

Q3 2015 Earnings Call

Company Participants

- Adriano Fedalto, Member-Disclosure Committee
- Luiz Eduardo da Veiga Sebastiani, Chief Financial and Investor Relations Officer
- Luiz Fernando Leone Vianna, Chief Executive Officer & Director
- Sergio Luiz Lamy, Chief Executive Officer-Copel Geração e Transmissão S.A.

Other Participants

- Lilyanna Yang, Analyst
- Marcelo Sá, Analyst
- Marcos M. Severine, Analyst
- Maria Carolina Carneiro, Analyst
- Vinicius Canheu, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, and thank you for waiting. Welcome to the earnings call for Companhia Paranaense de Energia Elétrica Copel to discuss the results of the third quarter of 2015. All participants are in listen-only mode during the company's presentation, and later we'll have a Q&A session when further instructions will be provided.

Before proceeding, we should mention that forward-looking statements that might be made during this conference call related to Copel's business outlook, projections, operating and financial projections are based on beliefs and assumptions of the company's management as well as on information currently available.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions, because they relate to future events, and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of Copel and could cause results to differ materially from those expressed in such forward-looking statements.

With us today in the conference call we have Mr. Luiz Fernando Leone Vianna, CEO of the company; Mr. Luiz Eduardo da Veiga Sebastiani, CFO and IR Officer; Mr. Gilberto Mendes Fernandes, Business Management Director; Mr. Sergio Luiz Lamy, CEO of Copel GeT; Mr. Ricardo Goldani Dosso, CEO of Copel Renováveis; and Mr. Acacio Massato Nakayama,

Assistant Director of Copel Distribuição. The presentation will be delivered by Copel's management and can be followed on the company's website, www.copel.com/ir.

Now, I will turn the call to Mr. Luiz Fernando Vianna, CEO of the company. Please, Mr. Luiz Fernando?

Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Good afternoon. Welcome to the conference call for 3Q 2015 earnings, a moment which I consider to be very important to discuss about our company and also about some perspective of the sector. I remember that in our prior opportunities to talk, we were close to have the Provisional Measure 688 disclosed and it has been published mid August. This brought important changes in the rules for the power plants auctions that had expired contracts, and also the perspective of the GSF restructuring. Since then, the discussion is about the provisional measure and its consequences really have taken up a lot of our time.

About the restructuring of the GSF, we have discussed a lot on this matter internally and we have participated actively in tutorial discussions, always aiming the best scenario for the company in the beginning of November and now by the means of the technical standard of 238/2015 have presented the conditions for their restructuring. Right now, we are concentrated in the analysis of the feasibility of this agreement that demands the removal of the injunctions that protect the generators of the cost related to the GSF since June of this year.

Now, about the power plant auctions, which contracts have not been renewed, the new rules that allow the concession to keep part of the energy to be produced became more attractive for the assets. But on the other hand, they demand paying – the payment of a grant fee which becomes a great challenge for projects, especially our sectorial scenario that has imposed restrictions – cash restrictions to generators and also our economic scenarios that also limit the funding auctions.

On the side of the distributors, we had an important advance and the extension perspective for the concession contract. The Federal Accounting Court had its questions answered and now has concluded the process, recommending to the MME, the extension of 40 concessions, among them Copel Distribuição. The agency also has already presented proceedings of the amendment for that extension and there are their conditions for efficiency in two dimensions; service quality, and economic, finance, management sustainability.

So right now, we are analyzing all the conditions and we are going to submit our decision to shareholders in an extraordinary general meeting that has already been set for December 2. This quarter also was marked by a more profound Brazilian economic crisis and that has impacted the energy consumption. It dropped 2.7% vis-à-vis the third quarter of the prior year according to EPE data.

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Considering only Copel (06:33) Distribuição market, the figures are much better but are also negative. The captive market had a drop of 1% vis-à-vis the same period of the prior year and the total market that considers the captive market and few consumers had a drop of 2.5% that impacted the economic results of the distributor in this period.

