

## Q1 2015 Earnings Call

### Company Participants

- Luiz Eduardo da Veiga Sebastiani, Chief Financial and Investor Relations Officer
- Sergio Luiz Lamy, Chief Executive Officer, Copel GeT
- Unidentified Speaker

### Other Participants

- Unidentified Participant
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good afternoon. Thank you for standing by. Welcome to Companhia Paranaense de Energia (COPEL) Conference Call to present the earnings of the first quarter 2015. We'd like to inform you that all participants will be listen-only mode during the company's presentation. Afterwards, there will be a question-and-answer session when further instructions will be given. (Operator Instructions)

Before proceeding, I'd like to mention that any statements that may be made during this conference call related to COPEL's business prospects, operating and financial projections and goals are beliefs and assumptions of the company's management and based on information currently available. Forward-looking statements are no guarantee of performance. They involve risk, uncertainties and assumptions since they relate to future events, and therefore, depend on circumstances that may occur or not. General economic conditions, industry conditions and other operating factors may affect the future performance of COPEL and lead to results that differ materially from terms expressed in such forward-looking statements.

Today with us, we have Mr. Luiz Fernando Leone Vianna, CEO of the company and Mr. Luiz Eduardo da Veiga Sebastiani, CFO and IR Officer; Mr. Marcos Domakoski, Chief Corporate Management Officer; Mr. Cristiano Hotz, Institutional Relations Officer; Sergio Luiz Lamy, CEO of Copel GeT; Mr. Ricardo Goldani Dosso, CEO of Copel Renovaveis and Mr. Reinhold Stephanes, CEO of Copel Participacoes. The presentation to be delivered by the company's management may be followed at the company's website at [www.copel.com/ri](http://www.copel.com/ri).

Now, I will give the floor to Mr. Luiz Fernando Vianna, CEO of the company.

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Good afternoon. I have my (inaudible) with me. Welcome to the conference call to discuss the earnings of the first quarter of 2015. I would like to begin by giving you a backdrop of the first month of the year which was quite challenging, particularly for the Brazilian electric sector. On the one hand, unfavorable hydrological scenarios, increasing discussion on the ways of rationing. On the other hand, we're having implementation of flags in the so-called tariff revision, which brought significant adjustment to energy tariffs, effecting inflation rates and causing even more turmoil in an economy that is already stagnated.

And this made the scenario is remarkably more optimistic compared to past months. Rainfall in March and also in April mitigated the risk of rationing and tariff flags and adjustments have allowed distribution company to stand on their own. However, even though energy rationing is not longer an eminent risk in 2015, our reservoir levels remained well, which takes the operation of TPP and the deficit of hydraulic generation or the so-called GSF will remain high. Negatively affecting generation companies that produce hydropower, which are exposed to COD [ph] or different settlement price which should remain at maximum levels all year around.

In addition, it's important to remember the economic conjuncture combined with increase in energy tariff and awareness campaigns may lead to stagnation or even a drop in energy used. That is shown by EDE [ph] data which point to a drop of 0.6% already in the first quarter of 2015. However, despite this adverse scenario, consumption of energy in the captive market of Copel Distribuicao increased 1.7% in the first quarter and latest information showed that will continue growing until midnight. In terms of results, our income totaled BRL470 million in the first quarter, 19% lower than the income in the same period of the previous year. EBITDA posted a drop of 3% totaling BRL835 million this quarter. Energy costs significantly increased by 82%, which is a result of higher prices in auctions and the end of the transfer policy of CED and ACR account funds, which offset a significant portion of this expense last year.

On the other hand, we have a 44% growth in our revenue in electricity sales to final consumers, this tends from adjustment applied in the COPEL Distribution tariffs required to offset the increase in energy cost. Next, we'll be breaking down the growth, but before that it's important to say that the beginning of 2016 was marked by important sectoral discussion, involving the company association, regulatory agency and the government. We are now more proactive now in debate. General topics like reimbursement of energy cost, indemnification of answers and renewal of distribution concession. We are still have important discussions involving the current performance of construction works. This has an impact on the majority of companies with construction projects in Brazil.

In this aspect, it's important to make some comments on construction work our Colider Plant. As you can see on slide number four, we're requesting within a waiver of liability. A total of 644 days related to the delays in the startup of Colider Plant. Initially it was scheduled for December 30, 2014. But after that waiver, start-up will be scheduled for October 2016. This request is justified because all the construction works being had act of vandalism in facilities and strikes that interfered in our schedule. With regard to the factor by changes to the original designs and a delay in the issue of the environmental license required to begin with the agitation suppression of the reservoir area. We are still awaiting for the waiver of liability to be approved by now, but we are in compliance with contracts

of Colider Plant, which totaled 125 average megawatts, using part of our non-contracted energy from other plants.

