

Y 2013 Earnings Call

Company Participants

- Antonio Sergio de S. Guetter, Chief Financial Officer and Investor Relations Officer
- Lindolfo Zimmer, Chief Executive Officer
- Sergio Luiz Lamy, Chief Executive Officer
- Vlademir Santo Daleffe, Chief Executive Officer

Other Participants

- Lilyanna Yang, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon and thank you for standing by. Welcome to Companhia Paranaense de Energia COPEL Conference Call to present the Results of 2013. We would like to inform you that all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session, when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call related to the business perspectives of COPEL, operating and financial projections and targets are beliefs and assumptions of the company's management as well as information currently available.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they refer to future events and therefore they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of COPEL and may lead to results that differ materially from those expressed in such forward-looking statements.

In this call, we have Mr. Lindolfo Zimmer, CEO of COPEL; Mr. Antonio Sergio Guetter, CFO and Investor Relations Officer; and Vlademir Daleffe, President of Copel Distribuicao. The presentation will be made by COPEL's management and you may follow us at www.copel.com.br/ir.

Now, we would like to give the floor to Mr. Lindolfo Zimmer, CEO of COPEL. Mr. Zimmer, you may proceed.

Lindolfo Zimmer {BIO 2132989 <GO>}

Good afternoon everyone and welcome to COPEL's 2013 results conference call. First, I would like to thank you for your presence those who follow us on this conference call and say that it's always a great pleasure to talk to you. And I would like to start by introducing our new CFO and Investor Relations Officer of COPEL, Mr. Guetter. He is a career employee of COPEL graduated in civil engineering by the Federal University of Parana and he has MBA in Finances and Management.

He was the CEO of Copel Renovaveis SA the company that was recently created to manage our Wind Farm and between 2011 and 2013, he was working for Copel Social Security Foundation and he was CEO and also the Administration and Security Officer there. Mr. Guetter joins the company with the mission to deepen the cost efficiency test and maintain final discipline in acquisitions and in new projects continuing the work developed by Mr. Sebastiani, who took over the Finance Secretariat of Parana State.

It is also important to mention that other changes happened also regarding the CEOs of two subsidiaries of our company Copel Renovaveis replacing Mr. Guetter, Mr. Luiz Antonio Leprevost was appointed and he was already Assistant Officer in the same company and in Copel GeT. The new CEO of Copel Transmissao Mr. Sergio Luiz Lamy, electrical engineer, who overhauls over 30 years of career with COPEL held many different positions among the Superintendent of the Consorcio Cruzeiro do Sul consortium, in charge of the construction and operation of the Maua HPP, the largest project built in Parana in the last decade.

Now let's talk about the main highlights for 2013. As you can see on slide number three, our net income was R\$1.1 billion, 52% higher on a year-on-year basis. As you already know most of this growth stems from the better prices in the energy sale agreement and also the allocation strategies adopted by our subsidiary Copel Generation and Transmission or GeT, which sold energy in the spot market.

Another highlight for our market was that last year 9.6% growth and the efforts on the part of our distribution in terms of reducing its PMSO with 111 million reduction and we believe 300 million by 2013.

Another important factor recently occurred was the approval of a credit facility of over R\$1 billion in BNDES funds mainly for the cementing of the Colider plant [ph]. Of this amount over 800 million have already been transferred by the end of 2013. The other remaining 20 million will be released with the evolution of the project that should start up in 2015. Besides we raised an additional 150 million in Promissory Notes issued by the Wind Farm that we are building in Rio Grande do Norte. Still about the Wind Farm, we acquired the wind project portfolio of Galvao Energia e including the remaining stake of 50.1% in Sao Bento Energia and Cutia Empreendimentos Eolicos Company in which COPEL already has a 49.9% stake. With this acquisition, we consolidated a creation of a 100% COPEL Wind Complex in Rio Grande do Norte with 11 wind farms already built or under construction amounting to 278 megawatts of installed capacity. Besides, we have a project portfolio with 570 megawatts potential in the region, which could lead our complex to reach 848 megawatts of power in the future.

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In the Transmission segment, we concurred the right to build and to operate two additional projects that will bring us an additional revenue of 94 million. Finally in an unprecedented step in the history of the company, we concurred this by means of consortium the rights to explore and produce gas in four blocks located in Parana. This is a long-term project that could bring very good results to the company. And lastly, we are proposing a payout of 560 million in dividends and interest on capital equivalent to 50% of the adjusted net income for 2013. Of this amount, 325 million have already been paid at the end of last year so we still have 235 million to be paid out in order to reach this amount, which will be submitted for approval by the General Shareholders' Meeting.