Along the last months, also we have seen an improvement in the hydrology, especially of regions south and southeast. And along with the reduction of the demand, has encouraged the government by the electric sector monitoring council to switch off the most expensive thermal power plants after August. With that, there was a reduction in the cost of energy for the system and also the reduction of the red tariff flag that dropped from R\$55 megawatt hour to R\$45 megawatt hour, and releasing a little bit of cost of tariffs for consumers.

It's important to mention that our TPP Araucária has not been impacted by that measure. It's still operating and available for operation. Along the third quarter, that plant has operated during 55 days and has contributed with 548 gigawatts to the system, still talking about hydrology. The improvement in the reservoirs and switching of the TPPs have allowed higher energy production coming from the HPP, therefore reducing the exposure to GSF that was an 86% in the 3Q 2015, above the 80% that we have seen in the first half of 2015 and aligned to what we have seen between July and September of 2014.

Now slide number four, I would like to say that the Federal Regional Court of the 1st Region has approved Copel's GeT request and suspended any type of bonus related to the concession contract for Colíder HPP up to the moment when I now analyze is that administrative process that deals with the request to exclude the liability relating to the delay and the conclusions of the plant's works.

With that injunction, we are protected about delivering energy and the contract of Colíder since the beginning of October is still in the legal areas, we should highlight the decision of the Supreme Court that has an old decision from the Paraná Court that determined that Copel should pay R\$540 million to Ivaí Engenharia related to construction works of PCH (09:37) Derivação do Rio Jordão.

Copel now is waiting for the publication of the court decision and also the answer of Paraná Justice Court and will keep shareholders and the market informed about the process. So before we mention the period's results, I would like to highlight that all end products that are part of the portfolio, Brisa Potiguar Wind Complex are already operating.

Therefore, we have reached 278 megawatts in a commercial operation, and we have already produced 422 gigawatts hour of wind energy in 2015. It's also important to highlight that the four wind parks of São Miguel do Gostoso Complex which has 108 megawatts of installed capacity and it's a partnership between Copel and Voltaia are also ready to operate.

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We are just waiting for the conclusion of the transmission lines, and that activity is under the responsibility of other agents, and after that we will start commercial operation. Now the challenge is to start the construction of the Cutia Wind Complex that has 13 wind parks and totals 332 megawatts of installed capacity, and that is divided (11:04) to start commercial operation in 2017 and 2019.

Now I will turn the floor to Luiz Eduardo Sebastiani, our CFO and IR Officer, and he is going to go into the details of our earnings in the quarter.

Luiz Eduardo da Veiga Sebastiani {BIO 17969160 <GO>}

Thank you very much, Mr. CEO, Vianna. This is a very important moment for the company. The relationship with investors, with the market really to bring you an information, information importance about our company. And we have here superintendents in addition to the office already mentioned. We have our financial superintendent and also our Business Development Director among our other directors. So good afternoon everyone. Thank you once again for taking part on this conference call about our results.

On slide five, as you can see, we have operating revenue that has increased 20% in the first nine months of 2015, overcoming the R\$11 billion. The main reason for that extension is the growth of 35% of the revenue and that is a result of adjustment defined by now and applied to the tariff of Copel Distribuição. And we had an annual adjustment in June and an extraordinary adjustment in March, and that was needed to face an increase of the energy cost and charges.

Also we have the recognition of almost R\$1 billion regarding the result of assets and liabilities in the period. That amount was registered in the first half of the year and it is comprised mainly by the tariff deferment, and those end up being recovered via tariff after the adjustment at June 24 of this year. And when we consider adjusted figures of the third quarter, that is a negative recognition in R\$16 million. Now the supply revenue that has major part of the sales of Copel GeT in total sales of (13:25) had reduction of 5% up to September.

