# **Q2 2012 Earnings Call**

# **Company Participants**

- Lindolfo Zimmer, CEO
- Ricardo Portugal Alves, CFO, IRO
- Unidentified Speaker, Interpreter

## Other Participants

- Anna Flavia Rochas, Media
- Felipe Leal, Analyst
- Fernando Jasper, Media
- Gabriel Nunez, Analyst
- Lilyanna Yang, Analyst
- Pedro Manfredini, Analyst
- Unidentified Participant, Analyst
- · Vinicius Canheu, Analyst
- Vladimir Fraydi, Analyst

#### Presentation

## **Operator**

Good afternoon, and thank you for standing by. Welcome to Companhia Paranaense de Energia Copel's Conference Call for the presentation of the results of the first half of 2012. I would like to inform you that all participants will be in listen-only mode during the conference presentation. Afterwards, we will have the question-and-answer period, when further instructions will be given. (Operator Instructions)

Before proceeding we would like to mention that forward-looking statements that might be made during this call about Copel's business perspectives and projections and operating and financial targets are beliefs and assumptions on the part 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 may 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 which differ materially from those expressed in such forward-looking statements.

Participating in this call we have Mr. Lindolfo Zimmer, CEO, and Ricardo Portugal Alves, CFO and IRO. The presentations to be made by Copel's officers may be followed on the Company's website, www.copel.com/ir.

Now we would like to give the floor to Mr. Lindolfo Zimmer. Mr. Zimmer, you have the floor.

#### Lindolfo Zimmer {BIO 2132989 <GO>}

Good afternoon, everyone. Welcome to Copel's conference call about the first half of 2012 results. Our presentation will be divided into three parts. First, I would like to make some remarks about the huge growth potential of the Parana state and how Copel has been working to transform this potential into more and more results.

Then, Ricardo will be presenting the main economic and financial highlights for the period. Then, I will come back and we will give you an update about our main projects under construction and our expansion plans.

Parana ranks fifth among Brazilian states in terms of wealth generation capacity and counts on an industrial sector that is in full expansion. We have initial segments that has been growing at a very fast rate especially in the automotive, pulp and paper, publishing and printing areas.

A vigorous services sector and a primary sector with a very intense participation in the chain of soybean, corn, sugar cane, and poultry and these products are among the main highlights in the export agenda of our state. And, by the way, commodity prices, such as soybean and corn, went up very recently because of the low crop stemming from the long dry spell in the producing areas in the United States.

Thus, due to the fact that it is a region that benefits both from the expansion of the domestic market as well as the international trade, the expectations about growth of the Parana economy for the next few years is very bullish so much so that the Parana Institute of Social Economic Development, ISED, has estimate the growth for the Parana economy from 3.5% for 2012 and 4.5% for 2013, driven by a return of the favorable climate to the business area implemented by the governor, Beto Richa's administration.

The scenario supported by the adjustment in public finances in order to liberate tax funds for a new round of investments in order to improve infrastructure for the delivery of basic services such as public safety, health and education. And secondly, the construction of an institutional framework conducive to private investment.

One example of that is the Parana competitivo program, the competitive Parana program, where BRL24 billion in investment for the next two years of which BRL18 billion have already been confirmed, mainly in the automotive sector and pulp and paper sector.

Copel has been preparing itself to transform the positive scenarios in its main consumer market into more robust results. The quality in the delivery and in the services to its

customers has been a competitive difference for the Company. We have consistently better quality industries because we invest in order to deliver the adequate infrastructure to the delivery of services to our customers. And the fruit of our efforts are -- came very soon.

Copel Distribuicao is a national benchmark in client satisfaction according to Abradee. The Company also has one of the best indices for ELT, equivalent length of interruption per customer, and also the EFC among all in the electric sector.

Now I would like to give the floor to Ricardo Portugal, our CFO, and he will be talking about the first half of 2012 results.

### Ricardo Portugal Alves (BIO 2448971 <GO>)

Good afternoon, and thank you for participating in this call. As you can see on slide number four, operating revenue grew by 11% year-on-year, exceeding BRL4 billion. And this was driven by, first, by the 5.5% growth in the account of delivery to customers and 8.5% in the grid availability account, impacted mainly by the expansion of the market and by the tariff adjustments, an average effect of 3% in force as of June 2011.

And I would like to stress gross revenue from delivery to free customers of Copel Geracao e Transmissao, growing by 22% in the period. The physical sale in gigawatt hour grew by 44%. And secondly, the revenue from the delivery to the other utilities, which raised 25% due to the adjustment of contracts, and the higher revenue from the spot market, CCEE, BRL188 billion in the first half of 2012, vis-a-vis BRL65 million in the first half of 2011.

