>(Percentage Variation)</u> | | |
| Government/Tax indices: | | | |
| <i>Unidade Fiscal de Referência – UFIR</i> | | | |
| (Tax Reference Unit)..... | 5.1 | 1.6 | 5.5 |
| <i>Índice Nacional de Preços ao Consumidor – INPC</i> | | | |
| (National Consumer Price Index) | 8.4 | 2.5 | 4.3 |
| Independent Inflation Index: | | | |
| <i>Índice Geral de Preços de Mercado – IGP-M</i> | | | |
| (General Market Price Index) | 20.1 | 1.8 | 7.7 |
| <i>Índice Geral de Preços de Disponibilidade Interna – IGP-DI</i> | | | |
| (General Prices Index – DI) | 20.0 | 1.7 | 7.5 |
| Devaluation: | | | |
| Brazilian real vs. US dollar..... | 48.0 | 8.3 | 7.4 |

c. Translation of Balances in Brazilian Reais into US Dollars

The financial statements and the amounts included in the notes are stated in constant Brazilian Reais. Certain amounts in such notes have been translated. into U.S. dollar at the rate of R\$1.789 to US\$1.00, the exchange rate reported by the Central Bank of Brazil as of December 31, 1999. Such translation has been made solely for the convenience of readers outside Brazil and should not be construed as a representation that the Brazilian real amounts could have been converted into U.S. dollars at this or any other rate.

3. SUMMARY OF ACCOUNTING POLICIES

The Company’s accounting policies comply with generally accepted accounting principles in Brazil (“Brazilian GAAP”), which include the accounting principles specifically applicable to electric utility companies in Brazil as required by the Department of Energy. Certain accounting policies differ from those adopted in the United States of America (US GAAP). See Note 34 for further discussions of the differences and the reconciliations of shareholders’ equity and net income to US GAAP.

a. Regulated accounting policies

a(i) Property, plant and equipment

These assets are stated at price-level adjusted acquisition or construction cost, adjusted by special monetary restatement under Law 8,200/91 for the period ended December 31, 1997.

As from January 1, 1998, the Company reverted the effects of the special monetary restatement Law 8.200/91 (see Note 4).

Depreciation is computed on the straight-line method. The annual rates of depreciation are calculated based on ANEEL Instruction No. 002, of December 24, 1997, and are presented in Note 14.

a(i.1.). Construction work in progress

On March 31, 1999, the Company ceased to account for the remuneration of construction work in progress financed by the Company's own resources as established by ANEEL legislation based on the long-term interest rate ("TJLP"), limited to the variation of the TJLP. This remuneration was added to the respective construction work in progress and credited to a capital reserve, which was amortized beginning when the asset was placed in operation.

Starting in January 1996, the interest and other financial charges on third-party loans applied to construction work in progress are capitalized and considered as part of the cost of the respective construction work in progress.

Remuneration on construction work in progress related to projects not completed by the periods established and approved by the Department of Energy will be suspended as of the date estimated for the project's conclusion. The related financial charges and inflationary effects will not be allowed to be added to the recoverable cost of such projects after that date.

a(ii). Special Liabilities

The balance is represented by contributions received from customers exclusively for investment in the electric energy distribution network to facilitate connection and by the reserve for reversion of concessionaire assets directly related to the concession granted to the Company. Eventual liquidation of these special liabilities is dependent upon future determination by the Department of Energy as from January 1, 1996, these balances are no longer restated by the inflation index, and also the related amounts, of property, plant and equipment, financed by those contributions, were not restated.

a(iii). Materials and Supplies

Materials and supplies are stated at price-level adjusted acquisition cost. Materials and supplies to be used in construction are included in property, plant and equipment.

b. General accounting policies

b(i). Cash and Cash Equivalents

This account includes highly liquid temporary cash investments (with original maturity dates of three months or less), which are stated at cost plus income accrued to the balance sheet date and are denominated in Brazilian Reais.

b(ii). Accounts Receivable

Accounts receivable includes both amounts billed to customers and accrued revenue relating to unbilled energy supplied to customers as of the balance sheet date. Charges arising from late payments are also accrued.

b(iii). Allowance for Doubtful Accounts

The allowance for doubtful accounts is recognized in an amount considered sufficient to cover potential losses on the realization of account receivables.

b(iv). Investments

The investments in controlled and associated companies are accounted for under the equity method of accounting. Other investments are stated at price-level adjusted cost, less valuation reserves when applicable.

b(v). Income and Social Contribution Taxes

Income tax is accrued on taxable results at the applicable income tax rates (25% for 1999, 1998 and 1997). Social contribution tax (12% for 1999, 8% for 1998 and 1997), which is computed based on income before income tax, is accrued and charged to income as provision for income taxes. Deferred taxes arising from temporary differences are accounted for under the liability method.

b(vi). Pension Plans and Other Payroll Accruals

The Company maintains a separate entity (“Fundação COPEL”) to administer pension funds for its employees (See Note 29). The costs associated with pension plans are accrued based on mathematical reserves determined by independent actuaries and are accounted for as incurred. Compensated absences and bonuses payable to employees are accrued as earned during the vesting periods.

b(vii). Income Statement

Revenues and expenses are recognized when earned or incurred.

b(viii). Assets and Liabilities Denominated in
Foreign Currencies or Subject to Indexation

Assets and liabilities denominated in foreign currencies are translated into Reais at the exchange rate reported by the Central Bank of Brazil at each balance sheet date. Those denominated in Reais, and contractually or legally subject to indexation are restated to the balance sheet date applying the corresponding index.

Exchange gains and losses and monetary variation gains and losses are recognized in income on a current basis, except those related to construction work in progress, which are capitalized in the respective property, plant and equipment accounts.

b(ix). Earnings per Share

These amounts are calculated based on the number of shares outstanding at the balance sheet date.

b(x). Use of estimates

In preparing financial statements in accordance with generally accepted accounting principles, Company management is required to make certain assumptions and estimates with respect to the recording of assets, liabilities and transactions. Actual results in the future may differ from the estimates included in these financial statements.

c. Constant currency presentation

In addition to the accounting practices described above, the following practices under Brazilian GAAP were adopted in the preparation of constant currency financial statements.

c(i). Index used for recognition of the effects of inflation

From January 1, 1997 the monetary restatement of the financial statements under the constant currency method was based on the variation of IGP-DI (see Note 2).

c(ii). Nonmonetary assets and liabilities

Investments, property, plant and equipment, deferred charges, special liabilities and shareholders' equity accounts were restated up to December 31, 1999 based on the index described in c(i) above. Income and social contribution taxes were accrued in respect to the increase in shareholders' equity due to the recognition of the effects of inflation.

c(iii). Statements of income, changes in shareholders' equity
and changes in financial position for three years ended December 31, 1999.

All components of these statements were price-level adjusted based on the index described in c(i) above from the date or month they were first recorded through December 31, 1999. Gains/losses on monetary items attributed to the variation in index, calculated on a monthly average basis, were allocated to the corresponding income or expense components in the statement of income.

c(iv). Prior years financial statements

All amounts in the financial statements for 1998 and 1997 were adjusted for price-level changes through December 31, 1999, based on the index described in c(i) above.

4. LAW No. 8,200/91 - OPTIONAL MONETARY RESTATEMENT AND EFFECTS OF NEW RATE LEGISLATION

a. Optional Special Monetary Restatement

Due to the existence, until 1990, of a significant difference between the generally recognized level of inflation and the official inflation indices established by the Federal Government to calculate the monetary restatement of financial statements, Article 2 of Law 8,200/91, as interpreted by Decree No. 332 of November 4, 1991 and CVM Instruction No. 167 of December 17, 1991, gave companies the option of recording a special monetary restatement of property, plant and equipment, deferred charges, investments and special liabilities accounts.

In 1991, COPEL elected to record this special monetary restatement which resulted in a write-up of the above-mentioned asset accounts, in the belief that this restatement would more realistically reflect the Company's equity and the related depreciation and amortization, and on the grounds that these costs would be allowed by the Department of Energy as components of the costs to determine electricity rates charged by the Company. The effects were recorded in 1991, increasing previously reported shareholders' equity by R\$1,369,962.

b. The effects of New Rate Legislation
on the Recoverability of the Optional Special Monetary Restatement

Law No. 8,631 of March 4, 1993, modified by Law No. 8,724 of October 28, 1993, and related regulations, introduced significant changes to the regulatory structure governing electricity rates in Brazil (See Note 5 for further details).

As previously mentioned, COPEL recorded the optional special monetary restatement of property, plant and equipment and deferred charges on the grounds that its effects would be allowed by the Department of Energy as components of the rate base. Although COPEL had ongoing discussions with the Department of Energy regarding the inclusion of the related effects of optional special monetary restatement in the rate base, the Department of Energy disallowed such inclusion.

The 1993 legislation specifically disallowed the inclusion of the effects of the optional special monetary restatement in the determination of the balances of the Company's CRC Account. Also, in the implementation of the regulation on the rate structure under the new system, the Department of Energy has disallowed inclusion of depreciation charges related to the optional special monetary restatement as components of cost of service.

c. The reversion of Special Monetary Restatement (Law 8200/91)

Up to December 31, 1997, despite the Department of Energy's position mentioned in (a) above, the Company had not reversed the optional special monetary restatement since the results of its operations have been sufficient to cover the realization of the related assets restated by the optional special monetary restatement.

However, based on the Resolution CVM No. 235 of December 30, 1997 and on the specific communication from the Department of Energy regarding Copel, through the Fax No. 28 of April 1998, on April 30, 1998, the Board of Directors, the Audit Committee and the Shareholders' Meeting approved the reversion of Special Monetary Restatement effects (Law 8,200/91), retroactively to January 1, 1998, as follows:

| | <u>R\$</u> |
|--|-----------------------|
| Assets: | |
| Current assets | 2,323 |
| Investments | 3,814 |
| Property, plant and equipment..... | 2,310,082 |
| Accumulated depreciation..... | (1,221,960) |
| Construction work in progress..... | 10,881 |
| | <u>1,105,140</u> |
| Liabilities and shareholders' equity: | |
| Deferred income taxes | 289,702 |
| Special liabilities | 228,016 |
| Shareholders' equity..... | 931,351 |
| | <u>1,449,069</u> |
| Retained earnings | <u>343,929</u> |

5. RATE LEGISLATION AND RECOVERABLE RATE DEFICIT (CRC ACCOUNT)

Until 1993, two important principles dominated the rate setting process in Brazil:

- (i) That electric utilities should be guaranteed an annual real rate of 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 cost of distributing electricity to remote areas of the country.

Under the previous rate structure, the guaranteed return was set by the regulatory agency at a level between 10% and 12%, depending on the particular circumstances of each concessionaire.

In order to compensate concessionaire companies experiencing a rate of return below the national average of the sector, the Federal Government created the National Reserve for Compensation of Remuneration - RENCOR, through which profits from more profitable companies were to be reallocated to less profitable companies, so that the rate of return realized by all companies would be equal to the national average of the sector.

The shortfall experienced by most concessionaire companies between the guaranteed return and the actual realized rate of return was accounted for by an increase in each company's recoverable rate deficit (CRC Account), equal to such shortfall. This account was recorded, until 1992, in a memorandum account, not as an asset in the balance sheet.

Law No. 8,631 of March 4, 1993, modified by Law No. 8,724, of October 28, 1993, and related regulations, introduced significant changes to the regulatory structure governing electricity rates in Brazil, as follows:

- a. The CRC account was abolished and concessionaires with positive CRC Account balances were permitted to offset such balances against any liabilities such concessionaires had to the other concessionaires, to Federal financial institutions and to the Federal Government. Additionally, the Company was permitted to transfer CRC Account balances to the State of Paraná.

- b. Under the new system, the guaranteed return concept was abolished. Rather, under the new system, each concessionaire is required to propose a rate structure, based on its particular circumstances, for approval by the Federal regulatory authorities. Each concessionaire is required to submit a rate proposal to the Department of Energy for the period and for each subsequent three-year period, based on the individual company's cost structure.