On slide six, we have costs and operating expenses that reached R\$10.4 billion between January and September of 2015, 27% higher than the one we had in the same period of last year. And that can be explained mainly by the elevation of energy costs that we brought (13:51) for resale that increased 44% vis-à-vis the same period of last year. That increase is a reflection of the higher cost with acquisition of energy from Itaipu that has increased due to the tariff adjustment and also the dollar appreciation. In addition to that also contributed the adjustment of contract that were adjusted by the inflation at the end of transfer of funds from CDE and the ACR accounts that offset cost over R\$1 billion last year. Also, we had an increase of 46% in charges cost, reflecting mainly in a higher ESS related to the dispatch of thermal power plants out of the order (14:36).

Manageable cost has increased 16% in the first nine months of 2015 due to the higher expenses with personnel and outsourced services and also consequence of the inflation

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that has reached around 10% in that period of time and the cost increase needed to face the growth of the company and to keep the quality standards.

I'd like to highlight that we had here in Paraná along the year a lot of events - climatic events that were very severe and they have generated extraordinary cost. So on slide seven, we see the EBITDA is 10% lower than the one we had in the same period of last year, totaling R\$1.6 billion with a margin of 14% on the operating revenue. The cash generation of Copel GeT accounts for 66% of the consolidated EBITDA, with Copel Distribuição 10% and Copel Telecom, 5%. Other companies of the group accounted for 19%, and the main contribution here came from Araucária TPP. About the EBITDA margin, Copel GeT has closed the first nine months of the year with a margin of 50%, Distribuição 2%, and Telecom 43%.

On slide eight, we have the consolidated net income for Copel that has reached R\$863 million at September of 2015, 19% lower than the same period of 2014, due mainly to lower GSF and also to the reduction of the (16:20) and the subsidiaries result we can see that Copel Distribuição, it had net income of R\$98 million, reverting the loss that happened in the same period of last year. Copel GeT closed the period, the first nine months of the year, with a net income of R\$705 million, 29% lower than the same year of last year. And Copel Telecom R\$43 million of net income aligned with the same period of 2014. So, these were our highlights. We are now available for your questions.

I would like to ask your permission, Mr. CEO and also analysts and investors that are following us. We would like right now to make some important announcements or explanations of the analysis that have been already published in the market and that is about Copel Distribuição balance sheet. And here, we have with us, our accountant superintendent that has an important role in the company, but also in the factor, he had done all the accounting in this area and also in the regulating energy sector. And so, it's very important for us to have him with us and Adriano Fedalto, and we are already anticipating to our listeners a few comments on that matter. Thank you very much, Mr. Adriano.

Adriano Fedalto

Good afternoon, everyone. Thank you for this opportunity to add a little bit more information about our figures of Copel Distribuição. We have seen that this was a very intense quarter for all the distributors. They are going into a process of renewing concessions. That is our care as well and we had very specific events here of our Copel. And we would like to talk about them so that we can add more information about what has already been seen in our accounting for the third quarter.

So, I would like to ask your permission to tell you a little bit more in my accounting language, so that you can have more information. You have seen, just like all of us, the third quarter and we'll be talking specifically about the third quarter of 2015. We have seen that Copel Distribuição had a negative EBITDA of R\$85 million. This is the figure that we would like to go over with you. We had some very specific events and the factors and some specific events for Copel and we'll bring to you a brief review of those.

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So now, I'll also ask your permission to break that down. I'll start by talking about the revenue of Copel Distribuição. We had an event now in the third quarter that has generated R\$36 million of credit of PIS and COFINS taxes that have not been recognized. We have a practice here at Copel and other distributors, everyone operates in the non-cumulative regimen of PIS and COFINS and we have been following those movements in credits and we adjust the tax brackets in a way that we have to charge our consumers.

But now in the third quarter of 2015, that value amounted to R\$36 million and the adjustments required time. So you will see the adjustment in effective tax credit of our consumers now in the fourth quarter, and we'll recover part of that amount or actually the full amount in the fourth quarter. So this is a first adjustment when we do the reconciliation of R\$85 million of the negative EBITDA. I would ask you to follow that up with us, so that would come up to - the total amount that we really reflect the reality of the company in terms of the EBITDA.