Few about Colider. It's important to say that our current forecast is to have construction works concluded by April 2016. Another highlight, indemnification of preexisting assets in May 31, 2000. In late March, we've submitted to Aneel, an evaluation report, showing indemnification amount of BRL882 million on December 31, 2012. The book value of these assets was 160 million on the same date. This difference is due to the methodology of the new replacement value which was used according to Aneel's rule. Please bear in mind that the final indemnification amount will only be set once amount evaluate the information submitted, which is expected to happen by year-end.

On slide number five, I would like to underscore the start-up of Foz do Chopim/Salto Osorio line. By year-end, we will expect to have an increase of 135 million in the revenue of transmission assets with the start-up of other important assets that are now in the final conclusion phase -- construction phase. In addition, we also had a commercial start-up of wind farm, Santa Maria and Santa Helena with a joined installed capacity of 59 megawatts. With that, Copel Renovaveis already has 153 megawatts of wind power in commercial operations. In the coming months, another 177 megawatts to be added to our generation farm.

Commercial start-up of another five wind farms in Brisa Potiguar Complex and four farms at Sao Miguel do Gostoso Complex, in which we own a 49% stake. In addition, we have 13 wind farms under construction in Cutia Complex, totaling 332 megawatts of capacity to be added by 2019. Copel Renovaveis is already among the largest companies in the sector in Brazil.

Now, I give the floor to Luiz Eduardo Sebastiani, our CFO [ph] and IR officer, he should be giving more detail on the resulted period.

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

Thank you, CEO, Luiz Fernando Vianna. I also thank the President and the CEO of Copel GeT, Sergio Luiz with us. Professionals from the finance area and other staff at Copel, and particularly those who are joining us during the conference call as well as investors, it's a very important moment to Copel. It is important to disclose the investors.

I would like to begin by making comments on the good result of Araucaria TPP with income totaling BRL155 million in the first quarter of 2015, 16% above the number year-on-year. Just reminding you the history of this plant as you can see on slide six. The TPP is once again operated by UEG Araucaria, a Copel's subsidiary. This operation came back in February 2014. It is a plant under the Merchant modality with no availability contract and sold all the energy produced in this stock market. And the selling price is between (inaudible) and CVU which ever higher according to the rules of this operation modality.

Last year, the TPP traded energy according to TLV [ph] since it was higher than CVU during most of the year. However, in 2015 with a drop of TLV cap to 388 megawatts per

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hour. The energy sales price will always be CVU which was defined by Aneel as follows. BRL765 per megawatt per hour between February 1st and May 30, and BRL595 per megawatt per hour between June 1st and January 31st 2016. CVU is higher because in addition to debt cost recovery, it also includes recovery of administrative and operating cost in addition to asset compensation.

Despite a drop in the sales price vis-a-vis 2014, the plant provided very interesting results in the first quarter, reaching an EBITDA of BRL239 million, which accounts for an increase of 43% year-on-year. This result is mostly due to the fact that the TPP operates continuously in the first three months of the year with a total of 963 gigawatts per hour, whereas last year, the plant only came to well responsibilities in February.

Now, Copel's consolidated results on slide number seven. Operating results -- operating revenue went up 39% in the first quarter of 2015 exceeding BRL4.2 billion. The main drivers for growth in revenue were, increase of 44% in the revenue of electricity sales to final consumers, mainly due to an adjustment applied to tariffs by Copel Distribuicao 24.86% in June 2014 our annual tariff adjustments and 36.79% in March this year due to the extraordinary tariff review in addition to growth in the captive market.

17% growth in the account Electric Energy Supply turning from higher revenue in CCEE due to the sale of energy from Araucaria as previously mentioned and the strategy of energy allocation in the stock market by Copel GeT that allocated 1,522 gigawatts per hour this quarter vis-a-vis 501 gigawatts per hour in the first of last year, very significant growth. As to availability of the power grid, which is made up of TUSD and TUST that had an increase of 7% due to the annual APR adjustments and new start-up in the transmission segment. Please note that the adjustment in the TUST was offset by charges this quarter.