The proposed rate is to be calculated taking into account the concessionaire's desired level of remuneration as well as the following costs: operating expenditures, including personnel, materials and third party service costs; costs of Itaipu electricity and electricity purchased from other concessionaire companies; depreciation and amortization charges, RGR Fund contributions and other regulatory charges and taxes other than income taxes.

On June 30, 1994, the Federal Government enacted certain provisional regulations in connection with its economic stabilization plan. These regulations, among other measures, suspended the rate-setting process established by Law No. 8,631, and provided that rates are to be fixed on an annual basis commencing July 1, 1995.

6. LAW FOR PUBLIC SERVICE CONCESSIONS

The concessions to provide public services for electric energy granted to COPEL are as shown below:

a. Power Generating Plants

| <u>River</u> | <u>Power Plant</u> | <u>Installed Capacity (MW)</u> | <u>Date Concession was Issued</u> | <u>Year of Expiration</u> |
|------------------------------|--|--------------------------------|-----------------------------------|---------------------------|
| Hydroelectric plants: | | | | |
| Iguaçu..... | Governador Bento Munhoz da Rocha Neto..... | 1,676.00 | May 25, 73 | 2023 |
| Iguaçu..... | Segredo..... | 1,260.00 | Nov 16, 79 | 2029 |
| Iguaçu..... | Salto Caxias..... | 1,240.00 | May 02, 80 | 2010 |
| Capivari..... | Governador Parigot de Souza..... | 252.00 | Nov 05, 71 | 2021 |
| Arraial..... | Guaricana..... | 36.00 | Aug 16, 76 | 2026 |
| São João..... | Chaminé..... | 18.00 | Aug 16, 76 | 2026 |
| Ipiranga..... | Marumbi..... | 9.60 | Mar 14, 56 | 2015 |
| Apucarantina..... | Apucarantina..... | 9.50 | Oct 14, 75 | 2025 |
| Mourão..... | Mourão I..... | 7.50 | Jan 27, 64 | 2014 |
| Jordão..... | Derivação do Rio Jordão..... | 6.50 | Nov 14, 79 | 2009 |
| Ptangui/Tibagi..... | São Jorge..... | 2.30 | Dec 05, 74 | 2024 |
| Chopim..... | Chopim I..... | 1.80 | Mar 25, 64 | 2014 |
| Rio dos Patos/Ivaí..... | Rio dos Patos..... | 1.60 | Feb 15, 84 | 2034 |
| Cavernoso/Iguaçu..... | Cavernoso..... | 1.20 | Jan 08, 81 | 2031 |
| Palmital..... | Salto do Vau..... | 1.00 | Jan 27, 54 | 2004 |
| Pitangui..... | Pitangui..... | 0.80 | Dec 05, 54 | 2004 |
| Melissa..... | Melissa..... | 0.80 | Oct 08, 93 | 2015 |
| Thermoelectric plant: | | | | |
| * | Figueira..... | 20.00 | Mar 27, 69 | 2019 |

b. Distribution

As of December 31, 1999 COPEL distributed electricity to 395 municipalities, primarily in the State of Paraná, representing 99% of the consumers in the State of Paraná (unaudited). The Company has distribution concessions for all those municipalities valid until 2016. Additionally, in accordance with the new electric sector rules, the Company is providing energy to industrial customers in the State of São Paulo.

7. CASH AND CASH EQUIVALENTS

| Financial institution | Interest rates | December 31, | |
|--|-------------------------------------|--------------|---------|
| | | 1999 | 1998 |
| Banco do Estado do Paraná S/A..... | 101,0% CDI ⁽¹⁾ variation | 79,408 | 148,057 |
| Banco do Brasil S/A | 99,0% CDI ⁽¹⁾ variation | 39,187 | 59,893 |
| Caixa Econômica Federal..... | 99,5% CDI ⁽¹⁾ variation | 31,105 | 23,439 |
| Banco Brasileiro de Descontos S/A – BRADESCO..... | 99,5% CDI ⁽¹⁾ variation | 10,150 | 10,165 |
| | | 159,850 | 241,554 |
| Cash balances deposited in commercial banks | | 20,596 | 13,592 |
| | | 180,446 | 255,146 |

⁽¹⁾ Interbank Certificate of Deposit (CDI – Certificado de Depósito Interbancário) are notes negotiated among financial institutions in the Brazilian Financial Market.

8. ACCOUNTS RECEIVABLE

| | December 31, | |
|-----------------------------|--------------|---------|
| | 1999 | 1998 |
| Consumers- | | |
| Billed..... | 189,949 | 202,619 |
| Unbilled | 57,021 | 50,441 |
| | 246,970 | 253,060 |
| Electricity companies | 45,549 | 11,087 |
| | 292,519 | 264,147 |

As of December 31, 1999, the accounts receivable past-due over 90 days were distributed as follows:

| | December 31, 1999 |
|------------------------|----------------------|
| Residential..... | 1,546 |
| Industrial..... | 446 |
| Commercial..... | 862 |
| Rural..... | 119 |
| Public Entities..... | 1,951 |
| Public Services | 1 |
| Public Lightening..... | 69 |
| Subtotal..... | 4,994 |
| Distributors | 1,449 |
| Total | 6,443 |

9. PREPAYMENT OF VALUE-ADDED TAX

In December 1999 and 1998, the Company prepaid to the Government of Paraná, the amounts of R\$181 million and R\$146 million, respectively, earning interest at the Interfinancial Deposit rate (DI) of 3.4% monthly and 2.4% monthly, at December 31, 1999 and 1998, respectively, plus an additional spread of 2% per month. The 1999 prepayment will be applied against the value-added tax (ICMS) due, related to 2000 sales revenues, in eight equal monthly installments from January 2000. The 1998 prepayment was applied against 1999 ICMS on sales revenues in eight equal monthly installments.

10. OTHER ACCOUNTS RECEIVABLE

| | December 31, | |
|--|---------------|---------------|
| | 1999 | 1998 |
| Debts receivable – SANEPAR (See note 12)..... | 11,032 | 11,513 |
| Income tax and social contribution tax paid in advance | 4,604 | 28,804 |
| Advances to suppliers and employees | 16,389 | 9,220 |
| Other..... | - | 380 |
| | <u>32,025</u> | <u>49,917</u> |

11. RECOVERABLE RATE DEFICIT (CRC)

By means of an agreement on August 4, 1994, the remaining balance of the CRC account (as discussed in Note 5) was negotiated with the Paraná State Government to be reimbursed in 240 monthly installments, updated by the variation of IGP-DI and interest of 6.65% annually. On October 1, 1997 the balance of R\$618,445 was renegotiated extending the term to 330 equal monthly installments, which include interest and principal amortization, with the last monthly installment to be due on October 30, 2025. The remaining clauses of the original contract, including interest rates, were maintained.

12. LONG-TERM RECEIVABLES AND OTHER

| | December 31, | |
|--|---------------|---------------|
| | 1999 | 1998 |
| Accounts receivable – SANEPAR..... | 4,807 | 16,344 |
| Tax incentives – FINAM | 1,180 | 28,482 |
| Collateral deposits NTD (see note 16.e)..... | 11,153 | 9,707 |
| Compulsory loans | 4,706 | 5,000 |
| Other long term receivables | 13,627 | 12,991 |
| | <u>35,473</u> | <u>72,524</u> |

The Company had a past-due receivable, related to energy supplied in 1993 and 1994, to Companhia de Saneamento do Paraná-SANEPAR (a company controlled by the State of Paraná Government). On January 30, 1996 COPEL and SANEPAR signed an agreement renegotiating the amounts past due to be paid, monetarily restated by IGP-DI plus 6.65% annually, in 60 monthly installments, starting on June 30, 1996. The current portion of this receivable, in the amount of R\$11,031 as of December 31, 1999 (R\$11,515 as of December 31, 1998), is included in current assets as other accounts receivable.

The tax incentives refer to credits originated from 1996 to 1999, net of provision for market value, when applicable. During the current year, the Company reclassified a portion of its tax incentives to other investments, based on the Certificate of Investment received.

Other long term receivables is represented basically by other recoverable taxes, advances to suppliers and a loan to related part Machadinho Energética S.A.

13. INVESTMENTS

| | December 31, | |
|--|---------------------|----------------|
| | 1999 | 1998 |
| Investments in subsidiaries accounted for under the equity method: | | |
| Companhia Paranaense de Gás – Compagás | 21,426 | 11,125 |
| Sercomtel S/A – Telecomunicações | 140,917 | 137,474 |
| Sercomtel Celular S/A | 20,418 | 19,159 |
| Dona Francisca Energética S.A | 14,505 | 6,467 |
| Other companies | 12,081 | 131 |
| | <u>209,347</u> | <u>174,356</u> |
| Investments in other companies: | | |
| Dominó Holdings S/A | 45,270 | 45,270 |
| Machadinho Energética S/A | 16,053 | 7,183 |
| Campos Novos Power Plant | 74 | - |
| | <u>61,397</u> | <u>52,453</u> |
| Other investments: | | |
| Assets for future use | 20,272 | 20,098 |
| Goodwill on investments | 48,587 | 54,394 |
| Tax incentive investments | 50,568 | 18,906 |
| | <u>180,824</u> | <u>145,851</u> |
| | <u>390,171</u> | <u>320,207</u> |

a. Investments in Subsidiaries

On May 15, 1998, Copel acquired 45% of Sercomtel S/A - Telecomunicações total shares and 45% of Sercomtel Celular S/A total shares, both public telecommunication companies for the municipalities of Londrina and Tamarana, in the state of Paraná. The total amount paid for both companies was R\$225,091, resulting in total goodwill of R\$58,061, which is being amortized over 10 years, based on the expected future return generated by the investments.

In December, 31, 1999 the relevant investments in subsidiaries accounted for under the equity method of accounting, were as follow:

| | Amounts in accordance with Corporate Law | | | |
|--|---|---|---------------------------|--------------------------------|
| | Investees' Shareholders' Equity | Investees' net income (loss) for the year | Total investment balances | Equity in results of investees |
| Companhia Paranaense de Gás – COMPAGÁS | 37,301 | (860) | 19,024 | (439) |
| Sercomtel S/A – Telecomunicações | 259,462 | 8,223 | 116,758 | 3,700 |
| Sercomtel Celular S/A | 37,407 | 1,097 | 16,833 | 494 |
| Tradener Ltda | 1,337 | - | 608 | - |
| Esco Eletric Ltda | 200 | - | 80 | - |
| Companhia Nacional de Interviás | 2,836 | - | 1,418 | - |
| Dona Francisca Energética S.A | 55,000 | - | 12,669 | - |
| Foz do Chopim Energética Ltda | 16,000 | - | 5,724 | - |
| UEG Araucária Ltda | 14,187 | - | 2,837 | - |
| Usina Eólica de Palmas | 3,900 | - | 1,170 | - |
| | | <u>8,460</u> | <u>177,121</u> | <u>3,755</u> |

Additionally, as of December 1, 1999 Copel had 15% of Domino Holdings S/A, which is recorded at acquisition cost. On June 8, 1998, Dominó Holdings S/A acquired 39.71% of total shareholders' equity of the Companhia de Saneamento do Paraná - SANEPAR.

Copel is authorized by the CVM for not consolidate its investment in Compagás, since this investment does not impact the Company's financial position as of the balance sheet date.

