
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, 2000

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:

145,031,080,782 Common Shares, without par value
428,822,336 Class A Preferred Shares, without par value
128,195,473,152 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

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PRESENTATION OF INFORMATION

In this Annual Report, we refer to Companhia Paranaense de Energia – COPEL, a mixed capital corporation (*sociedade anônima de economia mista*) organized under the laws of Brazil as the “Registrant,” and to the Registrant and its subsidiaries collectively as “we” or “us” or the “Company.”

References to (1) the “*real*,” “*reais*” or “R\$” are to Brazilian *reais* (plural) and the Brazilian *real* (singular) and (2) “U.S. dollars,” “dollars” or “US\$” are to United States dollars.

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 Registrant. 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”).

Our audited financial statements at December 31, 2000 and 1999 and for the years ended December 31, 2000, 1999 and 1998 (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, 2000 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 78 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, references to “MW” and “MWh” are to megawatts and megawatt hours, respectively, and references to “kV” are to kilovolts. These and other technical terms are defined in the Technical Glossary on page 79.

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable

Item 2. Offer Statistics and Expected Timetable

Not Applicable

Item 3. Key Information

SELECTED FINANCIAL DATA

You should read the selected financial information presented below in conjunction with the Financial Statements and the notes thereto. Arthur Andersen S/C audited the Financial Statements 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. You should keep these features in mind in evaluating the selected financial information and in reading “Item 5. Operating and Financial Review and Prospects.”

Brazilian GAAP and U.S. GAAP

The Financial Statements are prepared in accordance with generally accepted accounting principles in Brazil (“Brazilian GAAP”), which differ in certain material respects from generally accepted accounting principles in the United States (“U.S. GAAP”).

The differences between Brazilian GAAP and U.S. GAAP that have the most significant effects on net income and shareholders’ equity include:

- differences in inflation accounting methodology and indices;
- certain differences that arise because of our use of regulated accounting policies, resulting in differences in the treatment of capitalized interest, in the accounting for customers’ contributions to the cost of expanding the power supply systems and in the accounting for rate shortfalls;
- differences in the accounting for pensions and other post-retirement benefits;
- differences related to deferred income tax effects of inflation accounting; and
- differences in the calculation of earnings (loss) per share.

See Note 35 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, 2000, 1999 and 1998 and net income for the years ended December 31, 2000, 1999 and 1998.

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, 2000 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

We also prepare and publish financial statements 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. The notes to the Financial Statements include a reconciliation of shareholders’ equity and net income as presented in the Financial Statements and in the Statutory Financial Statements. See Notes 2a and 32 to the Financial Statements.

	As of and for the year ended December 31,				
	2000	1999	1998	1997	1996
	(millions of constant <i>reais</i> except per share data)				
Income Statement Data:					
<i>Brazilian GAAP</i>					
Net operating revenues	2,117	1,907	1,880	1,755	1,686
Operating expenses	<u>(1,550)</u>	<u>(1,534)</u>	<u>(1,441)</u>	<u>(1,360)</u>	<u>(1,311)</u>
Operating income (loss).....	567	373	439	395	375
Equity in results of investees	2	4	(11)	–	–
Other income (expense).....	14	61	208	146	66
Income taxes and employee participation	<u>(153)</u>	<u>(121)</u>	<u>(141)</u>	<u>(131)</u>	<u>(105)</u>
Net income	<u>430</u>	<u>317</u>	<u>495</u>	<u>410</u>	<u>336</u>
<i>U.S. GAAP</i>					
Net operating revenues	2,117	1,907	1,880	1,755	–
Net income (loss).....	55	(311)	273	200	182
Net income (loss) per thousand shares (in <i>reais</i>)	0.20	(1.14)	1.00	0.78	0.75
Balance Sheet Data:					
<i>Brazilian GAAP</i>					
Current assets	770	789	817	1,493	565
Recoverable rate deficit (CRC)(1).....	659	670	680	689	730
Long-term assets.....	958	978	1,072	944	900
Property, plant and equipment, net.....	7,493	7,161	5,734	7,136	6,945
Construction work in progress.....	700	1,046	2,292	1,470	1,196
Total assets	10,367	10,402	10,402	11,168	9,705
Current loans and financing.....	276	326	225	482	323
Current liabilities	652	766	726	921	893
Long-term loans and financing.....	1,104	1,227	1,207	997	640
Long-term liabilities.....	3,223	3,261	3,018	3,016	2,528
Shareholders’ equity.....	6,492	6,375	6,523	7,233	6,284
Capital stock.....	2,418	2,418	1,809	1,720	866
<i>U.S. GAAP</i>					
Total assets	11,443	11,864	11,869	11,880	10,631
Long-term liabilities.....	3,522	3,603	3,527	3,385	2,905
Shareholders’ equity.....	7,301	7,418	7,646	7,683	7,004
Other Financial Data:					
Capital expenditures on property, plant and equipment.....	408	788	1,012	818	733

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

	As of and for the year ended December 31,					
	2000	1999	1998	1997	1996	2000
	(R\$ except numbers of shares)					(U.S.\$) (1)
Per Share Data						
Net income per 1,000 shares						
Common Shares.....	R\$1.57274	R\$1.15787	R\$1.80642	R\$1.47638	R\$1.36905	R\$0.80690
Class A Shares	1.57274	1.15787	1.80642	1.47638	1.36905	0.80690
Class B Shares	1.57274	1.15787	1.80642	1.47638	1.36905	0.80690
Dividends per 1,000 shares (2)						
Common Shares.....	R\$0.55841	R\$0.42110	R\$0.62640	R\$0.70150	R\$0.69630	R\$0.28620
Class A Shares	0.59208	0.65000	0.68850	0.77170	0.69630	0.30350
Class B Shares	0.61437	0.46340	0.68850	0.77170	0.69630	0.31490

(1) Amounts stated in U.S. dollars have been translated from Brazilian reais at an exchange rate of R\$1.9510 = US\$1.00 for December 31, 2000.

(2) Amounts shown for 1996, 1997, 1998, 1999 and 2000 represent interest on capital, which the Registrant elected to pay in lieu of dividends. Such amount exceeded the Mandatory Dividend required under the Brazilian Corporation Law by approximately R\$25.1 million in 1997, R\$48.4 million in 1998, R\$5.3 million in 1999 and R\$0.8 million in 2000. See Note 23(d) to the Financial Statements.

Exchange Rates

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 the Registrant’s shares or the payment of dividends or other distributions with respect to the Registrant’s shares. You can only carry out purchases and sales of foreign currencies 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. 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. See “—Risk Factors.”

The following table sets forth the period-end, average, high and low noon buying rate in New York City as reported by the Federal Reserve Bank of New York, expressed in *reais* per U.S. dollar for the periods indicated.

Period	Period-End	Noon Buying Rate for U.S. dollars R\$ per US\$1.00		
		Average(1)	High	Low
1996	1.0393	1.0080	1.0413	0.9712
1997	1.1165	1.0805	1.1166	1.0394
1998	1.2085	1.6400	1.2090	1.1160
1999	1.8090	1.8640	2.2000	1.2074
2000	1.9510	1.8350	1.9840	1.7290
January	1.8020	—	1.8560	1.7680
February	1.7690	—	1.7950	1.7650
March	1.7420	—	1.7690	1.7230
April	1.8050	—	1.8110	1.7380
May	1.8270	—	1.8540	1.8000
June	1.8040	—	1.8280	1.7930
July	1.7760	—	1.8120	1.7760
August	1.8200	—	1.8320	1.7860
September	1.8440	—	1.8590	1.8187
October	1.9080	—	1.9460	1.8470
November	1.9722	—	1.9800	1.9090
December	1.9510	—	1.9840	1.9510
2001				
January	1.9720	—	1.9770	1.9380
February	2.0465	—	2.0470	1.9820
March	2.1750	—	2.1750	2.0220
April	2.1890	—	2.2950	2.1460
May	2.3590	—	2.3590	2.2010

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

Source: Federal Reserve Bank of New York

On June 27, 2001, the noon buying rate was R\$2.3320 to U.S.\$1.00.

RISK FACTORS

Risks Relating to Brazil

Brazilian political and economic conditions have a direct impact on our business and the market price of the Class B Shares and ADSs

Substantially all of our operations and customers are located in Brazil. Accordingly, our financial condition and results of operations are largely dependent on Brazil's economy, which has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles in the past. The Brazilian government has often changed monetary, fiscal, taxation and other policies to influence the course of Brazil's economy. We have no control over, and cannot predict, how such intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues. Our operations, financial condition and the market price of the Class B Shares and ADSs may be adversely affected by changes in policy involving exchange controls, tax and other matters, as well as factors such as:

- fluctuations in exchange rates;
- base interest rate fluctuations;
- inflation; and

- other political, diplomatic, social and economic developments in or affecting Brazil.

Future developments in the Brazilian economy and government policies may reduce Brazilian demand for our services or products, adversely affect our financial condition and results of operations, and impact the market price of the Class B Shares and ADSs.

A devaluation of the real may lead to substantial losses on our liabilities denominated in or indexed to foreign currencies, a reduction in our revenues, and a decline in the market price of the Class B Shares and ADSs

A significant amount of our financial liabilities are denominated in foreign currencies, primarily U.S. dollars. When the Brazilian currency is devalued, we incur losses on our liabilities denominated in or indexed to foreign currencies, such as our U.S. dollar-denominated long-term debt and foreign currency loans, and gains on our monetary assets denominated in or indexed to foreign currencies. If a devaluation occurs when the value of such liabilities significantly exceeds the value of such assets, we could incur significant losses, even if their value has not changed in their original currency.

A devaluation would reduce the U.S. dollar value of distributions and dividends on the ADSs and could materially reduce the market price of the Class B Shares and ADSs.

If Brazil experiences substantial inflation in the future, our revenues and the market price of the Class B Shares and ADSs may be reduced

Brazil has in the past experienced extremely high rates of inflation. Inflation itself and governmental measures to combat inflation have in the past had significant negative effects on the Brazilian economy. Inflation, actions taken to combat inflation and public speculation about possible future actions have also contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs may increase, our operating and net margins may decrease and, if investor confidence lags, the price of the Class B Shares and ADSs may fall. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

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

The market price of the Class B Shares and ADSs may be adversely affected by declines in the international financial markets and world economic conditions. Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including Brazil. Since the fourth quarter of 1997, the international financial markets have experienced significant volatility, and a large number of market indices, including those in Brazil, have declined significantly. Developments in other countries have also at times adversely affected the market price of our preferred shares. Similar developments in the international financial markets in the future may adversely affect the market price of the preferred shares and ADSs.

Risks Relating to COPEL

We are controlled by a small group of shareholders, whose interests may conflict with yours

We are controlled by the State of Paraná, which directly and indirectly holds 58.6% of our outstanding common voting shares as of the date of this Annual Report, and whose interests may differ from yours. The State of Paraná has the power to control all our operations, including the power to:

- elect a majority of our directors; and
- determine the outcome of any action requiring common shareholder approval, including transactions with related parties, corporate reorganizations and the timing and payment of any future dividends.

We are involved in several lawsuits that could have a material adverse effect on our business if their outcome is unfavorable to us

We are the defendant in several legal actions, mainly relating to increases in electricity tariffs, tributary taxes, indirect taxes and labor claims. The outcome of these proceedings is uncertain and, if determined against us, may result in obligations that could materially adversely affect our business and the value of the Class B Shares and ADSs.

We are largely dependent upon the economy of the State of Paraná

Our market for the majority of our sales of electricity historically has been and currently is located in Paraná. Although a more competitive market involving possible sales to customers outside the State might develop in the future, our business depends and is expected to continue to depend to a very large extent on the economic conditions of Paraná. We cannot assure you that economic conditions in Paraná will be favorable to us in the future.

The development of power generation projects is subject to substantial risks

In connection with the development of a generation project, we generally must obtain feasibility studies, governmental permits and approvals, condemnation agreements, equipment supply agreements, sufficient equity and debt financing, site agreements and construction contracts, each of which involves third parties over which we have no control. In addition, project development is subject to environmental, engineering and construction risks that can lead to cost-overruns, delays and other impediments to timely completion within a project's budget. We cannot assure you that all required permits and approvals for our projects will be obtained, that we will be able to secure private sector partners for any of our projects, that we or any of our partners will be able to obtain adequate financing for our projects or that financing will be available on a non-recourse basis to us. If we are unable to complete a project, whether at the initial development phase or after construction has commenced, we may not be able to recover our investment in such a project, which may at times be substantial.

We must comply with rigorous minimum quality standards

According to our concession agreement, we must comply with the minimum quality standards determined by the federal government for the distribution of electric energy, as well as meet minimum standards for the improvement of services. If our performance falls below these standards, we may be subject to penalties and fines. In extreme instances the federal government may force us to forfeit our concession.

Risks Relating to the Brazilian Electric Sector

The current Brazilian energy crisis could adversely affect our operations

Brazil is experiencing a severe shortage of capacity to generate electrical energy. The crisis is largely due to a lack of investment in power generation and to drought conditions throughout much of the country, which have caused water levels at hydroelectric plants (which account for 88.3% of the country's generating capacity) to fall to less than one-third of capacity.

In order to avoid the possibility of rolling blackouts, in May 2001 the Brazilian government announced measures aimed at the reduction of electricity consumption in the southeast, central-western and northeastern regions of Brazil by an average of 20% and announced surcharges for those who do not meet their cutback quotas and rewards for those who do. The state of Paraná is currently not subject to these measures. The Brazilian government also ordered that energy distribution companies located in the affected regions of the country reduce the energy supply to their customers. The restrictions became effective as of June 1, 2001 and are to remain in effect for an indeterminate period of time. In the future, the Brazilian government may adopt further measures aimed at reducing energy consumption in other regions of the country including the state of Paraná. These measures, including the reduction of our customers' electricity consumption and the limitations on our ability to generate, transmit or distribute energy could have a material adverse effect on our financial conditions and results of operations.

Rate regulations in the electric sector may not keep pace with increases in costs

According to the rules that regulate the public service concession agreements for distribution of electric energy, the rates charged by electric energy distributors are adjusted annually by ANEEL and are subject to the conditions to the concession agreements. Specific rules limit the cost increases that may be passed on to customers and might not offset cost increases for the purchase of electrical energy.

We may face increased competition that could adversely affect our market share and revenues

Within our concession area we do not face competition in the distribution of electric energy to residential, commercial and industrial customers of low voltage supply. As a result of recent legislation other suppliers are now permitted to offer electricity to certain large electricity customers that meet the regulatory requirements to qualify as Unregulated Customers at potentially lower prices than those we currently charge.

The increase in competition from other energy suppliers serving customers located in our concession area, together with the issuance of additional regulations aimed at fostering competition in the energy sector, could adversely affect our market share and revenues.

Participation in the energy sector may be limited by regulatory authorities

As a general rule, ANEEL establishes a maximum participation limit for the distribution of electric energy. Based on this limit, individual distributors cannot exceed 20% of the total energy distribution within the national electric system. This limitation may affect our ability to expand our distribution of electric energy and may hinder revenue growth.

Electricity shortages might affect the cost of electric energy and the prices we can charge customers

Due to the dependence of the electric energy sector upon natural and seasonal variables such as rainfall and water levels, deterioration in these conditions could severely hamper the generation of electric energy.

Shortages in the generation of electric energy could lead to the rationing of energy and the generation of energy through higher cost alternatives. In such situations, the Federal Government might limit the increase in energy purchasing costs that can be passed on to final customers, reducing our profits.

Risks Relating to the Class B Shares and ADSs

As a holder of ADSs you will generally not have voting rights at our shareholders' meetings

In accordance with the Brazilian Corporate Law and our by-laws, holders of the Class B Shares, and thus of the ADSs, are not entitled to vote at our shareholders' meetings except in limited circumstances. This means, among other things, that you, as a holder of the ADSs, are not entitled to vote on corporate transactions, including any proposed merger or consolidation with other companies.

In addition, in the limited circumstances where the holders of Class B Shares are able to vote, holders may exercise voting rights with respect to the Class B Shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. There are no provisions under Brazilian law or under our by-laws that limit ADS holders' ability to exercise their voting rights through the depositary bank with respect to the underlying Class B Shares. However, there are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, our holders of Class B Shares will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary bank, which will in turn, as soon as practicable thereafter, mail to holders of ADSs the notice of such meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary bank how to vote their shares. Because of this extra procedural step involving the depositary bank, the process for exercising voting rights will take longer for ADS holders than for holders of Class B Shares. ADSs for which the depositary bank does not receive timely voting instructions will not be voted at any meeting.

As a holder of ADSs you will have fewer and less well defined shareholders' rights than in the United States and certain other jurisdictions

Our corporate affairs are governed by our by-laws and the Brazilian Corporate Law, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Brazil. Under the Brazilian Corporate Law you and the holders of the Class B Shares may have fewer and less well-defined rights to protect your interests relative to actions taken by our Board of Directors or the holders of common shares than under the laws of some jurisdictions outside Brazil.

Although Brazilian law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of minority shareholder interests may be less well developed and enforced

in Brazil than in the United States, which could potentially disadvantage you as a holder of the preferred shares and ADSs. For example, when compared to Delaware general corporation law, Brazilian corporate law and practice has less detailed and well-established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties, and sale-of-business transactions. In addition, shareholders in Brazilian companies must hold 5% of the outstanding share capital of a corporation to have standing to bring shareholders' derivative suits, and shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

If we issue new shares or our shareholders sell shares in the future, the market price of your ADSs may be reduced

Sales of a substantial number of shares or the belief that this may occur, could decrease the prevailing market price of the Class B Shares and ADSs by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of the Class B Shares and of the ADSs, may decrease significantly. Such issuances and sales also might make it more difficult for us to issue Class B Shares and ADSs in the future at a time and a price that we deem appropriate and for you to sell your securities at or above the price you paid for them.

You may be unable to exercise preemptive rights relating to the preferred shares

You will not be able to exercise the preemptive rights relating to the Class B Shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933 as amended, is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. The depositary bank will not offer rights to you as a holder of the ADSs unless the rights are either registered under provisions of the Securities Act or are subject to an exemption from the registration requirements. We are not obligated to file a registration statement with respect to the shares or other securities relating to these rights, and we cannot assure you that we will file any such registration statement. Accordingly, you may receive only the net proceeds from the sale of your preemptive rights by the depositary bank or, if the preemptive rights cannot be sold, they will be allowed to lapse. If you are unable to participate in rights offerings, your holdings may also be diluted.

If you exchange your ADSs for Class B Shares, you risk losing the ability to remit foreign currency abroad and Brazilian tax advantages

Brazilian law requires that parties obtain a certificate of registration from the Central Bank in order to be allowed to remit foreign currencies, including U.S. dollars, abroad. For the ADSs, the Brazilian custodian for the Class B Shares has obtained the necessary certificate from the Central Bank for the payment of dividends or other cash distributions relating to the preferred shares or upon the disposition of the preferred shares. If you exchange your ADSs for the underlying Class B Shares, however, you may only rely on the custodian's certificate for five business days from the date of exchange. Thereafter, you must obtain your own certificate of registration or register in accordance with Central Bank and CVM rules, in order to obtain and remit U.S. dollars abroad upon the disposition of the Class B Shares or distributions relating to the preferred shares. If you do not obtain a certificate of registration, you may not be able to remit U.S. dollars or other currencies abroad and may be subject to less favorable tax treatment on gains with respect to the preferred shares.

If you attempt to obtain your own certificate of registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to the preferred shares or the return of your capital in a timely manner. The custodian's certificate of registration and any certificate of foreign capital registration you obtain may be affected by

future legislative changes. Additional restrictions may be imposed in the future on the disposition of the underlying Class B Shares or the repatriation of the proceeds from disposition.

The Brazilian government may impose exchange controls and restrictions on remittances abroad which may adversely affect your ability to convert funds in reais into other currencies and to remit other currencies abroad

You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of Brazilian currency into foreign currencies. The Brazilian government last imposed remittance restrictions for a brief period in 1989 and early 1990. Reimposition of these restrictions would hinder or prevent your ability to convert dividends, distributions or the proceeds from any sale of Class B Shares, as the case may be from *Reais*, into U.S. dollars or other currencies and to remit those funds abroad. We cannot assure you that the Brazilian government will not take similar measures in the future.

The relative volatility and illiquidity of the Brazilian securities markets may impair your ability to sell the Class B Shares underlying the ADSs

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and elsewhere, and are not as highly regulated or supervised as some of those other markets. The illiquidity and relatively small market capitalization of the Brazilian equity markets may cause the market price of securities of Brazilian companies, including our ADSs and Class B Shares, to fluctuate in both the domestic and international markets, and may substantially limit your ability to sell the Class B Shares underlying your ADSs at a price and time at which you wish to do so.

Forward-Looking Statements

This Annual Report contains forward-looking statements relating to our business that are based on management's current expectations, estimates and projections. Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should" and similar expressions are used to identify forward-looking statements but are not the exclusive means of identifying such statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements.

Item 4. Information on the Company

THE COMPANY

We are a fully integrated electric power company engaged in the generation, transmission and distribution of electricity in the Brazilian state of Paraná, pursuant to concessions granted by an agency of Brazil's federal government (the "Federal Government"). At December 31, 2000, we generated electricity at 17 hydroelectric plants and one thermoelectric plant, with total installed capacity of 4,548 MW (approximately 99% of which is hydroelectric). Our electric power business is subject to comprehensive regulation by the Brazilian regulatory agency for the electric sector, Agência Nacional de Energia Elétrica – ANEEL ("ANEEL").

We hold concessions to distribute electricity in approximately 98% of the 399 municipalities in the state of Paraná and in the municipality of Porto União in the state of Santa Catarina. At December 31, 2000, we owned and operated 6,690 kilometers of transmission lines and 151,693 kilometers of distribution lines, constituting the sixth-largest distribution network in Brazil. Of the electricity we supplied to our final customers during 2000:

- 44.5% was to industrial customers;
- 25.2% to residential customers;
- 14.5% to commercial customers; and
- 15.8% to rural and other customers.

Our goals include improving and expanding our transmission and distribution systems, increasing operating efficiencies and expanding our generating capacity. To achieve these goals, we will continue to establish partnerships with private companies through consortia or joint ventures. We will also continue to diversify our operations by entering businesses where our management feels we can create operating efficiencies by combining and streamlining certain operations. For example, we have purchased interests in telecommunications and sanitation companies. We are also entering into new businesses that enable us to exploit assets we have typically only used internally. For example, we are using our telephone system to create revenues by providing internet services and limited telecommunications services. See “—The Company—Other Businesses—Telecommunications and Information Technology.”

In 1999, we reorganized our activities into 5 business areas. The following table summarizes our gross revenues by each of these areas for the periods indicated:

	<u>2000</u>	<u>1999</u>
	(R\$ in millions)	
Generation	107.7	165.8
Transmission.....	46.6	34.6
Distribution.....	2,601.6	2,349.6
Telecommunications	24.6	13.2
Others	5.4	0.8
Total.....	<u>2,785.8</u>	<u>2,563.9</u>

The Registrant’s head offices are located at Rua Coronel Dulcídio, 800, CEP 80420-170 Curitiba, PR, Brazil. Its telephone number at the head office is (55-41) 322-3535.

Historical Background

We were formed in 1954 by the State of Paraná 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 we acquired the principal private power companies located in Paraná. The period from 1970 to 1977 saw significant expansion of our transmission and distribution network and the connection of our network to networks in other states. In 1979, a change in state law permitted us to extend our generating activities to include production from sources other than hydroelectric plants.

Relationship with the State of Paraná

The State of Paraná owns (directly and indirectly) approximately 59% of the common shares of the Registrant 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 Registrant.

In December 1998, the Paraná state legislature passed a law authorizing our corporate restructuring and the sale of the State's interest in our share capital. In May 2001, the State of Paraná hired the financial and legal advisors who will assist it in our privatization. See "Item 7. Major Shareholders and Related Party Transactions—The Proposed Privatization of the Registrant."