And it is important to highlight the 8% increase in the telecommunications revenue due to the expansion in the client base and also the diversification of the products and solutions offered. Copel Telecommunications counts 2,039 clients and works in 356 municipalities in Parana and two in Santa Catarina state.

And also, the increase of 23% in the piped gas revenues supplied by Compagas due to the price adjustment, 8.5%, as of August 2011, plus 4.5% as of March 2012, and also the higher volume of sales, 8.6% increase in the half year.

And finally, by the 69% increase in the other operating revenues line stemming from the dispatch and consequent payment of the variable parts of the Araucaria plant lease contract with Petrobras, BRL37 million in the first half of 2012, vis-a-vis BRL14 million in the first half of 2011.

As of the end of this week, Araucaria should go back to operating at full speed. And just to give you an idea of the reasons for this growth, in March the plant dispatched in May -- in March, May, June, and some days in July. From January to July 2012, the operating costs and expenses went up by 17% year-on-year due to the following factors.

First, the 25% increase in the electric energy account, which is bought for resale, secondly, 21% increase in charges for the use of the electric grid because of the startup of new assets in the national interconnected system and a higher incidence of charges of the reserved energy and also system service, a growth of 22% in personnel expenses.

Fourth, 49% increase in the purchase of natural gas by Compagas, driven by the already mentioned growth in sales and by the increase in the costs related to the acquisition of gas coming from the devaluation of the real and the increase in the oil basket price that adjusts the price of gas.

And finally, the establishment of provisions amounting to BRL91 million due to the updating of litigation cases with the probability of losses that now is considered as probable, amounting to BRL107 million in the period, partly offset by the reversal of credit for bad debt of the sale of energy of the Maua HPP, amounting to BRL37 million according to a ruling by the -- the decision by the administration based on ANEEL 1.611-12 dispatch.

On slide number six, as you can see, we have the data regarding the account for electric energy bought for resale, amounting to BRL1.315 billion. And here we have the following variations.

The first one is a 15% growth in the purchase of energy in the regulated environment, BRL889 million in the first half of '12, vis-a-vis BRL770 million in the first half of '11, explained by the monetary restatement of the contracts and the growth of the market and by the thermal dispatch of the plants' significant growth and the purchase of energy in the CCEE, the spot market, BRL124 million in the first half of '12, vis-a-vis BRL17 million in the first half of '11 due to, first to the strong increase in the price of settlement of differences, the PLD as we call it.

The average price of the PLD was BRL115 -- or BRL116 in the first half of '12, vis-a-vis an average price of BRL26 in the first half of 2011. And this was due to the delay in the startup of the plant and the distributor of Copel will not be punished, so this will be transferred to the tariff next year.

And finally, the 22% increase in the purchase of energy from Itaipu, BRL261 million in the first half of '12, vis-a-vis BRL214 million last year, justified by the devaluation of the real in the period.

On slide number seven, you can see the zero increase, 22%, zero expense increase due to the 7.4% salary adjustment having to do with the collective agreement in force as of October 2011. Provision for profit sharing program, what we call PLR and the payment of a premium for the performance in the period, and this is an extraordinary effect that should not impact again our payroll expenses over the next years. And the profit sharing program provision and the premium for performance together amounted to BRL75 million in the half year.

And the indemnification of the Succession and Voluntary Redundancy Program, PSDV, amounted to BRL15 million, which added to the profit sharing program and to the

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premium for performance, amount to BRL90 million overall.

And after doing these adjustments, the growth in the payroll account would be 10%, which can be explained by, first, the 5.1% increase in our headcount, which reached by the end of June this year 9,540 employees, aiming at complying with the ANEEL Resolution 414 of 2010 which mandates the in-person service in all municipalities of the concession area and also a new policy for the call center of Copel Distribuicao in order to fully comply with the service levels prescribed by ANEEL.

And secondly, by the review of the career plan structure and compensation between June and December 2011 with levels of the salary of the employees to the ones that are affected in the market with the objective of reducing the turnover costs that we have already mentioned in previous calls. And the immediate -- the effect of this measure were felt immediately as turnover has been dropping consistently. We closed 2010 with a turnover of 11.6%, 2011, 8.3% and in the first half of 2012, a turnover of only 3.8%, which proves that the policy adopted by the Company was successful.

About the Succession and Voluntary Redundancy Plan, we informed that a total of 579 employees joined the program, of which 421 have already left the Company by the end of the first half. And if all these employees really leave the Company, we will have an 8% reduction -- from 7% to 8% in 2013 in our payroll expenses.