14. PROPERTY, PLANT AND EQUIPMENT

| | December 31, | | | |
|---------------------------------------|---|-------------------------------------|-------------------------|-------------------------|
| | 1999 | | | 1998 |
| | Monetarily Restated Cost | Accumulated Depreciation | Net | Net |
| In service: | | | | |
| Restated cost- | | | | |
| Generation | 4,985,565 | (1,274,317) | 3,711,248 | 2,604,288 |
| Transmission | 1,206,838 | (344,411) | 862,427 | 575,441 |
| Distribution..... | 2,929,556 | (1,179,652) | 1,749,904 | 1,851,220 |
| Administration..... | 307,931 | (109,017) | 198,914 | 192,494 |
| | <u>9,429,890</u> | <u>(2,907,397)</u> | <u>6,522,493</u> | <u>5,223,443</u> |
| Construction work in progress: | | | | |
| Generation | 561,996 | - | 561,996 | 1,646,349 |
| Transmission..... | 186,589 | - | 186,589 | 188,235 |
| Distribution..... | 155,687 | - | 155,687 | 186,685 |
| Administration..... | 49,123 | - | 49,123 | 66,651 |
| | <u>953,395</u> | <u>-</u> | <u>953,395</u> | <u>2,087,920</u> |
| | <u>10,383,285</u> | <u>(2,907,397)</u> | <u>7,475,888</u> | <u>7,311,363</u> |

As from January 1, 1998, Copel adopted new depreciation rates in accordance with Resolution ANEEL No. 002, of December 24, 1997. The main annual depreciation rates are as follow:

| | |
|---------------------------------------|-------|
| Generation | |
| Equipment..... | 10.0% |
| Water intake equipment | 3.7% |
| Water intake structure | 4.0% |
| Reservoirs, dams and water mains..... | 2.0% |
| Hydraulic engines | 2.5% |
| Transmission | |
| Conductor system..... | 3.3% |
| Equipment..... | 10.0% |
| System structure | 3.3% |
| Re-connectors | 4.3% |
| Distribution | |
| Capacitors | 6.7% |
| Distribution switches | 6.7% |
| Conductor system..... | 5.0% |
| System structure | 5.0% |
| Voltage regulators | 4.8% |
| Voltage transformers | 5.0% |

Up to 1997, the annual depreciation rates were: thermoelectric generation - 5%, hydroelectric generation - 3%, transmission - 3% and distribution - 4%.

In 1998, the Company reverted the special monetary restatement (Law n° 8,200/91) retroactively to January 1, 1998 (see Note 4.c), for which annual depreciation was R\$66,319 in 1997.

a. Construction Work in Progress - Hydroelectric Plant

In 1999, a relevant portion of Salto Caxias power plant costs was transferred from construction work in progress to property, plant and equipment in service. The accumulated investment on that power plant is presented as follows:

| | <u>1999</u> | <u>1998</u> |
|--|-------------------------|-------------------------|
| Total accumulated cost as of December 31, | 1,814,375 | 1,461,557 |
| Remuneration on resources applied to construction work in progress (see note 3a(i.1)): | | |
| Company' s own resources | (77,739) | (77,739) |
| Third parties resources | (344,974) | (154,329) |
| Accumulated costs, net..... | <u>1,391,662</u> | <u>1,229,489</u> |

b. Assets related with the concessions

In accordance with Articles 63 and 64 of the Decree No. 41,019, of February 26, 1957, the assets used in the generation, transmission, distribution and selling of electric energy cannot be retired, disposed of, transferred, sold or given by mortgage guarantee without ANEEL's authorization.

c. Expropriation

Certain properties required for the implementation of the Company's projects, specifically those necessary for the construction of dams and transmission lines, have been expropriated pursuant to specific legislation and are subject to compensation, negotiations and settlement with their prior owners. Because of the difficulty in arriving at precise cost estimates and the time required to obtain court decisions when out-of-court negotiations are unsuccessful, the cost of each is determined only at the end of the expropriation process and is then capitalized as part of property, plant and equipment.

15. SUPPLIERS

| | <u>December 31,</u> | |
|---|---------------------|---------------|
| | <u>1999</u> | <u>1998</u> |
| Electricity suppliers: | | |
| Billed: | | |
| Administracion Nacional de Eletricidad (ANDE) - Paraguay -..... | 11,059 | - |
| Eletrosul - | 62,226 | 48,582 |
| | <u>73,285</u> | <u>48,582</u> |
| Supplies and services: | | |
| Billed..... | 9,784 | 6,920 |
| Unbilled..... | 3,030 | 8,965 |
| | <u>12,814</u> | <u>15,885</u> |
| | <u>86,099</u> | <u>64,467</u> |

16. LOANS AND FINANCING

| | December 31, | | | | |
|--|-----------------|---------------------------------|----------------------------|------------------|------------------|
| | 1999 | | | 1998 | |
| | Current portion | | | | |
| | Principal | Accrued Interest And fees | Long- Term Principal | Total | Total |
| FOREIGN CURRENCY: | | | | | |
| Eurobonds (1)..... | - | 4,433 | 268,350 | 272,783 | 221,153 |
| IDB (2)..... | 16,421 | 5,756 | 172,418 | 194,595 | 171,796 |
| Euro-Commercial Paper Program (3)..... | 100,989 | 962 | - | 101,951 | 73,044 |
| National Treasury Department (see note 16.e) | 722 | 5,431 | 111,841 | 117,994 | 95,363 |
| Banco do Brasil S.A (4)..... | 6,977 | 780 | 38,673 | 46,430 | 35,614 |
| Dresdner Bank (5)..... | 35,848 | 3,274 | - | 39,122 | - |
| Eletrobrás (6)..... | 4,600 | - | 13,266 | 17,866 | 17,910 |
| Turnkey suppliers – Transmission plants (7)..... | 44,241 | - | 22,121 | 66,362 | 78,569 |
| Subtotal..... | <u>209,798</u> | <u>20,636</u> | <u>626,669</u> | <u>857,103</u> | <u>693,449</u> |
| LOCAL CURRENCY: | | | | | |
| Eletrobrás (6)..... | 28,811 | 193 | 430,070 | 459,074 | 461,261 |
| BNDES (8)..... | 4,378 | 124 | 21,891 | 26,393 | 34,568 |
| Banco do Estado do Paraná S.A.- Turnkey (9)..... | 10,577 | 118 | 16,591 | 27,286 | 38,423 |
| Banco do Brasil S.A. (10)..... | 8,885 | 65 | 1,612 | 10,562 | 20,807 |
| HSBC Bamerindus S.A. (11)..... | 7,754 | 67 | 2,789 | 10,610 | 20,995 |
| FINEP (12)..... | 4,374 | 77 | 11,642 | 16,093 | 17,151 |
| Other commercial banks (13)..... | 5,680 | 47 | 6,127 | 11,854 | 21,638 |
| Subtotal..... | <u>70,459</u> | <u>691</u> | <u>490,722</u> | <u>561,872</u> | <u>614,843</u> |
| | <u>280,257</u> | <u>21,327</u> | <u>1,117,391</u> | <u>1,418,975</u> | <u>1,308,292</u> |

- (1) EUROBONDS – Consists of Eurobonds Notes issued on May 2, 1997, with maturity in May 2, 2005. The equivalent value is US\$150 million, with interest of 9.75% annually paid semi-annually, starting on November 2, 1997. The amount is subject to early redemption in 2002, at the option of COPEL or of the investors.
- (2) IDB (Inter-American Development Bank) - Consists of a loan for the Segredo hydroelectric power plant and Rio Jordão deviation project, guaranteed by the Federal Government which as of January 15, 1991 amounted to US\$135 million. Interest and principal payments are due semi-annually to 2011 and interest is calculated according to a rate determined by the institution each year, which in the last quarter of 1999 was 6.44% per annum (6.68% at December 31, 1998).
- (3) Euro-Commercial Paper Program - Notes issued outside Brazil to finance working capital. COPEL established this Euro-Commercial Paper Program on March 16, 1995, under which it currently has one tranche outstanding, which was renegotiated to mature on May 28, 2000, with a discount to face value and interest of 12.9% annually.
- (4) Banco do Brasil S.A. - Consists of a loan in Japanese Yen for the gas thermoelectric substation of the Salto Caxias plant, with amortization in 20 semi-annual installments, beginning on March 7, 2000 and interest of 2.8% per annum.
- (5) Dresdner Bank – A loan based on Brazilian Resolution 63, due April 28, 2000, with interest of 11.85% annually, to finance the expansion of the electricity distribution network.

- (6) Eletrobrás - Consists of loans from Eletrobrás originating from resources obtained from the FINEL, for the expansion of generation, transmission and distribution lines. Amortization started on June 30, 1996 and will end in August, 2021. Interest and principal are due on a monthly basis and interest is based upon the FINEL (Eletrobrás financing rate) which was 6.5% on December 31, 1999 (and 6.5% in 1998). The foreign currency loan is set by interests of 0.8125% over the semi-annual LIBOR rate. These loans, in case of default, are secured by a portion of Copel's revenues.
- (7) Turnkey Suppliers - Transmission – Consists of agreements with Brazilian suppliers to expand the transmission system, amortized in 5 semi-annual installments beginning on February 11, 1999, without interest and restated by the US dollar variation.
- (8) BNDES - Consists of a loan with 99 installments, starting on October 15, 1997, with TJLP plus 6% annual interest rate, used to finance the Rio Jordão deviation project (Segredo Electric Power Plant).
- (9) Banco do Estado do Paraná S.A – Turnkey Suppliers - Consists of several contracts from September 2, 1996 with 48 monthly installments (principal + interest) starting on July 15, 1997. The interest rate is based upon the TJLP (long-term interest rate) plus a floating spread between 3.5% to 6% per annum. The loan was used to finance the electricity distribution network and is secured by a portion of COPEL's revenues.
- (10) Banco do Brasil - Consists primarily of FINAME (machinery and equipment financing) as of November 26, 1991 for a 7-year period with payments starting on February 9, 1994 and interest at 11% and 12% per annum, depending on the contract over the TJLP, all collateralized by chattel mortgages. The remaining balance consists of a "Debt Refinancing Agreement" with Banco do Brasil S.A., as the financial agent for the Federal Government.
- (11) HSBC Bamerindus S/A - Consists of a loan through FINAME (machinery and equipment financing) to build the Segredo hydroelectric power plant dated October 10, 1991 with 84 monthly installments starting on December 9, 1993. Interest ranges between TJLP plus 11% and 12% per annum.
- (12) FINEP - Consists of a loan dated September 13, 1996, to finance the Company's laboratory equipment. Interest and principal payments are due in 49 monthly installments, beginning on September 15, 1998, with interests of TJLP plus 12% per annum.
- (13) Other commercial banks - Consists of several Brazilian financing institutions; all loans were used to finance the acquisition of electrical components. The interest is based on TJLP plus 6% and 8.5% per annum, with monthly payments.

a. Composition of Foreign Currency Loans by Currency:

| | December 31, | |
|--------------------------|--------------------------|----------------|
| | Equivalent in R\$ | |
| | 1999 | 1998 |
| Currency: | | |
| U.S. dollars | 616,078 | 486,039 |
| Japanese Yen | 46,430 | 35,614 |
| IDB – Currency pool..... | 194,595 | 171,796 |
| | <u>857,103</u> | <u>693,449</u> |

b. Variations in the principal currencies used in the Company's loans and financing in relation to the Brazilian currency were as follows:

| | Year Ended December 31, | |
|--------------------|--------------------------------|-------------|
| | % change (rounded) | |
| | 1999 | 1998 |
| U.S. dollars | 48.01 | 8.27 |
| Japanese Yen | 62.55 | 25.27 |
| Currency pool..... | (0.14) | 4.74 |

c. Main Index Loan Rates Applied to Local Currency Debt

| | Rates as of December 31, | |
|---|---------------------------------|-------------|
| | (annual %) | |
| | 1999 | 1998 |
| TR – Taxa Referencial – Brazilian | | |
| Reference Interest Rate..... | 5.07 | 7.76 |
| TJLP – Taxa de Juros de Longo Prazo | | |
| Long-term Interest Rate | 13.41 | 11.84 |
| IGP-M – Índice Geral de Preços de Mercado | | |
| General Market Price Index..... | 20.10 | 1.78 |
| IGP-DI – Índice Geral de Preços – Disponibilidade Interna | | |
| General Price Index – DI..... | 19.98 | 1.70 |
| UFIR – Unidade Fiscal de Referência | | |
| Fiscal Reference Unit | 3.76 | 0.36 |

d. Maturity of the Principal of Long-term Loans and Financing:

| | December 31, | | | | 1998 |
|------------|--------------------------|-----------------------|-------------------------|------------------|------------------|
| | 1999 | | | Total | |
| | Turnkey Suppliers | Local Currency | Foreign Currency | | |
| 2000 | - | - | - | - | 129,724 |
| 2001 | 22,121 | 63,431 | 28,776 | 114,328 | 98,351 |
| 2002 | - | 51,973 | 28,899 | 80,872 | 76,923 |
| 2003 | - | 42,978 | 27,080 | 70,058 | 63,132 |
| 2004 | - | 34,715 | 28,786 | 63,501 | 55,943 |
| 2005 | - | 33,223 | 297,136 | 330,359 | 272,841 |
| 2006 | - | 28,080 | 27,823 | 55,903 | 48,717 |
| 2007 | - | 28,039 | 26,860 | 54,899 | 47,890 |
| 2008 | - | 28,039 | 26,860 | 54,899 | 47,886 |
| 2009 | - | 24,910 | 26,375 | 51,285 | 44,577 |
| After 2009 | - | 155,334 | 85,953 | 241,287 | 214,548 |
| | <u>22,121</u> | <u>490,722</u> | <u>604,548</u> | <u>1,117,391</u> | <u>1,100,532</u> |

e. National Treasury Department

The loans and financing debt identified as National Treasury Department, which were restructured as part of the Brazilian foreign debt, according to Law 4.131/62, in the context of the Brady Plan, are as follows:

| Bond type | Maturity (years) | Year in which amortization begins | Amortization (in installments) | December, 31 | |
|---------------------------------|---------------------|---|-----------------------------------|----------------|---------------|
| | | | | 1999 | 1998 |
| Par Bond (1)..... | 30 | - | One payment at maturity | 28,524 | 23,112 |
| Capitalization Bond (2)..... | 20 | 2004 | 21 semi-annual | 24,103 | 19,058 |
| Debt Conversion Bond (3)..... | 18 | 2004 | 17 semi-annual | 23,136 | 18,754 |
| Discount Bond (4)..... | 30 | - | One payment at maturity | 19,946 | 16,168 |
| EI-Bond (Interest Bonds) (4) .. | 12 | 1997 | 19 semi-annual | 11,466 | 9,501 |
| New Money Bonds (3)..... | 15 | 2001 | 17 semi-annual | 6,102 | 4,945 |
| FLIRB (5)..... | 15 | 2003 | 13 semi-annual | 4,717 | 3,825 |
| Total..... | | | | <u>117,994</u> | <u>95,363</u> |

The annual interest rates are as follows:

- (1) From 4% in the first year to 6% at maturity.
- (2) From 4% in the first year to 8% at maturity.
- (3) Libor +7/8% annually
- (4) Libor + 13/16% annually
- (5) From 4% in the first year to Libor +13/16% until maturity.

"Discount Bond" and "Par Bond" are guaranteed by collateral deposits in the amounts of R\$4,594 and R\$6,559, respectively, totaling R\$11,153 as of December 31, 1999 (see Note 12).

17. REGULATORY CHARGES

| | December 31, | |
|---|---------------|---------------|
| | 1999 | 1998 |
| Global reserve for reversion quota – RGR..... | 13,770 | 19,616 |
| Fuel usage quota - CCC..... | 3,807 | 2,291 |
| Compensation for land usage..... | 2,002 | 3,319 |
| ANEEL inspection fare | 443 | 531 |
| | <u>20,022</u> | <u>25,757</u> |

a. Global Reserve for Reversion Quota - RGR

The global reserve for reversion quota (the "RGR Fund") was established as a fund managed by Eletrobrás, as an agent of the Federal Government, for the purposes of reversion of electricity companies' investments when their concession periods expire. It is calculated, as 2.5% of assets in service, limited to 3% of total operating revenues net of value-added tax on sales to final customers. Eletrobrás is authorized to provide financing to concessionaires based on the amount contributed to the reserve.

b. Fuel Usage Quota - CCC

The fuel usage quota represents contributions made by the electric concessionaires to finance the cost of fuel used in the thermoelectric energy generating process in the Brazilian energy system.

c. Compensation for Land Usage

Compensation for land usage represents payment to the state and municipalities for expropriation of land for plant construction.

18. ADVANCED BILLING OF ELECTRIC POWER

Refers to pre-sale of energy to industrial consumers in accordance with Portaria DNAEE No. 173, of September 1989. These obligations are subject to monetary restatement based on the highest of TR (Brazilian Reference Interest Rate) or the average Company's tariff variation. The repayment is due in periods from 18 to 120 months and is offset against the monthly customers' bills.

19. OTHER TAXES

| | December 31, | |
|--|----------------|---------------|
| | 1999 | 1998 |
| Financing of COFINS..... | - | 11,935 |
| Provision for contingencies – COFINS | 65,130 | - |
| Social security debt (INSS)..... | 39,798 | - |
| Judicial deposits- PASEP | 24,540 | 55,053 |
| | <u>129,468</u> | <u>66,988</u> |

The Company is party to lawsuits in which it is questioning the legality or constitutionality of certain taxes and contributions assessed against it. The Company has suspended making payments of these taxes and contributions, but it has fully accrued the amounts as contingent liabilities at each balance sheet date as follows:

- (i) FINSOCIAL and COFINS Contributions - The contributions to the FINSOCIAL Program (a program for financing of public assistance activities) were calculated based on the Company's operating revenues. Its rate increased over time from 0.5% to 2.0% until such contribution was terminated in 1991. The COFINS contribution was introduced immediately after the discontinuation of the FINSOCIAL contribution and has the purpose of financing social security. The Company claimed that these contributions violate the Brazilian Constitution, which provides that electric utility companies are subjects only to income tax, value-added tax and taxes on imports and exports. For its exposure in these matters, as of December 31, 1997, the Company had provided the amount of R\$109,126 for both programs, classified as a long-term liability - other taxes. Also, the Company had made a partial judicial deposit to an escrow account of R\$74,179 in relation to this matter.

In 1998, the Company won its claim related to COFINS. The effect in the income statement, due to the reversion of the provision, was R\$116,055, with R\$107,817, related to prior years, classified as non-operating expenses and R\$8,238 related to judicial deposit monetary variation, classified as financial income. However, in 1999, the Brazilian Supreme Court declared the constitutionality of COFINS over electric utilities revenues and the Company fully provided for the tax due related to 1999, and started discussing with its legal advisors if the previous favorable judgment will prevail.

- (ii) Social security debt (INSS) - The Company was reviewed by the social security authorities and formally required to pay the social security charges due on additional of vacation paid for the periods from 1991 to 1998. The Company has set up an administrative proceedings against this requirement and estimate that its maximum exposure in this matter would be approximately R\$39,798 in December 31, 1999, which was recorded as a liability.
- (iii) PIS/PASEP - According to legislation, Brazilian companies are required to pay contributions either to the PIS Program (Program for Social Integration) or to the PASEP Program (Program for the Establishment of Public Employee's Patrimony), depending on its classification as privately or Government-owned, respectively. Being a mixed-capital corporation, and based on the Brazilian Constitution, which provides that public service concessionaires should be treated as private sector companies for tax purposes, the Company believed that it should contribute to the PIS Program, although the Federal Government has stated that it should contribute to the PASEP Program. The rates and basis for calculation of such contributions have changed over time and differ from one another, resulting in significant differences in the final amounts due. Up to December 31, 1998 the matter was pending before a Federal trial court and an accrual had been recorded, amounting to R\$55,043 as of December 31, 1998.

In 1999, the Company adopted the benefits of the Federal Decree (“Medida Provisória”) 1,858-8, dated August 27, 1999 which provided for abatement of penalties if the Company pays the taxes and abandons the judicial proceedings. A portion of the total balance deposited in a judicial escrow account in the past was already refunded to the Company in 1999 and the related reserve was reduced based on original values of the claim. The remaining balance of R\$24,540 refers to interest and fines on the same subject which are still being reviewed by the Judicial Court in order to determine which part will finally be refunded to Copel.

20. DEFERRED INCOME TAXES AND PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION TAX

a. Deferred Income Taxes

The tax effect of temporary differences that generated deferred tax assets (liabilities) was as follows:

| | December 31, | |
|---|---------------------|----------------|
| | 1999 | 1998 |
| Deferred tax assets: | | |
| Allowance for doubtful accounts | 1,744 | 4,323 |
| Provision for slow moving inventories | 968 | 1,078 |
| Provision for pension plan deficit | 141,034 | 180,812 |
| Provision for tax contingencies | 42,316 | 13,946 |
| Provision for other contingencies | 5,246 | 6,129 |
| | <u>191,308</u> | <u>206,288</u> |
| Deferred tax liability – long-term: | | |
| Provision for income tax on price-level effects | <u>607,372</u> | <u>290,994</u> |

Beginning in 1996, due to Law No. 9,249/95, the tax law no longer recognizes the effects of inflation in the statutory financial statements. The provision for deferred income tax on price-level effects was computed by comparing the increases in assets and liabilities due to restatement for accounting purposes to tax bases, which are no longer indexed for inflation under that tax law.

b. Provision for Income Tax and Social Contribution Tax:

Income taxes at statutory rates are reconciled to the amount reported as income tax expense in these financial statements as follows:

| | Year Ended | | |
|---|---------------------|----------------|---------------|
| | December 31, | | |
| | 1999 | 1998 | 1997 |
| Income before taxes | 399,177 | 578,793 | 493,741 |
| Statutory income tax rate (see Note 3.b(v))..... | 37% | 33% | 33% |
| Income tax computed based on statutory rate..... | 147,695 | 191,002 | 162,934 |
| Income tax effects on: | | | |
| Employees participation | (3,700) | (5,544) | (9,868) |
| Interest on capital (Note 23.d) | (40,700) | (53,933) | (60,417) |
| Remuneration on construction work in progress | 1,379 | (24,038) | - |
| Tax incentives | (3,029) | (3,113) | (1,833) |
| Equity pick-up in investees | (1,473) | 3,434 | - |
| Compensation of social contribution tax with COFINS | (2,354) | - | - |
| Other | 2,741 | 3,906 | (1,308) |
| | <u>100,559</u> | <u>111,714</u> | <u>89,508</u> |

Income tax returns of the Company are subject to review by the tax authorities for a period of five years from the filing date. In that event, the Company may be subject to the assessment of additional taxes, fines and interest as a result of such review.

21. OTHER LIABILITIES

| | December 31, | |
|-------------------------------------|---------------------|---------------|
| | 1999 | 1998 |
| Financing of RGR..... | 11,997 | 9,179 |
| Contingencies with: | | |
| Customers – rate litigation..... | 9,867 | 11,840 |
| Contractors (civil litigation)..... | 43,541 | 52,247 |
| Land expropriation..... | 11,333 | 5,065 |
| Labor..... | 9,870 | 11,843 |
| | <u>86,608</u> | <u>90,174</u> |

The Company is party to certain lawsuits and administrative proceedings before various courts involving environmental, tax, civil and labor matters. The principal lawsuits currently in process are as follows:

a. Customers – rate litigation

A number of industrial consumers have brought suits against the Company seeking refunds of amounts paid to COPEL as a result of a rate increase that became effective during the Brazilian government's "Cruzado Plan" in 1986, in accordance with Portarias DNAEE Nos. 38 and 45, alleging that such increases were in violation of price controls instituted as part of that economic stabilization plan. COPEL's management is unable to predict the ultimate outcome of these proceedings, but has established a reserve in the amount of R\$11,838 as of December 31, 1999 (R\$11,840 as of December 31, 1998). Such amount was calculated based on the amount actually paid by the consumers and under dispute.

b. Civil Litigation

The Company is party to other lawsuits and administrative proceedings before various courts arising from the ordinary course of business, involving environmental, tax, civil and labor matters. The Company believes that the ultimate effect of these proceedings will not have a material impact on its financial position or results of operations, except for the potential indemnity to contractors related to the construction of Segredo hydroelectric power plant. The accrual for this indemnity in litigation amounts to R\$43,541 and is provided in an amount that represents the probable contingency that could be awarded to the plaintiff, partially deposited in an escrow account in the amount of R\$22,228 as of December 31, 1999, as determined by the Judicial Court overseeing such litigation. The Company's management believes that any loss in excess of the amount accrued will not have a material adverse impact on the Company's results of operations or liquidity.

c. Land Expropriation

Lawsuits brought by owners whose lands were expropriated for the implementation of the Company's projects specifically those necessary for the construction of dams and transmission lines (see note 14.c).