Now, I would like to give the floor to Mr. Antonio Sergio Guetter, our new officer, who will be talking about the company's results.

Antonio Sergio de S. Guetter

Thank you, CEO [ph]. Thank you, Zimmer and good afternoon. Once again, I thank you for your presence in the COPEL's results conference call. It's a great honor for me, a great, a great accession to take on the position of CFO and IRO of COPEL, a company to which I have devoted my whole professional career.

The challenges ahead are many, but I would like to highlight a few. First stepping up our cost reduction endeavors also continuing with the extension policy with value generation to our shareholders. And thirdly, the deleveraging of our balance sheet not forgetting the alignment with the dividend policy that I'm sure with a lot of dedication, we will be able to overcome all these challenges one by one.

Before talking about COPEL's results, I would like to talk about the results of the efforts made in the control of manageable costs by our distribution subsidiaries. As you can see on slide number four, we had segmented the cost of Copel Distribuicao with Portion A, PMSO, construction costs, depreciation and you can see in the comparison between 2011 - 2012 and 2013, the cost of Copel Distribuicao went up 5.6% driven by the 35% increase in construction costs, which are not considered in the regulatory balance sheet. PMSO costs and they in turn had a 5.9% reduction, whereas the IGP-M or the consumer price index went up 5.5%.

Net of the non-recurring effect of the physical and accounting adjustment, the PMSO reduction was 7.3% (inaudible) R\$111 million and the biggest contribution came from the lower payroll cost and the Voluntary Redundancy Program that allowed us to reduce 9% our payroll expenses and our internal restructuring that allowed us to cut 163 management positions in the distribution company. You can see that the reduction is equivalent to a difference of almost 13% vis-a-vis the IGP-M of 2013 the consumer price index and this shows that we are on the right track regarding cost reduction.

Besides I would like to stress that our savings were not higher only because of distributor had a cost of 20 million coming from the enrollment of 148 employees in the incentivized redundancy program at the end of the year. More people enrolled than we thought.

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About the CDE resources, the agency published Decree 7945 at the beginning of 2013 for the transfer of resources to the distributors. On the next slide, we have details of these amounts. Over the years, the company posted R\$827 million in CDE resources referring to the compensation of course with energy charges and to cover the tariff discounts. But the problems of 2013 those probably will not be repeated in 2014.

This is why on March 7th, the government issued the Decree 8203 altering Decree 7945 allowing the transfer of CDE resources to cover costs incurred due to the involuntary exposure of distributors referring exclusively to January 2014. And 114 million were transferred to Copel Distribuicao to help to cover expenses of this month. Last week, the government announced new measures that should help solve the problem of involuntary exposures and also of the cost of energy to the distributors. But as the details have not been clarified yet, we will not be able to tell you how much or when it will be transferred to COPEL.

On slide number six regarding the consolidated results for the company. You can see that operating revenues went up 8 -- by 1 -- 8.1% in 2013 beyond 9 billion. The main reasons were the 27% increase in revenue from sales to final customers due basically to the 9.55% adjustments applied to tariffs as of June 2013, also the increase in the (inaudible) in the recognition of revenues after the third tariff reduce cycle realized in June 2012. Besides, we have the increase in revenue from sales to final customers 190% increase in the sale to the free market of Copel GeT.

The second item in the sales to distributors, the growth was 19% stemming from the higher settlement of energy in the spot market with high spot price and the increase in the average price of sales to distributors due to reallocation of part of the energy portfolio of Copel GeT regarding bilateral agreements, lastly the expiration of the regulated contracts about 900 megawatts [ph] occurred at the end of 2012.

The third item has to do with the TUSD and TUST, the use of the power grid had a reduction of 28% due to the periodical tariff revision effect of Copel Distribuicao, which was in June 2012 and the extraordinary review after the Provisional Measure 579 and also the extension of the transmission assets agreement that caused a reduction of about 189 million in the (inaudible) and Copel GeT.

And the other revenue, which includes construction, telco, gas and others, grew 33%. As you can see on the last part of the slide and reached R\$1.9 billion driven mostly by the increase in construction revenues, which is a consequence of investments made in distribution and transmission and the increase in the rent revenues of the Araucaria TPP that dispatches for eight months in 2013.