So right now, we adjusted R\$36 million. A second event that has also impacted specifically the third quarter is related to the tariff flag. We had an adjustment of R\$33 million in the quarter due to effective receivables in June of 2015. And you may see that in our document we have other sectorial assets and they have been adjusted in for the third quarter in R\$33 million, so this is another event because of the tariff receivables that with those being posted as sectorial assets and it has been adjusted in the third quarter.

We have a revenue adjustment of R\$5 million that is an accounting - that is re-accounting of CDE. We have been seeing CDE and the movement they become even more complex with time, so there are adjustments here to the - from re-accounting and those were R\$5 million. So, please consider that as a non-recurring adjustment.

Now, going forward with the revenues, we have R\$14 million from estimates of CDE itself and R\$7 million of amortization of (21:53) two specific events. First, R\$14 million, once again, we have closed with the best information possible (22:02) and when you concluded the data we had to do an adjustment of R\$14 million. Now, the amortization of CVU usually the amounts were not as representative. And in our case, specifically, with the deferral of R\$1 billion that were accumulated in the sectorial assets account and transferred that after June, we have a specific effect of R\$7 million, which is recurring from June to July, also they have been adjusted now in this third quarter.

So, these are events - specific events and I would like to have your understanding here just making it very clear these were very specific events. And finally, the last adjustment that we see in our revenue is that we have revenues not accounted (22:58) R\$42 million, no that happened now here in the R\$42 million. That has impacted our results. As soon as the market recovers it this will be also posted either in the fourth quarter or when the market recovers itself in the first quarter of next year. But this is not a loss for the company. It's just an adjustment because of the fluctuation of the market as we have seen in this last quarter.

So, this fact of situations of events total R\$130 million, R\$137 million and therefore we had negative EBITDA of 85%. And if we take that out, we'll have a positive EBITDA of R\$20

million, which will bring effect to reality. We had several of timely events, I mean that once in a lifetime events, and they had some temporary effect here.

Now going forward to costs, we had some specific events once again for the sector for the company that have renewed the concession or are renewing the concessions. We discussed a lot with Aneel and the distribution factor and especially the companies that are right now discussing the renewal of their concessions. And for July 7, most of them had their contracts expired and we needed to reflect that on our balance sheet and what was the better estimate for a financial balance, how much I will be reimbursed if I have to give away my concession.

So since we operated up to the exploration, of course, we need to deal with that number. So what was the best disclosure of our balance sheet in September are now have guided us by the means of a report directed to the whole sector. And so, even if a concession is replaced, we'll have at least 24 months to do that adjustment, a possible bidding so that the new concession takes over the process.

So the criteria was to work with 24 months of that financial asset translates to an intangible asset. Therefore, our quota will increase, I will work with that amount divide by 24 and that is going to face the revenue that I'm receiving to operate the concession. So that event is going to be reflected in all concession areas that are undergoing the process as among them and also that reflects the moment of the quota also that has impacted our EBITDA reducing R\$11 million in the quarter, follow up that figure again in our reconciliation.

Something else that happened specifically in Copel is we had low additional process. We are already working with the process for tariff review in our distributors. We are receiving them from Aneel and we are preparing ourselves so that our base can be referred with the lowest adjustment possible. Therefore, we analyzed all our works, everything we are doing in the period, so that we can adjust ourselves to the regulating standards that we consider reasonable and that quarter there we had adjustment of R\$11 million. Also, there was a reclassification of financial expenses to operating expenses, therefore, it's impacted the EBITDA in R\$13 million. That was to (26:58) these are amounts that we pay our consumers.

2015 was intense, climatically speaking. We're posting that as financial expenses. As our companies in the electric sector, we are adjusting ourselves to the new conditions and characteristics of the sector and to the new accounting rules. And so we have there R\$13 million of financial expenses, they are being classified now as operational expenses so this was also once again a one-time thing.