As for the revenues which include in addition to sectorial asset and liability results, other revenues like construction, telecom and gas, they reached slightly more than BRL1 billion, reflects the recognition of BRL561 million related to the result of sectorial, financial assets and liabilities and a 17% growth in telecommunications revenues which totaled BRL48 million. More specifically about sectorial assets and liabilities result in Copel GeT division, we highlight that, this revenue tends from an increase in asset balance related to tariff deferrals and higher constant energy and charges, which will be recovered in the next, I will review.

These sectorial assets were not recognized in the balance sheet since the adoption of IFRS and are now being posted again after an abundant to the concession contract we've signed. We will guarantee that residual value of Portion A and other financial components not recovered by a tariff will be included to the indemnification calculation should the concession be terminated.

On the next slide, we talk about operating costs and expenses in the first quarter, reaching 3.6 billion or 50% higher than the first quarter of 2014. This was mostly due to the increase of 82% with electric energy purchased for resale totally BRL1.8 billion this quarter. Cost with charges and the use of the grid increased 61%, basically due to higher charges in the system service related to thermal dispatch in addition to an increase of

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costs related to the start-up of new assets in the system and adjustments in transmission tariff in Itaipu energy.

Costs with a purchase increased 11.4% vis-a-vis the first quarter of 2014. It's a natural consequence of Araucaria plant which is now being operated by UEGA only after February 2014. Manageable costs increased 22% reflecting higher expensive with personnel and third party services, inflation, adjustments in salary benefit and contract, cost required to offset the growth of the company and also GET and (inaudible). Costs were also effected by an increase in provisions for several administrative and work -- labor claims in addition to the closing of BRL73 million in AVA [ph] and the price of energy traded in CCEAR and Colider and PLD.

On slide number nine, we breakdown expenses with energy purchase for retail. Like we said before, increased 82% totally and approximately BRL1.8 billion in the first quarter of this year. Energy project in the regulated market, CCEAR increased basically due to the entry of new contracts and higher prices. Copel Distribuicao purchased 302 average megawatts at a price of BRL385 per megawatt per hour in the adjustment auction in January this year, in addition to restatement of contracts by inflation and higher dispatch of thermal plant this quarter.

Itaipu costs doubled vis-a-vis the first quarter of last year reflecting the tariff adjustment denominated in dollars. But the main reason behind the increase in the quarter comparative cost is the end of the fund transfer policy from CDE and account ACR. The first quarter in 2015 [ph] had 832 million with CDE and ACR account to offset high cost at that time.

Slide 10 shows that our consolidated EBITDA had a drop of 3% vis-a-vis the first quarter of 2014, totaling BRL835 million with a margin of 20% of operating revenues. Copel GeT's cash generation accounted for 75% of consolidated EBITDA, Copel Distribuicao 30% and Copel Telecom 3%. The remaining companies of the group joints the account for 16% and the major contribution came from Araucaria plant. As to the EBITDA margin, Copel GeT closed the first quarter with a margin 69%; Distribuicao 2% and Telecom 45%.

On slide 11, we show Copel's consolidated net income. 470 million in the first quarter of 2015 or 19% lower than the same period of 2014. While we analyze subsidiary results, we can see Copel Distribuicao closed the first quarter with a total income of BRL29 million offsetting the loss in the same period of the previous year. Copel GeT closed the quarter with an income of BRL409 million or 5.3% lower year-on-year, affected by higher GSF and a reduction in PLD Cap. Copel Telecom in turn had an income of BRL15 million in line with the numbers year-on-year.

These were our highlights, and we are happy now take questions. We are here for any questions you may have. Thank you very much.

## Questions And Answers

## Operator

We will begin now the question-and-answer session. (Operator Instructions) The first question is from (inaudible) from Citigroup.

### Q - Unidentified Participant

Good afternoon, everyone. Thank you for the call. What about Colider start-up? Do you have any forecast when the waiver will be evaluated by the regulatory agency?

### A - Unidentified Speaker

We'll listen to Sergio Luiz Lamy, Engineer and CEO of Copel GeT.

Good afternoon, answering your question, we have preliminary statement of a technical note, an internal technical note by Aneel, 214 of waiver. These 214 days, which would account to slightly more than six months or seven months actually. This is even advanced that number that used last year. This is when we first decided to have the impairment of Colider plant. At that time we base ourselves in an internal Aneel documents given signs of a request of five month. Although this new statement is not favorable compared to the original one, we are not happy at compare with such the statements. We've been working with a record one in order to try and clarify the issues, so we can be closer to the position we understand pretty fair.

And certainly, it should exceed one year. Today, the delay of the plant is around one year and four months and we are very confident that we do have argument now in order to have the waiver of liability very close to the real delay of our operations.