22. SPECIAL LIABILITIES

| | December 31, | |
|-------------------------------|---------------------|----------------|
| | 1999 | 1998 |
| Consumers' contribution | 526,515 | 599,184 |
| Other..... | 1,139 | 11,259 |
| | <u>527,654</u> | <u>610,443</u> |

Consumers' contributions consist of assets provided to COPEL by the Federal Government and by certain residential, rural and industrial customers, to facilitate connection or in case of low return on the investment by the Company. The liquidation of these special liabilities will occur upon the expiration of the concession, as determined by the Department of Energy. The balances have been subject to monetary restatement up to December 31, 1995 using the same index used to restate property, plant and equipment.

23. SHAREHOLDERS' EQUITY

a. Capital Stock

As of December 31, 1999, the capital stock represents statutory paid-in capital of R\$1,620,247 and monetarily restated paid-in capital of R\$2,202,276 composed by type of shares and principal shareholders as follows:

| Shareholders | (Thousands of shares) | | | | | | | |
|-------------------------------|-----------------------|--------------|----------------|--------------|--------------------|--------------|--------------------|--------------|
| | Common | | Preferred | | | | Total | |
| | Common | % | A | % | B | % | Total | % |
| State of Paraná..... | 85,028,464 | 58.6 | - | - | - | - | 85,028,464 | 31.1 |
| Paraná Investimentos S.A.... | 134 | 0.0 | - | - | 13,639 | 0.0 | 13,773 | 0.0 |
| Eletrobrás | 1,530,775 | 1.1 | - | - | - | - | 1,530,775 | 0.6 |
| BNDESPAR..... | 38,298,775 | 26.4 | 15 | 0.0 | 26,632,948 | 20.8 | 64,931,738 | 23.7 |
| Stock exchanges holding | 19,174,106 | 13.2 | 139,730 | 31.0 | 101,472,400 | 79.2 | 120,786,236 | 44.1 |
| Other..... | 998,827 | 0.7 | 310,527 | 69.0 | 55,036 | 0.0 | 1,364,390 | 0.5 |
| Total Shareholders | <u>145,031,081</u> | <u>100.0</u> | <u>450,272</u> | <u>100.0</u> | <u>128,174,023</u> | <u>100.0</u> | <u>273,655,376</u> | <u>100.0</u> |

The preferred shares "A" do not have any voting rights, however, they have priority in the reimbursement of capital and the right to dividend payments of 10% per annum, or proportionally computed based on the outstanding period of holding such shares during the year, non-cumulative, calculated on capital stock at the balance sheet date.

The preferred shares "B" also do not have any voting rights and, in accordance with Corporate Law, have priority to receive annual dividends per share 10% higher than dividends to common shares, after the priority of payments to preferred shares "A". The minimum dividends to preferred shares "B" are computed based on 25% of net income adjusted as prescribed by Corporate Law and the Company's by-laws.

a(i). Increase in capital stock

On July 30, 1997, the Company increased its capital stock through the public issuance of 31,944,444 thousand Preferred B shares, without par-value, amounting to R\$778,158 (US\$575,000, based on the U.S. dollar commercial market exchange rate in force July 29, 1997, reported by Central Bank of Brazil), in a "Combined Offering" represented by a global offering, with simultaneous distribution in Brazil and abroad, as follows:

| | Volume | |
|------------------------------|-------------------|-----------------------------------|
| U.S. Offering | 20,433,544 | American Depositary Shares (ADSs) |
| International Offering | 5,422,300 | American Depositary Shares (ADSs) |
| Brazilian Offering..... | 6,088,600 | Thousands of Class B Shares |
| | <u>31,944,444</u> | |

Each ADS is represented by 1,000 Class B Shares and evidenced by American Depositary Receipts (ADRs).

The Preferred Class B Shares representing the ADSs have been deposited with the Bank of New York, as depository of the program, through Banco Itaú S.A. (a Brazilian Bank), the custodian agent for the depository.

b. Capital Reserves

| | December 31, | | |
|--|---------------------|------------------|------------------|
| | 1999 | 1998 | 1997 |
| Optional Monetary Restatement – Law No. 8,200 (see Note 4) | - | - | 904,150 |
| Remuneration on construction work in progress | 6,095 | 554,622 | 550,831 |
| Contributions and grants for investments | 337,993 | 337,993 | 337,993 |
| Recovery of rate deficit CRC Account | 1,586,114 | 1,586,114 | 1,586,114 |
| Other | 290,172 | 281,390 | 264,639 |
| | <u>2,220,374</u> | <u>2,760,119</u> | <u>3,643,727</u> |

Remuneration on construction work in progress is the credit resulting from the capitalization of the allowance for remuneration of funds used during construction applied to construction work in progress and may be used only for capital increase (see note 3a(i.1)).

c. Income Reserves

| | December 31, | | |
|---------------------------|---------------------|------------------|------------------|
| | 1999 | 1998 | 1997 |
| Legal reserve | 146,079 | 132,221 | 108,025 |
| Statutory reserve | - | - | 80,214 |
| Unrealized earnings | 322,238 | 552,808 | 703,224 |
| Investments reserve | 915,595 | 830,747 | 468,362 |
| | <u>1,383,912</u> | <u>1,515,776</u> | <u>1,359,825</u> |

The legal reserve is computed based on 5% of net income by Corporate Law method until it reaches 20% of capital stock. This reserve can be only used to increase capital stock or to offset accumulated deficits.

The unrealized earnings reserve results from the net balance of monetary restatement credited to income in the statutory accounts up to December 31, 1995. This reserve is realized in proportion to the depreciation and amortization of property, plant and equipment and deferred charges. Upon realization, the related amount is transferred to retained earnings and included in the basis for dividend computation. During 1999, 1998 and 1997 the Company opted for realizing a larger amount (R\$181,059 in 1999, R\$43,339 in 1998 and R\$256,402 in 1997) than the proportion related to the depreciation and amortization, as permitted by Corporate Law.

d. Dividends and Interest on Capital

In accordance with the Company's by-laws, dividends are distributable annually and computed based on net income for the year determined under the Corporate Law method, after the adjustments required by such law, allocated in the following order:

1. A portion transferred to a legal reserve (see item (c) above).
2. Reversal of unrealized earnings (see item (c) above);
3. Dividends on preferred shares, allocated proportionally based on the amount in Brazilian Reais of the corresponding statutory paid-in capital.
4. Dividends on common shares, computed as prescribed by corporate law and the Company's charter as a minimum 25% of net income for the year.

Article No. 9 of Law 9,249 dated December 26, 1995, allowed the deductibility for income tax purposes of interest on capital paid to shareholders, provided such interest is computed based on the TJLP rate, effective in the year the interest on capital is computed.

Also as allowed by the CVM, the Company elected to pay interest on capital in the amount of R\$110,000 as of December 31, 1999 (R\$163,435 and R\$183,083 respectively as of December 31, 1998 and 1997), instead of dividends for the year.

The composition of such interest on capital, is as follows:

| | Amounts in accordance with Corporate Law | | |
|---|---|----------------|----------------|
| | 1999 | 1998 | 1997 |
| Net income per official books | 277,165 | 403,265 | 302,568 |
| Price level adjustment to December 31,1999 | - | 80,637 | 66,732 |
| Net income restated to December 31,1999 | 277,165 | 483,902 | 369,300 |
| Tax effects on COPEL due to the option of paying interest on capital | (40,700) | (53,933) | (60,417) |
| Net income without tax effects of interest on capital..... | 236,465 | 429,969 | 308,883 |
| Legal reserve (5%) computed over net income above..... | (11,823) | (21,498) | (15,444) |
| Reversal of unrealized earnings..... | 159,921 | 77,277 | 291,694 |
| Reversal of special monetary correction – Law 8.200/91 | - | 285,584 | - |
| Prior year adjustments (Fundação Copel – see Note 29)..... | - | (362,862) | - |
| Basis for dividend computation..... | 384,563 | 408,470 | 585,133 |
| Minimum dividends (25%)..... | 96,141 | 102,118 | 146,283 |
| Income tax withheld on interest on capital (1) | 9,058 | 17,218 | 13,972 |
| Minimum dividend value adjusted, computed considering the effect of income tax withholding | 105,199 | 119,336 | 160,255 |
| Excess over minimum dividend..... | 4,801 | 44,099 | 22,828 |
| Appropriated remuneration on capital | 110,000 | 163,435 | 183,083 |

⁽¹⁾ On the portion of interest distributed to exempt shareholders, income tax withholding is not applicable.

e. The composition of Shareholders' equity as per official books, were as follows:

| | December 31, | | |
|-----------------------------------|---|-------------|-------------|
| | (amounts in accordance with corporate law) | | |
| | 1999 | 1998 | 1997 |
| Capital stock..... | 1,620,247 | 1,225,351 | 1,169,126 |
| Capital reserves | 1,546,446 | 1,927,099 | 2,531,877 |
| Income reserves | 1,460,858 | 1,293,693 | 1,146,663 |
| | 4,627,551 | 4,446,143 | 4,847,666 |
| Credits for capital increase..... | - | 12,778 | 12,778 |
| | 4,627,551 | 4,458,921 | 4,860,444 |

In May, 1999 the company reimbursed to the Government of Paraná State, the credits for capital increase paid between 1995 and 1996, which was not used for this purpose, in the updated amount of R\$17,784.

24. OPERATING REVENUES

a. Electricity Sales to Final Customers

| | Year Ended December 31, | | | | | | | | |
|-------------------|------------------------------------|------------------|------------------|------------------------------|-------------------|-------------------|-----------------------------|------------------|------------------|
| | Number of Consumers (unaudited) | | | Quantities – MWh (unaudited) | | | Revenues - R\$ in thousands | | |
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Industrial..... | 43,090 | 42,008 | 40,857 | 6,237,923 | 5,932,110 | 5,641,107 | 588,410 | 582,487 | 577,641 |
| Residential..... | 2,159,603 | 2,096,262 | 2,023,102 | 4,306,162 | 4,184,705 | 3,949,060 | 852,511 | 857,247 | 772,703 |
| Commercial..... | 235,671 | 230,366 | 225,650 | 2,383,606 | 2,268,418 | 2,111,329 | 391,540 | 398,310 | 370,979 |
| Rural and other. | 312,092 | 306,342 | 296,257 | 2,283,148 | 2,140,733 | 2,072,918 | 224,183 | 222,726 | 218,934 |
| Public services.. | 3,165 | 3,014 | 2,838 | 496,069 | 479,629 | 455,719 | 47,720 | 48,958 | 47,755 |
| | <u>2,753,621</u> | <u>2,677,992</u> | <u>2,588,704</u> | <u>15,706,908</u> | <u>15,005,595</u> | <u>14,230,133</u> | <u>2,104,364</u> | <u>2,109,728</u> | <u>1,988,012</u> |

b. Electricity Sales to Distributors

| | Year Ended December 31, | | | | | |
|-------------------------------------|---------------------------------------|------------------|------------------|--------------------------------------|---------------|---------------|
| | Volume consumption-MWh (unaudited) | | | Gross revenues (R\$ in thousands) | | |
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Distributors | 3,382,723 | 1,035,697 | 2,560,444 | 126,252 | 37,589 | 76,041 |
| Electricity system optimization.... | 3,789,339 | 5,549,867 | 2,684,149 | 24,599 | 30,598 | 22,103 |
| | <u>7,172,062</u> | <u>6,585,564</u> | <u>5,244,593</u> | <u>150,851</u> | <u>68,187</u> | <u>98,144</u> |

c. Value-added taxes on sales to final customers

| | Year Ended December 31, | | |
|---------------------------|-------------------------|----------------|----------------|
| | 1999 | 1998 | 1997 |
| ICMS..... | 512,228 | 503,338 | 467,759 |
| COFINS (Note 19 (i))..... | 70,251 | - | 42,342 |
| PASEP | 16,451 | 14,721 | 13,604 |
| | <u>598,930</u> | <u>518,059</u> | <u>523,705</u> |