And finally another adjustment in the result in the third quarter of 2015 when we compare it to the second one, it is an increase for the allowance for provision for doubtful debt account. We are very close now. There was an increase in the third quarter because of increase in our tariffs, but there was an event that we saw in this quarter of 2015. Consequently, all these adjustments in our accounts of expenses reflected R\$45 million.

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So if we start those R\$85 million of our EBITDA and add up all the events, the expenses will then will be with an EBITDA that should be over R\$100 million.

So, I once again ask your permission to say it and I just want to help our shareholders and investors. We are seeing specifically our expenses with depreciation and amortization. It is only adjusted for EBITDA purposes. And now is R\$ 67 million and we see that if we calculate it in a more macro manner and updating our base of 2015, you're going to reach R\$87 million. So we have an expectation of the depreciation. We will adjust our EBIT expectation and a final adjustment relating our EBITDA expectations and I will conclude saying about the supply and I notice this norm in the market and the sector.

But we at Copel use a criteria that is very sophisticated so that we have a better disclosure of our figures and we work with 30 days and 31 days. So in the quarters that close with 30 days, we will see a little bit higher amount of that. And for September 30, we have a variable R\$10 million because of those 30 days that will also be adjusted in October because of that criteria.

So, in summary, and now to open the Q&A session that I'm sure everyone is interested. And that's what I had to say. If you have any questions, I'll be available to answer them. And I want always to be helping you to bring transparent figures, transparent numbers; that's our objective always. Thank you very much.

Q&A

Operator

Now, we are going to start the Q&A session. Our first question is from Mr. Marcos Severine, JPMorgan. Mr. Marcos?

Q - Marcos M. Severine {BIO 3322666 <GO>}

Good afternoon Vianna, Sebastiani. Thank you for this opportunity. I have two questions, both related to the Distribuição. The first one is related to the renewal of the assets that have been proposed by Aneel. My question is, is it really worthwhile for Copel to renew that asset? If we check the leverage level that was indicated by Aneel so that you could renew the concession and should you have to have extra funding there of maybe R\$550 million? So if we analyze the adjusted EBITDA of R\$20 million, even if we consider that and we work with an EBITDA higher R\$300 million a year, that is still very far.

So my question is, would it be good to renew (32:13) to try indemnity. We'd have the assets of R\$2.5 billion and to work with something close to R\$4 billion. Would that make more sense to investors? Wouldn't we have better return this way rather than having an asset with a low level of efficiency? If you decide to keep this asset what type of measures can we see in terms of the distributor recovery efficiency gain, so that we could work closer to the regulating agencies to generate tariffs to shareholders?

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That is, in the last three years, the company was very clear relating to your level of efficiency in the near future. And when we look to the figures three years later, we see that there is a long way to go. So I have a data here from the distributor itself, if we work just with material and services the third quarter of 2015 vis-à-vis third quarter of 2014, this quarter has increased. So it grew 28%, way above inflation. So what can we expect in terms of a trajectory of manageable cost? Are they feasible to be reduced and I already thank you for your answer and for this opportunity.

A - Operator

Good afternoon. So, good evening and good afternoon, everyone. This is (33:59). I am the Assistant Director of the Distributor. About your question, first, the expansion of the contract, yesterday, we approved one of the ratification of the contractor or the proceedings of the contract have been approved for the extension of the distributor contract.

In fact the new contract comes with few innovations also related to the sustainable - economic financial sustainability of the concessionary agent. So this is no raise of the - what we had in the prior contractor and now it's - we have a strong management in terms of the performance of the contract for keeping the concession more 30 years. As far as Copel's concern, we have no doubt that we should renew the contract. Obviously, Copel is adopting itself and was waiting for the conditions. And you can see that we are trying to be compliant with the new condition, especially about the sustainability and access is going to be reviewed, is going to be checked in the next five years.