## Operator

(Operator Instructions) The next questions is from Vinicius from UBS. Please go ahead.

### Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon. Thank you for the call. The question is, too, about Colider. I would like to have more detail on the negotiation of the purchase of equipment and turbines that you had with Wind Power Energia. Were there any energy or cost increase?

### A - Sergio Luiz Lamy

Sergio Luiz Lamy speaking again from Copel GeT. The answer is no. When it come to an increase in costs, we haven't had any cost increase yet. We haven't identified any problems. And we found that problem was related to risk of exception vis-a-vis new projects. But this risk is very well under control today, vis-a-vis all the measures we took supported by the consortium in order to carry out a diagnosis of the whole supply, all the services that are being outsourced by WPE. So we can start managing directly our supply with our suppliers. In addition, we also had another approach in the part of supply that is in Mendoza, Argentina. The idea is also -- presents problems in the schedule, in addition to what we already had caused by environmental factors. So just to conclude, there used to

be a risk that might affect the schedule but the risk is very much mitigated and we have no signs of an increase in CapEx caused by the problem with WPE.

### Q - Unidentified Participant

Got it. Thank you. Next question, could you make some comments about the negotiation of the use of Petrobras infrastructure for gas supply to Araucaria 2? What would the cost involved be like?

### Operator

We don't have accurate information yet. We're still working on it with UEGA and Petrobras. We don't have any data yet. And gas supply for Araucaria TPP number 2 has not been defined yet. One possibility is supplied by Petrobras. But, we can also work with imports, imported gas, and maybe have a plant, a gasification plant along the coast of Parana State. But, this has not been defined yet. We are still in the phase of very preliminary studies.

### Q - Vinicius Canheu {BIO 6300903 <GO>}

Thank you.

### Operator

(Operator Instructions) The next question is from Pedro from Credit Suisse.

### Q - Unidentified Participant

Good afternoon. My question is about Araucaria. Could you give us some color about Araucaria's current cash cost and what is the forecast over the year of the cash cost? Any variation expected?

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

Cash cost, I don't have it here with me. But the forecast is, but that's a stable scenario all year round. Our expectation is to maintain dispatch -- let me just correct myself. There will be a slight impact in the coming months. Like we said before in our presentation, when Mr. Vianna delivered the presentation, he mentioned a reduction of CVU. So, there will be a slight reduction due to CVU reduction in the coming months, but that's in the second half of the year. I don't have the percentage with me. But reduction will not be significant. I would say 15% max, rebating ourselves on the total cost at Araucaria this quarter.

### Q - Unidentified Participant

Could we try to assume the cost of operating Araucaria per megawatt per hour or 100 megawatt per hour for CVU until May. IOR [ph] 7.65, that's why Araucaria show significant. Over the year, I understand there will be a drop in CVU 595, but we would like to understand that the cost of the Araucaria? The bulk is gas operation should be considered for 100 megawatt per hour. And then there will be a reduction in EBITDA at

Araucaria mid-year. Something, very interesting -- still very interesting to the company. I would just like understand is the math is okay or if I missed something.

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

Your math is correct. But, when it comes to cash price variation, that's a market issue with a net projections there. This is uncertain. Right now, I cannot make any more accurate forecasts.

**Q - Unidentified Participant**

So, if there is any significant variation in the cost of Araucaria, can you also knock on Aneel's door to ask for a CVU review?

**A - Unidentified Speaker**

Absolutely, we're assuming that in the CVU of 7 -- 7.5 and then 5.95, maybe we'll have some question of EBITDA per megawatt per hour for Araucaria this year and that is very strict in the sense when it comes to CVU recognition. There is no question. But if there is an significant variation in (inaudible) may become higher. There is no problem, no difficulty to try to file or request a CVU review.

**Q - Unidentified Participant**

Okay. Thank you.

**Operator**

(Operator Instructions) The next question is from (inaudible).

**Q - Unidentified Participant**

Good afternoon, everyone. I would like to know your view point about concession renewals for distribution company. How do you believe that and what is the impact on Copel in terms of unexpected obligation. Could you give us some color?

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

I'll ask (inaudible) our engineer from Copel Distribuicao to answer your question.

**A - Unidentified Speaker**

Good afternoon (inaudible). We are convinced that the renewal of a concession agreement of distribution when it comes to Copel, this is well balanced. We have a schedule already set in the issue of decree [ph] laws or public hearings to validate at least conditions that we're stated via media. And as we've see at Copel, when it comes to these conditions, there will be no problem to work on obligations that might be related to the concession agreement.