Corporate Restructuring

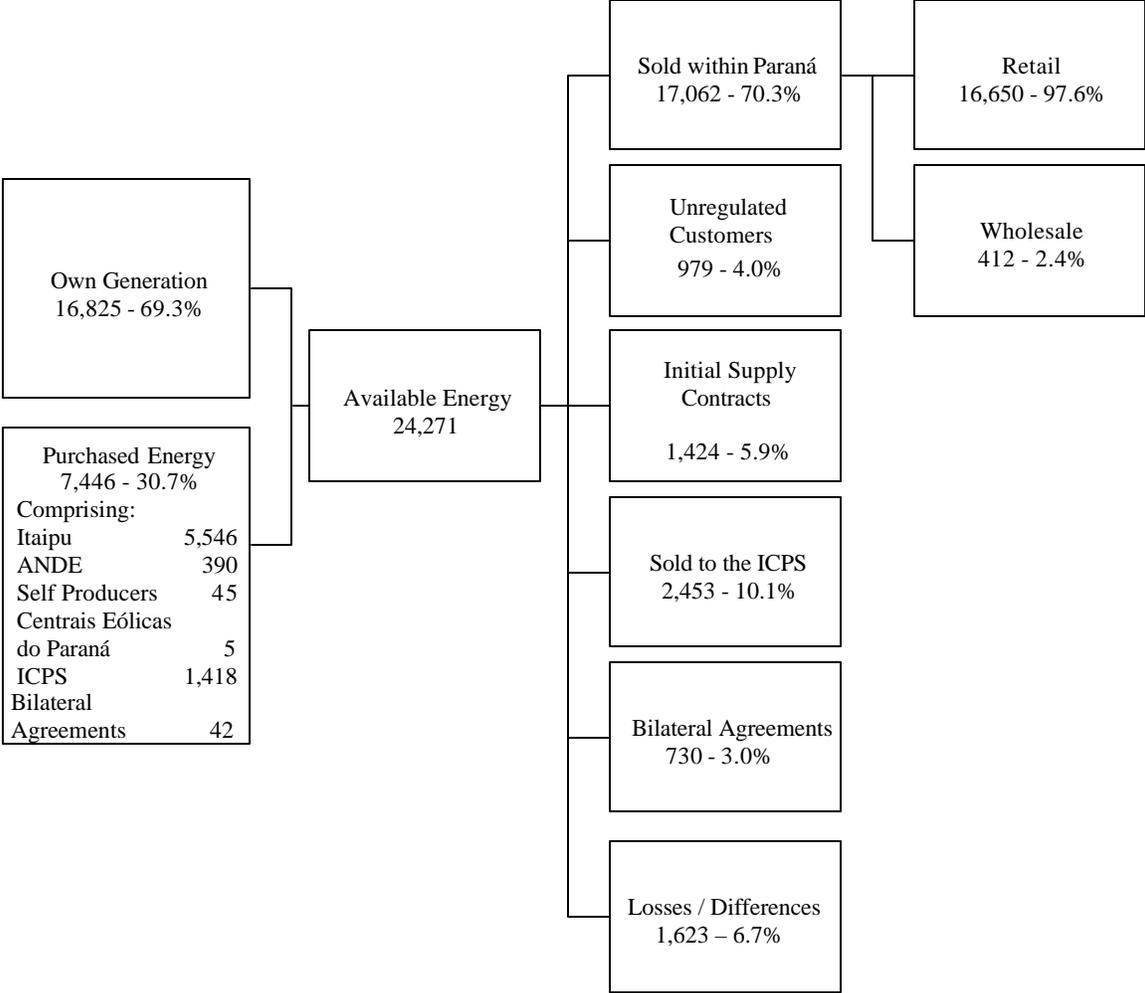
In January 1999, our shareholders approved a proposal to restructure our operations in accordance with the new regulatory framework for Brazil's electric power sector. In March 2001, we created five wholly-owned subsidiaries: Copel Distribuição S.A., Copel Geração S.A., Copel Telecomunicações S.A., Copel Transmissão S.A. and Copel Participações S.A. We expect to divide our operations among these five wholly-owned subsidiaries by the end of June 2001 as follows:

- our electricity distribution assets will be transferred to Copel Distribuição S.A.;
- our electricity generation assets will be transferred to Copel Geração S.A.;
- our electricity transmission and transmission grid connection assets will be transferred to Copel Transmissão;
- our telecommunications assets will be transferred to Copel Telecomunicações S.A.; and
- our equity interests in other companies will be transferred to Copel Participações S.A.

Upon implementation of this corporate restructuring, which is still subject to regulatory approval, the Registrant will become a holding company and our current operations will be carried out by our wholly-owned subsidiaries. We expect to obtain the necessary regulatory approvals by the end of June 2001.

Business

During 2000, we produced 69.3% of the electricity we delivered. In addition to the energy we produce, we are required, like certain other Brazilian utilities, to purchase energy from Itaipu in an amount determined by the Federal Government based on our sales of electricity. 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. The following chart sets forth the sources and uses of electricity we delivered during 2000. Amounts other than percentages are in GWh.



The electricity we generate and the electricity we are required to purchase, taken together, exceed the amount of energy that we distribute to customers. We deliver the excess energy to a transmission network known as the “Interconnected Power System—South/Southeast” (or “ICPS”) that links the states in the South and Southeast of Brazil. The Interconnected Power Systems (such as the ICPS) are designed to optimize electricity generation in Brazil. Electric power generation companies must 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.

In May 1998, the Federal Government established the Wholesale Energy Market. The Wholesale Energy Market is a market created for the short-term sale and purchase of energy in accordance with the terms and criteria set forth in the Market Agreement. As an electricity generation and distribution company, we are required to participate in the Wholesale Energy Market. During the transition period (1998-2005), purchases and sales of energy in the Wholesale Energy Market occur pursuant to bilateral contracts (“Initial Supply Contracts”). We negotiate Initial Supply Contracts at predetermined rates approved by ANEEL. ANEEL has also established the quantities and voltages to be supplied under Initial Supply Contracts for 2001 and 2002. From 2003 to 2005, we must reduce the electricity to be committed to Initial Supply Contracts by 25% each year. We supply electric energy under Initial Supply Contracts to five distributors. Generation companies and distribution companies may also enter into bilateral agreements (“Bilateral Agreements”) to purchase or sell in the Wholesale Energy Market the electric energy that exceeds the limits set by the Initial Supply Contracts. Bilateral Agreements are entered into at market rates. See “—The Brazilian Electric Power Industry—Legal and Regulatory Matters.”

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

	Year ended December 31,				
	2000	1999	1998	1997	1996
	(GWh)				
Electricity we generated.....	16,825	18,684	17,694	15,422	18,625
Electricity we purchased from Itaipu.....	5,546	5,375	5,302	5,410	4,976
Electricity we purchased from others.....	1,900	434	26	12	9
Total.....	<u>24,271</u>	<u>24,493</u>	<u>23,022</u>	<u>20,844</u>	<u>23,609</u>

The following table sets forth the total electricity we sold to final customers, distributors, Eletrosul and the ICPS.

	Year ended December 31,				
	2000	1999	1998 (GWh)	1997	1996
Electricity delivered to final customers ..	16,650	15,611	15,006	14,230	13,503
Electricity delivered to distributors in					
Paraná	412	391	366	351	339
Electricity delivered to Unregulated					
Customers	979	96	—	—	—
Electricity delivered to out of state					
distributors under Initial					
Supply Contracts	1,424	2,992	160		
Electricity delivered to Eletrosul.....	—	—	509	2,210	2,468
Losses—Distribution System	1,623	1,614	1,431	1,369	1,086
Net energy (gains) losses for					
transmission.....	—	—	—	—	24
Bilateral Agreements	730	—	—	—	—
Subtotal	<u>21,817</u>	<u>20,704</u>	<u>17,472</u>	<u>18,160</u>	<u>17,420</u>
Electricity delivered to the ICPS.....	2,453	3,789	5,550	2,684	6,189
Total.....	<u><u>24,271</u></u>	<u><u>24,493</u></u>	<u><u>23,022</u></u>	<u><u>20,844</u></u>	<u><u>23,609</u></u>

Generation and Purchases of Energy

Generating facilities

At December 31, 2000, we operated 17 hydroelectric plants and one thermoelectric plant, with a total installed capacity of 4,548 MW. We produce electricity almost exclusively through our hydroelectric plants. We generated 16,825 GWh in 2000, 18,684 GWh in 1999 and 17,694 GWh in 1998. The 9.9% decrease from 1999 to 2000 reflects a deterioration in hydrological conditions. 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 following table sets forth certain information relating to our principal plants in operation at December 31, 2000.

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	260	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 Supply Contracts.

Foz do Areia. The Foz do Areia hydroelectric plant is located on the Iguaçú River, approximately 240 kilometers southwest of the city of Curitiba.

Segredo. The Segredo hydroelectric plant is located on the Iguaçú River, approximately 285 kilometers southwest of the city of Curitiba. The Segredo plant began full operations in 1993.

Salto Caxias. The Salto Caxias hydroelectric plant is located on the Iguaçú River. We began constructing the plant in 1994. We placed the final generating unit in service in October 1999.

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.

In April 2001, we sold our 5.2% interest in Machadinho, a hydroelectric plant located in the Pelotas River, which marks the border between the States of Santa Catarina and Rio Grande do Sul, for R\$22.8 million.

Expansion of Generating Capacity

Demand for electrical energy in southern Brazil continues to grow. Until 1999, we invested heavily in increasing our generating capacity, culminating with the completion of the Salto Caxias facility. We funded the project with cash from operations and proceeds from financings completed in 1997. Since 2000, we have been investing substantially less in increasing our generating capacity as a result of limitations under Brazilian monetary regulations on the ability of state-controlled entities to borrow to finance new investment. Nevertheless, we completed the Dona Francisca power plant, which has been fully operational since April 2001. We expect to spend R\$72 million on generation capacity from 2001 through 2003 on our wholly-owned facilities and R\$190 million on generation capacity from 2001 through 2003 on facilities in which we hold a minority interest. Our current investment plans will not result in significant increases in our wholly-owned generation capacity.

The following table sets forth information regarding our planned major generation projects for the period from 2001 to 2006.

Facility	Estimated Installed Capacity (MW)	Assured Energy(1) (GWh/year)	Budgeted Completion Cost (R\$ million)	(Expected) Beginning of Operation	Our Ownership Percentage	Status
Campos Novos	880	2,978	533	March 2006	15%	Concession awarded
Araucária (2)	480	3,868	655(3)	December 2002	20%	SPC incorporated
Dona Francisca.....	125	701	205	February 2001	23%	In operation

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

(2) Thermoelectric power plant.

(3) Real equivalent of US\$335 million based on the noon buying rate on December 31, 2000.

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 four companies, signed the concession agreement for the plant in May 2000. We own a 15% interest in ENERCAN. We provided technical management in the preparation of the basic engineering project review. The consortium members estimate that the expenditures necessary to construct the plant will total approximately R\$900 million, of which we will be responsible for approximately R\$135 million. We expect to fund the project with funds to be borrowed

from the Brazilian Social and Economic Development Bank (“BNDES”) and from the Inter-American Development Bank. As of December 31, 2000, the consortium had invested R\$25.9 million and we had invested R\$4.4 million in this project.

Dona Francisca. The Dona Francisca hydroelectric plant is located on the Jacuí River in the State of Rio Grande do Sul. We own a 23% interest in the company that holds the concession for Dona Francisca. The first unit started operating in February 2001 and the second unit started operating in April 2001. The plant has an installed capacity of 125 MW and 76 MW of assured energy. The investment necessary to construct the plant was R\$205.0 million. The shareholders invested R\$68.3 million, of which R\$15.3 million was invested by us, and R\$136.7 million came from borrowings.

Lajeado. The Lajeado hydroelectric plant will be located in the State of Tocantins on the Tocantins River and will have an installed capacity of 850 MW. 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. Our investment in the project is exclusively funded with resources derived from fiscal incentives. As of December 2000, we had invested R\$18.2 million in this project. We are not required to make additional investments in this project.

Thermoelectric Plants. UEG Araucária Ltda., formed in April 1998, is a partnership between COPEL, El Paso and Petrobras. 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 fueled by natural gas imported from Bolivia through the Brazil-Bolivia pipeline. The plant is expected to begin operating in December 2002. The capacity purchase agreement, the gas supply contracts and the plant acquisition turnkey contract have already been executed. We have also signed an agreement guaranteeing that we 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 U.S.\$335.0 million. We expect that 75% of such amount will be financed by banks and governmental agencies and the remainder by the shareholders. Our share is expected to total approximately U.S.\$16.8 million, which we expect to fund with our own funds.

We have 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 financial plan estimates that R\$42 million will come from the shareholders and R\$98 million will come from borrowings.

We also plan to increase the installed capacity of the Usina Termoelétrica de Figueira thermoelectric plant from 20 MW to 140 MW. The plant is projected to begin operations at increased capacity in October 2003. The estimated cost of this expansion is R\$295.3 million.

We have also signed a letter of intent with the Ministry of Mining and Energy for the installation of two new thermo-electric power plants in the state of Paraná to reduce Paraná’s dependence on hydraulic generation: the Pitanga and the Norte thermal plants, with an expected installed capacity of 20MWh and 480MWh, respectively.

Wind Power. We own a 30% interest in Centrais Eólicas do Paraná 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. We invested R\$1.2 million in the construction of the plant, which cost, in the aggregate, R\$4 million.

Projects Under Study. We own 21% of a consortium created to construct the São Jerônimo power plant on the Tibagi river with an estimated total installed capacity of 330 MW. We also own 20% of each consortium created to construct the Santa Clara and Fundão power plants on the Jordão river. The bidding for these projects is expected to take place by the end of June 2001.

Purchases

We purchased 5,546 GWh of electricity from Itaipu in 2000, or 23% of the total electricity we generated and purchased in 2000. In 2000, our purchases represented 5.9% of Itaipu's supply to Brazil and 41.5% of the energy purchased from Itaipu by the southern region of Brazil. 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.

During December 2000, we paid an average tariff of R\$67.13 per MWh for purchases of energy from Itaipu, as compared to R\$63.02 during December 1999. These figures include the transmission tariff that distribution companies must pay 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 20.0% of our market for electricity, used 4,447 GWh during 2000 – an increase of 3.3% over residential use during 1999. Industrial customers, representing 34.7% of our market for electricity, used 7,848 GWh during 2000 – an increase of 23.9% over industrial use during 1999.

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

	At December 31,				
	2000	1999	1998	1997	1996
Transmission and subtransmission lines (km)					
230 kV and above.....	1,556.9	1,491.7	1,258.2	1,324.3	1,282.3
138 Kv	3,996.1	3,859.1	3,949.7	3,746.9	3,542.4
69 Kv	1,137.5	1,139.7	1,143.9	1,210.9	1,320.6
Distribution lines (km)					
23 kV to 44 kV.....	77,365.6	75,566.0	73,373.8	70,038.8	68,444.7
Overhead distribution lines (km)					
13.8 kV to 23 kV.....	74,327.4	73,132.0	72,044.4	70,298.5	68,022.3
Transformer capacity (MVA)					
Transmission substations.....	17,427	16,475	14,316	13,596	12,828
Distribution substations.....	1,251	1,237	1,199	1,158	1,175
Distribution transformers (MVA).....	5,786	5,558	5,313	5,008	4,698
Total energy losses (1).....	6.7%	6.6%	8.5%	8.6%	7.3%

(1) For 2000 and 1999, available energy equals generation plus energy purchased. For previous years, available energy equals generation plus energy purchased from the interconnected system minus energy sold to the interconnected system.

Transmission

We operate transmission facilities which are used to transmit the electricity we generate and the energy we receive from other sources. In addition to using transmission lines to provide energy to customers in Paraná, we transmit energy through the ICPS. Two federal companies, Eletrosul and Furnas Centrais Eléctricas S.A. – Furnas (“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 our own transmission system, we supply energy using Eletrosul’s transmission system. We and the other companies with transmission facilities are required to allow others to use our respective transmission facilities. ANEEL sets the charges for using transmission network of each company.

We have 36 industrial customers that are directly supplied with high voltage (at least 69 kV) energy through connections to our transmission lines. These industrial customers accounted for approximately 19% of our total volume of electricity sold in 2000.

Under the new regulatory regime, we are responsible for expanding the 138 kV and 69 kV transmission grid within our concession area. Transmission systems of 230 kV and higher will be auctioned by ANEEL. The winners must build, operate and maintain the new facilities, receiving an annual fee from users in accordance with regulations set by ANEEL. We are permitted by ANEEL to make minor improvements to some of the existing 230 kV and 500 kV facilities. In 2000, we reinforced our transmission system by:

- building 5 new substations with voltages ranging from 69 kV to 500 kV;
- upgrading 30 existing substations; and
- building 212.7 kilometers of transmission lines.

Distribution

Our 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, 2000, we provided electricity in a geographic area encompassing approximately 99% of Paraná and served over 2.8 million customers.

Our distribution network includes 151.7 kilometers of distribution lines, 287,990 distribution transformers and 233 distribution substations. During 2000, 82,431 new customers were connected to our network, including customers connected through the rural and urban electrification programs. We are 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.

System Performance

We determine the energy losses of our distribution system separately from those of our 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. We exclude the ICPS and transmission lines operated by affiliates of Eletrobrás in calculating the rate of losses. We believe that our approach to determining energy losses provides a more accurate measure of our system performance.

Our energy losses totaled 6.7% of available energy in 2000 and 6.6% in 1999. Of our energy losses during 2000, 37.2% occurred during distribution and 62.8% occurred during transmission (excluding losses from the transmission lines operated by Eletrobrás).

In 2000, we experienced a decline in the quality and reliability in the level of power supply measured by the annual duration of outages per customer as compared to 1999 because of poor weather conditions, such as high winds and storms, which negatively affected transmission and distribution. Information regarding the duration and frequency of outages for our customers are set forth in the following chart for the years indicated.

Quality of Supply Indicator	Year ended December 31,				
	2000	1999	1998	1997	1996
Duration of outages per customer per year (in hours).....	13h 38min	12h 25min	13h 25min	15h 35min	16h 32min
Frequency of outages per customer per year (number of outages).....	13.36	13.39	14.55	17.27	18.70

Sales to Final Customers

During 2000, we supplied approximately 98% of the energy distributed directly to customers in Paraná. Our concession area includes over 2.8 million customers located in Paraná and in one municipality in the State of Santa Catarina, to the south of Paraná. During 2000, the total power consumption throughout our concession area was 16,650 GWh as compared to 15,611 GWh during 1999. This increase in the total consumption was sustained by higher levels of industrial and commercial consumption, which together make up 46.0% of our market for electricity. Residential customers, representing 20.0% of our market for electricity used 4,447 GWh during 2000 – an increase of 3.3% over residential use during 1999. Industrial customers, representing 34.7% of our market for electricity, used 7,848 GWh during 2000 – an increase of 23.9% over industrial use during 1999.

The following table sets forth certain information regarding our 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,									
	2000		1999		1998		1997		1996	
	(GWh)	(R\$)	(GWh)	(R\$)	(GWh)	(R\$)	(GWh)	(R\$)	(GWh)	(R\$)
Industrial	7,848	743	6,334	650	5,932	639	5,641	623	5,365	617
Residential.....	4,447	958	4,306	936	4,185	941	3,949	834	3,780	751
Commercial	2,563	456	2,384	430	2,268	437	2,111	400	1,949	385
Rural and others(1).....	2,266	248	2,283	242	2,141	245	2,073	236	1,968	222
Public services.....	505	53	496	52	480	53	456	52	441	51
ICPS	1,835	113	3,789	27	5,550	34	2,684	24	6,189	41
Other distributors	<u>3,184</u>	<u>67</u>	<u>3,383</u>	<u>139</u>	<u>1,035</u>	<u>41</u>	<u>2,560</u>	<u>82</u>	<u>2,807</u>	<u>93</u>
Total(2).....	<u>22,648</u>	<u>2,638</u>	<u>22,879</u>	<u>2,476</u>	<u>21,591</u>	<u>2,390</u>	<u>19,475</u>	<u>2,251</u>	<u>22,499</u>	<u>2,160</u>

(1) Includes street lighting, municipalities and government agencies.

(2) Total GWh includes our own consumption or energy losses.

The following table sets forth the number of our final customers in each category at December 31, 2000.

Category	Number of Final Customers
Industrial.....	44,227
Residential.....	2,226,052
Commercial.....	242,115
Rural and others.....	<u>323,658</u>
Total.....	2,836,052

Approximately 44.5 % of the electricity we sold to final customers in 2000 was sold to industrial customers. During 2000, approximately 8% of industrial consumption was from industrial customers involved in transportation as compared to 7% during 1999. The other primary industrial customers included those involved in the lumber and food industries, accounting for 7% and 20.4% respectively of industrial consumption. In 2000, our 20 largest industrial customers accounted for approximately 17.5% of our electricity sold to final customers and approximately 7.7% of our revenues from sales to final customers. No customer accounted for more than 1.2% of our revenues.

Tariffs

Retail tariffs. We classify our customers 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 Brazilian regulation, 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 (1) contracted firm

capacity and (2) 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 2000, we were granted an increase of 15.43% in the rate charged for sales to final customers. Despite this increase, due to the effects of inflation the average rate our final customers paid was R\$139.37 per MWh during 2000, having decreased by 5.2% from December 1999. Residential and commercial customers accounted for approximately 25.2% and 14.5%, respectively, of our market for electricity sales to final customers during 2000. In December 2000, 38.98% of our 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\$215.33 per MWh. The average tariff for the industrial category was R\$94.65 per MWh, and this sector accounted for 44.51% of our 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 2000 and 1999.

	December 2000	December 1999
	(R\$/MWh)	(R\$/MWh)
<u>Tariffs</u>		
Residential	215.33	217.34
Industrial	94.65	102.70
Commercial.....	177.84	180.34
Rural.....	92.35	92.88
Other.....	122.11	123.59
All final customers	139.37	147.09

Low Income Residential Customers. In 1996, the Brazilian government issued regulations providing for discounted rates for certain low income residential customers. A “Low Income Residential Customer” is any customer:

- whose energy consumption is less than 160 KWh per month;
- who has monthly earnings of less than three minimum salaries (currently equal to R\$540 per month);
- whose dwelling has an area of less than 50 square meters and a “low income appearance” (as defined in the relevant regulations of ANEEL; and
- who is the sole individual billed at the residence.

In 2000, we served 132,713 Low Income Residential Customers.

The following table sets forth the current minimum discount rates approved by ANEEL 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 2000, we were granted an increase of 17.7% in the rate charged for Initial Supply Contracts. During December 2000, the average tariff for purchases and sales of energy pursuant to Initial Supply Contracts was R\$36.31 per MWh. The average tariff during December 2000 for energy we supplied to 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\$36.31 per MWh.

The following table sets forth average tariffs in effect in December of 2000 and 1999.

	<u>December 2000</u>	<u>December 1999</u>
	(R\$/MWh)	(R\$/MWh)
<u>Tariffs</u>		
Distributors.....	36.31	40.97
Initial Supply Contracts	36.31	40.97

Transmission Tariffs. In June 2000, ANEEL set R\$3,235.49/MW as the monthly tariff for high-voltage transmission through the Basic Network. In 2000, we paid R\$134.2 million in tariffs for the use of the Basic Network and received R\$44.6 million in tariff revenues for the use of our transmission network.

In June 2000, ANEEL also set R\$1,755.49/MW as the tariff that we and the other distribution companies pay to Furnas for the transportation of high-voltage energy from Itaipu.

Other Businesses

Telecommunications and Information Technology

Copel Telecomunicações. In March 1998, we were the first Brazilian electric power company to receive authorization from the Brazilian regulatory agency for the telecommunications sector, Agência Nacional de Telecomunicações – ANATEL (“ANATEL”), to provide certain limited specialized telecommunications services, including corporate telecommunications services and international long-distance services within the State of Paraná. We have also sought approval from ANATEL to expand our authorization so as to allow us to provide certain limited specialized telecommunications service throughout the country.

During 1999, we completed the first fiber optic backbone in Paraná, consisting of 2,400 km of optical fiber cables. We plan to install a total of 3,528 km that will reach 82% of the population of Paraná. Also during 2000, we installed over 720km of high capacity access cables in Paraná and began implementing our 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.

We began providing telecommunications services in August of 1998. We currently provide services to most of the telecommunications operators in Paraná. We also service chains, drugstores, schools, banks and other large corporate customers. As of December 2000, we offered telecommunications services to 98 customers.