Now, slide number eight. We can see the consolidated EBITDA for the first half of 2012, BRL964 million, with a 24% margin on the operating revenue. Copel Geracao e Transmissao accounted for 68% of cash generation, whereas Copel Distribuicao accounted for 16%.

On slide number nine, we can see that from January to June 2012 Copel's net income was BRL505 million, 21% lower on a year-on-year basis. The consolidated net margin was 12% and the generated 33%. Besides the effects related to the energy purchase, transport and charges, effects that were neutralized by the CVA in the past, also the Copel net income was affected by the third tariff review cycle of our distribution Company due to the application of the ICPC-01, which is the interpretation of the committee of accounting procedures, IFRIC-12, that regulates the treatment given to the concession assets under the IFRS that caused the following changes.

First, we started to use the best estimate for fair value of our regulatory asset base as a reference for the financial assets of Copel Distribuicao as its value is monthly. We stated, based on the investments that the management believes will be indemnified at the end of the concession and by the inflation measured by the IGP-M.

Secondly, the indemnifiable assets of our distributor now is being treated as a financial instrument available for sale of the fixed income type, which in summary means the proceeds to the results of any change in the fair value, therefore, as the appreciation of our assets for the tariff model considered replacement prices that were below our expectations what led to a reversal of part of the monetary restatement of the IGP-M that

had been posted under previous results as a component of the financial revenue, will show an increase in the financial expenses amounting to BRL152 million.

And another similar effect affected the results of the First Quarter, the extension of the useful life of the energy assets, the changes in the depreciation rates. All this led to a BRL43 million reduction in the fair value of the indemnifiable assets of our distributors. Therefore, the effects of the change in the fair value of the indemnifiable assets of Copel Distribuicao implies an additional financial expense amounting to BRL195 million in the half year.

On the next slide we see the provisions and the extraordinary effects that affected the EBITDA and the net income of Copel in the semester. Net of the extra effects in personnel provisions, CBA, and the third tariff review cycle, we would have BRL775 million of net income in the first half of this year, 23% higher than the adjusted net income on a year-on-year basis, which was BRL630 million. And the EBITDA, the altered EBITDA would grow 22% and would reach BRL1.2 billion.

In a nutshell, these were the highlights of our Copel results. And now, I would like to give the floor back to Mr. Lindolfo Zimmer, who will give you an update about the status of our projects under construction and the expansion opportunities.

### Lindolfo Zimmer {BIO 2132989 <GO>}

Thank you, very much, Ricardo. On slide number 11, we can see the 10 transmission projects that we are currently building, and a good part of them in partnerships, and that amounts to more than 3,500 kilometers of line in 10 substations.

And as you all know, these projects cross the states of Rio Grande do Sul, Santa Catarina, Parana, Sao Paulo, Minas Gerais, Goias, Mato Grosso and Maranhao, projecting the name of our company in all regions of Brazil and weighing the -- by the participation of the Company in each one of the projects and adding the results in RAP, we would be adding about BRL200 million to the current RAP of Copel Geracao, which is BRL328 million, reaching a total RAP of BRL520 million.

And all this makes Copel the ninth biggest transmission Company in the country, and we're not going to stop here. Copel has already reached the targets estimated for the extension of the transmission business until 2014 in its strategic planning.

And due to the operating scale of the Company and the regulatory stability of the transmission business and the strategic partnerships that we've developed in the recent past, we believe that there is still room for additional investment in this business. And this is the reason why we are revising the targets that we have in our expansion plan.

On the next slide, we can see the generation and construction projects amounting to 800 megawatts, 550 if we do the weighting of our participation and there are distributors amongst the South and the Midwest and the Northeast regions, starting with the Maua HPP, which is almost ready. The reservoir is being filled. And if the hydrologic conditions

are maintained, we will not be far from the forecast, and it should start operation by September.

I would like to remind you that ANEEL did not deem us responsible for the over 400-day delay in the official schedule of the project, so there is no application of any penalty. And it's also important to say that Copel is honoring the commercialization contracts of the Maua HPP by means of that part of contract signed last year.

In Colider about 2,200 people are working the construction, taking advantage of the dry season from May through September and we are according to schedule. And, in fact, we are even before the schedule, and we believe that the top that might be sooner than was initially forecast for the end of 2014.

In Cavernoso II and SHP, we are focusing on the completion of the dam and the other components such as power houses, adduction channels, and water intake, and also the power tunnel and the tailrace and the turbines. And the conclusion will be still within 2012 as scheduled.

Looking ahead, we see the expansion opportunity for Copel Geracao e Transmissao and other eight companies in this sector who have signed a corporation agreement to carry out the technical, economic and social environmental feasibility studies of the hydroelectric complex of the Tapajos basin in Para. The estimated cost is BRL110 million, that will be shared equally among the signatories of the agreement, and referring to the cost of this study.