On the -- on slide number seven; you see the costs -- the operating costs and expenses of 2013 with an increase of 7.6% on a year-on-year basis. And we can attribute this -- a major part to the 19% increase in expenses with the electric power brought for resale R\$3.3 billion in the period already considering the R\$294 million received by means of the CDE transfers. The costs were charges for the use of the grid. As you can see there, on the second part it has a 47% reduction in the period influenced by lower costs with

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charges for the use of the system with the publication of Law 12738 that extended the transmission concessions and for the transfer of 320 million in CDE funds for the period. Payroll costs, the third part including these benefits of the social security had an 11% reduction in 2013 due to the lower expenses with compensation and charges considering already the salary adjustment for the period and the lower provisions for indemnifications related to the Voluntary Redundancy Program.

Now the costs with third-party services were impacted by the higher expenses with maintenance of the facility and also data communication and processing and they close 2013 with a 4% increase. However, still lower than the inflation of the period reflects CCEAR efforts in controlling our costs.

On slide number eight, we break down our expensive grid the energy bought for resale, as we said already grew by 19% amounted to R\$3.3 billion in 2013. The energy purchase in the regulated market grew basically because of three factors; first, the higher costs with the TPP contract because of the plants dispatch; new thermal and hydroelectric contracts and the replacement of the existing energy contracts that matured in December 2012 and also the monetary replacement of the contracts based on the inflation in the period. Despite the higher costs with these contracts as the regulated market across the CCEE grew because of the high spot market and Itaipu due to the depreciation of the dollars.

On slide number nine, we go back to our results of COPEL. You can see that the consolidated EBITDA grew by 18% in 2013 amounted to R\$1.8 billion and a 20% margin on the operating revenue higher than the previous year. Cash generation of Copel GeT accounted for 85% of the consolidated EBITDA whereas the telco accounted for 5% and the other companies in the Group 10%. Copel Distribuicao had a negative EBITDA of 138 million in 2013. As a consequence of the higher costs with the purchase of energy as we have already mentioned. EBITDA margin for Copel GeT reached 57% and Copel Telecom 47%.

On slide 10, we show you the consolidated net income of COPEL R\$1.1 billion in 2013, 52% higher on a year-on-year basis, as our CEO has already mentioned. The net margin was 12% higher than last year as well.

Analyzing the results of our subsidiaries, you can see that Copel GeT closed the period with R\$1 billion net income, 43% higher on a year-on-year basis and 37% net margin. Copel Telecom posted 48 million as net income, an important 70% growth vis-a-vis the same period than the previous year. Copel Distribuicao posted a loss of R\$78 million.

Very well, these were the main highlights regarding COPEL's results. And I would like to give the floor back to our CEO, who will say a few words about our cost reduction endeavors and give you -- advise you about the events in the different sector.

Lindolfo Zimmer {BIO 2132989 <GO>}

Thank you, Guetter. As we said before, Copel Distribuicao submitted an organization and cost reduction plan, restructuring plan aiming at matching the results of the subsidiary to

the regulatory reference. As you can see on slide number 11, we transferred the CRC account credit of Copel Distribuicao to Copel Holding Company and this allowed us to settle an inter-company loan between the distributor of the Holding Company and the transfer of about R\$470 million to the distributors cash and this operations will be finalized by the end of March.

The plan also contemplates R\$300 million reduction in operating costs of the distributor by 2015. As we said since the beginning of this call, the savings obtained in 2013 were 7.3% equivalent to R\$111 million and for 2014 the estimate is 100 million reduction in the PMSO costs. In comparison to what we achieved in 2013 and the higher contribution to this result will be through lower payable cost and as a consequence of a reduction of our CAGR that was decreased 9% in 2013. As you can see this on the slide, 871 people left COPEL in 2013, 502 or 60% less than the last quarter's in numbers higher than the ones that we had forecast thanks to the adoption of the new Voluntary Redundancy Program that had the enrollment of 183.34 [ph], 148 of them from the distributor. And I would like to mention that over the last three years, 1,200 people left the company and I would like to highlight that the first results of 2014 points to the fact that the target of 100 million will be reached.

And lastly, it's important to give you an idea about the investments that we are making. In generation, we will be adding 405 megawatts in installed capacity of Copel GeT in the next few years. We have already exceeded 60% of the schedule of the Colider HPP and right now, we are doing the electromechanical assembly of powerhouse component in the Baixo HPP of course on schedule and we participate with a 30% stake there and the work is concentrated on the (inaudible) and foundation on the sites, where the generation of circuit and the powerhouse will be built.