Sercomtel. We own 45% of the voting stock of Sercomtel Telecomunicações S.A. and 45% of Sercomtel Celular S.A. (jointly, “Sercomtel”), which we purchased in May 1998 for a total of R\$247 million. Sercomtel holds concessions to provide fixed and mobile telephone services in the municipalities of Londrina and Tamarana in Paraná. We and Sercomtel are seeking operating synergies between our telecommunications and electric power operations. Sercomtel Telecomunicações S.A., the fixed-line operator, has approximately 154,400 installed phone lines, nine telephone stations, one public switch, 41 remote stations and 2,300 public telephones. Sercomtel has concessions from 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). As of December 2000, Sercomtel Celular S.A. had approximately 53,700 subscribers and 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 2000 was R\$9.8 million.

ONDA ISP (“ONDA”). We and Sercomtel each have a 50% interest in Companhia Nacional de Intervias (CNI), which has a 49% interest in ONDA, an internet service provider in Paraná making use of our fiber optic network and ATM and VPDN services. As of December 2000, ONDA had 37,000 customers in 23 municipalities of Paraná.

Water and Sewage

We own 15% of the stock of Dominó Holdings S.A., which in turn owns 39.7% of the voting stock of Companhia de Saneamento do Paraná – Sanepar (“Sanepar”). We and Sanepar are seeking operating synergies, focusing on video-based customer service, marketing, management of alternative collection agencies and metering and meter reading technology. Sanepar’s net income in 2000 was R\$136.5 million.

Gas

We are engaged in the distribution of refined gas through Companhia Paranaense de Gás – Compagás (“Compagás”), the company that holds the exclusive rights to supply piped gas in the state of Paraná. 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 2000, we owned 51% of the capital stock of Compagás. The minority shareholders of Compagás are Petrobras Distribuidora (an oil distribution company owned by Petrobras) and Dutopar (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 completion of the Southern stretch of the Bolivia-Brazil pipeline, Compagás put in place a gas distribution network in Paraná consisting of 239.3 kilometers of pipelines. During 2000, Compagás distributed 59,015 thousand cubic meters of natural gas and refined gas to thirty customers. In March 2001, Compagás began regular distribution through the Bolivia-Brazil pipeline. Compagás’s net loss during 2000 was R\$ 3.4 million.

Tradener

In July 1998, we entered into a joint venture with Logos Energia to form Tradener Ltda. (“Tradener”). 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 “–The Brazilian Electric Power Industry—Legal and Regulatory Matters—Competition.”

Itiquira Energética, an independent producer, has engaged Tradener to sell an average of 150 MW of power from the Itiquira plant to certain large electricity customers that meet the regulatory requirements to qualify as Unregulated Customers. The Itiquira plant is scheduled to begin operation in October 2001. Tradener received authorization from ANEEL to begin importing up to 150 MW of power from Bolivia by the end of 2001. Tradener is also negotiating the import of up to 3,000 MW of power from Argentina.

Tradener is currently offering energy made available by us to Unregulated Customers and other distribution companies. It has contracts to supply power to industrial buyers and contracts to sell power on behalf of independent producers. Tradener expects to sell a total of approximately 200MW of power.

Services

We own 40% of the share capital of ESCO Electric Ltda. (“ESCO”), a special purpose company that assists customers 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.

We provide consulting services in connection with electric power projects in Brazil and abroad. We are currently providing owner’s engineering services to Dona Francisca Energética S.A., owner of the Dona Francisca hydroelectric power plant, regarding design, environmental programs, civil works and equipment manufacturing and erection. We are also providing services to Campos Novos Hydroelectric Power Plant, related to the environmental programs and access roads. We are developing detailed design, planning, budgeting and construction management of Foz do Chopim Hydroelectric Power Plant.

We provide Compagás with engineering activities related to the implementation of the natural gas distribution network between Araucária, Ponta Grossa, Campo Largo, São José dos Pinhais and Curitiba. We are preparing for Compagás the environmental impact assessments in relation to four stretches of natural gas distribution network in the state of Paraná.

In November, 2000, we formed a joint venture called Copel-Agra S/C Ltda. to provide engineering services, ranging from the preparation of feasibility studies and environmental reports to full engineering, procurement and construction projects. We have a 48% interest in Copel-Agra, which started its operations in the first quarter of 2001. Our partners are Agra-Monenco, a Canadian company, and Lactec, a technology institute.

In September 1999, we formed a joint venture called Braspower International Engineering S/C Ltda. to offer technology relating to energy and infra-structure projects in the international market. During the first quarter of 2001, Braspower provided consulting services for the Project Shuibya in China and for the Project Lower Arun, in Nepal. Our partners are Engevix Engenharia and Intertechne Consultores.

Concessions

We operate under concessions granted by the Federal Government for our generation, transmission and distribution businesses. Currently our distribution and our transmission concessions will expire in July 2015 but, pursuant to the agreement, may be extended for another 20 years.

In June 1999, Brazilian authorities extended our concession for the generation plants as follows:

- for plants whose concession had officially expired, the concessions were extended for 20 years beginning July 1995; and
- for other plants whose terms have not expired, we will have the option to extend our concessions for 20 years when they expire.

Seasonality

There are no material seasonal variations in our business.

Competition

We have been granted concessions to generate and distribute electricity in an area comprising substantially all of the area of the state of Paraná and do 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 our existing customers at prices lower than those we currently charge. Distribution and transmission companies are required to permit the use of their lines and ancillary facilities for the distribution and transmission of electricity by other parties upon payment of a tariff. Tariffs are based on 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:

- existing customers with demand of at least 10 MW and supplied at voltage levels equal to or greater than 69 kV;
- new customers with demand of at least 3 MW at any voltage;
- groups of customers subject to agreement with the local distribution concessionaire;
- customers who do not receive supply for more than 180 days from a local distribution concessionaire; and
- existing customers with demand of at least 3 MW and supplied at voltage levels equal to or greater than 69 kV.

At December 31, 2000, we had 21 customers that will qualify as Unregulated Customers upon the expiration of their agreements with us. Such customers represented approximately 16% of our total volume of electricity sold to final customers in the month of December 2000, and approximately 7% of our total revenues for that month.

In the generation business, independent power producers (“IPPs”) may be granted concessions to build or manage generating facilities in Paraná. Further, certain customers 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 customer 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 our concession area, we may face significant competitive pressures to charge transmission rates below those we would otherwise be entitled to charge.

In addition, we may face competition in the distribution of energy to large industrial customers. New and our existing large customers now have several alternatives, including:

- installing their own lines directly from a generation company;
- paying a toll to a distribution and transmission company while arranging for a supply contract with a generation company;
- negotiating a contract with a distribution company; and
- self-generation.

We are 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 we do. Certain of our existing large customers have begun to make use of these alternative distribution channels.

Brazilian law requires that all of our concessions be subject to a competitive bidding process upon their expiration. We intend to apply for the extension of each concession upon its expiration. We 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 customers could adversely affect our results of operations.

Environment

Our construction and operation activities are subject to comprehensive federal, state and municipal environmental regulation. We have an advisory committee that is responsible for the implementation of our environmental policies through environmental impact studies and related programs. We believe that we are in substantial compliance with all relevant environmental regulation.

In March 2000, we created an Environmental Board which is formed by our executive officers, the Secretary of the State of Paraná for Environment and the President of the Commission for Environmental Affairs of the Parliament of the State of Paraná.

We are currently reviewing and updating our environmental policies. In this regard, our 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

Our principal properties consist of the generation, transmission and distribution facilities described in “—The Company—Business—Generation and Purchasers of Energy” and “—Business—Transmission and Distribution.” Of the net book value of our total property, plant and equipment at December 31, 2000 (including construction in progress), generation facilities represented 57.5%, transmission and distribution facilities represented 38.9% and administrative property and equipment represented 3.6%. We believe that our facilities generally are adequate for our present needs and suitable for their intended purposes.

Although we receive concessions from the Federal Government to construct hydroelectric projects, we do not receive title to the land on which the projects are located. Land required for the implementation of our projects may only be condemned pursuant to specific legislation. We generally negotiate with communities and individual owners occupying the land so as to resettle such communities in other areas and to compensate individual owners. Our policy of resettlement and compensation generally has resulted in the settlement of condemnation disputes. At December 31, 2000, we estimated our reimbursement liability with respect to properties condemned to be approximately R\$11.3 million.

Insurance

We maintain insurance for fire, accidents involving third parties and certain other risks associated with the transportation and assembly of equipment. We do not have insurance coverage for business interruption risk because we do not believe that the high premiums are justified by the low risk of major interruption, considering the energy available in the ICPS. We believe that we maintain insurance that is both customary in Brazil and adequate for the businesses in which we are engaged.

THE BRAZILIAN ELECTRIC POWER INDUSTRY

Brazil has an installed capacity of 67.7 GW of which approximately 88.3% is hydroelectric. The installed capacity includes half the installed capacity of Itaipu. 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 109.4 GW by 2009, of which 27.1 GW is projected to be thermoelectric, 80.1 GW is projected to be hydroelectric, 2.0 GW is projected to be imported through the Interconnected Power System with Argentina and 0.2 GW is projected to be imported through Interconnected Power System with Venezuela. There are approximately 198,842 kilometers of transmission lines in Brazil.

Eletrobrás, a company controlled by the Brazilian government, operates approximately 60% of Brazil’s installed generating capacity and 64% of Brazil’s high voltage transmission lines. 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 and Eletrosul. Eletrobrás also controls Eletrobrás Termonuclear S.A. – Eletronuclear. 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 the Company.”

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 we operate.

Regulatory Agencies

The principal regulatory authority for the Brazilian electric power industry is ANEEL, which was created on December 26, 1996. ANEEL has responsibility for:

- acting on applications for concessions for electricity generation, transmission and distribution;
- reviewing applications for rate-setting;
- supervising and auditing the activities of electricity concessionaires;
- issuing regulations for the electricity sector; and
- planning, coordinating and executing water resource studies.

In August 1997, the National Council of Energy Policy was created to advise the President of Brazil on the formulation of energy policy in order to:

- promote the rational use of Brazilian energy resources;
- assure the supply of energy to remote areas of the country; and
- establish rules regulating the use of natural gas, alcohol, coal and thermonuclear energy.

In 1998, two new institutions were created:

- 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
- the National System Operator (“NSO”), a not-for-profit entity created to coordinate and control the generation and transmission operations in the connected system, subject to ANEEL’s supervision. 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 April 2001, ANEEL:

- created the Board of the Wholesale Energy Market which is composed of individuals from the public and the private sectors and is responsible for submitting changes to the wholesale energy market rules to ANEEL and for settling disputes between market participants;
- designated the Wholesale Energy Market Service Administrator as the body responsible for administering the Wholesale Energy Market; and
- defined the guarantees that may be provided by Wholesale Energy Market participants for the acquisition of energy and the penalties that may be imposed on market participants that violate the rules of the Wholesale Energy Market.

Rates

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

- 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
- 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 monthly adjustments in rates to take account of inflation.

Beginning in December 1993, however, the Federal Government introduced the *Real Plan*, which suspended the automatic monthly 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.

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:

- costs of electricity purchased for resale under Initial Supply Contracts and from Itaipu;
- costs of electricity purchased under bilateral agreements that are freely negotiated between the parties;
- 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
- 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. To ensure moderate tariff levels and stimulate efficient energy purchases, ANEEL has imposed limits on the prices for energy purchases that distribution companies can pass on to the final customers. In accordance with ANEEL regulations, the calculation of the cost of electricity purchased for resale that can be passed on to the customers shall take into consideration:

- the amount of energy acquired;
- the average prices of the energy acquired; and
- the amounts related to the use and connection to the transmission and distribution systems to which such energy is related, in each case by means of the Initial Supply Contracts and the new agreements negotiated through the Wholesale Energy Market.

All our tariffs are subject to limits imposed by ANEEL. Our tariffs are also reviewed every four years in accordance with a productivity factor. We increased our rates to final customers (retail) and distributors (wholesale) by 15.43% on June 24, 2000 and by 17.31% on June 24, 2001. On September 1, 2000, we also increased our rates for Initial Supply Contracts by 17.7%. In 1999, we increased our rates to final customers by 12.65% (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; the temporary increase expired in June 2000 but the resulting reduction was offset in part by passing on to customers a 1% increase in the COFINS rate that had taken effect in January 2000. In September 1999, we increased by 11.35% the rate charged for Initial Supply Contracts.

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

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 currently establishes the participation limits on companies carrying out activities in the electric power sector of Brazil. Under these limits, the installed capacity of a company in this sector cannot exceed:

- 25% of the electric system for the south, southeast and central-west regions;
- 35% of the electric system for the north and northeast regions; and
- 20% of Brazil's electric system.

Companies that do not conform to such limits cannot acquire new shares in or assets from companies of the power sector, if such purchase were to increase their percentage of participation in the installed capacity, distributed energy, and final and intermediate commercialization.

In the interconnected national system, a distribution company may only provide its customers with up to 30% of their commercialized energy usage through electric energy acquired from affiliated companies or energy it has produced.

However, these limits do not apply to the energy amounts associated to the Initial Supply Contracts or to the energy which comes from small hydroelectric plants, alternate generation sources and co-generating plants, as qualified by ANEEL. Up to 2012 the amount of electric energy produced in thermoelectric plants which begin operations in 2001 or 2002 will not be considered in the self-supply limit of distribution companies. Also, up to 2012 the amount of electric energy produced by hydroelectric plants whose operations, according to specific granting acts of ANEEL, should happen after December 31, 2002, but are anticipated to 2001 or 2002, will not be considered in the self-supply limits of distribution companies either.

In May 1998, the Federal Government established the Wholesale Energy Market, instituted by the Market Agreement. The following entities are required to participate in the Wholesale Energy Market:

- generation companies with installed capacity of 50 MW or more;

- distribution and retail companies with annual sales of 300 GWh/year or more; and
- companies that import or export 50 MW or more of electricity.

Other generation, distribution and import/export companies and holders of authorizations for self-production that meet certain regulatory requirements are permitted to participate in the market on a voluntary basis.

During the transition period (1998-2005), purchases and sales of energy in the Wholesale Energy Market will occur pursuant to Initial Supply Contracts that specify contract prices and volumes approved by ANEEL and to Bilateral Agreements. These contractual arrangements replace the former system of supply contracts under the Interconnected Power System. 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 market prices. ANEEL has established the quantities and voltages to be supplied under Initial Supply Contracts in 2001 and 2002.

From 2003 to 2005, the electricity to be committed to Initial Supply Contracts will be reduced by 25% each year. 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 Initial Supply Contracts and surplus energy will be traded directly on the spot market. The rules governing 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 provided for the establishment of “authorized free market retailers” (*agentes comercializadores*). Authorized free market retailers may include, among others, 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, was authorized by ANEEL in November of 1998. Tradener is currently offering power provided by us to Unregulated Customers and distribution utilities and has signed contracts to purchase power from two other significant producers.

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 IPP or a self-producer requires a concession only if the project will have in excess of 30 MW of installed capacity. Simplified procedures apply to all other cases, including thermoelectric plants.

Energy Crisis

Brazil is experiencing a severe shortage of capacity to generate electrical energy. The crisis is largely due to a lack of investment in power generation and to drought conditions throughout much of the country which have caused water levels at hydroelectric plants to fall to less than one-third of capacity.

In order to avoid the possibility of rolling blackouts, in May 2001 the Brazilian government announced measures aimed at the reduction of electricity consumption in the southeast, central-western and northeastern regions of Brazil. These measures do not currently affect the state of Paraná. The Brazilian government also created the Chamber for Administration of the Electric Energy Crisis (“GCE”) which is responsible for the implementation of emergency measures aimed at reducing the electricity consumption.

GCE has the authority to:

- regulate and administrate the Emergency Program for Electric Energy Consumption;
- establish limits for the use and supply of energy;
- establish compulsory measures for the reduction of electricity consumption and the suspension or interruption of energy supply; and
- determine the implementation of rationing and individual or collective suspension of energy supply.

The emergency measures published by GCE have provided for reduced energy consumption targets for residential, commercial and industrial customers situated in the affected regions through the introduction of special tariff regimes aimed at reducing energy consumption that are described below.

- For residential customers, targets have been fixed as follows:
 - for those whose monthly average is equal to or below 100 (one hundred) kWh, no reduction has been imposed; and
 - for those whose monthly average exceeds 100 (one hundred) kWh, energy consumption must decrease 20% (twenty per cent) with respect to the average or monthly consumption perceived in the months of May, June and July of the year 2000.

As of June 4, 2001, the tariff established by ANEEL for these residential customers will be increased:

- by 50% for the portion of the monthly consumption which exceeds 200kWh but remains below or equal to 500kWh; and
- by 200% for the portion of the monthly consumption which exceeds 500kWh.

- Certain commercial, industrial and other non-residential customers in the services and other activities sectors must observe, in general, a consumption target of 80% of the average monthly consumption verified in the months of May, June and July of the year 2000. Other specific segments, such as hospitals, governmental entities, and food, beverage, clothing, leather, shoes, automobiles and autoparts producers are subject to different electricity consumption reduction targets. Customers whose monthly consumption falls below the pre-established target may accumulate the balance in kWh for future use, or the distribution companies may acquire such below-target portions through auctions to be regulated by GCE. On the other hand, customers who exceed their targets must acquire such portions from the distribution companies at the Wholesale Energy Market prices or compensate such amounts from their accumulated kWh balances. In addition, customers who do not observe the target will be subject to suspension in the energy supply if compensation is not possible.
- Rural customers must observe a target consumption equal to 90% of the monthly average consumption perceived in May, June and July of 2000.

Customers that do not meet their target may be subject to suspension in the energy supply.

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 IPP 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 customers 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 Eletrosul (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 20 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 a fee requiring public-sector electricity companies to make monthly contributions to the RGR Fund at an annual rate equal to 2.5% of its fixed assets in service, not to exceed 3% of total operating revenues in any year. 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 Fund. 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 must 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 must 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.

We were 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 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 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 National System for Management of Hydro Resources and the National Council of Hydro Resources to address the major environmental issues facing the hydroelectric sector and the users of hydro resources. In July 2000, the Federal Government created an independent agency, the National Water Agency, to 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.

Item 5. Operating and Financial Review and Prospects.

You should read this discussion in conjunction with our Financial Statements and the notes thereto and other financial information included elsewhere in this registration statement.

Overview

Brazilian Economic Conditions

At the end of 1997, in the aftermath of a financial crisis in Asia, Brazil experienced the beginning of an economic crisis brought about by capital flight, pressure on the Brazilian currency and increased annual interest rates. Before the economy could fully recover from the crisis, Russia devalued its currency in August of 1998, and the Brazilian economy deteriorated further as a result of renewed capital flight.

The Brazilian government's measures to mitigate the crisis were unsuccessful, and continued pressure on the currency led the government to devalue the *real* in January of 1999. The *real* was devalued by 46.4% against the U.S. dollar during the first half of 1999, and by 48.0% for the year as a whole. The Central Bank raised base interest rates, to a high of approximately 45% in March 1999.

The second half of 1999 brought some improvement in Brazil's economic situation. Base interest rates decreased to approximately 19% in December 1999, and the *real* devalued by 1.1% against the U.S. dollar during the second half of 1999, compared to 46.4% during the first half of the year. Inflation for the year as measured by the IGP-DI was 20.0%.

The year 2000 saw additional improvement in the economy. The real gross domestic product grew 4.5% during the period and the value of the *real* remained stable. Inflation fell to 9.8% for the period, down from 20.0% in 1999, as measured by the IGP-DI. The Central Bank gradually reduced base interest rates to 16.5% at December 31, 2000. Because of economic uncertainties, the Central Bank gradually increased the base interest rate during the first half of 2001. The base interest rate was 18.25% at June 27, 2001.

The following table shows Brazilian inflation as measured by the IGP-DI, devaluation of the *real* against the U.S. dollar and the period-end exchange rates and average exchange rates for the periods indicated:

	Year ended December 31,		
	2000	1999	1998
	(in R\$, except percentages)		
Inflation (IGP-DI).....	9.8%	20.0%	1.7%
Devaluation of the <i>real</i> vs. dollar.....	9.3%	48.0%	8.3%
Period-end exchange rate—U.S.\$1.00(1).....	R\$1.9554	R\$1.7890	R\$1.2087
Average exchange rate—U.S.\$1.00(2).....	R\$1.8348	R\$1.8514	R\$1.1644

(1) The real/U.S. dollar exchange rate at June 27, 2001, was R\$2.326 to US\$1.00.

(2) The average exchange rate is the sum of the closing exchange rates at the end of each month in the period divided by the number of months in the period.

Sources: FGV-Fundação Getúlio Vargas and the Central Bank.

The following table shows the change in real GDP and average interbank interest rates for the periods indicated:

	Year ended December 31,		
	2000	1999	1998
Change in real GDP(1)	4.5%	0.8%	(0.1)%
Average base interest rates(2).....	17.5%	19.0	29.2
Average interbank interest rates(3).....	17.3%	18.8%	29.0%

(1) Calculated by dividing the real GDP of a period by the real GDP of the same period in the previous year.

(2) Calculated in accordance with Central Bank methodology.

(3) Nominal rate. Calculated in accordance with the methodology used by the Central Clearing and Custody House (CETIP) and the National Association of Open-Market Institutions (ANDIMA).

Sources: The Central Bank, the Brazilian Geography and Statistics Institute (IBGE) and CETIP.

Rates

Our results of operations have in the past been significantly affected by fluctuations in the allowable levels of rates we charged for sales 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 we charge for generation and distribution of electricity. See “Description of Business—Legal and Regulatory Matters—Rates.”

We increased our rates to final customers (retail) and distributors (wholesale) by 15.43% on June 24, 2000 and by 17.31% on June 24, 2001. On September 1, 2000, we also increased our rates for Initial Supply Contracts by 17.7%. In 1999, we increased our rates to final customers by 12.65% (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; the temporary increase expired in June 2000 but the resulting reduction was offset in part by passing on to customers a 1% increase in the COFINS rate that had taken effect in January 2000. In September 1999, we increased by 11.35% the rate charged for Initial Supply Contracts.

Analysis of Electricity Sales and Cost of Electricity Purchased

We bill for the electricity we sell and pay for the electricity we purchase on the basis of an “energy charge” and, in the case of our 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 (1) contracted firm capacity and (2) 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 1996 to 2000.

	Year ended December 31,				
	2000	1999	1998	1997	1996
Electricity Sales:					
Sales to final customers:					
Average price (R\$/MWh):(1)					
Industrial customers	94.65	102.70	107.80	112.41	114.95
Residential customers	215.33	217.34	224.90	214.81	198.74
Commercial customers	177.84	180.34	192.77	192.90	197.68
Rural and other customers(2).....	109.32	110.46	114.22	115.95	113.31
Public service customers	104.94	105.61	112.06	115.04	116.49
All customers	139.36	147.08	154.36	153.37	150.17
Volume (GWh):					
Industrial customers	7,848	6,334	5,932	5,641	5,365
Residential customers	4,447	4,306	4,185	3,949	3,780
Commercial customers	2,563	2,384	2,268	2,111	1,949
Rural and other customers(2).....	2,266	2,187	2,141	2,073	1,968
Public service customers	505	496	480	456	441
All customers	17,629	15,707	15,006	14,230	13,503
Total revenues (thousands of constant R\$)....	2,456,932	2,310,257	2,316,145	2,182,520	2,027,712
Sales to distributors and others:					
Average price (R\$/MWh)(1)	35.75	23.09	11.37	20.54	14.89
Volume (GWh)	5,019	7,172	6,587	5,245	8,996
Total revenues (thousands of constant R\$)....	179,451	165,610	74,858	107,746	133,920
Electricity Purchases:					
Purchases from Itaipu:					
Average cost (R\$/MWh)(3)	51.19	58.08	42.33	45.28	47.20
Volume (GWh)	5,546	5,375	5,295	5,408	4,976
Percentage of total Itaipu production purchased.....	5.9	6.0	6.0	6.1	6.1
Total cost (thousands of constant R\$)(4)	283,923	312,176	224,155	244,876	234,861
Purchases from others:					
Average cost (R\$/MWh)(3)	11.83	51.64	22.48	187.65	50.29
Volume (GWh)	1,900	419	27	12	9
Total cost (thousands of constant R\$)(4)	22,480	21,636	598	2,165	431

(1) Rates for electricity sales and purchases are stated in constant *reais* and have been computed by dividing (1) the corresponding sales or purchases without deduction of ICMS Tax by (2) MWh of electricity sold or purchased.

(2) Includes rural customers, street lighting, government agencies and our own consumption.