And the complex is made up by five plants, amounting to 10,682 megawatts operating, which would be enough to meet the needs of consumption of two cities of the size of Sao Paulo City and the plants are Jatoba, 2,338 megawatts, and Sao Luiz do Tapajos, the biggest, with 6,133 megawatts, both the Tapajos Rio. In Jamanxim River we will starting the Cachoeira do Cai 802 and Cachoeira dos Patos 528 and Jamanxim 881 megawatts plants.

And lastly, I would like to make some remarks about the news published by the press recently about the acquisition of the Baixo Iguacu HPP stake. We confirm our interest and we can only tell you that we are in negotiations with Neoenergia Aneel and that the values related to the CapEx would be significantly lower than what has been published and all this is being reviewed and optimizing the users of hoax.

And I would like to remind you that it is 350 mw rated and it was auctioned at the Aneel auction 003/2008 and the interest of the Company is justified due to the fact that we have two plants in operation in the Iguazu River and this could generate synergies with the operation and maintenance structures. In case we close this agreement, Copel will come and give you more details.

And I would like to add that these synergies are very broad, also in logistics and construction, engineering, and all the other competencies that we have already established in the Company. This means that the concession has already been signed by

President Jumas Mousaffi and on Monday the concession contract was signed by Aneel, already defining the schedule for the startup and the whole protocol and combined with the protocols that rules on this kind of operation.

With Neoenergia, our negotiations are going very well, so there is a very big synergy there.

On slide number 13, we thank you all for your participation and for your time. And now, we will be available to you in case you wish to ask questions.

#### **Questions And Answers**

#### **Operator**

Thank you, very much. We would like to start the Q&A session. (Operator Instructions) Our first question comes from Mr. Vinicius Canheu from Credit Suisse.

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

Good afternoon, everyone. I have a question about dividend payout. I know that this hasn't been published yet and this will be discussed during your next Board meetings, but I would like to have an idea about what we should expect. Last year, the Company was very clear about the payout so that you could have a consistent growth in the Company and also regarding the half-year payments.

And when I look at the results of the Company during this first half, the net income is much lower than last year and cash is also low and the CapEx for the projects is higher. And regarding the payout of dividends for the first half, the scenario represented by the Company last year, will it be taken into account or not? Because we know that the dividend payout could be changed due to the current situation of the Company, so that maybe could postponed --.

## A - Unidentified Speaker

Thank you, very much for your participation. We would like to reaffirm what we have already said in the past. We maintain the same position regarding dividend payout. We will be releasing on a half-year basis the dividend payout, and this should happen very shortly as this is being under scrutiny -- it is under the scrutiny of our Board and we are waiting for the final approval and we believe that this could happen.

Regarding the percentage during the first half, well this is pending a final decision, but our position at the executive committee is to comply with the expectations of our investors. Our wish is always to make this have the expected result.

Of course, the other side has to be taken into account as well. Investments are about to be made and the Company has already taken the necessary measures to increase its cash for the necessary investments, so this could result into an even higher benefit. And

this is being considered, but we have our commitments with our investors, which is to optimize dividend payout and distribute this -- referring to the first half of the year. Thank you. Next question?

#### **Operator**

Lilyanna Yang from UBS. You may proceed.

### **Q - Lilyanna Yang** {BIO 14003234 <GO>}

Regarding dividend payout, this this is based on the book net income. Do you have any proposal of paying dividends more related to the cash flow? It is not so much a cash effect. And do you intend to update your strategic plan, I mean the one that you published last year? And your focus, would it be on growth, on an acquisition or will you be focusing on any other area from now on?

#### A - Ricardo Portugal Alves (BIO 2448971 <GO>)

Lilyanna. Good afternoon. This is Ricardo. Thank you for your questions. In relation to the dividend part of your question, we are analyzing this based on our cash flow or our cash availability and possible funding during the year and the possibility of drafting against our loans by the BNDES.

And as Mr. Zimmer said, we are going to bring a proposal, we are going to submit a proposal to the Board next month for the payment -- or the prepayment on the results of the first half. So I can talk neither about the amount nor about the percentage of the payouts. I cannot tell you anything right now about these two points because we have not concluded the studies yet.

But, as our CEO said, we are very much interested in meeting the desires of our shareholders in general, so we will always be looking for the best way to distribute our results. It must be good for our shareholders and good for the Company. Should not forget that we have a very significant investment program for this year. And most of the investment having to do with generation and transmission will be financed by the BNDES.