25. OPERATING EXPENSES

a. Purchased Energy

| | Year Ended December 31, | | | | | |
|------------------------------|---------------------------------|------------------|------------------|-------------------------------------|----------------|----------------|
| | Quantities – MWh (Unaudited) | | | Purchase cost (R\$ in thousands) | | |
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| From Eletrosul (ITAIPU)..... | 5,375,168 | 5,301,935 | 5,409,629 | 284,354 | 204,178 | 223,052 |
| From other..... | 419,177 | 26,611 | 11,537 | 19,708 | 545 | 1,972 |
| | <u>5,794,345</u> | <u>5,328,546</u> | <u>5,421,166</u> | <u>304,062</u> | <u>204,723</u> | <u>225,024</u> |

b. Regulatory Charges

| | Year Ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 1999 | 1998 | 1997 |
| Global reserve for reversion quota – RGR..... | 45,262 | 41,475 | 41,169 |
| Fuel usage quota – CCC..... | 58,845 | 47,755 | 46,402 |
| Compensation for land usage..... | 19,134 | 22,625 | 20,050 |
| ANEEL inspection fare | 5,726 | 6,414 | - |
| | <u>128,967</u> | <u>118,269</u> | <u>107,621</u> |

c. Other Expenses (Income)

| | Year Ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 1999 | 1998 | 1997 |
| Cost of operating services | 4,658 | 3,707 | 13,150 |
| Insurance | 1,644 | 1,841 | 1,394 |
| Taxes | 13,930 | 2,845 | - |
| Rentals | 22,121 | 21,197 | 16,523 |
| Accruals for legal contingencies | 29,212 | 3,598 | - |
| Provision for doubtful accounts | 3,417 | 7,968 | 759 |
| General expenses | 5,319 | 1,985 | 11,599 |
| Other, net of recovery of expenses | (17,152) | (12,642) | (23,586) |
| | <u>63,149</u> | <u>30,499</u> | <u>19,839</u> |

26. FINANCIAL INCOME (EXPENSES), NET

| | Year Ended December 31, | | |
|---|-------------------------|----------------|----------------|
| | 1999 | 1998 | 1997 |
| Financial Income: | | | |
| Income on temporary cash investments | 22,181 | 93,096 | 110,842 |
| Charges on overdue receivables | 16,575 | 23,748 | 16,120 |
| Charges on long-term receivables and CRC account..... | 59,723 | 63,549 | 43,020 |
| | <u>98,479</u> | <u>180,393</u> | <u>169,982</u> |
| Interest on loans and financing..... | (62,974) | (45,912) | (57,854) |
| Monetary variation, exchange gains and losses and other.... | 43,175 | (7,544) | 50,962 |
| | <u>78,680</u> | <u>126,937</u> | <u>163,090</u> |

27. OTHER NONOPERATING (INCOME) EXPENSES, NET

| | Year Ended December 31, | | |
|--|-------------------------|---------------|-----------------|
| | 1999 | 1998 | 1997 |
| Reversal of provision for COFINS – (Note 19) | - | 107,817 | - |
| Loss on disposal of assets | (540) | (4,312) | (2,779) |
| Loss on retirement of assets | (22,294) | (41,399) | (26,765) |
| | <u>(22,834)</u> | <u>62,106</u> | <u>(29,544)</u> |

28. EMPLOYEES PARTICIPATION IN NET INCOME

Starting in 1996, the Company adopted a program of participation of its employees in net income, provided certain previously agreed upon financial and operating measures are met. In 1999, the amount of this participation was R\$10,000 (R\$ 16,799 in 1998 and R\$ 29,904 in 1997) and will be paid to all employees proportionally to their monthly wages.

29. PENSION PLAN AND OTHER BENEFITS TO EMPLOYEES

The Company sponsors pension plans, which are administered by a separate entity, Fundação COPEL. Contributions to the plans are made by both the sponsor and the participant beneficiaries, based on an actuarial study prepared by an independent actuary under the existing regulations prevailing in Brazil, as determined by the Social Security authorities, to provide sufficient funds to cover future cash requirements arising from the benefit obligations.

Up to December 31, 1997, the Company sponsored a “defined-benefit” pension plan, which was changed to a new “defined contribution” pension plan, as approved at the Shareholders Meeting of October 15, 1998, concluding negotiations formally started in 1997.

Due to the changes in the former pension plan, the participant rights have generated an obligation amounting to R\$561,885, which the Company agreed with Fundação COPEL to be paid in 240 monthly installments, beginning on February 1, 1999, indexed based on INPC (National Consumer Price Index) plus interest of 6% annually, composed as follows:

| | As of December 31, | |
|-------------------------------|---------------------------|----------------|
| | 1999 | 1998 |
| Current liabilities | 19,602 | 29,859 |
| Long – term liabilities | 478,156 | 547,917 |
| | <u>497,758</u> | <u>577,776</u> |

Based on CVM approval, the following effects were recorded in the financial statements for the year ended December 31, 1998:

| | As of and for The year ended December 31, 1998 |
|---|---|
| Shareholders’ equity - Retained earnings – prior year adjustment..... | 362,862 |
| Deferred income tax on the obligation accrual (33%)..... | 174,394 |
| | <u>537,256</u> |
| Income statement – operating expenses | 24,629 |
| | <u>561,885</u> |

Certain financial information pertaining to the fund is as follows:

| | As of December 31, | |
|--|---------------------------|------------------|
| | 1999 | 1998 |
| Current value of net assets | 1,580,525 | 1,510,716 |
| Mathematical reserves (actuarial cash value of pension benefits): | | |
| Vested benefits | 1,079,941 | 1,096,917 |
| Nonvested benefits | 438,437 | 426,918 |
| | <u>1,518,378</u> | <u>1,523,835</u> |
| Surplus (deficit)..... | <u>62,147</u> | <u>(13,119)</u> |

Mathematical reserves represent the present value of future actuarial benefits, less the present value of projected future contributions to the plan, all discounted at an annual interest rate of 6%.

The company accrued the deficit remained after the impact of the agreement above, in the amount of R\$13,119 as of December 31, 1998, which was reverted in the current year.

The contributions accrued during the years were charged as follows:

| | Year Ended December 31, | | |
|-------------------------------------|--------------------------------|-------------|-------------|
| | 1999 | 1998 | 1997 |
| Construction work in progress | 2,410 | 4,323 | 1,921 |
| Operating expenses | 8,225 | 74,528 | 37,660 |
| | 10,635 | 78,851 | 39,581 |

30. RELATED-PARTY TRANSACTIONS

COPEL enters into a variety of related-party transactions, including the sale and purchase of electricity and certain financial transactions. Electricity sales are based on rates set by the Department of Energy. All other transactions are completed on an arms-length basis. Information about the relevant transactions among COPEL and its related parties are included in the following notes:

| Related Party | Nature of Transaction | Notes |
|--|---|--------------|
| Government of the State of Paraná..... | Sale of electric energy, prepayment of ICMS and CRC Account | 9 and 11 |
| SANEPAR..... | Long-term receivables..... | 10 and 12 |
| Eletrosul (Itaipu)..... | Purchase of electric energy for resale | 15 and 25 |
| Eletróbrás | Loans and financing | 16 |
| Banestado..... | Cash equivalents and loans and financing..... | 7 and 16 |
| Fundação Copel..... | Pension plans to employees | 29 |
| Sercomtel and Compagás | Investment, purchase and sale of telecommunication, electric energy and services | 13 |
| Machadinho Energética S.A..... | Investment and loan | 12 and 13 |

31. FINANCIAL INSTRUMENTS

Assets representing financial instruments realizable in periods less than 90 days are stated at market value.

Loans and financing in local and foreign currencies are subject to rates, which approximate market conditions as shown in Note 16.

The liabilities for tax matters (see Note 19) are subject to charges as established in the applicable legislation.

32. RECONCILIATION OF CORPORATE LAW STATUTORY FINANCIAL STATEMENTS AND PRICE-LEVEL ADJUSTED FIGURES

a. Reconciliation of Shareholders' Equity

| | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|---|------------------|------------------|------------------|
| Under corporate law method..... | 4,627,551 | 4,458,921 | 5,932,433 |
| Price-level adjustments: | | | |
| Inflationary effects on permanent assets | 1,779,332 | 1,767,820 | 951,256 |
| Discount to present value of accounts receivable | (1,444) | (8,551) | (3,551) |
| Discount to present value of obligations | 7,812 | 14,045 | 7,436 |
| Restatement of materials and supplies | 683 | 92 | 88 |
| Income taxes on inflationary effects | (607,372) | (290,994) | (299,736) |
| As reported in the accompanying price-level adjusted financial statements ... | <u>5,806,562</u> | <u>5,941,333</u> | <u>6,587,926</u> |

b. Reconciliation of Net Income

| | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|---|----------------|----------------|----------------|
| Under corporate law method..... | 277,165 | 403,265 | 302,568 |
| Price-level adjustment to December 31, 1999 | - | - | 66,732 |
| | <u>277,165</u> | <u>403,265</u> | <u>369,300</u> |
| Price-level adjustments: | | | |
| Inflationary effects on permanent assets and shareholder's equity | 15,885 | 29,471 | 3,000 |
| Discount to present value of accounts receivable | (1,444) | (8,551) | (3,551) |
| Discount to present value of obligations | 7,811 | 14,045 | 7,436 |
| Restatement of materials and supplies | 683 | 92 | 88 |
| Income taxes on inflationary effects | (5,896) | 15,531 | (990) |
| Reversion of restatement of materials and supplies and discount to present value of accounts receivable and obligations – prior year..... | (5,586) | (3,573) | (954) |
| As reported in the accompanying price-level adjusted financial statements | <u>288,618</u> | <u>450,280</u> | <u>374,329</u> |

33. EVENTS SUBSEQUENT TO DECEMBER 31, 1999

On January 25, 2000, the Government of the State of Paraná issued the Decree 1,751, authorizing public bidding procedures to hire advisors for the valuation and sale Copel stock owned by the Government of the State of Paraná.

34. SUMMARY AND RECONCILIATION OF THE DIFFERENCES BETWEEN BRAZILIAN AND US GAAP

a. Description of the GAAP differences

COPEL's accounting policies comply with, and its financial statements are prepared in accordance with, generally accepted accounting principles in Brazil ("Brazilian GAAP"). Note 3 to the financial statements summarize the accounting policies adopted by the Company. Accounting policies that differ significantly from generally accepted accounting principles in the United States of America ("US GAAP") are summarized as follows:

a(i). Inflation Accounting Methodology and Indices

The inflation accounting adjustments required by both the corporate law and constant currency methodologies have no counterpart in the financial statements prepared by companies domiciled in the United States or in financial statements issued for circulation in the United States of companies domiciled in non-inflationary countries. However, the constant currency methodology under Brazilian GAAP is similar to an option granted by US GAAP for non-U.S. companies reporting in local currency in countries with high inflation.

Through December 31, 1995, the Company used indices established by the government to restate balances and transactions for its preparation of constant currency financial statements. Such indices do not necessarily represent changes in general price levels, as would be required under US GAAP. The difference not only affects the basic values of, principally, inventories, property, plant and equipment, deferred charges and shareholders' equity, but also all other financial statement items expressed in constant currency.

Because the Company's management believes that the General Price Index computed by Fundação Getúlio Vargas is the most appropriate and consistent measure of the general price inflation in Brazil and because of its availability, for US GAAP purposes, the Company adopted IGP-DI (which differs from IGP-M only with regard to the cut-off date for price data collection) for purposes of remeasurement of its financial statements, replacing the government mandated index. Thus, all nonmonetary assets and liabilities were restated using IGP-DI since the inception of the Company.

a(ii). Regulated accounting policies

The Company adopts the accounting policies established by the Department of Energy for electric utilities in Brazil.