(3) Our 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 "Item 4. Information on the Company—The Company—Purchases" for an explanation of our 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. Where the tariffs set by the Federal Government resulted in a minimum real return below the required 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 “Item 4. Information on the Company—The Brazilian Electric Power Industry—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. After offsetting all amounts owed to the Federal Government and to federal financial institutions to the extent permitted by law, in August 1994 we assigned the remainder of our CRC Account balance, equal to R\$808.1 million, to the State of Paraná pursuant to an assignment agreement (the “CRC Account Agreement”), which has subsequently been renegotiated on several occasions. In October 1997, we and the State of Paraná 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 March 30, 2025. Pursuant to the terms of the CRC Account Agreement, if the State of Paraná fails to make payments on a timely basis, we may, after notifying the State of Paraná, withhold dividends payable to the State of Paraná, and we will have a lien on certain amounts deposited by the State of Paraná 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\$567.7 million in 2000 and R\$579.3 million in 1999 and R\$670.1 million in 1998. Special liabilities reflects contributions to us by certain residential, rural and industrial customers to enable us to provide service to such customers in cases where, in the absence of such contributions, we 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, 2000 and 1999

Operating Revenues

Our net operating revenues increased by 11.0% in 2000. The increase was primarily due to higher revenues from sales to final customers, particularly industrial customers, and to growth in revenues from use of our network for data transmission.

Electricity Sales to Final Customers. Our revenues from electricity sales to final customers increased by 6.3% in 2000 due to growth in the volume of energy sold, as prices generally declined in real terms. The increase was due to increases in revenues from residential, industrial and commercial customers. Revenues from public services, rural customers and other customers (12.2% of total revenues from sales to final customers) increased 2.3% due to higher consumption.

Industrial. Revenues from sales to industrial customers increased by 14.2%, from R\$650.5 million in 1999 to R\$742.8 million in 2000. The increase was primarily due to sales to free customers, which began in November 1999 as a result of regulatory changes permitting us to sell to out-of-state customers. Sales to free customers represented 6.1% of total industrial sales revenues in 2000. Revenues from other industrial customers increased by 8.0% from R\$645.5 in 1999 to R\$697.1 in 2000, due to a 10% increase in consumption primarily driven by economic growth. Nominal tariff increases in 2000 were more than offset by the effect of inflation on real rates, resulting in an 8% reduction in average tariff in 2000.

Residential. Revenues from sales to residential customers increased by 2.3%, from R\$935.9 million in 1999 to R\$957.6 million in 2000. The increase was primarily due to a 3.3% increase in consumption, which resulted mainly from a 3.1% increase in the number of customers (2.23 million at December 31, 2000, compared to 2.16 million at December 31, 1999). Tariffs increased in nominal terms by 15.43% in June 2000 and 12.65% in 1999 (9.37% in June, 1.64% in July and 1.64% in August), but the increase in nominal rates was more than offset by the effect of inflation on real rates, resulting in a 1% reduction in average tariff in 2000.

Commercial. Revenues from sales to commercial customers increased by 6.0%, from R\$429.8 million in 1999 to R\$455.7 million in 2000. The increase was due to a 7.5% increase in consumption, which resulted in part from a 2.7% increase in the number of customers and in part from higher consumption driven by economic growth. Nominal tariff increases in 2000 were more than offset by the effect of inflation on real rates, resulting in a 1% reduction in average tariff in 2000.

Taxes on Sales Revenues. Revenues from sales include certain taxes collected from customers, which are deducted in arriving at net operating revenues. As a percentage of gross operating revenues, these taxes were 24.0% in 2000 and 25.7% in 1999. The decrease in such taxes was due to the increase in sales to Unregulated Customers and Low Income Residential Customers, which are not subject to value-added taxes. During 2000, we also reclassified certain services as nontaxable for purposes of the state value-added tax, resulting in a tax credit in the income statement for the current year. The decrease in such taxes was partially offset because in 2000 we began paying taxes on services related to other revenues such as consulting services. Because different services are subject to different taxes and rates, the aggregate rates varies from year to year with the change in the mix of our revenues.

Electricity Sales to Distributors. Revenues from electricity sales to distributors increased by 8.4% in 2000. The composition of our sales to distributors changed significantly in 2000, as a result of regulatory changes that permitted us to phase out sales to the ICPS in favor of sales in the Wholesale Energy Market and, to shift part of our sales from Initial Supply Contracts, which are subjected to regulated rates, to Bilateral Agreements in the Wholesale Energy Market at negotiated market prices. For further information on changes in the Brazilian regulatory framework, see “Item 4. Information on the Company — The Brazilian Electric Power Industry.” Nominal rate increases in 2000 were partially offset by the effect of inflation on real rates.

As a result of these changes, in 2000 we sold 30.0% less energy to distributors, but the average real price was R\$35.75 per MWh, compared to R\$23.09 in 1999. Sales in the Wholesale Energy Market (R\$112.8 million) accounted for 62.9% of our 2000 revenues from sales to distributors, while they were not material in 1999. Because of problems with the Wholesale Energy Market clearing system from September to December 2000, participants in the Wholesale Energy Market did not receive invoices in connection with sales and purchases during this period. As a result, we recognized R\$25 million in 2000 for estimated net revenues (net of costs of energy purchased in the Wholesale Energy Market) during this period. Revenues from sales under Initial Supply Contracts decreased 57.8% to R\$51.7 million in 2000 from R\$122.6 million in 1999. We had no sales to the ICPS in 2000, compared to R\$27.0 million in 1999. Revenues from sales to distributors in the state of Paraná decreased by 6.6% to R\$15 million in 2000 from R\$16.0 million in 1999.

Use of Transmission Plant. Revenues from the use of our transmission plant increased by 3.8% in 2000. The increase was primarily due to the completion of five new substations, the upgrading of 30 existing substations and the expansion of our transmission system, which together provided increased access to our transmission plant.

Other Revenues. Other revenues increased by 92.0% in 2000. The increase was primarily due to increases in revenues from use of our fiber optic network and other facilities for data transmission.

Operating Expenses

Total operating expenses increased by 1.0% in 2000, primarily due to the increase in depreciation and amortization expenses, pension costs and regulatory charges such as the fuel usage quota, which were partially offset by a decrease in the cost of electricity purchased for resale and lower personnel costs.

Electricity purchased for resale. Expenses to purchase electricity for resale decreased by 8.2% in 2000. For energy purchased from Itaipu, the effect of increased volume was more than offset by lower prices due to the effect of inflation. The volume of energy purchased from other sources increased by 353% in 2000 due to changes in the regulatory framework which allowed for purchases of energy on the Wholesale Energy Market. Because of problems with the Wholesale Energy Market clearing system certain expenses for the purchase of energy on the Wholesale Energy Market have not been accounted for and have been provisioned on a net basis as a portion of sales revenues from sales to final customers.

Use of transmission plant. Expenses for use of transmission plant increased by 1% in 2000. The increase was due to the 13.5% increase in Itaipu's power transportation tariff and the 14.7% increase in the ICPS's power transportation tariff, which were largely offset by the effect of inflation on real rates.

Depreciation and amortization. Depreciation expenses increased by 4.5% in 2000, primarily due to the increase in property, plant and equipment resulting from the completion of new facilities, including the Bateias, Campo do Assobio and Foz do Chopim substations.

Personnel. Personnel expenses decreased by 10.7% in 2000. The decrease was primarily due to the 5.9% decrease in the number of employees (6,148 employees at December 31, 2000, compared to 6,536 employees at December 31, 1999), and the decrease in average wages, as the effects of inflation on real wages offset annual wage increases.

Regulatory Charges. Regulatory charges increased by 52.8% in 2000 primarily due to a 101.2% increase in expenses for the fuel usage quota, which is computed by ANEEL and charged to all hydroelectric distributors in order to subsidize thermoelectric production costs during periods of poor hydroelectric generation. The increase in the quota in 2000 reflected the low generation capacity of hydroelectric plants as a result of the deterioration of hydrological conditions in 2000. Fees due to the RGR fund, which are computed by ANEEL and charged to all hydroelectric distributors, increased by 14.9% from R\$50.0 in 1999 to R\$57.4 in 2000.

Third-Party Services. Expenses for third-party services, consisting primarily of miscellaneous expenses, such as technical consulting fees, maintenance services and travel expenses, decreased by 3.2% from R\$110.6 million in 1999 to R\$107.1 million in 2000.

Pension and other benefits. Pension and other benefits increased by 91.4% in 2000 from 1999, primarily because of the favorable impact in 1999 of reversing a R\$14.4 million provision for underfunding of the pension plan related to 1998.

Other Expenses. Other expenses decreased by 17% in 2000 from 1999. Other expenses in 1999 reflected a provision for tax contingencies related to a government audit of social security contributions.

Operating Income

As a result of revenue growth, our operating income increased by 52.1% in 2000.

Equity in Results of Investees

We had equity of R\$2.5 million in net income of affiliates in 2000, compared to equity of R\$4.4 million in 1999. The amounts in both periods were primarily attributable to Sercomtel, which were partially offset by losses by Compagás and CNI.

Other Income (Expenses)

Other income decreased by 76.9% in 2000. The decrease was primarily due to the reduction of financial income which was partially offset by an increase in non-operating income.

Financial Income (Expense), Net. Net financial income decreased by 50.4% in 2000 from 1999 as result of lower income on treasury investments and long-term receivables and the reduction in inflationary gains on our obligations to our pension fund, which was partly offset by lower interest on loans and financing.

Income on temporary cash investments. Income on treasury investments decreased by 28.3%, from R\$24.4 million in 1999 to R\$17.5 million in 2000. The decrease was primarily due to a reduction in the average cash balances invested in 2000.

Charges on long-term receivables. Income from charges on long-term receivables decreased by 17.5% from R\$65.6 million in 1999 to R\$54.1 million in 2000. The decrease was primarily due to the settlement of a receivable from the State of Paraná related to anticipated state value-added tax in August 2000.

Interest on loans and financing. Interest on loans and financing decreased by 5.1%, from R\$69.1 million in 1999 to R\$65.6 million in 2000. The decrease was due to an 11.1% reduction in outstanding loans and financing in 2000

Monetary and exchange variations, gains and losses and other. Monetary and exchange variation, gains and losses and other decreased by 65.5% from R\$47.4 million in 1999 to R\$16.4 million in 2000 due to the reduction of inflation in 2000 and the consequent reduction in inflationary gains on our obligations to our pension fund.

Non-operating Income (Expense). We had net non-operating expense of R\$28.7 million in 2000, compared with R\$25.1 million in 1999. The increase was primarily due to increased losses on disposal and retirement of fixed assets, partially offset by a gain arising from the settlement of federal taxes through the Tax Recovery Program (REFIS). See Note 33 to the Financial Statements.

Income Tax

The provision for income tax and social contributions increased by 20.5% in 2000. This increase was primarily due to an increase of 33.1% in pretax income, offset in part by a reduction in tax rate from 37% in 1999 to 34% in 2000 and by the increase in tax gain on deductible interest on capital paid to shareholders.

Employee Participation

In 1996, we adopted an employee profit sharing plan in which employees are entitled to participate in net profits in years when ratio of net profits to shareholders' equity is at least 6.0% and according to certain criteria negotiated with our employees. In 2000, we allocated R\$20.0 million for distribution among its employees in respect of 2000 profits as compared with R\$11.0 million in 1999, reflecting higher net income in 2000.

Net income

As a result of the foregoing factors, our net income increased by 35.8% in 2000 from 1999.

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

Operating Revenues

Our net operating revenues increased by 1.4% in 1999. The increase in electricity sales to distributors and in the revenues received from third parties for use of our transmission facilities, were largely offset by an increase in taxes on sales to final customers, which are deducted in arriving at net operating revenues.

Electricity Sales to Final Customers. Our revenues from electricity sales to final customers decreased 0.3% in 1999 due to a decrease in revenues from residential, commercial and other customers, which was almost entirely offset by an increase in revenues from industrial customers.

Industrial. Revenues from sales to industrial customers increased by 1.7% from R\$639.5 million in 1998 to R\$650.5 million in 1999 due to a 6.8% increase in consumption primarily driven by economic growth. This increase was almost entirely offset by the effect of inflation on real rates which exceeded the increase on nominal rates.

Residential. Revenues from sales to residential customers decreased by 0.6% from R\$941.1 million in 1998 to R\$935.9 million in 1999. Average prices were lower in constant real terms because the rate of inflation exceeded the increase in nominal rates. This decrease was almost entirely offset by a 2.9% increase in consumption.

Commercial. Revenues from sales to commercial customers decreased by 1.7% from R\$437.3 million in 1998 to R\$429.8 million in 1999. Average prices were lower in constant real terms because the rate of inflation exceeded the increase in nominal rates. This decrease was almost entirely offset by a 5.1% increase in consumption.

Taxes on Sales to Final Customers. The amount of the deduction in net operating revenues increased by 15.6% in 1999, primarily because of a change concerning the social contribution tax known as COFINS. We had disputed the application of COFINS to our revenues. We 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\$1,652.7 million in 1999 from R\$1,747.4 million in 1998.

Electricity Sales to Distributors. Revenues from electricity sales to distributors and the ICPS increased by 121.2% in 1999, primarily because of a change in the mix of sales because of changes to the

regulatory framework. The total volume sold increased by 8.9%, but we sold 346.6% more electricity to independent distributors under Initial Supply Contracts and sold 31.7% 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. Revenues from the use of our transmission plant increased by 152.2% in 1999 due to the fact that we did not begin charging other parties for use of our transmission plant until September 1998.

Other Revenues. Other revenues increased by 21.7% in 1999, 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% in 1999, 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% in 1999. 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. We began to pay for the use of other utilities' transmission plants in September 1998, resulting in R\$69.1 million of expense in 1998 and R\$132.9 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% in 1999, 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 13% in 1999. 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% in 1999, 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 "Item 4. Information on the Company—The Brazilian Electric Power Industry—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% in 1999.

Pension and Other Benefits. Expenses for pension and other benefits decreased by 89% in 1999. In 1998, we changed from a defined benefit plan to a defined contribution pension plan, and our current

contributions to the pension plan decreased from R\$35.1 million in 1998 to R\$22.0 million in 1999 as a result of the change. In addition, we agreed in connection with the change to pay R\$616.9 million to the plan over a period of 20 years, of which we recognized R\$27.0 million in the income statement for 1998 and charged the balance to shareholders' equity. We also provisioned R\$14.4 million in 1998 for underfunding of the plan, which we reversed in 1999 when the performance of plan assets resulted in overfunding.

Other Expenses. Other expenses increased by 106.9% in 1999 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, our operating income decreased by 15.2% in 1999.

Equity in Results of Investees

We had equity of R\$4.4 million in net income of affiliates in 1999, compared to equity of R\$11.4 million in net loss in 1998. The amounts in both periods were primarily attributable to Sercomtel. See Note 13 to the Financial Statements.

Other Income (Expense)

Other income decreased by 70.5% in 1999. 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% in 1999, primarily as a result of (1) 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, (2) higher interest rates on loans and financing because of the devaluation and (3) inflationary gain on obligations to the pension fund. See Note 26 to the Financial Statements.

Non-operating Income (Expense), Net. We had net non-operating expense of R\$25.0 million in 1999, compared with net non-operating income of R\$68.2 million in 1998. In 1998, we recognized R\$118.3 million upon the reversal of a provision for the social contribution tax COFINS, when a court held that the tax was inapplicable to us. See Notes 19 and 27 to the Financial Statements.

Income Tax

The provision for income tax and social contributions decreased by 9.9% in 1999. 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, we 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 shareholders' equity is at least 6.0% and according to certain criteria negotiated with our employees. In 1999, we allocated R\$11.0 million for

distribution among its employees in respect of 1999 profits as compared with R\$18.4 million in 1998, reflecting lower net income in 1999.

Net Income

As a result of the foregoing factors, our net income decreased by 35.9% in 1999.

Liquidity and Capital Resources

Our business is capital intensive. Our principal capital requirements historically have been to finance the expansion and upgrading of our electricity distribution and transmission system and to finance the expansion of our generation business. Capital expenditures for property, plant and equipment were R\$408.0 million in 2000, R\$788.3 million in 1999 and R\$1,012.2 million in 1998. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,		
	2000	1999	1998
Generation:			
Salto Caxias.....	70.6	387.3	577.7
Segredo	72.9	—	—
Other.....	14.5	5.5	39.3
Transmission.....	89.9	218.5	189.2
Distribution.....	116.5	144.4	158.7
Other.....	43.6	32.6	47.3
Total.....	<u>408.0</u>	<u>788.3</u>	<u>1,012.2</u>

(1) In constant *reais* of December 31, 2000.

We plan to make capital expenditures aggregating approximately R\$349 million in 2001, as part of our R\$938 million capital expenditure program for the years 2001 through 2003. Of total budgeted capital expenditures over this period, R\$72 million is for generation, R\$261 million is for transmission, R\$330 million is for distribution, R\$29 million is for telecommunications businesses, R\$12 million is for information technology and R\$234 million is for our investees and investments in new projects.

Historically, we have financed our liquidity and capital requirements primarily with cash provided by our operations and, to a lesser extent, through external financing. Our principal source of funds in 2000 funds was our operating activities. In 2000, net cash provided by operating activities was R\$717.7 million, compared to R\$882.7 million in 1999.

We expect our operating cash flow to be sufficient to finance nearly all of the R\$349 million we project to spend in 2001, with any remainder being financed by borrowings. Our ability to generate cash sufficient to meet our planned expenditures is dependent upon a variety of factors, including our ability 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, we 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.

Like other State-owned companies, we are subject to restrictions under resolutions of the National Monetary Council on our ability to obtain financing from domestic and international sources. These

restrictions could limit our ability to access external sources of funding if our internally-generated funds are insufficient to meet our budgeted capital expenditures.

Total debt outstanding at December 31, 2000 was R\$1,379.8 million. Approximately R\$608.2 million of the total debt outstanding at December 31, 2000 was denominated in, or indexed to, the U.S. dollar, R\$38.7 million was denominated in Japanese yen and R\$186.7 million was indexed to a basket of foreign currencies.

In May 1997, we issued US\$150 million of 9.75% Notes due 2005. Holders have the option to require us to redeem the Notes at 99.09% of their face value in May 2002. We are unable to predict what proportion of the Bonds holders will require us to redeem. In addition, our proposed privatization may, depending on how it is structured, constitute an event of default permitting acceleration of the Notes if the State of Paraná ceases to own at least 51% of our voting capital. We are considering a variety of alternatives to address the possible exercise of the put option and the possibility that the privatization will give rise to acceleration of the Notes.

Research and Development

We continue to work closely with the Federal University of Paraná in various research and development projects, including projects carried out at the Centro de Hidráulica e Hidrologia Professor Parigot de Souza – 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 2000, CEHPAR performed studies in respect of the following plants: Itabebi Power Plant (river diversion), Machadinho (analysis of the pressure on the spillway steps); Dona Francisca Hydroelectric Power Plant (analysis of the river diversion), Mascarenhas Power Plant (calculation of flow loss) and Salto Caxias Power Plant (studies about the quality of water).

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 our reservoirs, development of electricity price structure models and management of our hydrological information system.

We hold 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 us and providing certain other technical services in the fields of electronics, mechanics, materials and chemistry. We and LACTEC have been working to carry out power utilization studies and improve the efficiency of public lighting in the states of Paraná and Rio Grande do Sul. It has also developed systems to monitor outages in the states of Mato Grosso and Paraná. It has analyzed for Renault the emission of gases by motors and vehicles and for Johnson Matthey the performance of catalytic converters in terms of emissions of gases. We 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 our construction projects, including studies of roller compacted concrete and another new technologies. During 2000, LAME analyzed the quality of the roller compacted concrete used in the Dona Francisca Power Plant. LAME is subject to the supervision of LACTEC.

In 2000, we invested R\$23.3 million in research and development activities, against R\$8.8 million in 1999 and R\$4.6 million in 1998.

Item 6. Directors, Senior Management and Employees

The Registrant is managed by:

- a Board of Directors, which consists of seven to nine members; and
- a Board of Executive Officers, which consists of seven members

Board of Directors

The Registrant's Board of Directors ordinarily meets once every three months and is responsible for:

- establishing the Registrant's corporate strategy;
- defining the general orientation of the Registrant's business; and
- electing, supervising and monitoring the Board of Executive Officers.

The members of the Board of Directors are elected to serve for two-year terms and may be reelected. Of the nine members of the Board of Directors:

- eight are elected by the holders of the Common Shares; and
- one is elected by the Registrant's employees.

The State of Paraná and BNDES Participações S.A. – BNDESPAR ("BNDESPAR"), with the intervention of the Registrant and Paraná Investimentos, S.A., are parties to a shareholders' agreement dated December 22, 1998, as amended on March 29, 2001 (the "Shareholders' Agreement"). BNDESPAR is a wholly-owned subsidiary of BNDES. Under the Shareholders Agreement, the parties agree to exercise their voting rights so that:

- the State of Paraná appoints 6 members to the Registrant's Board of Directors; and
- BNDESPAR appoints 2 members to the Registrant's Board of Directors.

The terms of the current members of the Board of Directors expire in 2003. The current members are as follows:

<u>Name</u>	<u>Position</u>	<u>Since</u>
Alexandre Fontana Beltrão.....	Chairman	2000
Eduardo Guy de Manuel.....	Director	1995
Fabiano Braga Côrtes	Director	1995
Estella de Araújo Penna	Director	2001
Ingo Henrique Hübert	Director	1995
Isac Roffé Zagury.....	Director	2001
Lubomir Antônio Ficinski Dunin	Director	1996
Maria Aparecida Rodrigues Praça	Director	1999
Nicolau Imthon Klüppel.....	Director	1998

Following are brief biographies of the current members of our Board of Directors:

Alexandre Fontana Beltrão. Mr. Fontana Beltrão is 77 years old. He 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. He is currently the Secretary of the State of Paraná for Strategic Affairs. Mr. Beltrão was appointed by the State of Paraná.

Eduardo Guy de Manuel. Mr. Manuel is 60 years old. He received an electrical engineering degree from the Technological Institute of Aeronautics – ITA. He is currently the Chief Executive Officer of SIGMA DATSERV, President of the Commercial Association of Paraná and a member of the board of directors of the Higher Institute of Business Administration Studies – ISAD and of the Brazilian Institute for Quality and Productivity in Paraná. Mr. De Manuel was appointed by the State of Paraná.

Estella de Araújo Penna. Ms. Penna is 48 years old. She received a business administration degree from Fundação Getulio Vargas. She is currently an executive officer of BNDESPAR. Ms. Penna was appointed by BNDESPAR.

Fabiano Braga Côrtes. Mr. Côrtes is 67 years old. He 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. He is currently the Administrative Officer of Itaipu Binacional. Mr. Côrtes was appointed by the State of Paraná.

Ingo Henrique Hübert. Mr. Hübert is 53 years old. He received an electrical engineering degree from the Federal University of Paraná. He has served as the Registrant's Chief Executive Officer 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. He is currently the Secretary of Finance of the State of Paraná and the Registrant's Chief Executive Officer. Mr. Hübert was appointed by the State of Paraná.

Isac Roffé Zagury. Mr. Zagury, aged fifty, received an economics degree from the Catholic University of Rio de Janeiro (PUC) and completed a post-graduate course in business management at the same University. He is currently the Chief Financial and Administrative Officer of BNDES. Mr. Zagury was appointed by BNDESPAR

Lubomir Antônio Ficinski Dunin. Mr. Dunin is 72 years old. He 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 a former Secretary of the State of Paraná for Planning and General Coordination. He is currently the Secretary of State of Paraná for Urban Development. Mr. Dunin was appointed by the State of Paraná.

Maria Aparecida Rodrigues Praça. Ms. Praça is 44 years old. She received a Business Administration degree from the State College of Education, Science, and Languages of Paranaíba, in the State of Paraná, in 1992. She started with the Registrant in 1977. Ms. Praça currently works at the Registrant's Administrative and Financial department. Ms. Praça was elected by the Registrant's employees.

Nicolau Imthon Klüppel. Mr. Klüppel is 71 years old. He 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. Mr. Klüppel was appointed by the State of Paraná.

Board of Executive Officers

The Registrant's Board of Executive Officers meets weekly and is responsible for its day-to-day management. Each Executive Officer also has individual responsibilities established by the Registrant's Bylaws.