So, in terms of cost and mitigation and other indicator that will be considered, especially quality indicators, we are already working. Yes, we have the variables that are non-controllable just as the same, but we do understand that for cost reduction and in order to reach the quality index for the new contract, we depend on the company's action. Here, we could mention an automation program for the real factor (36:26) where we will have a strong contribution in the quality topic. And we have already started planning. Starting in 2016 for the next three years, the company will invest in automation in the rural sector, ensuring and controlling the duration of the interruptions and reducing that according to our target.

And with that, we will also automate the rural grid and that was - and of course, we are working as well to reduce cost and to work faster and to reduce the displacement that we have and the number of people that we need to have to meet the target stated in the new contract. And obviously, that investment means more work and more remuneration.

Q - Marcos M. Severine {BIO 3322666 <GO>}

I'm sorry to insist that you understand that these measures that you just mentioned are enough to have the company close to the regulatory EBITDA or you have additional measures for that?

A - Operator

It is obvious that these are specific measures that we are adopting and we see that there is a great opportunity and a scale gain. And of course, we still consider continuing the actions we are already practicing. And of course, this is our major objective to be compliant with the regulation.

Q - Marcos M. Severine {BIO 3322666 <GO>}

Thank you.

Operator

Our next question is from Mr. Vinicius Canheu, Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Hello, everyone. Good afternoon. I have a quick question. About the auction of expired concessions, you said that you're interested in keeping (38:44) is still under does not have the grand of an impairment. What is the idea of Copel about this auction? Are you going to take part on that? Are you going in with your own capital? Can you give us any idea of how this is going to work?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

This is Luiz Fernando. Yes, Copel will take part on that. This is Lot B and we have not decided what we are going to do. If we're going to go in alone, if we'll have a partnership, we are deciding that between today and tomorrow. And we already have funding for that operation.

Q - Vinicius Canheu {BIO 6300903 <GO>}

(39:39) on capital and third-party capital. And finally, your objective is only Parigot de Souza or other product lines as well?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

No. Only Parigot de Souza and the other two small plants that come with it.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. That's fine thank you.

Operator

Our next question is from Ms. Carolina Carneiro, Santander. Ms. Carolina.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon, everyone. About the auction, can you give us an overview? Are you going to take part on the A-1 auction that should happen this year? And can you talk a little bit about the selling price results and if you can also talk about contracting energy. We

know that you have a certain amount of energy for next year. So, I would like to know if you have anything else to tell us about that, about contracts. Thank you.

A - Sergio Luiz Lamy

Good afternoon, Carolina. This is Sergio Lamy, Copel GeT. About the first question, auction A-1 of this year, no, it's not going to be possible for Copel to participate, because we do not have energy for sale after 2016. Therefore, we will not be able to participate on this A-1 auction for the other years, 2017 on. Obviously, we have a commercialization strategy and that strategy starts to be deployed at the end of 2015 and it will continue along 2016.

A - Operator

I would like to add. We even studied the participation of A-1, but with the disclosure of the ceiling price that we have mentioned we decided to stay out of it and wait for another opportunity.

Ms. Carolina? Next question is from Mr. (42:45) from Citigroup.

Thank you for the call. About Colíder, with the injunction, Copel did not do anything else in this quarter. So what is the talk with the regulator? Do you have a perspective about when this is going to be analyzed? And then other question on the distribution, should we keep on waiting for the next quarter? The increase that we saw in the last quarter, should we see a reduction, what is the perspective for the short-term? Thank you.

A - Sergio Luiz Lamy

Good afternoon, (43:20). This is Sergio Lamy, Copel GeT. About the first question on Colíder power plant, our request to anticipate the takeover was because we understand there was a delay from the agency to define about the responsibility for Colíder. So, and superintendent and directors had a meeting with us, in that last meeting they promised us that this would be discussed in April.

And so far up to October nothing has happened. So, we understand that there was not another possibility other than to try and anticipate that - and that has been done in the first region. I don't know if that answer is enough for you, but maybe (44:45) now can talk about the distributor.