On the wind farm, we are consolidating a complex up to 848 megawatts of installed capacity. The 94 megawatts separated [ph] Sao Bento Energia already concluded and add an additional R\$60 million in revenues to the company. In addition, a 184 megawatts are being built and should be started up by March 2015. In the Transmission segment, we are adding 2,500 kilometers of lines to our portfolio and this will give us an additional ramp [ph] of 296 million including three-folds of revenues in this segment. I would like to mention that most of projects should be started up in one year. Overall these were the highlights of COPEL's results for 2013.

Now, we would like to open for questions.

Questions And Answers

Operator

Now, we will start the Q&A session. (Operator Instructions). (inaudible) from Bradesco. She disconnected. So, (inaudible) from Credit Suisse will ask a question.

Q - Unidentified Participant

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Good afternoon everyone and welcome to this new challenge. I have a few questions. The first one has to do with the CVA. We saw very detailed report you said 275 on the half year and based on note number 37; I saw that most of that comes from other financial portfolio as well [ph]? And I don't really understand, what you mean by other financial components? So, could you please tell us, what originated this amount? This is my first question.

The second question has to do with generation. What about sales regarding the remaining energy of 2014 that you still have and regarding the strategy for energy sales? What about this year? So, could you give us some color about these topics?

A - Lindolfo Zimmer {BIO 2132989 <GO>}

(inaudible) thank you for the questions. Thank you for participating in this talk. Your first question will be answered by the President of our Distribution Company CEO or President, CEO, Vlademir Daleffe and he will be giving you the necessary information.

A - Vlademir Santo Daleffe

Good afternoon (inaudible). I think you remember that last year the majority shareholders they decided to differ 4.7% [ph] index increase. And this in turn had a 125 million impact on the balance sheet of last year and you have an additional one equal to this one this year. So, this is the difference that you referred to, okay? So, the second question, could you repeat it? Well, I'm going to ask Sergio Lamy. He is in charge of our generator -- our generating company and he is going to answer your second question.

A - Sergio Luiz Lamy

Good afternoon. This is Sergio Lamy. Regarding generation, I talk about two questions here. One has to do with the strategy of sales of free energy that we have today, which is 170 megawatt is that I think this is what your question. In the short run, this energy will be sold in the spot market. So there are some considerable values in the spot market to be obtained. So, our expectation is that the spot prices will remain high at least until the end of this year. So, our priority is to maintain this in the short run. Of course, we are still waiting for the rules that will have to be established for the -- a managerial [ph] auctions. And depending on the rules that are established for this auction in terms of prices and in terms of schedules of course, we will be adjusting our strategy to the new reality, okay.

Q - Unidentified Participant

And the second question, which was alluded in the beginning or the first month of the year, this was more pronounced and less pronounced for the remainder of the year. But we do not have a significant difference between one and the other; there are small differences over the year. A lot was said in the last few weeks about a possible change in the calculation or the rules of the spot price. It could be a reduction on the level or it could be a change going through the average cost of dispatch of each one of the dispatch, have you considered this hypothesis? What do you think about that because this would impact most of the company is because those were more wrong -- could be negatively affected. So, is there anything you could tell us about that?

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A - Antonio Sergio de S. Guetter

As you know, a decision has not been made about it yet. So, we are waiting for the agency at the Ministry of Mines and Energy to publish a definition about that. So, we do not have any position regarding this strategy or whatever. We would just have to wait for the guidance or the rules to be published by the Ministry to define what our strategy in this regard will be.

Q - Unidentified Participant

Thank you.

Operator

(Operator Instructions) Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for the question. I have three questions. One has to do with dividend. Do we intend to pay about 50% of the net income from now on? The second one is about the CRC account. What is the status of your negotiation with the Parana government? And the last one is gas contract for Araucaria. I understand that COPEL has a lead contract with PETROBRAS today and a GSE contracts with them. So, what would be the variable cost -- an updated variable costs? So, could those change from now on?

A - Lindolfo Zimmer {BIO 2132989 <GO>}

I would like to ask Guetter to answer your first question regarding dividend, about future dividend policy.

A - Antonio Sergio de S. Guetter

In terms of dividend, our strategy is to maintain and align our dividend policy with what is the practice in the sector. Of course, we will be affecting this over the year but our strategy is to keep the same policy. Regarding the CRC it's about 10 million [ph]. Well that this is a more sensitive area and we already have an agenda to evolve this issue but that it depends on the state government and now (inaudible) I think it will evolve as best as possible and we have a few items to talk about in this regard. About gas, I'm going to ask our CEO will answer this.