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. Under the Shareholders' Agreement, BNDESPAR has the right to indicate one member to the Board of Executive Officers. The terms of the current members of the Board of Executive Officers expire in March 2003. The current members are as follows:

<u>Name</u>	<u>Position</u>	<u>Since</u>
Ingo Henrique Hübert	Chief Executive Officer	1995
Ferdinando Schauenburg	Chief Financial Officer and Chief Investor Relations Officer	1996
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 Governmental Relations	1997

Following are brief biographies of the current members of our Board of Executive Officers.

Ferdinando Schauenburg. Mr. Schauenburg is 57 years old. He received an economics degree from the Federal University of Paraná. Previously, he served as consultant to the Chief Executive Officer of the Registrant, 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 is 53 years old. He 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 working with the Registrant since 1973.

Lindolfo Zimmer. Mr. Zimmer is 59 years old. He 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. He is a former employee of the Registrant.

José Maria Araque Ruiz. Mr. Ruiz is 53 years old. He received an electrical engineering degree from the Federal University of Paraná. He has been working with the Registrant since 1972.

Miguel Augusto Queiroz Schünemann. Mr. Schünemann is 56 years old. He received a civil engineering degree from the University of Paraná. He has been working with the Registrant since 1969.

Deni Lineu Schwartz. Mr. Schwartz is 63 years old. He 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 Registrant has a permanent Audit Committee, which generally meets every three months. The Audit Committee consists of five members and five alternates (deputy members) elected by the shareholders at the annual meeting for one-year terms. The

Audit Committee, which is independent of the management and of the external auditors of the Registrant, is responsible for:

- reviewing the Registrant’s financial statements and reporting on them to the shareholders;
- issuing special reports on proposed changes in capitalization, corporate budgets and proposed dividend distributions and any corporate reorganization; and
- in general, supervising the activities of the Registrant’s management and reporting on them to the shareholders.

The current members and alternate members of the Audit Committee, whose terms expire in 2002, 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
Márcio Ardélio de Souza	2001
 <u>Alternates</u>	
César Ribeiro Ferreira	1992
Miguel Arão Ribas Droppa	1995
Rosangela Heinz Gavinho Ferraz	1995
Getulio Miranda de Paula Garcia	1995
Walney de Abreu Reis	2001

Compensation of Directors and Officers

For the year ended December 31, 2000, the aggregate amount of compensation paid by the Registrant to all directors and executive officers was approximately R\$2.7 million, as approved by the Registrant’s General Shareholders’ Meeting held on March 27, 2000. This amount was paid in monthly installments and approximately 10% of it represents to compensation under our profit-sharing plan.

Employees

At year-end 2000, we had 6,148 employees (one employee per 461 customers), a decrease from 6,536 employees (one per 421 customers) at year-end 1999 and 7,442 (one per 360 customers) at year-end 1998. The decrease in the number of employees reflects our efforts to improve operating efficiency by reducing the size of our workforce through attrition and early retirement programs. During 2000, 348 employees applied for our early termination program prior to the closing of the program on May 31, 2000. In 2000, we had an average of approximately 1,360 temporary employees.

The following table sets forth the number of our employees and a breakdown of employees by category of activity as of the dates indicated in each area of our operations.

Area	As of December 31,		
	2000	1999	1998
Generation.....	727	868	878
Transmission.....	782	859	945
Distribution	3,839	4,018	4,644
Telecommunications	195	205	238
Information technology	312	303	380
Corporation staff and research and development.....	<u>293</u>	<u>283</u>	<u>357</u>
Total.....	<u>6,148</u>	<u>6,536</u>	<u>7,442</u>

Virtually all our employees are covered by union agreements that we renegotiate annually with the unions that represent the various employee groups. In 1999, we negotiated and signed labor agreements with unions representing all the employee groups, effective October 1, 1999, with two-year terms. In October 2000, we agreed to readjust the salaries by 4% in October 2000 and by 3% in April 2001. We are planning to hold negotiations in October 2001 to review the remuneration provisions (salary readjustments and/or salary loss recovery) of these labor agreements with the unions representing all the employee groups.

We provide a number of benefits to our employees. The most significant is the sponsorship of Fundação COPEL de Previdência e Assistência Social (“Fundação COPEL”), which supplements the Federal Government retirement and health benefits available to our employees. As of December 31, 2000, approximately 97.6% of our employees had elected to participate in a flexible defined contribution plan.

In accordance with federal law and our compensation policy, we reserved R\$20.0 million for employee participation in 2000 profits. The Registrant’s Board of Directors and the shareholders must approve the amount of such compensation, which is determined in accordance with an agreement with an employee committee. Our employees are entitled to participate in profits in years in which our ratio of net profits to shareholders’ equity is at least 6.0% and certain performance criteria are met.

Share Ownership

As of May 31, 2001, our directors and senior managers as a group owned, directly or indirectly, less than 1% of any class of our shares.

Item 7. Major Shareholders and Related Party Transactions

Since 1954, the State of Paraná has owned the majority of the Registrant’s Common Shares and exercised control over the Registrant. In 1996, Paraná Investimentos, a company controlled by the State of Paraná, issued debentures to BNDESPAR, which exchanged the debentures for Common Shares held by Paraná Investimentos. At December 31, 2000, the State of Paraná directly owned 58.6% of the Common Shares, and BNDESPAR owned directly and indirectly 26.4% of the Common Shares.

The following table sets forth certain information regarding the ownership of COPEL’s Common Shares at May 31, 2001.

<u>Shareholder</u>	<u>Common Shares (in millions)</u>	<u>% of total</u>
State of Paraná	85,028	58.6
BNDESPAR.....	38,299	26.4
Eletrobrás	1,531	1.1
All directors and officers as a group.....	5	0.0

None of the Registrant's major shareholders have voting rights that differ from other holders of common shares.

At May 31, 2001, 2.8% of the Common Shares, 0.0% of the Class A Shares and 52.5% of the Class B Shares were held by 137 holders registered with the *Companhia Brasileira de Liquidação e Custódia*, known as "CBLC" as resident in the United States. At the same date, the ADSs represented 45.8% of the Class B Shares and 21.5% of the total shares.

Shareholders' Agreement and Option Agreement

In addition to the Shareholders' Agreement, the State of Paraná and BNDESPAR, with the Registrant and Paraná Investimentos as intervening parties, are parties to an option agreement dated December 22, 1998, as amended on March 29, 2001 (the "Option Agreement").

Under the Option Agreement, the State of Paraná has the right to buy all Common Shares then held by BNDESPAR for the sole purpose of including them in our privatization process, within 24 hours following a request by the State of Paraná. The State of Paraná can only exercise the call option 24 hours before our privatization auction. In the event the State of Paraná holds the privatization sale by September 30, 2002, the option exercise price will be equal to:

- (1) R\$11.50 per thousand Common Shares adjusted by TJLP plus interest at a rate of 8% per year; plus
- (2) a percentage of the positive difference, if any, between the sale price of the Common Shares in the privatization auction and the base price of R\$11.50 per thousand Common Shares adjusted by TJLP. This percentage may be 100% or less, depending on the premium paid for the Common Shares in the privatization auction. Costs of the auction cannot be offset against the price paid to BNDESPAR.

If the privatization is not held by September 30, 2002, BNDESPAR will no longer be obligated to sell its Common Shares to the State of Paraná.

The Shareholders' Agreement will remain in effect until BNDESPAR ceases to be a shareholder of the Registrant or until December 22, 2018, whichever occurs first. Pursuant to the Shareholders' Agreement, if the option to buy Common Shares under the Option Agreement is not exercised by the State of Paraná, the State of Paraná is obligated to acquire, within 48 hours of BNDESPAR's request, all the Common Shares then held by BNDESPAR for the sole purpose of including them in the privatization of the Registrant. In the event the privatization occurs by September 30, 2002, the State of Paraná must acquire BNDESPAR's Common Shares at the same exercise price set by the Option Agreement.

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 September 30, 2002, 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 which shall then become parties, to the extent applicable, to the Shareholders' Agreement.

Under the Shareholders' Agreement, the State of Paraná cannot approve, without BNDESPAR's prior authorization, the following matters:

- amendment to the Registrant's by-laws;
- reduction or increase of the Registrant's capital stock;
- change in the Registrant's corporate purpose;
- creation of a new class of preferred shares of the Registrant;
- issuance of securities convertible into shares of the Registrant or call options for the Registrant's shares;
- grouping or split of shares issued;
- reserves, funds or accounting provisions that affect the rights and interests of minority shareholders;
- cessation of corporate liquidation;
- merger, amalgamation, spin-off, transformation, transfer or acquisition of interests in other companies;
- incorporation of wholly-owned subsidiaries;
- adoption of policy with respect to minority shareholders in the case of merger, amalgamation, split-off and transfer of control in the Registrant; and
- reduction in mandatory dividend.

The Proposed Privatization of the Registrant

In December 1998, the Paraná state legislature passed a law authorizing our corporate restructuring and the sale of the State of Paraná's interest in the Registrant. This law requires that a portion of the common shares of the Registrant to be sold by the State of Paraná be offered to our current and retired employees. The new controlling shareholder will also be required to:

- maintain the benefits currently offered to employees by our pension plan, Fundação COPEL, and
- permit our employees to name one of the members of our board of directors.

In May 1999, the governor of Paraná created a committee to address the privatization of the Registrant. 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. In May 2001, the State of Paraná engaged advisors to assist it in the sale of its interest in the Registrant.

BNDESPAR owns approximately 26% of the common shares of the Registrant. The Shareholders' Agreement and the Option Agreement govern BNDESPAR'S participation in the privatization of the Registrant. See "Control of Registrant—Shareholders' Agreement."

RELATED PARTY TRANSACTIONS

One of our significant assets is a receivable from the State of Paraná in the amount of R\$658.5 million at December 31, 2000. The receivable bears interest at an annual rate equal 6.65% and adjusted in accordance with the IGP-DI inflation index.

Item 8. Financial Information

See "Item 18, Financial Statements" and pages F-1 through F-48.

LEGAL PROCEEDINGS

We are 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 we may incur in connection with pending litigation. At December 31, 2000, the reserves for contingencies were R\$221.8 million, which we believe to be sufficient to meet probable and reasonably estimatable losses in the event of unfavorable rulings relating to the legal proceedings in which we are a party, but we cannot assure you that the reserves will be sufficient.

We are 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. We 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 our 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. We are actively contesting all the claims that have been brought regarding these rate increases. Some of the cases have been decided in our favor at the trial court level, and some have been decided in favor of the customers. We have contested all the cases that have been decided in favor of the customers, and there have not as yet been any judgments on appeal. There has, however, been a judgment in an appellate proceeding involving two other utility companies in which the Superior Tribunal of Justice ruled that the plaintiffs had no right to reimbursement for tariff increases introduced after the Cruzado Period.

If those of our industrial customers during the Cruzado Period that have brought suit against us receive favorable judgments with respect to the tariff increases during the Cruzado Period, we estimate that the relevant aggregate liability would be approximately R\$18.4 million. In the unlikely event that all our industrial customers during the Cruzado Period were to bring suit against us and be successful in their claims with respect to such

tariff increases, we estimate that the aggregate liability would amount approximately R\$80 million. We have reserved R\$9.9 million for these claims. See Note 21 to our Financial Statements. We have not sought to quantify our cost if all such customers sued and won favorable judgments regarding tariff increases after the Cruzado Period, but we understand that such judgments could have a material adverse effect on our financial condition and results of operations.

We are also a party to certain lawsuits pursuant to which we are disputing the legality or constitutionality of certain federal taxes and social contributions assessed against us. We believe that none of these taxes and social contributions is due. During 1998, we won our lawsuit challenging our 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. We have provisioned R\$144.0 million to meet COFINS contributions due in 2000.

We also challenged the payment of contributions to the PASEP Program (Program for the Establishment of Public Employee's Patrimony) on the grounds that we, 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, we 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, we received a portion of the total amount deposited in a judicial escrow account established during the PIS-PASEP action. The remaining balance of R\$26.6 million is still being reviewed to determine the amount to be refunded to us.

The Social Security authorities filed an administrative claim pursuant to which the authorities are claiming that we must pay additional social security contributions for the period between 1991 to 1998. We are currently negotiating the favorable settlement of this claim under the Tax Recovery Program (REFIS).

In the first half of 2001, the Social Security authorities filed additional administrative claims challenging several matters regarding the payment of social security contributions. According to these claims we must pay an additional aggregate amount of R\$258.0 million in social security contributions for the period between 1991 and 2000. We have contested all these claims. As of June 27, 2001, we had no provision to cover a possible loss.

DIVIDEND PAYMENTS

In accordance with the Registrant's bylaws and Law No. 6.404, as amended (the "Brazilian Corporation Law"), the Registrant 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 Registrant 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 Registrant 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 Registrant is not subject to any contractual limitations on its ability to pay dividends.

Calculation of Adjusted Net Income

Dividends with respect to a fiscal year are payable from (1) retained earnings from prior periods and (2) after-tax income for such period less required allocation to legal and other reserves (as described below) (“Adjusted Net Income”).

In accordance with Brazilian Corporation Law, the Registrant maintain a legal reserve, to which it must allocate a minimum 5% of its net income for each fiscal year until such reserve reaches an amount equal to 20% of its capital stock (calculated in accordance with the Brazilian Corporation Law). At December 31, 2000, the Registrant legal reserve was R\$181.9 million, or approximately 7.5% 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. 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 “Item 3. Key Information—Selected Financial Data—Difference from Financial Statements Published in Brazil.”

Dividend Priority of Class A Shares and Class B Shares

According to the Registrant’s bylaws, Class A Shares and Class B Shares are entitled to receive annual, noncumulative minimum dividends. 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:

- first, 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;
- second, to the extent there are additional amounts to be distributed after all amounts allocated to the Class A Shares have been paid, the Class B Shareholders have the right to receive a minimum dividend per share equal to (1) the Mandatory Dividend divided by (2) 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
- third, to the extent that there are additional amounts to be distributed after all amounts allocated to the Class A Shares and the Class B Shares have been

paid, the Common Shareholders have the right to receive an amount per share equal to (1) the Mandatory Dividend divided by (2) the total number of shares of capital stock of the Registrant 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, the Registrant must pay dividends per share equally to the Class B Shareholders and Common Shares up to the amount per share paid to the Class A Shareholders (as described in the first clause above). Any remaining amount to be distributed will be divided equally among all shareholders of capital stock of the Registrant.

Payment of Dividends

The Registrant 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, the Registrant must pay dividends within 60 days following the date of the shareholders meeting that declared the dividends to shareholders of record on such shareholders' meeting. A shareholders' resolution may set forth another date of payment, which must occur prior to the end of the fiscal year in which such dividend was declared. The Registrant 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.

Pursuant to Brazilian law, the Registrant may pay interest on capital in lieu of dividends as an alternative form of making distributions to shareholders. The Registrant may treat a payment of interest on capital as a deductible expense for tax purposes, provided that it does not exceed the lesser of:

- the product of (1) TJLP, a certain long-term interest rate determined by the Central Bank, multiplied by (2) total shareholders' equity (determined in accordance with the Brazilian Corporation Law), less certain deductions prescribed by the Brazilian Corporation Law; and
- the greater of (1) 50% of current net income (before taking into account such distributions or tax deductions) and (2) 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 Depository, which is the registered owner of the Registrant's shares.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian on behalf of the Depository, which will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the Depository 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.

Item 9. The Offer and Listing

The principal trading market for the Class B Shares is the Bolsa de Valores de São Paulo (the “São Paulo Stock Exchange” or “BOVESPA”). At December 31, 2000, the Registrant had approximately 2,000 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.

	Price per 1,000 Class B Shares	
	<u>High</u>	<u>Low</u>
	(R\$)	
1997	25.50	10.50
1998	17.50	3.90
1999	17.50	5.25
1 st Quarter.....	12.94	5.25
2 nd Quarter.....	15.05	12.30
3 rd Quarter.....	14.85	11.00
4 th Quarter.....	17.50	12.40
2000	18.45	12.30
1 st Quarter.....	16.85	14.02
2 nd Quarter.....	17.20	12.30
3 rd Quarter.....	18.45	15.70
4 th Quarter.....	17.69	14.36
December.....	16.30	14.75
2001	20.31	15.05
1 st Quarter.....	20.31	15.05
January	19.53	15.05
February	20.31	17.92
March.....	19.09	17.03
2 nd Quarter.....	—	—
April	18.30	15.50
May.....	17.90	15.65

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 Registrant, 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>U.S. dollars per ADSs</u>	
	<u>High</u>	<u>Low</u>
	(US\$)	
1997	19.25	9.63
1998	15.50	3.19
1999	9.25	3.56
1 st Quarter.....	7.63	3.56
2 nd Quarter.....	8.94	7.18
3 rd Quarter.....	8.50	5.93
4 th Quarter.....	9.25	6.31
2000	10.00	6.80
1 st Quarter.....	9.75	7.94
2 nd Quarter.....	9.50	6.80
3 rd Quarter.....	10.00	8.44
4 th Quarter.....	9.63	7.19
December.....	8.38	7.19
2001	10.51	6.85
1 st Quarter.....	10.51	7.81
January	10.19	7.81
February	10.51	9.00
March.....	9.60	8.10
2 nd Quarter.....	—	—
April	8.55	6.88
May.....	8.30	6.85

Trading on the Brazilian Stock Exchanges

Brazil used to have nine stock exchanges, of which the BOVESPA and the Rio de Janeiro Stock Exchange were the most significant. In 2000, the Brazilian stock exchanges were reorganized. Securities issued by publicly-traded companies are now traded on BOVESPA. Brazilian government debt securities are traded on, and privatization auctions are carried out at, the Rio de Janeiro Stock Exchange.

Trading on the exchange is limited to member brokerage firms and a limited number of authorized non-members. The BOVESPA 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 from 10 a.m. to 5 p.m. on an automated system on the BOVESPA.

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 — is 2% in relation to the closing price at the regular trading session.

There are no specialists or market makers for the Registrant's shares on the BOVESPA. Trading in securities listed 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 BOVESPA is CBLC, which is controlled mainly by the member brokerage firms and banks that are not members of that exchange.

At December 31, 2000, the aggregate market capitalization of the 455 companies listed on the BOVESPA was approximately US\$ 225.5 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 2000, the daily trading volume on the BOVESPA averaged approximately R\$ 746.7 million. In 2000, the five most actively traded issues represented approximately 39.7% of the total trading in the cash market on the BOVESPA.

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

Item 10. Additional Information

MEMORANDUM AND ARTICLES OF ASSOCIATION

Except as described in this section and in “Item 8. Financial Information – Dividend Payments,” all relevant information relating to the Registrant’s memorandum and articles of association are described on Section “Description of Capital Stock” of its Registration Statement pursuant to Rule 424(b)(1) filed with the Securities and Exchange Commission on July 31, 1997 (File No. 333-7148), which is incorporated by reference.

Organization

The Registrant is a publicly traded company duly registered with the Brazilian securities commission under No. 1431-1. According to Article 1 of the Registrant’s bylaws its objects and purposes are:

- researching and studying, technically and economically, any sources of energy;
- researching, studying, planning, constructing, and developing the production, transformation, transportation, storage, distribution, and trade of energy in any of its forms, chiefly electric power, as well as fuels and energetic raw materials;
- studying, planning, designing, constructing, and operating dams and their reservoirs, as well as other undertakings for multiple uses of water resources;

- providing information and technical assistance concerning the rational use of energy by business undertakings with the aim of implementing and developing economic activities deemed relevant for the development of the State; and
- implementing electronic data transmission, electronic communications and control, cellular telephone systems, and other endeavors that may be deemed relevant to the Company and the State of Paraná, being for such aims and for the aims set forth in “b” and “c” above authorized to join consortia or concerns with private companies, holding either major or minor stakes in them.

Except as described in this section, the Registrant’s bylaws do not contain provisions addressing the duties, authority, or liabilities of directors and senior management, which are instead established by Brazilian Corporate Law.

Qualification of Directors

Brazilian law provides that only shareholders of a company may be appointed to its board of directors. There is no minimum share ownership or residency requirement for qualification as a director.

Shareholders’ Meetings

The Registrant convenes shareholders’ meetings by publishing a notice in *Gazeta Mercantil* and *Gazeta do Povo*. The notice must be published no fewer than three times, beginning at least 15 calendar days prior to the scheduled meeting date. All other information described on items “Voting Rights of Class A Shares and Class B Shares” and “Shareholders’ Meeting” of Section “Description of Capital Stock” of its Registration Statement pursuant to Rule 424(b)(1) filed with the Securities and Exchange Commission on July 31, 1997 (File No. 333-7148) is incorporated herein by reference.

Right of Redemption

Brazilian Corporate Law provides that under certain circumstances a shareholder has the right to redeem its equity interest from a company and to receive a payment for the portion of shareholder’s equity attributable to his or her equity interest.

This right of withdrawal may be exercised:

- by the dissenting or non-voting holders of the adversely affected class of shares (including any holder of Class B Shares) in the event that a majority of all outstanding Common Shares authorizes:
 - the creation of preferred shares or an increase in an existing class of preferred shares relative to the other class of shares;
 - the modification of a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares; or
 - the creation of a new class of preferred shares with greater privileges than the existing class of preferred shares;

- by the dissenting or non-voting shareholders (including any holder of Class B Shares) in the event that a majority of all outstanding Common Shares authorizes:
 - a reduction in the mandatory distribution of dividends;
 - a change in our corporate purpose; or
 - a transfer of all of the Registrant’s share capital to another company, making it a wholly-owned subsidiary of such company, known as an “*incorporação de ações*”; or
- by the dissenting or non-voting holder of Common Shares or Class A Shares, in the event that a majority of all outstanding shares authorizes:
 - the acquisition of control of another company at a price which exceeds certain limits set forth in the Brazilian Corporate Law;
 - a merger or consolidation; or
 - participation in a group of concerns (the so-called “*grupo de sociedades*”) as defined under the Brazilian Corporate Law.

Dissenting or non-voting shareholders also have a right of withdrawal in the event that the entity resulting from our merger, *incorporação de ações*, or spin-off fails to become a listed company within 120 days of the shareholders’ meeting at which the relevant decision was taken. The dissenting or non-voting shareholders only have a withdrawal right if they held the shares that have been adversely affected at the time of the first call for the shareholders’ meeting in which the relevant decision was made. If a public announcement of the action taken or to be taken was made prior to the call for the shareholders’ meeting, the shareholders’ ownership of shares is based on the date of announcement.

The right of withdrawal lapses 30 days after publication of the minutes of the shareholders’ meeting at which the action is taken, except when the resolution is subject to confirmation by the preferred shareholders (which must be made at a special meeting to be held within one year). In that case the 30-day term is counted from the date the minutes of the special meeting are published. The Registrant is entitled to reconsider any action giving rise to redemption rights within 10 days following the expiration of such rights if the redemption of shares of dissenting shareholders would jeopardize its financial stability.

In all the situations described above, the shares would be redeemable at their book value, determined on the basis of the last balance sheet approved by shareholders. If the shareholders’ meeting giving rise to withdrawal rights occurs more than 60 days after the date of the last approved balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet of a date within 60 days preceding such shareholders’ meeting.

Liquidation

In the event of liquidation of the Registrant, after all creditors have been paid, all shareholders will participate equally and ratably in any remaining residual assets.

Liability of the Shareholders for Further Capital Calls

Neither Brazilian law nor the Registrant's bylaws provide for capital calls. The shareholders' liability is limited to the payment of the issue price of the shares subscribed or acquired.

Conversion Rights

Our bylaws provide that:

- Class A Shares may be converted into Class B Shares;
- Class B Shares cannot be converted into Class A Shares;
- Class A Shares and Class B Shares cannot be converted into Common Shares; and
- Common Shares cannot be converted into Class A Shares or Class B Shares.

Form and Transfer

The Registrant's shares are maintained in book-entry form with a transfer agent (the "Transfer Agent"). To make the transfer the Transfer Agent makes an entry in the register, debit the share account of the transferor and credit the share account of the transferee.

Transfers of shares by a foreign investor are made in the same way and executed by the investor's local agent on the investor's behalf. However, if the original investment was registered with the Central Bank pursuant to a foreign investment mechanism regulated by Resolution No. 2,689 of January 26, 2000 of the National Monetary Council ("Resolution 2,689") as described under "—Exchange Controls" below, the foreign investor must declare the transfer in its electronic registration.