A - Operator

Good afternoon, (44:50). Yes, of course, there is special attention in terms of cost and to be close to the regulatory cost. The major variation that we have seen is that we do keep on - we tend to decrease cost, but the climate and other factors have been causing the increase in manageable costs. The idea is that as we have seen previous technologies that might mitigate that to try and reestablish it as such as possible in our system reducing the debt and improving quality and maximizing our productivity reducing cost.

Now going back to Colíder, we should not expect much or an answer, a conclusion in the short-term, am I right?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

No, on the contrary, the court decision of anticipated guardianship or trust that should happen when we expect. So we have an answer, a deliberation still this year. That's what we expect.

Q - Operator

Thank you.

Our next question is from Mr. Marcelo Sá, UBS.

Q - Marcelo Sá

Thank you, all. And I would like to go back to (47:00) question. I understood that you had 20% of contracted energy, and that contract increases along the year. When you say that you have no energy (47:12), is it because you want to have a buffer for GSF or maybe a protection for Colíder or other power plants that might be delayed? That is my first question. Thank you.

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Good afternoon, Marcelo. Yes, that's exactly - yes, we have a certain amount of contracted energy and we are saving for a buffer for the GSF forecasted in the next year and they still to cover Colíder that should just become operational in the midst of next year.

Q - Marcelo Sá

Okay. And what do you have in terms of forecast of GSF towards next year? And another question, if you have a favorable decision about Colíder, if you get this waiver from Aneel, do you understand that you could have an offset which, in theory you have already paid in terms of penalties. So do you understand that you could have some type of exemption because of what is already paid for?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Can you please repeat your question?

Q - Marcelo Sá

Yes, the first question is the GSF for 2016? And my second question is that if you have a favorable decision about Colíder's waiver, if you could revert of what you have already paid in terms of penalties?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Okay. Our expectation for GSF in 2016 is of 84% more or less, that's an average for the year. And decision about Colíder will redirect our strategy, related to the amount of energy we have put in 2016, depending on the decisions. Well, we maybe have a favorable expectation about what we have requested, and obviously that could place us in a more comfortable situation in terms of energy for next year, and we could look for commercialization then.

Q - Marcelo Sá

So just confirming, you expect 84% of GSF for 2016, right?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Yeah.

Q - Marcelo Sá

Thank you.

Operator

Our next question is from Ms. Lilyanna Yang, UBS. Ms. Lilyanna?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for this opportunity. Good afternoon, everyone. About Copel Distribuição, can you tell us a little bit what you expect to have in terms of demand for next year? And were you short or long in energy distribution for this year? And can you talk about the recurring levels of (50:17) EBITDA for the next year? I want to understand you could have a specific programs, any specific efforts to reduce your (50:26) that is around \$80 million higher than the regulatory levels? Second question, about your dividend policies, you intend to pay on the net income, I'd like to have an idea about the capital structures, because now you were showing 2.5 times higher your net debt over EBITDA? Thank you.

A - Luiz Eduardo da Veiga Sebastiani {BIO 17969160 <GO>}

Lilyanna, this is Sebastiani. Lilyanna, can you repeat your questions, especially the one related to the distributor?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Of course, about distribution, I would like to have an idea of specific measures, you would have to reduce the level of operating cost at (51:22) that now at R\$280 million (51:25) higher than what would be the target regulatory levels and can you give us a perspective of volume and demand for next year, and if in this year now that you have a negative exposure or with the surplus of energy at Copel Distribuição, because I'm trying to understand the results of the third quarter in addition to the items that have been mentioned by you in the beginning?

A - Luiz Eduardo da Veiga Sebastiani {BIO 17969160 <GO>}

FINAL

Thank you very much, Lilyanna, and good afternoon, Lilyanna. The distributor, we'll keep on working to reduce cost especially, now in a more adjusted manner, because of the new contract that is under analysis on our side. And obviously some rules have been added and the distributor will adjust itself to comply with the concession contract. That shows that the measures that are providing results are compliant with the contracts. So we'll keep on following the same pattern. About contracting energy, so far, the distributor is not exposed and is within the regulatory condition.