But unfortunately you know that with all of the documents that are necessary and all the necessary approvals might take some time, and this is the reason why we have to use our own cash availability to bring forward this equity, that is to say before the funds start to flow in.

And another question that you asked was about the changes in our strategic plan. And I can tell you that, yes, as our CEO said, we are going to do some fine-tuning in our strategic plan due to the new economic environment that we see in our country and in our state. So yes, we are revising some of the targets. And as soon as the fine-tuning is ready, then we will come to you and we will communicate this to you.

# **Q - Lilyanna Yang** {BIO 14003234 <GO>}

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Thank you, very much. What about the renewal of the concession contracts for transmission? Do you believe that the contracts will be renewed? Will there be an extension of the contracts?

### A - Unidentified Speaker

This area of concessions that you see already a lot being published and President Dilma herself has already manifested herself about how things will happen and with some news there like the decrees and the charges. And what I can tell you is that our Company totally trusts the results and the decisions of the agency about these renewals. We trust these people personally. We base our whole trust on them, the people at the federal government, and Aneel and CCEE and all the others.

These are the people who are ahead of Abradee, Premio [ph], and others. They are all veterans in the sector. They are people who know the sector deeply. They have been working in the sector for many, many years. And they were the ones that built this system that now covers our whole country, and we have no doubt whatsoever that they will be making the best decisions, a decision that will bring about the best balance for the Company, for customers and for investors.

Because the system wouldn't stand up if these three participants are not considered, if the companies do not have the necessary conditions to supply, to deliver energy to their customers and if shareholders in these companies cannot have a return on their investments, so I have no doubt whatsoever that the decision about the renewal concessions will be a balanced one and a wise one. This is the way I see this, okay?

## **Q - Lilyanna Yang** {BIO 14003234 <GO>}

Thank you.

# Operator

Mr. Felipe Leal from Merrill Lynch. You may proceed.

## **Q - Felipe Leal** {BIO 2015017 <GO>}

Good afternoon. I have two questions. Regarding funding, Ricardo, you said that you expect to have some credit facilities by the BNDES and that some delay is to be expected. So how much do you expect the bonds that you had to brought forward or prepaid via equity?

And now, regarding Bai Sul Guatsa. Has there been any change in the PPA of the Company if there will be a delay vis-a-vis the original schedule at the time of the auctions?

# A - Unidentified Speaker

Felipe. Good afternoon. Thank you for your questions. Regarding the BNDES credit facilities, yes, we have a series -- a whole series of projects that we've submitted to the BNDES and they are being analyzed by them as we speak.

We have the transmission lines at Araraquara -- Taubate (inaudible), which is a substation. We also have another transmission line, which is (inaudible). And we have the Colider power plant, which is the biggest underway, and that we have requested financing from the BNDES as well.

In fact, the National Monetary Council -- well, that could be BRL1.8 billion, BRL1.7 billion, which is the total amount of the resources that we are asking the BNDES for right now. As a coincidence today, we have the contract of Cavernoso SHP, 19 megawatts, BRL72 million financing, and we are signing the contract for that this week and we will be forwarding it to the BNDES after all the legal procedures.

So the plant is almost -- being started up already and I would say about BRL15 million that could be released over September and the remainder already in October because the startup should be, if I'm not mistaken, in October. So we have a very major dealings with the BNDES, and I think everything is according to plan. And I expect all of these projects to have the respective financing already released still before the end of the year.

Then, you were asking about the plants --?

I have no details about the -- this -- but I don't think there has been any significant change besides the startup date and the concessions starts pickup as of now and not as of the initial auction date. So as update -- as of today, that would mean five additional years. And I believe that common sense will prevail and I believe this is what is going to happen, and that would be very wise and common sense and the sector counts on that.

It's very important to have an HPP and a PAC guarded because it is of interest to the country as a whole as a wealth generator, as a job generator and also as a guarantor of the growth of our economy. So I believe that it should be kept as it is. Of course, restating the values, but we are still waiting for the final confirmation of that.

## **Q - Felipe Leal** {BIO 2015017 <GO>}

Thank you.

## **Operator**

Our next question comes from Mr. Gabriel Nunez from UBS. You may proceed.

# **Q - Gabriel Nunez** {BIO 21486400 <GO>}

Good afternoon. Thank you, Ricardo, for the call. I would like to know Copel's opinion about the execution risks involved in very large HPPs such as Belo Monte, Girau, and maybe the Tapajos complex, and what would be Copel's interest in this kind of asset? And how do they fit in your strategic plan?