The shareholders may choose, at their individual discretion, to hold their shares through CBLC. Shares are added to the CBLC system through Brazilian institutions that have clearing accounts with the CBLC. The Registrant's shareholder registry indicates which shares are listed on the CBLC system. Each participating shareholder is in turn registered in a register of beneficial shareholders maintained by the CBLC and is treated in the same manner as the other registered shareholders.

Regulation of and Restrictions on Foreign Investors

Foreign investors face no legal restrictions to hold Common Shares, Class A Shares, Class B Shares or ADSs.

The ability to convert into foreign currency dividend payments and proceeds from the sale of Class B Shares or preemptive rights and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, the registration of the relevant investment with the Central

Bank. Any foreign investor who registers with the CVM in accordance with Resolution No. 2,689 may buy and sell securities on Brazilian stock exchanges without obtaining a separate certificate of registration for each transaction.

Annex V to Resolution No. 1,289 of the CMN, known as the “Annex V Regulations,” allows Brazilian companies to issue depositary receipts in foreign exchange markets. The Registrant’s ADR program is duly registered with the Central Bank and the CVM.

The Registrant’s bylaws do not impose any limitation on the rights of Brazilian residents or non-residents to hold Registrant’s our shares and exercise the rights in connection therewith.

Disclosure of Shareholder Ownership

Brazilian regulations require that any person or group of persons representing the same interest that has directly or indirectly acquired an interest corresponding to 10% of the voting shares of a publicly traded company must disclose its share ownership to the Brazilian securities commission and stock exchanges. In addition, a statement containing the required information must be published in the newspapers. Any subsequent increase of 5% or more in ownership of common shares must be similarly disclosed.

EXCHANGE CONTROLS

There are no restrictions on ownership of Class A Shares, Class B Shares or Common Shares of the Registrant 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 legislation 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 2,689, 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.

The Annex V Regulations provide 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.”

An electronic 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 this electronic 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 electronic registration for five business days after such exchange, following which such holder must seek to obtain its own electronic 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 electronic registration. A holder that obtains an electronic registration may 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.

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 Depositary 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 income tax. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at varying rates. Stock dividends are not subject to Brazilian income 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 income 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 (around 10.75% for the year 2000). The total amount distributed as interest on capital may not exceed the greater of (i) 50% of net income (before taking 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 the sum of retained earnings and profit reserves 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 Registrant'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 Registrant for Brazilian corporate income tax purposes. Such payments are subject to Brazilian withholding income 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.

We cannot assure you that the Board of Directors of the Registrant 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 Registrant is obligated to distribute to its shareholders in accordance with its Bylaws 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 Brazilian holders on any disposition of Class B Shares in Brazil are generally subject to tax at the following rates:

- 10%, if the transaction is carried out on the spot market of BOVESPA;
- 15%, if the transaction is carried out off of BOVESPA; and
- 20%, if the transaction is carried out on the forward market of BOVESPA.

Under current law, the 10% tax rate applicable to transactions carried out on the spot market of BOVESPA will increase to 20% for transactions occurring on or after January 1, 2002.

Gains realized on any disposition of Class B Shares in Brazil by non-Brazilian holders who are resident in a jurisdiction that under Brazilian law is deemed to be a "tax haven" (in other words, a country that imposes tax at a maximum rate of less than 20%) are subject to the same rates applicable to Brazilian holders, as described above.

Gains realized on disposition of Class B Shares in Brazil by non-Brazilian holders who are not resident in a "tax haven" are subject to the following regime:

- no tax, if:

- the proceeds obtained by the disposition are remitted outside Brazil within five business days of the cancellation of the ADSs which were represented by the shares sold; or
- the foreign investment in the Class B Shares is registered under Resolution 2,689; and
- the same treatment applicable to Brazilian residents, if:
 - the proceeds obtained with the disposition of shares are remitted outside Brazil after the 5-day period; or
 - the foreign investment in the Class B Shares is not registered under Resolution 2,689.

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.”

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 will be subject to the same tax treatment applicable to disposition of Class B Shares.

The deposit of Class B Shares in exchange for the ADSs may be subject to Brazilian income 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 by an investor not resident in a tax haven 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 foreign 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% with some specific exceptions, 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 0.38%.

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 Depository 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 Depository 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 our shares (taking into account shares held directly or through depository 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, and references to a "U.S. holder" are to a holder of an ADS (1) that is a citizen or resident of the United States of America, (2) that is a corporation organized under the laws of the United States of America or any state thereof, or (3) 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, which we call the "Code," holders of ADRs will be treated as owners of the Class B Shares 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 us as a dividend to the extent that such distribution is paid out of our current or accumulated earnings and profits, 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). 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 us will not be eligible for the dividends received deduction allowed to corporations under the Code.

Distributions out of earnings and profits 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. Alternatively such Brazilian withholding tax may be taken as a deduction against taxable income. 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 certain arrangements in which a U.S. holder’s expected economic profit 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 our shareholders generally will not be subject to U.S. federal income tax.

Holders of ADSs that are foreign corporations or nonresident alien individuals, which we call “non-U.S. holders,” 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 unless such dividends are effectively connected with the conduct by the holder of a trade or business in the United States.

Taxation of Capital Gains

Upon the sale or other disposition of an ADS, a U.S. holder will generally recognize gain or loss for U.S. federal income tax purposes. The amount of the gain or loss will be equal to the difference between the amount realized in consideration for the disposition of the ADS 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. Capital losses may be deducted from taxable income, 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 (1) such gain is effectively connected with the conduct by the holder of a trade or business in the United States, or (2) 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.

Backup Withholding and Information Reporting

Dividends paid on, and proceeds from the sale or other disposition of, the ADSs or Class B Shares to a U.S. holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. holder provides an accurate taxpayer identification number or otherwise establishes an exemption. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is furnished to the Internal Revenue Service.

A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax, but may be required to comply with certain certification and identification procedures in order to establish its eligibility for such exemption.

DIVIDENDS AND PAYING AGENTS

Entitlement to dividends arises on the date of acquisition of our shares or ADS. For a description of restrictions related to payments of dividends to foreign investors, see “-Memorandum and Articles of Incorporation-Regulation of and Restrictions on Foreign Investors” and “-Exchange Controls.” The depository bank will distribute dividends and other distributions to the holders of our ADSs.

DOCUMENTS ON DISPLAY

You may obtain copies of this Annual Report and the exhibits thereto at the Securities and Exchange Commission's public reference rooms in Washington, D.C., New York, NY, and Chicago, IL. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are not required to make filings with the Commission by electronic means, although we may do so. Any filings we make electronically will be available to the public over the Internet at the Securities and Exchange Commission's web site at <http://www.sec.gov>.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. Foreign exchange rate risk exists to the extent our costs are denominated in currencies other than those in which it earns revenues. Similarly, we are subject to market risk deriving from changes in interest rates which may affect the cost of our financing. We do 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 we do not hold or issue derivative or other financial instruments for trading purposes.

Exchange Rate Risk

At December 31, 2000, we had outstanding approximately R\$676.5 million of indebtedness denominated in U.S. dollars and approximately R\$225.4 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, our payments

for purchases of energy from Itaipu are denominated in U.S. dollars. We do not have substantial revenues denominated in any of the above foreign currencies and, due to applicable regulations that require us to keep excess cash on deposit in *real*-denominated deposits with Brazilian banks, we do not have monetary assets denominated in such currencies. The potential loss to us that would result from a hypothetical 20% change in foreign currency exchange rates would be approximately R\$180.4 million, primarily due to the increase in our *real*-denominated financial statements in the principal amount of the foreign currency indebtedness described above (which increase would be reflected as an expense in our 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\$88.7 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, 2000, we had outstanding approximately R\$1.38 billion in loans and financing, of which approximately R\$495.3 million bore interest at fixed interest rates and approximately R\$884.4 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, we invest 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, 2000, would result in a net additional cash outflow of approximately R\$8.8 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, our 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 12. Description of Securities Other than Equity Securities

Not applicable

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15. [Reserved]

Item 16. [Reserved]

Item 17. Not applicable

Item 18. Financial Statements

Reference is made to pages F-1 through F-48.

Item 19. Exhibits

- 1.1 Bylaws (*Estatuto Social*) of Companhia Paranaense de Energia – COPEL, together with an English translation.
- 2.1 Deposit Agreement dated as of July 29, 1997 (incorporated by reference to our registration statement on Form F6 filed with the SEC on March 23, 2000 (File No. 333-11692)).
- 4.1 Deed of Amendment to the Adjustment Agreement of August 4, 1994 between the State of Paraná and Companhia Paranaense de Energia – COPEL (*Terceiro Termo Aditivo ao Termo de Ajuste celebrado em 4 de agosto de 1994*) (incorporated by reference to our registration statement on Form 20-F filed on June 30, 2000 (File No. 001-14668))

There are omitted from the exhibits filed with or incorporated by reference into this Annual Report certain promissory notes and other instruments and agreements with respect to our long-term debt none of which authorizes securities in a total amount that exceeds 10% of our total assets. We hereby agree to furnish to the Securities and Exchange Commission copies of any such omitted promissory notes or other instruments or agreements as the Commission requests.

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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.

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.

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.

High Voltage: 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.

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 of Paraná: 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.

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.

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.

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/ MIGUEL AUGUSTO QUEIROZ SCHÜNEMAN

Name: Miguel Augusto Queiroz Schünemann

Title: Acting Chief Financial Officer

and

Acting Chief Investor Relations Officer

Date: June 29, 2001

COMPANHIA PARANAENSE DE ENERGIA - COPEL

Financial Statements as of and For the Years Ended

December 31, 2000, 1999 and 1998

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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, 2000 and 1999, 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, 2000, all adjusted for price-level changes as of December 31, 2000. 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 auditing standards generally accepted 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, 2000, and 1999, 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, 2000 in conformity with accounting principles generally accepted 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 35 of the Notes to the financial statements.

Curitiba, Brazil

ARTHUR ANDERSEN S/C.

February 21, 2001 (except with respect to
the matter discussed in Note 34, as to
which the date is March 20, 2001)

COMPANHIA PARANAENSE DE ENERGIA - COPEL

BALANCE SHEETS

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian reais,
as of December 31, 2000)*

ASSETS

	December 31,	
	2000	1999
CURRENT ASSETS		
Cash and cash equivalents	224,086	198,101
Accounts receivable	448,600	329,326
Materials and supplies	14,630	14,247
Recoverable rate deficit (CRC).....	11,503	11,346
Prepayment of value-added tax (ICMS).....	-	200,237
Other accounts receivables	27,429	5,056
Prepaid expenses and other.....	44,198	30,527
	<hr/> 770,446	<hr/> 788,840
LONG-TERM ASSETS:		
Deferred income taxes	215,901	210,026
Judicial deposits	50,039	70,381
Recoverable rate deficit (CRC).....	646,988	658,482
Long-term receivables and other.....	45,350	38,944
	<hr/> 958,278	<hr/> 977,833
INVESTMENTS	444,529	428,345
PROPERTY, PLANT AND EQUIPMENT:		
In service	11,032,873	10,352,517
Accumulated depreciation	(3,539,793)	(3,191,859)
	<hr/> 7,493,080	<hr/> 7,160,658
Construction work in progress	700,223	1,046,676
	<hr/> 8,193,303	<hr/> 8,207,334
Total assets	<hr/> <hr/> 10,366,556	<hr/> <hr/> 10,402,352

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

COMPANHIA PARANAENSE DE ENERGIA - COPEL

BALANCE SHEETS

*(Adjusted for price-level changes and expressed in thousands of constant Brazilian reais,
as of December 31, 2000)*

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31,	
	2000	1999
CURRENT LIABILITIES:		
Suppliers	84,982	94,523
Loans and financing.....	275,674	325,916
Advanced billings of electric power.....	13,466	14,359
Provision for income tax and social contribution taxes	-	5,019
Taxes, other than income taxes	41,982	89,904
Dividends proposed	96,764	111,756
Accrued payroll costs	57,034	56,189
Pension plan.....	21,675	21,619
Regulatory charges	35,724	21,981
Other accrued liabilities	24,692	25,059
	<u>651,993</u>	<u>766,325</u>
LONG-TERM LIABILITIES:		
Loans and financing.....	1,104,078	1,226,717
Deferred income taxes	821,084	666,798
Other taxes	170,681	142,135
Advanced billings of electric power.....	11,230	26,396
Pension plan.....	487,442	524,939
Special liabilities	567,702	579,280
Other liabilities	60,323	95,082
	<u>3,222,540</u>	<u>3,261,347</u>
SHAREHOLDERS' EQUITY:		
Capital stock.....	2,417,748	2,417,748
Capital reserves	2,437,617	2,437,617
Income reserves.....	1,636,658	1,519,315
	<u>6,492,023</u>	<u>6,374,680</u>
Total liabilities and shareholders' equity	<u><u>10,366,556</u></u>	<u><u>10,402,352</u></u>

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

COMPANHIA PARANAENSE DE ENERGIA - COPEL

STATEMENTS OF INCOME

*(Adjusted for price-level changes and expressed in thousands
of constant Brazilian reais, as of December 31, 2000, except per share amounts)*

	Year Ended December 31,		
	2000	1999	1998
OPERATING REVENUES:			
Electricity sales to final customers.....	2,456,932	2,310,257	2,316,145
Value-added taxes on sales to final customers.....	(669,327)	(657,530)	(568,746)
Electricity sales to distributors	179,451	165,610	74,858
Use of transmission plant	44,581	33,317	13,193
Other revenues	104,869	54,756	45,041
Net operating revenues	2,116,506	1,906,410	1,880,491
OPERATING EXPENSES:			
Electricity purchased for resale	(306,403)	(333,812)	(224,753)
Use of transmission plant	(134,206)	(132,935)	(69,007)
Depreciation and amortization.....	(366,422)	(350,640)	(333,348)
Personnel.....	(312,947)	(350,321)	(416,865)
Regulatory charges	(216,351)	(141,585)	(129,841)
Third party services	(107,144)	(110,637)	(108,956)
Materials and supplies.....	(31,486)	(35,571)	(43,111)
Pension and other benefits.....	(17,281)	(9,030)	(81,820)
Other expenses	(57,527)	(69,327)	(33,483)
Total operating expenses	(1,549,767)	(1,533,858)	(1,441,184)
OPERATING INCOME	566,739	372,552	439,307
EQUITY IN RESULTS OF INVESTEES	2,485	4,371	(11,423)
OTHER INCOME (EXPENSE):			
Financial income (expense), net	42,812	86,378	139,357
Non-operating expenses (income), net	(28,650)	(25,068)	68,182
Total other income (expense).....	14,162	61,310	207,539
INCOME BEFORE INCOME TAXES	583,386	438,233	635,423
Provision for income taxes	(132,998)	(110,398)	(122,644)
INCOME BEFORE EMPLOYEE PROFIT PARTICIPATION	450,388	327,835	512,779
Employee profit participation.....	(20,000)	(10,978)	(18,443)
NET INCOME	430,388	316,857	494,336
Earnings per thousand outstanding shares			
at year-end, in units of Brazilian reais	1.57	1.16	1.81

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, 2000)

	Capital Stock	Capital Reserves	Income Reserves	Retained Earnings	Subtotal	Credits for Capital Increase	Total
BALANCE AS OF DECEMBER 31, 1997	1,719,865	4,000,232	1,492,871		7,212,968	19,524	7,232,492
Prior year adjustments (Note 29)	-	-	-	(398,365)	(398,365)	-	(398,365)
Reversal of special monetary correction (Note 4)....	-	(1,022,475)	-	377,579	(644,896)	-	(644,896)
Remuneration of construction work in progress.....	-	34,024	-	-	34,024	-	34,024
Capitalization of reserves	88,996	(934)	(88,062)	-	-	-	-
Tax incentive.....	-	19,325	-	-	19,325	-	19,325
Realization of income reserve.....	-	-	(101,934)	101,934	-	-	-
Net income for the year	-	-	-	494,336	494,336	-	494,336
Distribution of net income:							
Legal reserve.....	-	-	26,562	(26,562)	-	-	-
Dividends proposed.....	-	-	-	(179,425)	(179,425)	-	(179,425)
Income reserve.....	-	-	369,497	(369,497)	-	-	-
Deferred income taxes on price-level adjustments ..	-	-	(34,853)	-	(34,853)	-	(34,853)
BALANCE AS OF DECEMBER 31, 1998	1,808,861	3,030,172	1,664,081	-	6,503,114	19,524	6,522,638
Remuneration of construction work in progress	-	6,691	-	-	6,691	-	6,691
Capitalization of reserves	608,887	(608,887)	-	-	-	-	-
Tax incentive	-	9,641	-	-	9,641	-	9,641
Reimbursement of credits for capital increase.....	-	-	-	-	-	(19,524)	(19,524)
Realization of income reserve	-	-	(253,129)	253,129	-	-	-
Net income for the year.....	-	-	-	316,857	316,857	-	316,857
Distribution of net income:							
Legal reserve.....	-	-	15,214	(15,214)	-	-	-
Interest on capital.....	-	-	-	(120,763)	(120,763)	-	(120,763)
Income reserve.....	-	-	434,009	(434,009)	-	-	-
Deferred income taxes on price-level adjustments ..	-	-	(340,860)	-	(340,860)	-	(340,860)
BALANCE AS OF DECEMBER 31, 1999	2,417,748	2,437,617	1,519,315	-	6,374,680	-	6,374,680
Realization of income reserves.....	-	-	(353,766)	353,766	-	-	-
Net income.....	-	-	-	430,388	430,388	-	430,388
Distribution of net income:							
Legal reserve.....	-	-	21,530	(21,530)	-	-	-
Interest on capital	-	-	-	(160,000)	(160,000)	-	(160,000)
Income reserve.....	-	-	602,624	(602,624)	-	-	-
Deferred income taxes on price-level adjustments ..	-	-	(153,045)	-	(153,045)	-	(153,045)
BALANCE AS OF DECEMBER 31, 2000	2,417,748	2,437,617	1,636,658	-	6,492,023	-	6,492,023

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 31,2000)*

	Year ended December 31,		
	2000	1999	1998
SOURCES OF FUNDS:			
Funds generated from operations:			
Net income for the year.....	430,388	316,857	494,336
Items not requiring working capital -			
Depreciation and amortization.....	366,422	350,640	333,348
Long-term monetary variations.....	(93,115)	156,159	91,097
Equity in results of investees.....	(2,485)	(4,371)	11,423
Disposal of property, plant and equipment and other	51,588	38,919	38,610
Long-term liabilities provision.....	93,625	97,670	3,541
Deferred income tax.....	(24,402)	(17,787)	(33,186)
	<u>822,021</u>	<u>938,087</u>	<u>939,169</u>
Funds from third-parties:			
Long-term loans and financing.....	65,844	117,626	293,541
Consumers' contribution – special liabilities.....	42,224	20,787	34,872
Transfer from long-term to current assets.....	23,668	40,687	22,909
Other taxes.....	-	23,676	-
Other long-term liabilities.....	18,069	9,316	-
	<u>149,805</u>	<u>212,092</u>	<u>351,322</u>
Total sources.....	<u>971,826</u>	<u>1,150,179</u>	<u>1,290,491</u>
APPLICATION OF FUNDS:			
Property, plant and equipment.....	408,005	788,287	1,012,213
Investments.....	28,608	47,690	327,077
Judicial deposits and other.....	4,772	20,603	39,857
Loans to related party.....	20,029	4,017	-
Transfers from long-term to current liabilities:			
Long-term loans and financing.....	137,944	180,379	130,540
Other taxes.....	57,366	7,239	34,541
Pension plan.....	16,544	16,655	37,374
Reserve for contingencies net of deposits.....	26,744	-	-
Advanced billings of electric power and other.....	15,876	13,215	11,173
Dividends proposed.....	160,000	120,763	179,426
Refund of advances for capital increase.....	-	19,524	-
Total applications.....	<u>875,888</u>	<u>1,218,372</u>	<u>1,772,201</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>95,938</u>	<u>(68,193)</u>	<u>(481,710)</u>
REPRESENTED BY:			
Current assets			
Beginning of the period.....	788,840	819,995	1,493,175
End of the period.....	770,446	788,840	819,995
Increase (decrease) in current assets.....	<u>(18,394)</u>	<u>(31,155)</u>	<u>(673,180)</u>
Current liabilities			
Beginning of the period.....	766,325	729,287	920,756
End of the period.....	651,993	766,325	729,287
(Increase) decrease in current liabilities.....	<u>114,332</u>	<u>(37,038)</u>	<u>191,469</u>
Total increase (decrease) in working capital.....	<u>95,938</u>	<u>(68,193)</u>	<u>(481,711)</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, 2000, 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 the ownership of 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 the São Paulo stock exchange.

In July 1997, the Company registered with the United States Securities and 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 one thermoelectric, with an combined installed capacity of 4,548 MW (4,545 MW as of December 31, 1999).

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 were 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 issued in Brazil.

On 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 to be in accordance with Brazilian generally accepted accounting principles (“Brazilian GAAP”).

For Brazilian official financial reporting purposes, the Company elected to prepare its 2000, 1999 and 1998 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, under both accounting principles generally accepted in the United States (“US GAAP”) and international accounting standards, the Brazilian economy ceased to be “hyperinflationary”, the Company’s financial statements presented in 1998 had not been price-level adjusted in accordance to the constant currency method, and the restated balances as of December 31, 1997 had become the new basis of accounting from January 1, 1998. However, due to IBRACON Communication 99/006, requiring to apply the constant currency method on 1999, the Company elected to apply the same procedure for 1998, and therefore, prepared price-level adjusted financial statements as of and for the years ended December 31, 1998 and 1999 to be presented on a comparative basis with the financial statements as of and for the years ended December 31, 2000.

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, 2000. 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, 2000 would not have been material significant.

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>2000</u>	<u>1999</u>	<u>1998</u>
Government/Tax indices:	(Percentage Variation)		
<i>Unidade Fiscal de Referência – UFIR</i>			
(Tax Reference Unit).....	8.9	5.1	1.6
<i>Índice Nacional de Preços ao Consumidor – INPC</i>			
(National Consumer Price Index).....	5.3	8.4	2.5
Independent Inflation Index:			
<i>Índice Geral de Preços de Mercado – IGP-M</i>			
(General Market Price Index).....	9.9	20.1	1.8
<i>Índice Geral de Preços de Disponibilidade Interna – IGP-DI</i>			
(General Prices Index – DI).....	9.8	20.0	1.7
Devaluation:			
Brazilian real vs. US dollar.....	9.3	48.0	8.3

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. dollars at the rate of R\$1.9554 to US\$1.00, the exchange rate reported by the Central Bank of Brazil as of December 31, 2000. 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.

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

Depreciation is computed on the straight-line method. Currently, the annual rates of depreciation are calculated based on ANEEL Instruction No. 44 of March 17, 1999, 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"). This remuneration was added to the respective construction work in progress and credited to a capital reserve, which is 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 2000, 1999 and 1998). Social contribution tax (9% for 2000, 12% for 1999 and 8% for 1998), which is computed based on income before income tax, is accrued and included in the 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). Revenues, costs and expenses

Revenues, costs and expenses are recognized on an accrual basis, i.e., when the goods and services are actually rendered, regardless of when the cash is received or paid.

Revenues from the electricity sales to the final customers are recognized when earned. Billings for these sales are made on a monthly basis throughout the month. Unbilled revenues from the billing cycle up to the end of each month are estimated based on the prior month’s billing cycle up to the end of each month are estimated based on the prior month’s billing and are accrued at the end of the month. Differences between estimated and actual unbilled revenues, which have no been significant, are recognized in the following month.

Electricity sales to distributors and to the interconnected power system (initial supply contracts, wholesale energy market and bilateral agreements) are recorded when earned and billed monthly. Estimated revenues on the additional power made available to the wholesale energy market were recorded at year-end.

b(viii). Other revenues and expenses

Other revenues and expenses are also recognized on an accrual basis.

b(ix). 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(x). Earnings per Share

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

b(xi). 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 and shareholders' equity accounts were restated up to December 31, 2000 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, 2000.

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, 2000. 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 Year Financial Statements

All amounts in the financial statements for 1999 and 1998 were adjusted for price-level changes through December 31, 2000, 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\$1,504,000.