Q - Lilyanna Yang {BIO 14003234 <GO>}

What about the demand? Can you tell us anything about it?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

About the demand and consumption, we have seen a recent movement because of the economic scenario of the country, that is reflecting on the energy consumption as well as with a strong impact on the residential market because of the tariff increase. It is a natural moment. But in our market in Paraná, we have seen a lower retraction and we expect to see a recovery after 2016, when the economy starts moving again. And considering that, Paraná has an agro industrial area that is a strong and with mechanisms to mitigate the impact.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay, the second is for Mr. Sebastiani, that is related to the dividend levels?

A - Luiz Eduardo da Veiga Sebastiani {BIO 17969160 <GO>}

Thank you very much, Lilyanna. There are no changes in the payout policy of the company. We are at a very interesting level (54:27) companies that are found, and even that we might have an increase in the debt because leverage and investment, we have not concluded the need of payout operations right now.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you.

Operator

Our next question is from Ms. Carolina Carneiro, Santander. Ms. Carolina?

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

I'm sorry, I've got disconnected. I just would like to add a question to my prior question. What is under your assumptions? Is it 0.84 GSF for next year? What type of demand drop are you working with to reach this figure? And considering that, you foresee GSF so high for 2016, just to make it clear because I was not able to listen. I got disconnected earlier on. But why are you not considering the Provisional Measure 688 to final terms? What would have to change in the Provisional Measure or do you see any possible changes to it so that you would consider being compliant?

FINAL

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

About GSF, for 2016, we estimate stability from now on in terms of the demand, which should not have significant changes in our forecast. And of course this figure takes into consideration that you are not able to recover reservoirs, such as the southeast. Even if we have a good rainy season, it's not able to recover. That said, we expect that this recovery shouldn't happen in the longer term. So we still believe the possibility of having a GSF very low for next year.

About Provisional Measure 688, since we had most agents in the Provisional Measure and the part of it that talks about has a logical risk for non-contracted energy in the ACR. In the regulated contracted environment, the first proposal really does not please us, does not please Copel, and I can tell you that it does not please most of the generator's agents. And of course we have not made a final decision yet in terms of that situation. We are doing our math here. And obviously, we'll discuss that more openly soon, but there is nothing that I can tell you right now. The way that is being set for non-contracted energy does not please us, but the decision has not been made. We are concluding all studies to make a final decision.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Yes, but do you foresee the possibility of having a final proposal changed from the government.

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Well, obviously, the measure is still under voting. There is a possibility of some adjustments done to it, but we do not believe in major changes there. We do not expect to have important and relevant changes in what is already proposed in that Provisional Measure.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Thank you very much. Do you have an expectation for long-term contract price, how many years?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

50 years - yeah, sorry, five years. Yes, it could be five years.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Yes. You have a strong commercialization, I don't know how liquidity is, but do you have a price expectation for three years, five years?

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Carolina, we are working internally following strategies of the company, and it would not be wise because it slows that information with more objective data available. So we'll keep our internal work being done about that information and I apologize for not being able to tell you more.

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Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Thank you very much.

Operator

If there are no further questions, I would like to turn the floor to the company's top management for final remarks.

A - Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

This is Luiz Fernando Vianna. And my final remarks are that the sectorial prices will impact the companies and the sector. We are taking all measures needed to mitigate the crisis, and despite of the results, we believe that we have been able to be successful in that meeting, and we expect that Provisional Measure should be approved in the next week, and we expect it will help us unlock the short-term markets, because it is totally strong. And that provision ends up worsening the crisis, but maybe the sector has to go through this problem to find a solution and then help the market going back to work. And that's all we have to say. Thank you very much.

Operator

The conference call of Copel is concluded. Thank you very much for your participation and have a nice afternoon.

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