# A - Ricardo Portugal Alves {BIO 2448971 <GO>}

Over the decades, 58 years, we have always participated in large HPPs and also the expertise is what we have. So we have all the conditions and we want to participate in these projects that should happen in the near future. We have some projects that are being prepared for auction and the group of plants that we have already participated in the studies, Capazas [ph], which is almost a second Itaipu. So yes, we are interested in being present.

And you asked our opinion about these large HPPs. The agency has to look at the whole electric power sector and see how to distribute energy throughout the country in the large HPPs. Of course, if there is a dry spell, you have to have a supplementary choice and then it becomes external and it's pollutant and it costs a lot, so you have to have -- also, the reservoir -- a large reservoir also has the environmental issue involved and it has to be discussed and society must decide what they want. Would they like to pay more for energy and pay more for not so clean energy, or be able to weigh something in the environmental area?

What we can say is that the country, if we project for 2013-2014, we will still have some 75% to 80% renewable and clean energy in our country. Our country is wonderful from this viewpoint. Of course, our Company is very healthy with a very low indebtedness, with a huge growth potential.

And guided by our governor, Beto Richa, we want to participate in these opportunities and use our full potential so that we may use our resources and optimize them and optimizing our whole financial structure, making a good investment of all the resources that we have and using investments up to a balanced level and also because of our technical capability. So we'd like to participate in these.

## **Q - Gabriel Nunez** {BIO 21486400 <GO>}

What can you tell us regarding dividend payout this year? Our clients are always asking us about that. What about dividend payout? So I would like to know when you will be paying dividends? And secondly, are you going to use a base for distributions adjusted to reflect or to revert the BRL200 million that have already impacted your net income?

## A - Ricardo Portugal Alves (BIO 2448971 <GO>)

There are two points that are very clear and that were made clear in the answer that Lindolfo gave to Vinicius Canheu, yes, we will be bringing forwards the dividend payout, as we said last year. I cannot tell you yet whether it's going to be on the notified net income or not, so we are still evaluating our cash needs.

And as I said before, we have many different financing opportunities here between BRL1.6 billion, BRL1.7 billion that are being analyzed by the BNDES and sometimes it's difficult to match the time that this funding is released with our cash needs, mainly to cover our CapEx.

So we are going to bring a proposal to our board by the end of next month and after the board approves, if they do, then we believe we will have an additional 60 days in order to

be able to make this payment. But we believe that our board will think very carefully about our proposal, but I cannot tell you anything about the amount nor the basis that we will be using for this calculation or the percentage. Okay?

#### **Q - Gabriel Nunez** {BIO 21486400 <GO>}

So late September is the date, right?

### A - Ricardo Portugal Alves {BIO 2448971 <GO>}

For the approval, not for the payment. And by the end of the year, up to 60 days after the board meeting we will be able to pay.

#### **Q - Gabriel Nunez** {BIO 21486400 <GO>}

Thank you.

#### Operator

Vladimir Fraydi [ph] from Gernaldo Energia.

### Q - Vladimir Fraydi

My question has to do with distribution, about the impact, the application of replacing some parts. And what about wind energy and solar energy, can you say something about that? Thank you.

## A - Unidentified Speaker

Vladimir, thank you for participating. We have a specific area that deals with new energies. And by that, I mean wind, solar, biomass, and also energy from other sources. So in the United States is very much in fashion and in our approach here we are always paying attention to whatever might be of interest and that might mean in the future.

An important economic contribution for the Company, wind energy is the fashion today. We have extraordinary potential as a country, over 300,000 megawatts, three times more than all that has ever been installed in hydro and still, this is a major part of our energy mix.

And we must not marginalize ourselves from this energy, so we already have wind farms that are being developed, wind farms that we have already acquired and we will participate in the next auction. And if it does happen, depending on the country's growth and the country's needs and the GDP, etc.

So we are well positioned to act in a very competitive fashion. And by competitive, we do not mean at any price, we mean the most important thing is to have a healthy internal rate of return and a return to our shareholders. So it's not -- so the meters -- while this being defined by Aneel, so allowing customers to have these points that will be able to be integrated to the system.

And our experience in terms of solar, we have some projects that are -- that fit into the category of P&D and with encouragement by Aneel as well and the resources are already earmarked for that, so we have to further improve this technology and to know to which extent this energy source can be of use and to be integrated in our mix.

And for the country as a whole, for regions with a high degree of sunlight, the contribution will be very high. In the South region, the participation will be lower. Nevertheless, this is not going to remove the possibility of doing this, but we believe that these new technologies will ultimately bring additional benefit.

Regarding the devices that you mentioned, we can get with a fiber optics cable to the home of the differentiated tariff, we can use consumption for the customer himself so that the customer may have a lower cost. The differentiated tariff over the day, all that can be done.