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 Reversal of the 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 to the Company, through the Fax No. 28 of April 1998, on April 30, 1998, the Board of Directors, the Audit Committee and the shareholders approved the reversal of the Special Monetary Restatement effects (Law 8,200/91), retroactively to January 1, 1998, as follows:

	<u>R\$</u>
Assets:	
Current assets	2,550
Investments	4,187
Net, Property, plant and equipment.....	1,194,585
Construction work in progress.....	11,946
	<u>1,213,268</u>
Liabilities and shareholders' equity:	
Deferred income taxes	318,047
Special liabilities	250,325
Shareholders' equity	1,022,475
	<u>1,590,847</u>
Retained earnings	<u>377,579</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

River	Power Plant	Installed Capacity (MW)	Date Concession was Issued	Year of Expiration
Hydroelectric plants:				
Iguaçu.....	Gov. Bento Munhoz da Rocha Neto (Foz do Areia).....	1,676.00	May 25, 73	2023
Iguaçu.....	Gov. Ney Aminthas de Barros Braga (Segredo).....	1,260.00	Nov 16, 79	2029
Iguaçu.....	Salto Caxias	1,240.00	May 02, 80	2010
Capivari.....	Governador Parigot de Souza	260.00	Nov 05, 71	2021
Arraial.....	Guaricana.....	36.00	Aug 16, 76	2026
São João	Chaminé.....	18.00	Aug 16, 76	2026
Ipiranga	Marumbi.....	4.80	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
Pitangui/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	1.70	Feb 15, 84	2034
Cavernoso/Iguaçu ...	Cavernoso	1.20	Jan 08, 81	2031
Palmital.....	Salto do Vau.....	0.90	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, 2000 COPEL distributed electricity to 393 municipalities, primarily in the State of Paraná, representing 98% of the consumers in the State of Paraná (unaudited). The Company has distribution concessions for all those municipalities valid until 2015. 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,	
		2000	1999
Banco do Estado do Paraná S/A.....	100,0% CDI ⁽¹⁾ variation	47,804	87,177
Banco do Brasil S/A.....	99,5% CDI ⁽¹⁾ variation	49,309	43,021
Caixa Econômica Federal.....	99,5% CDI ⁽¹⁾ variation	-	34,149
Banco Brasileiro de Descontos S/A – BRADESCO	99,5% CDI ⁽¹⁾ variation	16,720	11,143
HSBC Bank Brasil S/A.....	100,0% CDI ⁽¹⁾ variation	15,636	-
Banco Araucária S/A.....	104,0% CDI ⁽¹⁾ variation	1,515	-
Caixa Econômica Federal.....	99,5% CDI ⁽¹⁾ variation	64,741	-
		195,725	175,490
Cash balances deposited in commercial banks		28,361	22,611
		224,086	198,101

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

To assure the purchase of power generated by Companhia de Interconexão Energética - CIEN (Argentina) and Usina Termoeletrica de Araucária, during the term of the contracts with those companies, at the Board of Directors' Meeting on August 29, 2000, COPEL created the FLICE fund (Power Purchase Liquidity Fund), equivalent to an amount up to US\$47 million, to be totally funded by March 2002, being deposited with Caixa Econômica Federal. All receivables regarding fees related to price assurance given by COPEL will also be invested in the fund. As of December 31, 2000, the Fund balance was R\$64,741.

8. ACCOUNTS RECEIVABLE

	December 31,	
	2000	1999
Consumers-		
Billed.....	286,024	212,009
Unbilled.....	66,011	62,600
	<u>352,035</u>	<u>274,609</u>
Electricity companies	96,187	50,005
	<u>448,222</u>	<u>324,614</u>
Services in progress.....	6,416	12,173
Allowance for doubtful accounts	(6,038)	(7,461)
	<u>448,600</u>	<u>329,326</u>

As of December 31, 2000, the accounts receivable past-due over 90 days were distributed as follows:

	December 31, 2000
Residential.....	2,095
Industrial.....	820
Commercial.....	961
Rural.....	109
Public Entities	14,074
Public Services.....	19
Public Lightening	7,566
Subtotal.....	<u>25,644</u>
Distributors	308
Total.....	<u>25,952</u>

9. PREPAYMENT OF VALUE-ADDED TAX

In December 1999, the Company prepaid to the Government of Paraná, the amounts of R\$199 million earning interest at the Interfinancial Deposit rate (DI) of 3.4% monthly, plus an additional spread of 2% per month. This prepayment was applied against the value-added tax (ICMS) due, related to 2000 sales revenues, in eight equal monthly installments from January 2000.

10. PREPAID EXPENSES AND OTHER

	December 31,	
	2000	1999
Debts receivable – SANEPAR (See note 12).....	9,761	12,110
Income tax and social contribution tax paid in advance.....	24,692	9,508
Advances to suppliers and employees	9,745	8,909
	<u>44,198</u>	<u>30,527</u>

11. RECOVERABLE RATE DEFICIT (CRC)

Under an agreement dated 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 based on IGP-DI and interest of 6.65% annually. On October 1, 1997, the balance of R\$678,954 was renegotiated extending the term to 330 equal monthly installments, which include interest and principal amortization. The last monthly installment will be due on March 30, 2025. The remaining clauses of the original contract, including interest rates, were maintained. Interest earned is recorded as interest and commissions in the income statement.

12. LONG-TERM RECEIVABLES AND OTHER

	December 31,	
	2000	1999
Loans to related party– Machadinho Energética S.A.	-	3,855
Loans to related party– Foz do Chopim Energética S.A.....	3,238	-
Loans to related party– Companhia Paranaense de Gás.....	17,134	-
Advances to suppliers	4,257	4,016
Accounts receivable – SANEPAR.....	-	5,278
Tax incentives	1,180	1,295
Compulsory loans.....	5,111	5,166
Refundable PASEP.....	-	4,890
Collateral deposits NTD	14,187	12,244
Service orders – Rural Program Lig Luz and other.....	243	2,200
	<u>45,350</u>	<u>38,944</u>

The loan to Companhia Paranaense de Gás - COMPAGÁS, signed on July 3, 2000, is to finance the continuation of the project for construction and implementation of a natural gas distribution network. The loan will be amortized in 48 monthly installments after a grace period of 12 months, and bear interest at (Brazilian long-term rate) plus 7.5% per year.

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. On October 26, 2000, COPEL and SANEPAR signed an amendment to the agreement dated January 30, 1996 renegotiating the debt to be paid in 8 monthly installments plus 6.65% annual interest, reclassifying the related balance to the current assets as “other accounts receivables”.

The tax incentives refer to credits originated from 1996 to 1999, net of provision for market value, when applicable.

13. INVESTMENTS

	December 31,	
	2000	1999
Investments in subsidiaries accounted for under the equity method:		
Companhia Paranaense de Gás – COMPAGÁS.....	22,533	23,522
Sercomtel S/A – Telecomunicações	156,311	154,918
Sercomtel Celular S/A.....	22,489	22,206
Dona Francisca Energética S.A	18,740	15,924
Other companies	13,191	13,263
	<u>233,264</u>	<u>229,833</u>
Investments in other companies:		
Dominó Holdings S/A.....	49,497	49,699
Campos Novos Energia S/A.....	4,379	81
	<u>53,876</u>	<u>49,780</u>
Other investments:		
Assets for future use.....	13,625	22,255
Investments in other companies	21,598	17,624
Goodwill on investments net of amortization	46,963	53,337
Tax incentive investments	39,976	39,976
Other investments	35,227	15,540
	<u>157,389</u>	<u>148,732</u>
	<u>444,529</u>	<u>428,345</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\$247,115, resulting in total goodwill of R\$63,741, which is being amortized over 10 years, based on the expected future return generated by the investments.

In December, 31, 2000 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.....	35,369	(3,430)	18,038	(1,689)
Sercomtel S/A – Telecomunicações	263,913	7,562	149,924	3,581
Sercomtel Celular S/A	38,200	2,222	21,473	1,041
Tradener Ltda	1,720	1,384	774	616
Escoeletric Ltda	1,000	-	400	-
Campos Novos Energia S/A	27,720	-	4,158	-
Companhia Nacional de Intervias (CNI)	1,656	(2,128)	828	(1,064)
Dona Francisca Energética S.A.....	66,700	-	15,341	-
Foz do Chopim Energética Ltda	15,900	-	5,724	-
UEG Araucária Ltda	14,185	-	2,837	-
Centrais Eólicas do Paraná Ltda.	3,900	-	1,170	-
			<u>220,667</u>	<u>2,485</u>

Although COPEL holds 51% of Compagás this investment is not consolidated, in accordance with authorization from the CVM. The effect on the balance sheet of not consolidating the investment at each year-end is not significant.

b. Investments in Other Companies

As of December 31, 2000, COPEL had 15% of Dominó Holdings S/A, which is recorded at acquisition cost. Dominó Holdings currently has 39.71% of total shareholders' equity of Companhia de Saneamento do Paraná – SANEPAR.

14. PROPERTY, PLANT AND EQUIPMENT

	December 31,			
	2000			1999
	Monetarily Restated Cost	Accumulated Depreciation	Net	Net
In service:				
Restated cost-				
Generation.....	5,944,018	(1,517,922)	4,426,096	4,074,359
Transmission.....	1,423,242	(423,829)	999,413	946,807
Distribution	3,281,914	(1,433,964)	1,847,950	1,921,116
Administration.....	383,699	(164,078)	219,621	218,376
	<u>11,032,873</u>	<u>(3,539,793)</u>	<u>7,493,080</u>	<u>7,160,658</u>
Construction work in progress:				
Generation.....	285,609	-	285,609	616,982
Transmission.....	182,674	-	182,674	204,845
Distribution	158,044	-	158,044	170,920
Administration.....	73,896	-	73,896	53,929
	<u>700,223</u>	<u>-</u>	<u>700,223</u>	<u>1,046,676</u>
	<u>11,733,096</u>	<u>(3,539,793)</u>	<u>8,193,303</u>	<u>8,207,334</u>

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.....	2.5%
Equipment	10.0%
System structure	2.5%
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%

a. 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.

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.

15. SUPPLIERS

	December 31,	
	2000	1999
Electricity suppliers:		
Billed:		
Administracion Nacional de Eletricidad - ANDE (Paraguay).....	6,531	12,141
Eletrosul.....	61,719	68,314
	<u>68,250</u>	<u>80,455</u>
Supplies and services:		
Billed.....	11,197	10,741
Unbilled.....	5,535	3,327
	<u>16,732</u>	<u>14,068</u>
	<u>84,982</u>	<u>94,523</u>

16. LOANS AND FINANCING

	December 31,				
	2000				1999
	Current portion			Total	Total
Principal	Accrued Interest And fees	Long- Term Principal			
FOREIGN CURRENCY:					
Eurobonds (1)	-	4,846	293,310	298,156	299,472
IDB (2).....	17,316	5,370	164,040	186,726	213,634
Euro-Commercial Paper Program (3).....	116,935	905	-	117,840	106,751
National Treasury Department (see note 16.e).....	2,879	2,375	125,110	130,364	129,538
Banco do Brasil S.A (4).....	4,224	637	33,812	38,673	50,973
Dresdner Bank (5).....	15,624	847	-	16,471	42,950
Bilbao Viscaya (6).....	5,530	584	-	6,114	-
Eletrobrás (7).....	5,833	98	9,167	15,098	19,614
Turnkey suppliers – Transmission plants (8)	24,178	-	-	24,178	72,855
Subtotal.....	192,519	15,662	625,439	833,620	935,787
LOCAL CURRENCY:					
Eletrobrás (7).....	39,722	966	440,928	481,616	503,990
BNDES (9).....	4,578	108	18,311	22,997	28,975
Banco do Estado do Paraná S.A.- Turnkey (10).....	10,609	73	6,754	17,436	29,956
Banco do Brasil S.A. (11).....	770	5	-	775	11,595
HSBC Bank Brasil. (12).....	2,916	18	-	2,934	11,648
FINEP (13).....	4,749	66	8,309	13,124	17,668
Other commercial banks (14).....	2,889	24	4,337	7,250	13,014
Subtotal.....	66,233	1,260	478,639	546,132	616,846
	258,752	16,922	1,104,078	1,379,752	1,552,633

- (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 May 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 2000 was 6.36% per annum (6.44% in 1999).
- (3) Euro-Commercial Paper Program - Notes issued outside Brazil to finance working capital. The Euro-Commercial Paper Program was established on March 1995, under which there is currently one tranche outstanding renegotiated to mature on May 21, 2001, issued with a discount to face value and subject to interest of 9.48% 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 March 7, 2000, subject to and interest of 2.8% per year.
- (5) Dresdner Bank – Brazilian Central Bank Resolution 63 contract, maturing on August 2, 2001, subject to interest of 12.8% annually, to finance the expansion of the transmission network.

- (6) Banco Bilbao Vizcaya – Resolution 63 contract, maturing on March 5, 2001, subject to interest of 12.5% annually, to finance the expansion of the transmission network.
- (7) Eletrobrás – Consists of loans from Eletrobrás originating from resources obtained from FINEL, for the expansion of generation, transmission and distribution systems. Amortization started on June 30, 1996 and will end in August 2021. Interest of 6.5% annually and principal are due on a monthly basis updated by the FINEL index (Eletrobrás financing rate). The foreign currency portion is subject to interest of 0.8125% over the six-month LIBOR rate. A portion of COPEL’s revenues secures these loans, in case of default.
- (8) 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.
- (9) 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).
- (10) 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 loans were used to finance the electricity distribution network and are secured by a portion of COPEL’s revenues.
- (11) 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.
- (12) HSBC Bank Brasil – Consists of a loan through FINAME(machinery and equipment financing) to build the Segredo Hydroelectric Power Plant, on October 10, 1991, 84 monthly installments starting December 9, 1993, subject to interest based on TJLP plus 11% and 12% per annum.
- (13) 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, 1999, with interests of TJLP plus 12% per annum.
- (14) 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\$	
	2000	1999
Currency:		
U.S. dollars	608,221	671,180
Japanese Yen.....	38,673	50,973
IDB – Currency pool.....	186,726	213,634
	<u>833,620</u>	<u>935,787</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)	
	2000	1999
U.S. dollars	9.30	48.01
Japanese Yen	(2.16)	62.55
Currency pool	(4.64)	(0.14)

c. Main Index Loan Rates Applied to Local Currency Debt

	Rates as of December 31,	
	(annual %)	
	2000	1999
TR – Taxa Referencial – Brazilian		
Reference Interest Rate	2.19	5.07
TJLP – Taxa de Juros de Longo Prazo		
Long-term Interest Rate	10.75	13.41
IGP-M – Índice Geral de Preços de Mercado		
General Market Price Index	9.95	20.10
IGP-DI – Índice Geral de Preços – Disponibilidade Interna		
General Price Index – DI	9.80	19.98
UFIR – Unidade Fiscal de Referência		
Fiscal Reference Unit	8.92	3.76

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

	December 31,			
	2000			1999
	Local Currency	Foreign Currency	Total	Total
2001	-	-	-	125,514
2002	60,332	30,333	90,665	88,785
2003	48,930	28,363	77,293	76,912
2004	38,979	30,709	69,688	69,714
2005	36,523	324,019	360,542	362,681
2006	31,180	29,656	60,836	61,373
2007	30,622	28,603	59,225	60,270
2008	30,110	28,603	58,713	60,270
2009	27,208	27,827	55,035	56,303
2010	26,240	23,598	49,838	50,951
After 2010	148,515	73,728	222,243	213,944
	<u>478,639</u>	<u>625,439</u>	<u>1,104,078</u>	<u>1,226,717</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	
				2000	1999
Par Bond (1).....	30	-	One payment at maturity	31,270	31,315
Capitalization Bond (2).....	20	2004	21 semi-annual	28,046	26,461
Debt Conversion Bond (3).....	18	2004	17 semi-annual	25,458	25,400
Discount Bond (4).....	30	-	One payment at maturity	21,899	21,897
EI-Bond (Interest Bonds) (4).	12	1997	19 semi-annual	11,796	12,588
New Money Bonds (3).....	15	2001	17 semi-annual	6,699	6,699
FLIRB (5).....	15	2003	13 semi-annual	5,196	5,178
Total.....				<u>130,364</u>	<u>129,538</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\$5,853 and R\$8,334, respectively, totaling R\$14,187 as of December 31, 2000 (see Note 12).

17. REGULATORY CHARGES

	December 31,	
	2000	1999
Global reserve for reversion quota – RGR.....	17,828	15,117
Fuel usage quota - CCC.....	13,674	4,180
Compensation for land usage.....	3,643	2,198
ANEEL inspection fare.....	579	486
	<u>35,724</u>	<u>21,981</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,	
	2000	1999
Provision for contingencies – COFINS	144,071	71,502
Judicial deposits- PASEP	26,610	26,941
Social security debt (INSS.....)	-	43,692
	<u>170,681</u>	<u>142,135</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.

On August 18, 1998, the Federal Court of Appeals, 4th Region, issued a judgement granting COPEL immunity from COFINS levied on electric energy operations. On August 10, 2000, the Government requested a new trial to annul such judgement. The Company was summoned on November 21, 2000, thus raising the issue of the loss of the exemption. On December 14, 2000, the lawsuit was concluded for the Government, appealed by COPEL, based on conclusive opinions of renowned jurists on the dismissal of the original judgement.

Conservatively, as of December 31, 2000, the Company maintained an accrual for its exposure on these matter in the amount of R\$144,071.

- (ii) 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.

In 1999, the Company adopted the benefits of the Provisional Measure (“Medida Provisória”) No. 1,858-8, dated August 27, 1999 (up dated by the Provisional Measure No. 2,037 of December 21, 2000), 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\$26,610 refers to interest and fines on the same subject which are still being reviewed by the Judicial Court, for which COPEL is waiting for the final court decision on the residual amount to be refunded.

- (iii) 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\$43,692 as of December 31, 1999, which was recorded as a liability.

During 2000, the INSS lawsuit accrual was transferred to current liabilities due to the Company's option for REFIS (Government Tax Recovery Program), which is pending approval to be settled with tax credits acquired from third parties (see Note 33).

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:

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Deferred tax assets:		
Allowance for doubtful accounts	-	1,915
Provision for slow moving inventories	-	1,063
Provision for pension plan deficit	141,727	154,833
Provision for tax contingencies	68,225	46,456
Provision for other contingencies	5,949	5,759
	<u>215,901</u>	<u>210,026</u>
Deferred tax liability – long-term:		
Inflationary effects on price-level differences	<u>821,084</u>	<u>666,798</u>

The accrual for the pension plan deficit is being realized in conformity with the debt amortization schedule. Other reserves will be realized according to judicial decisions.

Beginning in 1996, Law No. 9,249/95, prohibited the recognition of the effects of inflation in the corporate law financial statements. The Company is recognizing deferred income tax on income on the differences in assets and liabilities, indexed in the price-level basis financial statements.

b. Provision for Income Tax and Social Contribution Tax:

The reconciliation of income and social contribution taxes, calculated at the rates in effect, with the amounts in the statement of income as follows:

	Year Ended December 31,		
	2000	1999	1998
Income before taxes	583,386	438,233	635,423
Statutory income tax rate (see Note 3.b(v))	34%	37%	33%
Income tax computed based on statutory rate	198,351	162,146	209,689
Income tax effects on:			
Employee profit participation.....	(6,800)	(4,062)	(6,086)
Interest on capital (Note 23.d).....	(54,400)	(44,682)	(59,210)
Remuneration on construction work in progress	-	1,514	(26,390)
Tax incentives.....	(3,114)	(3,326)	(3,418)
Equity pick-up in investees	(845)	(1,617)	3,770
Compensation of social contribution tax with COFINS	-	(2,584)	-
Other.....	(194)	3,009	4,289
	132,998	110,398	122,644

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,	
	2000	1999
Financing of RGR.....	9,253	13,171
Contingencies with:		
Customers – rate litigation	9,867	10,832
Contractors (civil litigation).....	-	47,801
Land expropriation.....	11,333	12,442
Labor	29,870	10,836
	60,323	95,082

The Company is awaiting a definition from ANEEL regarding the amounts and terms of the additional RGR for 2000. Historically, this definition is made in the following year and, accordingly this liability is shown as long-term.

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 DNAEE Bulletins 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 calculated based on the amount actually paid by the consumers and under dispute.

b. Civil Litigation

In July 2000, the Company agreed to pay amounts in litigation to contractors related to the construction of the Segredo Hydroelectric power plant, which amount was paid in confirmation of the agreement in court.

c. Land Expropriation

Lawsuits brought by owners whose land was expropriated for the installation of the Company's projects, specifically those necessary for the construction of dams and transmission lines (see note 14.a).

d. Labor contingencies

During 2000, an outside law firm made specific review of labor matters, and as a consequence of this review, the necessity of an additional reserve to cover probable losses was determined.

The Company is also 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.

22. SPECIAL LIABILITIES

	December 31,	
	2000	1999
Consumers' contribution.....	566,563	578,030
Other	1,139	1,250
	<u>567,702</u>	<u>579,280</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 at the end 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, 2000, capital stock represents the statutory paid-in capital of R\$1,620,247 and monetarily restated paid-in capital of R\$2,417,748 comprised by type of shares and principal shareholders as follows:

Shareholders	(Thousands of shares)							
			Preferred					
	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	28,510,928	22.2	66,809,718	24.4
Stock exchanges holding....	19,273,373	13.3	127,482	29.7	99,558,733	77.7	118,959,588	43.5
Municipalities.....	184,295	0.1	14,715	3.4	-	-	199,010	0.1
Other.....	715,265	0.6	286,610	66.9	112,173	0.1	1,114,048	0.3
Total Shareholders.....	<u>145,031,081</u>	<u>100.0</u>	<u>428,822</u>	<u>100.0</u>	<u>128,195,473</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. Combined Global Offering

On July 30, 1997, the Company increased its capital stock to the equivalent of US\$575,000, through the public issuance of 31,944,444 thousand Preferred B shares, without par-value, 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 depositary for the program, through Banco Itaú S.A. (a Brazilian Bank), the custodian agent for the depositary.

b. Capital Reserves

	December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Remuneration on construction work in progress.....	6,691	6,691	608,887
Contributions and grants for investments.....	371,062	371,062	371,062
Recovery of rate deficit CRC Account	1,741,301	1,741,301	1,741,301
Other.....	318,563	318,563	308,922
	<u>2,437,617</u>	<u>2,437,617</u>	<u>3,030,172</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,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Legal reserve	181,903	160,372	145,158
Unrealized earnings	-	353,766	606,895
Investmentsreserve.....	1,454,755	1,005,177	912,028
	<u>1,636,658</u>	<u>1,519,315</u>	<u>1,664,081</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 2000, 1999 and 1998 the

Company opted for realizing a larger amount than the proportion related to the depreciation and amortization, as permitted by Corporate Law.

The reserves for investments are represented by realized earnings which are withheld according to CVM instructions up to the amount of projected investments in property, plant and equipment.

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 that 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\$160,000 as of December 31, 2000 (R\$120,763 and R\$179,425 respectively as of December 31, 1999 and 1998), instead of dividends for the year.

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

	Amounts in accordance with Corporate Law		
	2000	1999	1998
Net income per official books	430,603	304,283	442,721
Price level adjustment to December 31, 2000	-	-	88,527
Net income restated to December 31, 2000.....	430,603	304,283	531,248
Tax effects on COPEL due to the option of paying interest on capital.....	(54,400)	(44,682)	(59,210)
Net income without tax effects of interest on capital.....	376,203	259,601	472,038
Legal reserve (5%) computed over net income above.....	(18,810)	(12,980)	(23,601)
Reversal of unrealized earnings.....	223,501	175,568	84,838
Reversal of special monetary correction – Law 8.200/91	-	-	313,526
Prior year adjustments (Fundação COPEL – see Note 29)	-	-	(398,365)
Basis for dividend computation	580,894	422,189	448,436
Minimum dividends (25%)	145,224	105,547	112,109
Income tax withheld on interest on capital ⁽¹⁾	13,940	9,944	18,903
Minimum dividend value adjusted, computed considering the effect of income tax withholding.....	159,164	115,491	131,012
Excess over minimum dividend.....	836	5,272	48,413
Appropriated remuneration on capital	160,000	120,763	179,425

⁽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)		
	2000	1999	1998
Capital stock.....	1,620,247	1,620,247	1,225,351
Capital reserves	1,546,446	1,546,446	1,927,099
Income reserves.....	1,731,461	1,460,858	1,293,693
	<u>4,898,154</u>	<u>4,627,551</u>	<u>4,446,143</u>
Credits for capital increase	-	-	12,778
	<u><u>4,898,154</u></u>	<u><u>4,627,551</u></u>	<u><u>4,458,921</u></u>

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..