Most electric utilities in the United States account for their operations and prepare their financial statements on the basis of the provisions of Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation", the provisions of which only apply to companies within a rate-making scheme that allows recovery of specific costs. SFAS 71 allows a company to reflect transactions in its financial statements based on the rate actions of the regulatory body.

Despite the existence of comprehensive regulation, the rates of Brazilian utilities have in the past not been set at levels, which allow them to recover specific costs. Beginning in 1993, with the enactment of Law no. 8,631, the regulatory framework in Brazil was changed to allow a company to set its rates based on specific costs with an individually-based target return on equity. In theory, this new framework would allow the Company to apply fully the provisions of SFAS 71 in years beginning after 1993. However, because of the subsequent changes in the rate-setting mechanism discussed in Note 5, and also because of the regulatory environment prevailing in Brazil, the Company believes that it would not be subject to the provisions of SFAS 71 for all periods presented.

Consequently, the following differences arise in relation to the nonregulated accounting policies:

a(ii).1. Capitalization of interest costs relating to construction in progress

Under Brazilian GAAP, Copel capitalizes both interest costs of borrowed funds and though March 1999 imputed interest on shareholders' funds applied in construction in progress. Under US GAAP, only capitalization of interest on borrowed funds would be acceptable.

For US GAAP reconciliation purposes, the imputed interest on shareholders' funds applied in construction in progress, capitalized, was reversed. Only interest on borrowed funds remains capitalized and the depreciation was computed using the rates applicable to the corresponding class of property, plant and equipment.

a(ii).2. Special Obligations

Under Brazilian GAAP, the Company records special obligations, representing consumers' contributions to the cost of expanding power supply systems, as liabilities and includes the related assets in property, plant and equipment subject to depreciation over the applicable useful lives. Under US GAAP contributions received from customers as reimbursement for construction costs are typically credited against the cost of the related fixed assets.

For US GAAP reconciliation purposes, special liabilities were amortized using the depreciation rates applicable to the corresponding class of property, plant and equipment acquired with such consumers' contributions.

a(ii).3. Rate Shortfall (CRC Account)

As more fully described in Note 5 Copel accounted for the benefit arising from rate shortfalls recovered directly in shareholders' equity. Under US GAAP, these benefits would be taken to income in the periods to which they relate.

a(ii).4. Indemnification Costs

Brazilian utility companies are allowed to capitalize extraordinary indemnification costs incurred in the course of building new plants, such as contractual penalties on delays on construction or contractors claims. Under US GAAP, such extraordinary costs would not be capitalized.

a(iii). General accounting policies

a(iii).1. Pension and Other Benefits

Under Brazilian GAAP, pension and other retirement benefit costs are recognized when the plans are funded. However, due to the change in the plan from a defined benefit to a defined contribution plan, the participants became vested in the benefits earned through the date of plan change. These vested benefits were recorded under Brazilian GAAP as a charge to shareholder's equity in 1998.

For US GAAP reconciliation purposes, the provisions of SFAS 87 - "Employers' Accounting for Pensions" and SFAS 106 - "Employers' Accounting for Post-retirement Benefits Other than Pensions" were applied effective January 1, 1987 and January 1, 1993, respectively. Both SFAS 87 and SFAS 106 require recognition of costs on a more comprehensive accrual basis. Additionally, U. S. GAAP require that the recognition of either an asset or a liability, as appropriate, for the difference between the projected benefit obligations (as defined in SFAS 87 and SFAS 106) and plan assets be stated at fair value, adjusted for certain reconciling items.

The Company adopted SFAS 87 effective as of December 31, 1993, as reliable information prior to that date was not available.

During 1998, the defined benefit plan was changed to a defined contribution plan, which resulted in a settlement and curtailment under SFAS 88.

a(iii).2. Tax Incentive Investments

These investments, approved by the government in underdeveloped regions of Brazil or in specific projects, are available without additional cost upon the payment of taxes. Under Brazilian GAAP the investments are recorded as an asset, with a corresponding credit to a reserve in shareholders' equity.

For US GAAP reconciliation purposes a provision for tax incentive investments was charged to income.

a(iii).3. Income Taxes

Under Brazilian GAAP, deferred income taxes are recognized under the liability method. Tax liabilities are recognized to the extent practicable, based on the amount expected to be paid. A net deferred tax asset is recognized if it can be shown that there is a reasonable certainty that the asset will be recovered against tax payable on future profits. The existing policies for providing for deferred taxes are substantially in accordance with SFAS 109. "Accounting for Income Taxes", except in connection with the deferred income taxes effects of the 1997 and 1999 (see Note 3(c)(ii)). Under US GAAP the deferred tax effects of the 1997 and 1999 indexation for financial reporting purpose would be charged to income and social contribution taxes in the consolidate statement of income. Consequently, this is the only material difference in the implementation of SFAS 109 other than in relation to the US GAAP adjustments described in this note of consolidated financial statements, and for the fact that deferred income taxes are show gross rather than being netted as required by US GAAP.

a(iii).4. Provision for Dividends

Under Brazilian corporate law, at each balance sheet date, the Executive Officers are required to propose a dividend distribution from earnings and accrue for this in the financial statements in anticipation of their approval at the annual shareholders' meeting. Under US GAAP, dividends are not accrued until they are formally declared. Interest on capital is a legal liability from the time it is announced and is accrued under both US and Brazilian GAAP at that time.

a(iii).5. Prior Period Adjustments

Under Brazilian GAAP, prior period adjustments encompass corrections of errors in previously issued financial statements and the effects of changes in accounting principles.

For US GAAP reconciliation purposes, prior period adjustments were effectively limited to correction of errors. Prior year adjustments related to changes in estimates were charged to income.

a(iii).6. Impairment of Long Lived Assets

Under Brazilian GAAP, the carrying values of fixed assets are written down to realizable values, when it is estimated that such assets will not be realized through normal depreciation without loss to the company.

Under US GAAP, a provision for impairment is recorded against long-lived assets when there is an indication, based on a review of undiscounted future cash flows, that the carrying value of an asset or a group of assets may not be recoverable. No provision was required for US GAAP purposes.

a (iii).7. Earnings (Loss) Per Share

Brazilian GAAP permit earnings (loss) per share to be calculated based on the number of shares outstanding at year-end. Under US GAAP, the earnings or loss per share calculation takes into account share equivalents and the number of shares is computed on a weighted average basis. Also, US GAAP requires the computation of fully diluted earnings and loss per share, which is not a practice under Brazilian GAAP. The Company does not have any instruments outstanding that could have a dilutive effect.

Income per share data is presented per thousand shares. Such presentation is consistent with the practice in Brazil of trading and quoting shares in thousand share lots.

a(iii).8. Financial Statement Note Disclosures

Brazilian GAAP in general requires, less information to be disclosed in the notes to the financial statements than US GAAP. The additional disclosures required by US GAAP, which are relevant to the accompanying financial statements, are included in Note 34 (c).

b. Reconciliation of differences between Brazilian and US GAAP

Net income and shareholders' equity, adjusted to take into account the significant differences between Brazilian GAAP and US GAAP, except for the comprehensive effects of price-level changes (as the Brazilian economy is inflationary), are as follows:

**b(i). Shareholders' equity reconciliation of the
differences between US and Brazilian GAAP**

| | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|--|-------------------------|-------------------------|-------------------------|
| As reported on the accompanying price-level financial statements | 5,806,562 | 5,941,333 | 6,587,925 |
| Increase (decrease) due to restatement based on IGP-DI, replacing government index: | | | |
| Property, plant and equipment: | | | |
| Cost..... | 5,141,921 | 5,352,926 | 3,146,800 |
| Accumulated Depreciation..... | (3,436,499) | (3,348,442) | (2,170,512) |
| Special liabilities | (827,682) | (721,521) | (388,079) |
| Materials and supplies | 30,071 | 32,503 | 31,253 |
| Investments | 3,306 | 3,347 | 25,966 |
| Different criteria for:..... | | | |
| Capitalization of interest during construction: | | | |
| Reversal of interest capitalized under Brazilian regulated accounting | (931,156) | (1,005,550) | (1,026,886) |
| Capitalization of interest..... | 1,252,165 | 1,252,165 | 1,252,165 |
| Depreciation of capitalized interest..... | (623,881) | (582,685) | (541,489) |
| Cumulative amortization of special liabilities | 735,475 | 685,265 | 634,224 |
| Reversal of proposed dividends, net of dividends deemed to be declared under US GAAP..... | - | - | 86,161 |
| Provision for tax incentive investments | (22,801) | (15,164) | (15,334) |
| Pension SFAS 87 adjustment..... | (3,370) | (590,222) | (404,608) |
| Reversion of Brazilian pension plan obligation, net of tax effects (See Note 29) | - | 362,862 | - |
| Reversal of indemnification costs and provision for contingency | (75,370) | (53,804) | (53,826) |
| Deferred tax effects of the above adjustments | (291,663) | (348,445) | (166,231) |
| Approximate shareholders' equity under US GAAP..... | <u>6,757,076</u> | <u>6,964,568</u> | <u>6,997,527</u> |

**b(ii). Net income reconciliation of the differences
between US and Brazilian GAAP**

| | For the years ended | | |
|--|----------------------------|--------------------|--------------------|
| | 1999 | 1998 | 1997 |
| As reported on the accompanying price-level financial statements .. | 288,618 | 450,280 | 374,329 |
| Increase (decrease) due to restatement | | | |
| Based on IGP-DI, replacing government index: | | | |
| Property, plant and equipment: | | | |
| Cost..... | (118,336) | 82,572 | (9,623) |
| Depreciation..... | (153,575) | (145,924) | (112,984) |
| Special liabilities | (106,603) | (105,325) | - |
| Materials and supplies | 2,040 | - | - |
| Different criteria for: | | | |
| Capitalization of interest during construction:..... | | | |
| Reversal of interest capitalized under Brazilian regulated accounting..... | 74,394 | 21,336 | 31,068 |
| Depreciation of capitalized interest..... | (41,196) | (41,196) | (41,534) |
| Pension benefits – SFAS 87..... | | | |
| Adjustment to US GAAP..... | (85,338) | (62,033) | (64,886) |
| Loss from curtailment | - | (75,576) | - |
| Amortization of special liabilities | 50,210 | 51,041 | 49,856 |
| Fiscal incentives | - | 21,893 | - |
| Indemnification costs and provision for contingency..... | (21,566) | - | (26,041) |
| Provision for losses on tax incentive investments..... | - | (5,449) | - |
| Deferred tax effects on the above adjustments | 138,764 | 89,036 | (18,131) |
| Deferred income taxes on price-level under Brazilian GAAP..... | (310,482) | (31,747) | - |
| Approximate net income (loss) under US GAAP..... | (283,070) | 248,908 | 182,054 |
| Other comprehensive income – Increase (reduction) of equity for pension plan, net of tax effects..... | 204,199 | (32,271) | - |
| Approximate net income (loss) under US GAAP, net of comprehensive income | (78,871) | 216,637 | 182,054 |
| US GAAP net income (loss) per thousand shares, before comprehensive income effects..... | (0.29) | 0.79 | 0.71 |
| Weighted average shares (thousands) in circulation | 273,655,376 | 273,655,376 | 255,021,178 |

b(iii). Statements of changes in shareholders' equity in accordance with US GAAP

| | 1999 | 1998 | 1997 |
|--|------------------|------------------|------------------|
| Shareholders' equity under US GAAP as of beginning of the year..... | 6,964,568 | 6,997,527 | 6,379,834 |
| Capital increase..... | - | - | 778,157 |
| Reimbursement of capital..... | (18,621) | - | - |
| Increase (reduction) of equity for pension plan - | | | |
| Other comprehensive income | 304,526 | (48,166) | (136,737) |
| Deferred tax effect of pension plan..... | (100,327) | 15,895 | 45,061 |
| Net income (loss) for the year..... | (283,070) | 248,908 | 182,054 |
| Dividends | (110,000) | (249,596) | (250,842) |
| Shareholders' equity under US GAAP as of ending of the year | 6,757,076 | 6,964,568 | 6,997,527 |

c. Additional disclosures required by US GAAP

c(i). Retirement Benefits

If COPEL had reported its net pension cost and the funded status of its pension plan in accordance with accounting principles and actuarial assumptions generally accepted in the United States of America, the disclosures required would have been as follows:

c(i).1. Pension Benefits

| | Year Ended December 31, | | |
|--|--------------------------------|-----------------|----------------|
| | 1999 | 1998 | 1997 |
| Components of net pension cost: | | | |
| Service cost..... | 4,946 | 42,932 | 49,248 |
| Interest cost..... | 92,616 | 160,705 | 78,244 |
| | 97,562 | 203,637 | 127,492 |
| Return on assets: | | | |
| Actual..... | (174,174) | (74,705) | (127,006) |
| Gain/(loss) deferred | 118,883 | (12,136) | 87,206 |
| Expected..... | (55,291) | (86,841) | (39,800) |
| Amortizations: | | | |
| Net (gain)/loss | 16,428 | 22,754 | 17,105 |
| Unrecognized net transition obligation..... | 1,008 | 11,509 | 15,366 |
| Employee contributions..... | - | (21,066) | (30,242) |
| Net periodic pension cost under US GAAP..... | 59,707 | 129,992 | 89,921 |
| Pension costs considered under Brazilian GAAP..... | 25,631 | (67,959) | (25,035) |
| Adjustment to US GAAP net income | 85,338 | 62,033 | 64,886 |

c(i).2. Actuarial assumptions:

| | 1999 | 1998 | 1997 |
|---------------------------|-------------|-------------|-------------|
| Discount rate | 6.0% | 10.24% | 6% |
| Salary increase rate..... | 2.0% | 6.08% | 3% |
| Return on assets | 6.0% | 10.24% | 6% |

c(i).3. Curtailment effects

Copel sponsored a “defined benefit” pension plan, which, in 1998, was amended and converted into a new “defined-contribution” pension plan.