We can do lots of things, all with fiber optics cable, and I believe that the change will be gradual. It would be meaningless to think that overnight we would have to change four million devices in our Company, that wouldn't be feasible.

Okay, if this customer is willing to pay for that, that's okay, but it wouldn't be fair to believe that the Company would have to bear the burden because the benefit would not be just for the Company. The benefit would be much more for the customers than for the Company itself.

## Q - Vladimir Fraydi

How many megawatts in the wind farm that you mentioned?

# A - Unidentified Speaker

Which one do you mean?

# Q - Vladimir Fraydi

97 megawatts, the one that is about to be concluded.

## A - Unidentified Speaker

And that would be some hundreds of megawatts. I would say a few hundred ultimately.

## Q - Vladimir Fraydi

Thank you.

## **Operator**

(Operator Instructions) Our next question comes from Mr. Vinicius Canheu from Credit Suisse. You may proceed.

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

As we are talking about auctions, I saw on the slide that your target for transmission has already been achieved. But by the end of this year or next year, there will be major auctions of Bel Monte and others. As the target for the Company has already been reached in transmission, are you still considering them in your radar screen? Is the Company going to participate and maybe repeat the consortium that you formed in the last auction?

### A - Unidentified Speaker

We reached the target and we loved playing this game and we are having an extraordinary result from the financial viewpoint, from the result viewpoint, from the economic optimization of the Company viewpoint, and through strategic recognition of the Company in edito the electric sector.

And I think you should never change something that is working very well, so I don't think there is any need for us to extend our action there. If we had a project causing us difficulty, I would say, well, enough is enough. But as we have a very positive outcome, we have condition to participate and to act, and this is why we are reviewing our participation at our target so that we may also be present in these auctions that will be happening in the second semester. Thank you.

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

Thanks.

## **Operator**

Fernando Jasper from Gazeta do Povo newspaper.

## Q - Fernando Jasper

Good afternoon. I have two questions. The first has to do with your investment program. This year it is rather ambitious, over BRL2.2 billion. And in the first semester you only invested one-third of this, so I would like to know why, whether it is according to the original schedule or not, whether it has to do with the BNDES approval.

And the other one has to do with the return of the BRL7 billion that were charged from customers, and right now this is suspended. But anyway, this could be opened again at any moment in time.

# A - Lindolfo Zimmer {BIO 2132989 <GO>}

I would like to ask Ricardo to answer part of your question.

# A - Ricardo Portugal Alves {BIO 2448971 <GO>}

Thank you for your participation. We considered the evolution of the country's economy very different from what it is. The projections were 5.5% GDP growth, and what we see is

that it is rather lower than that today.

And because of that, even the auctions that the agency intended to carry out with their energy, for instance, it was postponed to February then March and today it was again postponed for November. It might not happen at all, so we create plans so generations depend -- we are prepared --.

The interpreter apologizes, but the sound now is very bad.

And, of course, with that our budget was higher than the real meaning divided to. In transmission, for instance, the system needs these lines. The system has to be interconnected because isolated systems are not good, so you have to be part of the national integrated systems.

There has been some evolution and participation of wind plants in the country and the large plants, Girau, Belo Monte, et cetera, they must have their transmission systems established. And in order for us to transmit all of this energy and also to comply with the contracts that have already been signed.

So the frustration comes from this postponement in the starting up of the large power plant (inaudible) is due to delays in funding, et cetera, that we end up suffering the consequences of, and also some problems regarding the environmental access. And because of that, investments are delayed, but this does not mean that we cannot review the plan. After all, this is an investment that was not made, but on the other hand the money is there.

# A - Unidentified Speaker

Vanessa I would like to add something to what Mr. Lindolfo said. It was rather complete, I know, but our investment program that was approved by the board last year, going up to BRL2.257 billion, should be dispersed on average, I would say 80%, due to the reason that our CEO has just explained. However, there are some items --.

The sound has totally disappeared. The interpreter apologizes.

And investment now on will be close to 100% of what was planned. There are some delays in some investments due to the reasons that our CEO has just referred to and they have to do with, for instance, you have a tender offer, you have the bidding process, and there are some spending blocks at the end of the processes. And all this ends up causing delay in the investment schedule.

I would like to talk about the BNDES very quickly. You know that the state-owned companies in Brazil, exception made to Eletrobras and Petrobras as well -- the other state-owned companies in Brazil, they have limitations in terms of funding, there are contingencies involved. In companies such as Copel, and Celeste and the others and Rio Grande do Sul, in order to obtain financing we have to go to the market or the National Monetary Council has to agree to an exception.