24. OPERATING REVENUES

a. Electricity Sales to Final Customers

	Year Ended December 31,								
	Number of Consumers at the year end			Quantities –MWh (unaudited)			Revenues - R\$ in thousands		
	(unaudited)								
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Industrial.....	44,227	43,092	42,008	7,847,548	6,333,648	5,932,110	742,786	650,475	639,478
Residential.....	2,226,052	2,159,603	2,096,262	4,447,391	4,306,162	4,184,705	957,643	935,921	941,121
Commercial.....	242,115	235,671	230,366	2,562,616	2,383,606	2,268,418	455,728	429,849	437,281
Rural and other	320,361	312,090	306,342	2,266,246	2,187,423	2,140,733	247,746	241,623	244,518
Public services.	3,297	3,165	3,014	505,344	496,069	479,629	53,029	52,389	53,747
	<u>2,836,052</u>	<u>2,753,621</u>	<u>2,677,992</u>	<u>17,629,145</u>	<u>15,706,908</u>	<u>15,005,595</u>	<u>2,456,932</u>	<u>2,310,257</u>	<u>2,316,145</u>

b. Electricity Sales to Distributors

	Year Ended December 31,					
	Volume consumption – MWh			Gross revenues		
	(unaudited)			(R\$ in thousands)		
	2000	1999	1998	2000	1999	1998
Distributors	412,019	390,966	366,057	14,959	16,019	14,585
Initial Supply Contracts	1,423,011	2,991,757	669,640	51,666	122,585	26,681
Wholesale Energy Market and ICPS.....	2,453,455	3,789,339	5,549,867	66,858	27,006	33,592
Bilateral Contracts.....	730,505	-	-	45,968	-	-
	<u>5,018,990</u>	<u>7,172,062</u>	<u>6,585,564</u>	<u>179,451</u>	<u>165,610</u>	<u>74,858</u>

Based on ANEEL Instruction No. 066 as of January 30, 2001, the Company recognized R\$25,000 on Operating Revenues related to the estimated revenue on the additional power made available to the Wholesale Energy Market (MAE) from September to December 2000.

c. Value-added taxes on sales to final customers

	Year Ended December 31,		
	2000	1999	1998
ICMS.....	566,546	562,345	552,585
COFINS (Note 19 (i)).....	82,761	77,124	-
PASEP.....	17,932	18,061	16,161
ISSQN.....	2,088	-	-
	<u>669,327</u>	<u>657,530</u>	<u>568,746</u>

25. OPERATING EXPENSES

a. Purchased Energy

	Year Ended December 31,					
	Quantities – MWh			Purchase cost		
	(Unaudited)			(R\$ in thousands)		
	2000	1999	1998	2000	1999	1998
From Eletrosul (ITAIPU)	5,546,176	5,375,168	5,301,935	283,923	312,176	224,155
From other.....	1,900,238	419,177	26,611	22,480	21,636	598
	<u>7,446,414</u>	<u>5,794,345</u>	<u>5,328,546</u>	<u>306,403</u>	<u>333,812</u>	<u>224,753</u>

b. Regulatory Charges

	Year Ended December 31,		
	2000	1999	1998
Global reserve for reversion quota – RGR.....	57,401	49,690	45,532
Fuel usage quota – CCC	129,990	64,602	52,427
Compensation for land usage	21,769	21,006	24,839
ANEEL inspection fare	7,191	6,287	7,042
	<u>216,351</u>	<u>141,585</u>	<u>129,841</u>

c. Other Expenses (Income)

	Year Ended December 31,		
	2000	1999	1998
Insurance	1,242	1,805	2,021
Taxes	18,951	15,293	3,123
Rentals	18,398	24,285	23,271
Accruals for legal contingencies	-	32,070	3,950
Provision for doubtful accounts	9,083	3,751	8,748
General expenses	4,990	5,839	2,179
Other, net of recovery of expenses	4,863	(13,716)	(9,809)
	<u>57,527</u>	<u>69,327</u>	<u>33,483</u>

26. FINANCIAL INCOME (EXPENSES), NET

	Year Ended December 31,		
	2000	1999	1998
Financial Income:			
Income on temporary cash investments	17,463	24,351	102,204
Charges on overdue receivables	20,476	18,197	26,072
Charges on long-term receivables and CRC account	54,112	65,566	69,767
	<u>92,051</u>	<u>108,114</u>	<u>198,043</u>
Interest on loans and financing	(65,595)	(69,135)	(50,404)
Monetary variation, exchange gains and losses and other.....	16,356	47,399	(8,282)
	<u>42,812</u>	<u>86,378</u>	<u>139,357</u>

27. OTHER NONOPERATING EXPENSES (INCOME), NET

	Year Ended December 31,		
	2000	1999	1998
Reversal of provision for COFINS	-	-	118,366
Loss on disposal of assets	(5,931)	(700)	(4,734)
Loss on retirement of assets	(20,300)	(18,104)	(45,450)
Extraordinary item (REFIS) (Note 33)	8,311	-	-
Other	(10,730)	(6,264)	-
	<u>(28,650)</u>	<u>(25,068)</u>	<u>68,182</u>

28. EMPLOYEES PARTICIPATION IN NET INCOME

Starting in 1996, the Company adopted a program of participation of its employees in net income, provided that certain previously agreed upon financial and operating measures are met. In 2000, the amount of this participation was R\$20,000 (R\$10,978 in 1999 and R\$18,443 in 1998) 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\$616,860, 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:

	December 31,	
	2000	1999
Current liabilities	18,621	21,520
Long – term liabilities	487,442	524,939
	<u>506,063</u>	<u>546,459</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	398,365
Deferred income tax on the obligation accrual (33%).....	191,457
	589,822
Income statement – operating expenses	27,038
	<u>616,860</u>

Certain financial information pertaining to the fund is as follows:

	As of December 31,	
	2000	1999
Current value of net assets	1,707,504	1,580,525
Mathematical reserves (actuarial cash value of pension benefits):		
Vested benefits	1,158,585	1,079,941
Nonvested benefits	480,774	438,437
Unamortized reserves	(922)	-
	<u>1,638,437</u>	<u>1,518,378</u>
Surplus	<u>69,067</u>	<u>62,147</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 contributions accrued during the years were charged as follows:

	Year Ended December 31,		
	2000	1999	1998
Construction work in progress.....	2,182	2,646	4,746
Operating expenses	17,281	9,030	81,820
	<u>19,463</u>	<u>11,676</u>	<u>86,566</u>

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 and CRC Account	5 and 11
SANEPAR.....	Long-term receivables and investment (through Domino Holdings).....	12 and 13
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
Dona Francisca Energética.....	Investment and financial warranty	13
Machadinho, Compagás and Foz do Chopin	Long-term receivables and investment.....	12 and 13

31. FINANCIAL INSTRUMENTS

Up to December 31, 2000, the Company has not had transactions classified as financial instruments, as defined by the CVM Instruction No. 235, of March 23, 1995.

Cash and cash equivalents – The book values approximate fair value due to the short-term maturity of these financial instruments.

Investments – The value of Company’s investment in subsidiaries accounted for equity method were calculated based on their equity value computed based on Brazilian Corporate Law, and the investments in other companies were valued based on their acquisition costs. Estimates of the market values of investments in non-traded companies were not made, since there is no active market for these securities. Also, market values calculated based on stock market quotations reflect transactions between minority shareholders and do not necessarily represent the amount that could be obtained in a transaction involving the transfer of shareholder control. The Company does not have information regarding these amounts.

Loans and financing – Market value is calculated based on the present value of future cash flows for each financial instrument, using equivalent interest rates for similar financial instruments with similar maturities. As of December 31, 2000, book value, in the aggregate, was approximately R\$40,100 lower than market value.

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

a. Reconciliation of Shareholders' Equity

	December 31,		
	2000	1999	1998
Under corporate law method	4,898,154	5,080,314	4,895,185
Price-level adjustments:			
Inflationary effects on permanent assets	2,413,142	1,953,423	1,940,785
Discount to present value of accounts receivable	(3,222)	(1,585)	(9,388)
Discount to present value of obligations	4,718	8,576	15,419
Restatement of materials and supplies	315	750	102
Income taxes on inflationary effects	(821,084)	(666,798)	(319,465)
As reported in the accompanying price-level adjusted financial statements ...	<u>6,492,023</u>	<u>6,374,680</u>	<u>6,522,638</u>

b. Reconciliation of Net Income

	Year ended December 31,		
	2000	1999	1998
Under corporate law method	430,603	304,283	442,721
Price-level adjustments:			
Inflationary effects on permanent assets and shareholder's equity	5,604	17,439	32,354
Discount to present value of accounts receivable	(3,222)	(1,585)	(9,388)
Discount to present value of obligations	4,718	8,575	15,419
Restatement of materials and supplies	315	751	102
Reversion of restatement of materials and supplies and discount to present value of accounts receivable and obligations – prior year	(7,741)	(6,133)	(3,923)
Income taxes on inflationary effects	111	(6,473)	17,051
As reported in the accompanying price-level adjusted financial statements	<u>430,388</u>	<u>316,857</u>	<u>494,336</u>

33. TAX RECOVERY PROGRAM (REFIS)

On April 10, 2000, the Federal Government instituted, through Law No. 9,964, the Tax Recovery Program, established to regularize all Government receivables arising from corporate taxpayer debts, related to taxes and contributions administered by the Federal Revenue Secretariat and the National Institute of Social Security – INSS.

On November 16, 2000, COPEL submitted its request for participation, confirmed by the Federal Revenue Secretariat.

The total debt included in REFIS was R\$89,766, originating from liabilities with the INSS, payment of which was suspended by means of judicial and administrative actions, and for which the following settlement was proposed:

- a) R\$45,766 related to interest and fines is being liquidated with third party credits for tax loss carry forwards, which were submitted to the Federal Revenue Secretariat on December 8 and 12, 2000.
- b) R\$44,000 related to principal is being liquidated with third party credits derived from a lawsuit refund and a refund request to the Federal Revenue Secretariat, both as set forth in the documentation submitted in the REFIS request.

During the year, the debt was paid through the credits mentioned above and, as determined in the legislation, COPEL awaits approval of its REFIS account by the Tax Recovery Program Management Committee.

The effect of the Tax Recovery Program is recorded as “non-operating expenses (income) net”, in the amount of R\$8,311, as a result of:

Extraordinary income	2000
Updated debt	89,766
Amount paid for the tax credits	<u>(31,487)</u>
Gross income	<u>58,279</u>
Updated debt	89,766
Debt accrued.....	<u>(39,798)</u>
Additional accrual.....	<u>49,968</u>
Gross effect on income	<u>8,311</u>
Tax effects on income	<u><u>(2,826)</u></u>

Due to the legal requirement contained in Article 14 of the related Law, on guarantees, although the Company has made the transactions described above in its REFIS account to liquidate the aforementioned debt, it has pledged certain property items as guarantees required by the Program.

34. EVENTS SUBSEQUENT TO DECEMBER 31, 2000

Privatization Program – The Government of the State of Paraná, through the State Finance Secretary, published on January 9, 2001, the call for bid No. 01/2001 for International Public Bidding for the hiring of financial and legal advisors in order to assist it in selling its shares in the Company.

Wholly-owned subsidiaries – On December 20, 2000, COPEL was granted authorization, by ANEEL (Instruction No. 558/2000), to create the following wholly-owned subsidiaries: COPEL Geração S/A (generation), COPEL Distribuição S/A (distribution), COPEL Transmissão S/A (transmission), COPEL Participações S/A (holding) and COPEL Telecomunicações S/A (telecommunication), in order to unbundle its principal business units.

The meeting of the Board of Directors held on March 1st, 2001 and the Annual Stockholders' Meeting on March 20, 2001, approved the legal formation of the wholly-owned subsidiaries, which were incepted on March 20, 2001.

Management considers it unnecessary to recognize a reserve for the related corporate restructuring costs, since it believes that such costs will not be significant.

35. 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”) and a reconciliation of shareholders’ equity and net income to US. GAAP as permitted by form 20-F, which allows omissions of the requirement to quantify, in the US. GAAP reconciliation, the differences attributable to the effect of comprehensive inflation adjustments recorded locally, 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 and monetary and exchange variations of borrowed funds and through 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 and monetary and exchange variations 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 on the restatement of nonmonetary assets and liabilities (see Note 3(c)(ii)), which is partially charged to shareholders’ equity for Brazilian GAAP purposes. Under US GAAP the deferred tax effects of the indexation for financial reporting purpose would be charged to income and social contribution taxes in the 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 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 the accumulated effect of adjustments related to changes in accounting principles 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>2000</u>	<u>1999</u>	<u>1998</u>
As reported on the accompanying price-level financial statements.	6,492,023	6,374,680	6,522,637
Increase (decrease) due to restatement			
Based on IGP-DI, replacing government index:			
Property, plant and equipment:			
Cost.....	5,705,186	5,876,196	5,908,188
Accumulated depreciation	(3,903,411)	(3,772,728)	(3,676,056)
Special liabilities	(958,275)	(908,663)	(792,115)
Materials and supplies	34,642	33,013	35,683
Investments	-	3,629	3,674
Different criteria for:			
Capitalization of interest during construction:			
Reversal of interest capitalized under Brazilian regulated accounting	(938,614)	(1,022,261)	(1,103,934)
Reversal of monetary and exchange variations capitalized under Brazilian regulated accounting	(225,193)	(231,188)	(31,528)
Capitalization of interest.....	1,374,678	1,374,678	1,374,678
Depreciation of capitalized interest.....	(724,270)	(684,922)	(639,695)
Cumulative amortization of special liabilities	872,401	807,434	752,312
Provision for losses on tax incentive investments	(29,627)	(25,032)	(16,648)
Pension SFAS 87 adjustment	125,563	(3,700)	(647,970)
Reversion of Brazilian pension plan obligation, net of tax effects (See Note 29)	-	-	398,365
Present value of loans and financing.....	11,367	-	-
Reversal of indemnification costs and provision for contingency..	(169,212)	(82,744)	(59,068)
Deferred tax effects of the above adjustments	(365,769)	(320,199)	(382,537)
Approximate shareholders' equity under US GAAP.....	<u>7,301,489</u>	<u>7,418,193</u>	<u>7,645,986</u>

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

	For the years ended		
	2000	1999	1998
As reported on the accompanying price-level financial statements.	430,388	316,857	494,336
Increase (decrease) due to restatement			
Based on IGP-DI, replacing government index:			
Property, plant and equipment:			
Cost	(69,783)	69,747	116,829
Depreciation	(171,833)	(168,601)	(160,201)
Special liabilities	(49,612)	(117,033)	(115,630)
Materials and supplies	1,629	2,240	-
Investments	(3,629)	-	-
Different criteria for:			
Capitalization of interest during construction:			
Reversal of interest capitalized under Brazilian regulated accounting	83,647	81,673	23,424
Reversal of monetary and exchange variations capitalized under Brazilian regulated accounting	5,995	(199,661)	(26,178)
Depreciation of capitalized interest	(46,876)	(45,227)	(45,227)
Pension benefits – SFAS 87:			
Adjustment to US GAAP	(43,843)	(93,688)	(68,102)
Loss from curtailment	-	-	(82,970)
Amortization of special liabilities	64,996	55,123	56,035
Fiscal incentives	-	-	24,035
Reversal of indemnification costs and provision for contingency capitalized under Brazilian regulated accounting	(86,468)	(23,676)	-
Provision for losses on tax incentive investments	(4,595)	-	(5,982)
Present value of loans and financing	11,367	-	-
Deferred tax effects on the above adjustments	86,992	152,341	97,747
Deferred income taxes on price-level under Brazilian GAAP	(153,045)	(340,860)	(34,853)
Approximate net income (loss) under US GAAP	55,330	(310,765)	273,263
Other comprehensive income – Increase (reduction) of equity for pension plan, net of tax effects	(12,034)	224,178	(35,428)
Approximate net income (loss) under US GAAP, net of comprehensive income	43,296	(86,587)	237,835
US GAAP net income (loss) per thousand shares, before comprehensive income effects	0.20	(1.14)	1.00
Weighted average shares (thousands) in circulation	273,655,376	273,655,376	273,655,376

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

	2000	1999	1998
Shareholders' equity under US GAAP as of beginning of the year	7,418,193	7,645,986	7,682,170
Reimbursement of capital	-	(20,443)	-
Increase (reduction) of equity for pension plan -			
Other comprehensive income	(18,234)	334,321	(52,879)
Deferred tax effect of pension plan	6,200	(110,143)	17,451
Net income (loss) for the year	55,330	(310,765)	273,263
Dividends	(160,000)	(120,763)	(274,019)
Shareholders' equity under US GAAP as of end of the year	7,301,489	7,418,193	7,645,986

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,		
	2000	1999	1998
Components of net pension cost:			
Service cost	4,461	5,430	47,132
Interest cost.....	90,002	101,678	176,428
	94,463	107,108	223,560
Return on assets:			
Actual.....	(54,894)	(191,215)	(82,014)
Gain/(loss) deferred.....	(11,832)	130,515	(13,323)
Expected.....	(66,726)	(60,700)	(95,337)
Amortizations:			
Net (gain)/loss.....	-	18,035	24,980
Unrecognized net transition obligation.....	776	1,107	12,635
Employee contributions.....	(388)	-	(23,127)
Net periodic pension cost under US GAAP.....	28,126	65,549	142,711
Pension costs considered under Brazilian GAAP.....	15,717	28,139	(74,609)
Adjustment to US GAAP net income.....	43,843	93,688	68,102

c(i).2. Actuarial assumptions:

	2000	1999	1998
Discount rate.....	6.0%	6.0%	10.24%
Salary increase rate.....	2.0%	2.0%	6.08%
Return on assets.....	6.0%	6.0%	10.24%

c(i).3. Funded status

	As of December 31		
	2000	1999	1998
Actuarial present value of:			
- Vested benefit obligation	1,175,070	1,204,586	1,272,271
- Non- vested benefit obligation	333,628	342,008	450,316
Total accumulated benefit obligation	1,508,699	1,546,594	1,722,587
Projected benefit obligation	1,510,638	1,547,951	1,749,724
Fair value of plan assets	(1,130,651)	(1,148,067)	(1,030,171)
Funded position.....	379,987	399,884	719,553
Unrecognized net transition obligation	(2,328)	(3,102)	(3,908)
Unrecognized net (gain) losses	6,013	(19,587)	(376,655)
Accrued pension expense.....	383,673	377,195	338,990
Adjustment to recognize minimum liability Charged to equity, net of intangible asset.....	-	18,230	354,270
Total accrual required at December 31,.....	383,673	395,425	693,260
Recognized by the Company	(509,236)	(391,725)	(635,112)
Adjustment to US GAAP shareholders' equity	(125,563)	3,700	58,148
Reversion of pension plan obligation gross recorded in accordance with Brazilian GAAP	-	-	589,821
Total adjustments to US GAAP shareholders' equity	(125,563)	3,700	647,969

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\$86,640.

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, 2000, 1999 and 1998 of these instruments.

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 that were recorded as adjustments directly to equity for US GAAP have been considered as other 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 has no shares issuable to employees, therefore, does not believe there will be any significant effect on its financial statements related to this matter.

c(vii) New accounting pronouncements

In June 1998, the FASB issued Statement of Financial Accounting Standards No 133, “Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments and for hedging activities by requiring that all derivatives be recognized in the balance sheet and measured at fair value. SFAS 133 is effective for the fiscal years beginning after June 15, 2000. For US GAAP purpose, the derivatives have been recorded at they fair value. Therefore, the implementation of FAS 133 will not have a material effect on the Company for 2001.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, “Views on Selected Revenue Recognition Issues” (“SAB 101”), which sets forth the staff’s views in applying generally accepted accounting principles to selected revenue recognition issues. SAB 101 is effective for the second quarter of 2000. This SAB did not have a significant effect on the Company’s revenue recognition accounting practices.

In March 2000, the FASB issued Statement of Financial Accounting Standards Interpretation No 44 (“FIN 44”). FIN 44 is effective July 1, 2000 and should also be applied prospectively to certain events after December 15, 1998, but prior to July 1, 2000. FIN 44 clarifies the application of APB opinion 25 “Accounting for Stock Issued to Employees” for certain issues. The Company has no shares issuable to employees; therefore, this new pronouncement had no impact on its financial statements.

c(viii) Statement 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, 2000)*

	Year Ended December 31,		
	2000	1999	1998
Operating activities:			
Net income	430,388	316,857	494,336
Adjustments to reconcile net income to net cash			
Provided by operating activities:			
Depreciation and amortization.....	366,422	350,640	333,348
Disposal of property, plant and equipment and other.....	51,588	38,919	38,610
Equity pick-up on investees	(2,485)	(4,371)	11,423
Provision for long-term liabilities	93,625	97,670	46,384
Deferred income taxes	(24,402)	(17,787)	(35,144)
Monetary variation of long-term assets and liabilities	(93,115)	156,159	91,097
Allowance for doubtful accounts	9,199	3,858	8,748
Reversion of provision for COFINS without judicial deposits	-	-	(42,844)
	<u>400,832</u>	<u>625,088</u>	<u>451,621</u>
Changes in current assets and liabilities:			
Accounts receivable	(134,230)	(42,919)	(19,279)
Services in progress	5,757	4,514	20,457
Other accounts receivable	(23,856)	37,564	10,580
Materials and supplies	(383)	(380)	(6,468)
Prepayment of value-added tax (ICMS tax).....	200,237	(38,192)	47,916
Recoverable Rate Deficit (CRC).....	11,538	21,588	9,525
Prepaid expenses	(215)	(1,374)	8,740
Suppliers	(9,541)	23,749	5,131
Accrued payroll costs	845	(17,337)	(20,763)
Taxes and social contributions.....	(92,892)	(10,015)	(5,552)
Advance billings of electric power.....	(16,769)	(15,144)	(12,670)
Regulatory charges	(3,672)	(795)	(11,524)
Pension plan	(16,488)	(30,483)	(17,784)
Other accrued liabilities	(27,111)	1,642	(2,706)
	<u>(106,780)</u>	<u>(67,582)</u>	<u>5,603</u>
Changes in noncurrent assets and liabilities:			
Judicial deposits	(4,772)	(19,118)	(32,970)
Other noncurrent assets.....	-	(1,485)	(3,778)
Loans to related parties	(20,029)	(4,017)	(3,109)
Provision for contingencies – related to permanent assets	18,069	32,992	-
Net cash provided by operating activities.....	<u>717,708</u>	<u>882,735</u>	<u>911,703</u>

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, 2000)

	Year Ended December 31,		
	2000	1999	1998
Investing activities:			
Additions to investments:			
Sercomtel Telecomunicações S.A. and Sercomtel Celular S/A.....	-	34	(247,134)
Dominó Holdings S/A.....	-	-	(49,699)
Companhia Paranaense de Gás – Compagás	-	(11,712)	(11,229)
Other investments	(28,608)	(36,012)	(19,016)
Additions to property, plant and equipment:			
Salto Caxias hydroelectric power plant.....	(70,640)	(387,338)	(577,689)
Segredo hydroelectric power plant.....	(72,937)	-	-
Other generation plants	(14,515)	(5,475)	(39,304)
Transmission network	(89,925)	(218,485)	(189,222)
Distribution network.....	(116,521)	(144,373)	(158,738)
Other.....	(43,467)	(32,616)	(47,261)
Consumer contributions	42,224	20,787	34,872
Net cash provided by (used in) investing activities.....	(394,389)	(815,190)	(1,304,420)
Financing activities:			
Loans and financing:			
Local currency	(112,342)	40,251	(112,371)
Reimbursement of capital.....	-	(19,524)	-
Dividends.....	(174,992)	(170,281)	(112,743)
Recoverable rate deficit (CRC).....	-	-	-
Net cash provided by (used in) financing activities.....	(297,334)	(149,554)	(225,114)
Net increase (decrease) in cash and equivalents.....	25,985	(82,009)	(617,830)
Cash and equivalents, beginning of the period.....	198,101	280,110	897,940
Cash and equivalents, end of the period.....	224,086	198,101	280,110
	25,985	(82,009)	(617,830)
Supplementary cash flow information:			
Taxes paid	194,319	67,269	73,083
Interest paid	97,843	91,641	98,285

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