As of September 30, 1998, a significant number of employees had already expressed their intention to transfer to the new defined-contribution plan. As a result, the Company recognized a loss, determined as follows:

| | Curtailment effects as of September 30, 1998 | | |
|--|---|----------------------------------|------------------------------|
| | Before Curtailment | Effect of Curtailment | After Curtailment |
| Actuarial present value of: | | | |
| Vested benefit obligation | 1,186,074 | (29,311) | 1,156,763 |
| Non vested benefit obligation..... | 258,501 | 144,458 | 402,959 |
| Total accumulated benefit obligation..... | 1,444,575 | 115,147 | 1,559,722 |
| Projected benefit obligation..... | 1,743,172 | (159,070) | 1,584,102 |
| Fair value of plan assets | (894,938) | - | (894,938) |
| Funded position | 848,234 | (159,070) | 689,164 |
| Unrecognized net transition obligation..... | (79,314) | 75,576 | (3,739) |
| Unrecognized net (gain) losses | (553,141) | 159,070 | (394,071) |
| Accrued pension expense..... | 215,779 | 75,576 | 291,354 |

c(i).4. Funded status

| | As of December 31 | | |
|--|-------------------|------------------|------------------|
| | 1999 | 1998 | 1997 |
| Actuarial present value of: | | | |
| - Vested benefit obligation..... | 1,387,209 | 1,158,885 | 827,621 |
| - Non vested benefit obligation..... | 21,551 | 410,183 | 571,848 |
| Total accumulated benefit obligation..... | 1,408,760 | 1,569,068 | 1,399,469 |
| Projected benefit obligation..... | 1,409,996 | 1,593,787 | 1,642,516 |
| Fair value of plan assets | (1,045,750) | (938,361) | (856,406) |
| Funded position | 364,246 | 655,426 | 786,110 |
| Unrecognized net transition obligation..... | (2,826) | (3,560) | (92,199) |
| Unrecognized net (gain) losses | (17,841) | (343,087) | (511,246) |
| Accrued pension expense | 343,579 | 308,779 | 182,665 |
| Adjustment to recognize minimum liability | | | |
| charged to equity, net of intangible asset | 16,605 | 322,697 | 268,198 |
| Total accrual required at December 31,..... | 360,184 | 631,476 | 450,863 |
| Recognized by the Company | (356,814) | (578,510) | (46,255) |
| Adjustment to US GAAP shareholders' equity..... | 3,370 | 52,966 | 404,608 |
| Reversion of pension plan obligation gross | | | |
| recorded in accordance with Brazilian | | | |
| GAAP..... | - | 537,256 | - |
| Total adjustments to US GAAP | | | |
| shareholders' equity..... | 3,370 | 590,222 | 404,608 |

The unrecognized net transition obligation and net gains or losses are being amortized on a straight-line basis over 15 years. Amortization of net transition obligation from December 31, 1988 (the effective date of SFAS 87 for non-US plans) through December 31, 1993 was recorded directly to equity in the opening balance sheet under US GAAP, and amounted to approximately R\$78,919.

The Company has no postretirement health care insurance or other benefits plans, other than the pension plan referred to in Note 29. Therefore, SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", has no effect on the Company's financial statements. Similarly, the Company does not provide any of the benefits required to be accrued under SFAS 112, "Employers Accounting for Postemployment Benefits".

c(ii). Fair Value of Financial Instruments

Except for cash and cash equivalents, which are stated at cost plus accrued interest and which approximate fair value, the carrying value of COPEL's other financial instruments, in Reais, approximates fair values at such dates reflecting the short-term maturity or frequent repricing at December 31, 1999, 1998 and 1997 of these instruments.

Based on interest rates currently available to COPEL for bank loans with similar terms and average maturities, the fair value of long-term debt at December 31, 1999, 1998 and 1997 approximates its carrying value.

Fair value estimates are made at a specific date, based on the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

c(iii). Concentration of Credit Risk

The COPEL system is prohibited from investing its surplus cash balances in financial instruments other than government securities controlled by the Central Bank of Brazil or federally owned banks.

Credit risk with respect to customer accounts receivable is diversified. COPEL continually monitors its customer accounts receivable and limits its exposure to bad debts by curtailing service if any invoice is one month overdue. Exceptions comprise supply of electricity that must be maintained for reasons of safety or national security.

c(iv). Impairment of Long-Lived Assets

SFAS 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of” (SFAS 121) effective January 1, 1996 requires that an impairment loss be recognized when circumstances indicate that the carrying amount of an asset may not be recoverable. The Company’s current analyses indicate the application of SFAS 121 would not have a significant impact on the Company.

c(v). Comprehensive Income

Under SFAS 130, “Reporting Comprehensive Income“ which is effective for fiscal years beginning after December 15, 1997, the amounts related to the pension plan and the related deferred tax effect which were recorded as adjustments directly to equity for US GAAP have been considered as comprehensive income.

c(vi). Accounting for Certain Transactions Involving Stock Compensation

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No.44 (“Fin 44”). FIN 44 clarifies the application of APB Opinion 25 “Accounting for Stock Issued to Employees”, which requires measurements of compensation from employee stock plans, is effective July 1, 2000 and should also be applied prospectively to certain events after December 15, 1998, but prior to July 1, 2000. The Company does not believe there will be any significant effect on its financial statements.

c(ii). Statements of Cash Flows

Brazilian GAAP does not require the presentation of a statement of cash flows as required by US GAAP. Changes in working capital are presented in the statement of changes in financial position. US GAAP requires the presentation of a statement of cash flows describing a company’s cash flows from operating, financing and investing activities, as follows:

COMPANHIA PARANAENSE DE ENERGIA - COPEL

STATEMENT OF CASH FLOWS

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
as of December 31,1999)*

| | Year Ended December 31, | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 1999 | 1998 | 1997 |
| Operating activities: | | | |
| Net income | 288,618 | 450,280 | 374,329 |
| Adjustments to reconcile net income to net cash | | | |
| Provided by operating activities:..... | | | |
| Depreciation and amortization..... | 319,391 | 303,640 | 323,020 |
| Disposal of property, plant and equipment and other..... | 35,450 | 35,169 | 47,432 |
| Equity pick-up on investees..... | (3,981) | 10,405 | - |
| Provision for long-term liabilities | 88,966 | 42,250 | 12,390 |
| Deferred income taxes | (16,202) | (32,012) | (9,627) |
| Monetary variation of long-term assets and liabilities | 142,242 | 82,978 | (41,236) |
| Allowance for doubtful accounts | 3,514 | 7,968 | (3,241) |
| Reversion of provision for COFINS without judicial deposits | - | (39,026) | - |
| | <u>569,380</u> | <u>411,372</u> | <u>328,738</u> |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (39,095) | (17,561) | 39,464 |
| Services in progress | 4,112 | 18,634 | (10,497) |
| Other accounts receivable | 34,216 | 9,637 | 18,523 |
| Materials and supplies | (346) | (5,892) | 7,462 |
| Prepayment of value-added tax (ICMS tax)..... | (15,124) | 52,322 | (191,250) |
| Prepaid expenses | (1,252) | 7,961 | 2,564 |
| Suppliers | 21,632 | 4,674 | (9,118) |
| Accrued payroll costs | (15,792) | (18,913) | 9,900 |
| Taxes, other than income tax | (9,122) | (5,057) | (80,779) |
| Advance billings of electric power..... | (13,794) | (11,541) | (29,933) |
| Regulatory charges | (724) | (10,497) | (26,238) |
| Pension plan | (27,766) | (16,199) | (119,827) |
| Other accrued liabilities | 1,496 | (2,465) | 10,558 |
| | <u>(61,559)</u> | <u>5,103</u> | <u>323,896</u> |
| Changes in noncurrent assets and liabilities: | | | |
| Judicial deposits..... | (17,414) | (30,032) | (11,567) |
| Other noncurrent assets | (1,353) | (3,441) | - |
| Advance billings of electric power..... | (3,659) | (2,832) | 16,653 |
| Provision for contingencies – related to permanent assets | 30,052 | - | 40,445 |
| Net cash provided by operating activities..... | <u>804,065</u> | <u>830,450</u> | <u>369,427</u> |

COMPANHIA PARANAENSE DE ENERGIA - COPEL

STATEMENT OF CASH FLOWS

(Adjusted for price-level changes and expressed in thousands of constant Brazilian Reais,
and of December 31, 1999)

| | Year Ended December 31, | | |
|---|-------------------------|--------------------|------------------|
| | 1999 | 1998 | 1997 |
| Investing activities: | | | |
| Additions to investments: | | | |
| Sercomtel Telecomunicações S.A. and Sercomtel Celular S/A | 31 | (225,109) | - |
| Dominó Holdings S/A | - | (45,270) | - |
| Companhia Paranaense de Gás – Compagás | (10,668) | (10,228) | (897) |
| Other investments | (32,803) | (17,321) | (19,867) |
| Additions to property, plant and equipment: | | | |
| Salto Caxias hydroelectric power plant | (352,818) | (526,205) | (379,064) |
| Other generation plants | (4,987) | (35,801) | (54,069) |
| Transmission network | (199,013) | (172,358) | (59,534) |
| Distribution network | (131,506) | (144,591) | (207,697) |
| Other | (29,710) | (43,049) | (44,597) |
| Consumer contributions | 18,934 | 31,764 | 34,809 |
| Net cash provided by (used in) investing activities | (742,540) | (1,188,168) | (730,916) |
| Financing activities: | | | |
| Loans and financing: | | | |
| Local currency | 36,664 | (102,356) | 497,569 |
| Capital paid-in and reimbursement of capital..... | (17,784) | - | 778,158 |
| Dividends | (155,105) | (102,695) | (252,515) |
| Recoverable rate deficit (CRC) | - | - | 37,543 |
| Net cash provided by (used in) financing activities | (136,225) | (205,051) | 1,060,755 |
| Net increase (decrease) in cash and equivalents | (74,700) | (562,769) | 699,266 |
| Cash and equivalents, beginning of the period | 255,146 | 817,915 | 118,650 |
| Cash and equivalents, end of the period | (74,700) | (562,769) | 699,266 |
| Supplementary cash flow information: | | | |
| Taxes paid | 61,274 | 66,570 | 129,270 |
| Interest paid..... | 83,474 | 89,526 | 123,769 |

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