**Q - Unidentified Participant**



Okay. Thank you. If I may, I would just like to ask another question. I would like to starting to understand why manageable cost increased so much? I understand there was an increase in variable dispatch in such cases, but still even personnel expenses increased more than 10%. Justify this and what should we expect going forward?

### **A - Unidentified Speaker**

More specifically as a distribution company, when it comes to personnel, we had 11% -- close to 11%. If we consider that we're really had an adjustment -- a salary adjustments spanning from IMPC [ph] restatement, it totaled 7.5%. So valuation was about 4%, on top of what is our obligations according to labor agreements. Naturally, if you've noticed that over 2014, we had a lag in DEC indicator. We were concerned about recovering it and one of the actions was to work again in our labor force in several points in which DEC really had an impact and then we really had an increasing facts and outsourced in places or regions where we had to reconstruct some maintenance services to be outsourced. In specific point, because as you know distribution is state wide and in order to shorten this layoff, we have to increase our personnel.

In the first quarter, in addition to this effort to try and shorten our connections and our layoffs [ph] we also had a strong impact or weathering effect that were atypical from January to March over these amounts we really had to work on an extraordinary basis with our headcounts, so it also was related to operating costs. If you look at it carefully, this effort when it comes to strategy this effort met our expectations because duration index are within the goal set by the regulatory power. And now we feel comfortable to meet the terms of the concession agreement without evolving any risks during expansion.

### **Q - Unidentified Participant**

Okay, thank you.

### **Operator**

The next question is from (inaudible) from JP Morgan. Please go ahead, sir.

### **Q - Unidentified Participant**

Good afternoon. I have two questions. The first question is about the tariff review in June. Do you have any idea about the adjustment index that you want to request now. And do you expect to include a tariff deferral of 12 months? We have about 1 billion deferred over 12 months is that the intention? And the second question is M&A. We could see that Copel participated in consortium with energies [ph] in 2012 that was a big. And then it worked out at the process and there will be privatization by year end and then we have (inaudible) you are interested in this kind of concessions in the past. So are you having a look at these items, other studies or any partner that you're considered with another private player? Thank you.

### **A - Unidentified Speaker**

Your first question, just repeat it?

## Q - Unidentified Participant

Okay. It's about tariff review.

## A - Unidentified Speaker

Okay. Engineer (inaudible) is going to answer your question.

The extraordinary tariff review recovered on global term with Portion A. So our expectation which will be included in our calculation which usually are submitted to Aneel on the eve of the -- base date of adjustments is exactly the factor you mentioned, which is -- which are the deferrals that happen over 2013 and 2014. This is our expectation. And once this is included again, we believe that distribution company will be well balanced, considering the current scenario that basically has an impact on tariffs.

As to the scenario mentioned, above any possible interest or sale of distribution company, right now by Copel, there is no attention given to this aspect. Attention is given to Copel Distribuicao. We work on efficiency in this area at Copel Distribuicao and in all the other assets that are under Copel responsibility. This is very focused, our attention and dedication of Copel professional team. So, in 2015, we consider the growth rate, but we walked away from that. Unlike we've said before, now we are paying full attention to all the distribution assets of Copel.

If I may add to the comment, we are paying keen attention now to the roles of the extension. And naturally, based on the rules or the extension rules to the (inaudible) there might be opportunities or not. But it's too early to carry out any analysis. The main point today is the extension of the contracts from 2015 to 2017.

## Q - Unidentified Participant

Do you already have a definition if a new rule should be 20 or 25 years. Do you know that already?

## A - Unidentified Speaker

This will be the defined through a decree law that possibly will be issued in the second half of the week of the month by the Ministry of Mines and Energy and we believe that decree law will regulate these topics. As such what really prevailed in this law. They're satisfied [ph] 13 years. So we expect to see a decree about distribution companies and also a public hearing to be set by Aneel.

## Q - Unidentified Participant

Great. Thank you.

## Operator

This concludes the question-and-answer session. I'll give the floor now to Mr. Luiz Eduardo da Veiga Sebastiani.

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

Once again, I would like to thank you all and wish you a great afternoon, a great weekend. I ask all Copel team of professionals and those of you who joined on conference. We're relentlessly trying to do more efficient, so our company Copel can reach even higher levels. Thank you very much. See you in our next conference call.

## Operator

This concludes Copel's conference call. Thank you all for joining us. Have a good afternoon.

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