A - Lindolfo Zimmer {BIO 2132989 <GO>}

We have a contract with PETROBRAS and that guarantees the operations. R\$690 is the amount and it shows that there is consequence of the cost of gas. So, we have no bearing over that. We cannot have any influence on that, which means that the company will continue to dispatch because the spot price is at this level so we see no difficulty there. In Araucaria it's not only important because of -- it's the center of gravity of the South region, the transmission system. And it's very often called to dispatch for the equilibrium of the system so that the supply maybe secured. So, it dispatches because it brings about reliability to the whole system.

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Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you.

Operator

(inaudible) from Itau BBA.

Q - Unidentified Participant

Good afternoon, everyone. I have two questions. I would like to have an idea of how you see the renewal of concessions of Copel Distribuicao? And the second has to do with weakened hydrology? How do you see this scenario of rationing of energy? And do you believe that the South system could offset that weak rainfall that we are having in the Southeast?

A - Lindolfo Zimmer {BIO 2132989 <GO>}

(inaudible). Thank you. I'm going to ask Vlademir to answer about the concession. And this area is the most affected by a decision on this matter.

A - Vlademir Santo Daleffe

Good afternoon (inaudible). The concession contract has two basic assumptions that are the quality of the services delivered and the economic sustainability of the concession. If you talk about the first one, COPEL doesn't have any reason to complain or to be concerned because we're a benchmark in terms of quality. And regarding the second one and this motivated a very strong cost reduction effort for the distributors. We already have a plan that is -- was already implemented with excellent results. We were able to reduce over R\$100 million and we will continue this year. And as of 2015, we will be at levels very close to the regulatory benchmarks. So, there is no technical reason whatsoever for COPEL not to have this ensured as of next year. On the other hand, the Ministry had some difficulty in terms of establishing the rules and the distributors should manifest interest and that renew 36 months before hand and the agency would have 18 months to answer. And this didn't happen these 18 months ended in January and the agency has not manifested itself and this gives us a very strong sign that this trend regarding renewal is not only because of the basis of COPEL and you can see that it's difficult for the government to define these rules because renewals, you have still lot of (inaudible) views and these are the mechanisms for adjustment of prices. So, it's not really on our list of concerns that is to say the non-renewal of the concessions.

Regarding hydrology and the importance of consult, last year well regarding rationing, which is politically rather sensitive. We assure that the risks are high. You know very well that nobody can really see the future and see the behavior of hydrology in the future. But due to the current situation of the reservoirs of the Brazilian systems and due to the fact that we're already at the end of the so called rain period in the Southeast it's coming to an end already and the hydrology of the Southeast system is quite regular, so the risks do exist. They are not negligible.

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In our opinion, this is not going to happen in the short run because we have a more comfortable situation in 2008. For instance, the impact was -- this could help delay a critical situation. Now what everybody knows is a figure that the consultancy company is working with and which is 24% probability of rationing this is not ours; this is a specialized consultancy company that came through this figure.

Regarding hydrology, first reiterating what I said, we have reached the end of the rain period of the Southeast system, which has a very regular hydrology and this puts us in a very sensitive position. On the other hand, the South system is totally irregular. The south system had the biggest flood and the biggest dry season. So, this means that in the South, we could even have a big rainfall in the winter and in this case the South could give a very good contribution to the Brazilian system as a whole. However, this is not a major contribution. You know that the South system is small if you compare it to the Brazilian system as a whole, okay.

Q - Unidentified Participant

Great. Thank you.

Operator

(Operator Instructions) As there are no more questions, we would like to give the floor back to the company for the closing remarks.

A - Lindolfo Zimmer {BIO 2132989 <GO>}

Before finalizing, I would like to thank you all for participating and I reiterate our commitment with cost control, which will be even stronger in 2014. We will keep focus on generating value to our shareholders and seeking higher operating efficiency, maintaining financial discipline and the evaluation of new opportunities and so on and so forth. We know that the energy scenario for the next few months requires caution and the challenges are many, but we assure that we will be able to overcome them.

Once again, thank you very much for your participation and our Investor Relations area is at your disposal. Thank you very much.

Operator

COPEL's conference call is closed. We thank you for your participation and wish you all a good afternoon. Thank you.

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