So it is not the BNDES' fault because there is a whole procedure to be followed. First, we prepare the documents with the projects and then you bring it to the Ministry of Mines and Energy, and then the Ministry of Mines and Energy brings it to the Ministry of Finance, and then it goes back to the Ministry of Mines and Energy and then they check with Aneel.

And after that, it goes to the National Monetary Council, and they are the ones who will approve or not so that the project may have financing either from the BNDES or from commercial banks. And this takes guite a lot of time. I believe that they should continue between four to six months, the whole procedure of exception in order to obtain financing.

Then, in the case of BNDES, you have to submit your request. And like any other financial institution, they are going to analyze the project and the economic and financial projections of the Company, whether the Company really has the capacity to borrow or not, if the internal rate of return is good or not. So due to all these reasons, from the first time you submit, from the beginning of the process, it takes about a year or even longer than a year.

But about the investment program, this year, 2012, the total of Copel's investments will be BRL1.700 billion to BRL1.800 billion. This is an outstanding and I would say a historical figure, historical sales, we have never reached such a high figure for investments ever in the past.

### **Q** - Unidentified Participant

About the cleave, regarding the money that has been underlay charged from customers, are you concerned with that? Could that -- what kind of impact could you have if it is an unfavorable ruling?

# A - Unidentified Speaker

Vanessa, right now, well, I have not been following this personally, but we are not concerned with that. Some solution will be found. I really cannot be more specific than that. I will try to get more detailed information and I will give you a call.

It had to do with the way the calculation was made, so this has not been defined yet. We do not have any definition whatsoever about how that could impact if it really happens because, in fact, I really think it will be very difficult for this to happen, you know the calculation, every calculation.

And maybe this could be taken into account in the renewal concessions, such as an additional benefit that could be given to customers as a whole. So I believe that we will come to a peaceful solution regarding this.

## **Operator**

Our next question comes from Anna Flavia Rochas from Reuters.

#### Q - Anna Flavia Rochas

I would like to go back to the thing that you mentioned before. You mentioned that Copel is reviewing strategic plans and the targets. I would like to know exactly what is being reviewed besides the fact that you have already reached the figure that you planned for 2014. Are you revealing your expansion plan for any other items?

## A - Unidentified Speaker

We have to consider the whole and read between the lines as well. The whole refers to the need that the country might have in terms of energy and its projections for the next few years because we have to work with long-term decisions, and decisions have to be very well studied, avoiding either a surplus or a waste or a shortage of energy.

So we really depend on measures taken by the federal government. And it depends also on what happens with the globalized world. The world crisis affects us, the US crisis affects us, the European crisis affects us. We are all interconnected. We see companies that once again make their access available in Brazil then they go back to their countries. This is something that we are seeing now for assets that are returning to their countries of origin.

So the review of strategic plans includes all the factors, and this cannot be done very quickly. You have to be extremely careful because this leads to commitments, long-term commitments of the Company where financial agencies with also political commitments. And we must not frustrate our shareholders' expectations, so we are carrying out the studies so that we may establish or re-establish or re-gauge the new path that we could be following and taking the Company to.

So the Company has the financial health and it can expand the opportunity it will arise. Nevertheless, we must always be very careful and always aiming at having a very good business for the Company and for our shareholders.

#### Q - Anna Flavia Rochas

When you say long-term, do you mean five years? What kind of plan do you review -- or, that is to say, what is the length of your plan?

# A - Ricardo Portugal Alves (BIO 2448971 <GO>)

Every year we revise our long-term plan, so our horizon is usually five years. Next year, once again, we review for five years (inaudible), so every year we revise the plan for a term of five years. This is what we call long-term.

However, it has consequences on the short run as well, so this is the reason why we revise it every year. Otherwise, this would be very irresponsible. We have two track this very carefully. So five years is a long term and every year doing the fine-tuning.

Anna Flavia, just as one example of the transmission area, that our CEO has already referred to, in our strategic plan the target in kilometers of transmission line for Copel

would be in 2012, 2,300, 2,514 next year, and then 2,714 in 2014, and 2015, close to 3,000.

And we have already exceeded in transmission. We have already exceeded our 2015 target by 26%, but, as our CEO said, the transmission business is a very safe one. You have a guaranteed revenue, and this is why we revised our budget and our strategic plan, maybe in order to go beyond that because it has proven to be an excellent business.

#### Q - Anna Flavia Rochas

So you have already exceeded your expansion plan for 2015?

### A - Unidentified Speaker

Yes, we have already exceeded it.

### **Operator**

Mr. Pedro Manfredini from JPMorgan. You may proceed.

#### Q - Pedro Manfredini (BIO 21633245 <GO>)

Thank you for the opportunity. I have two questions, very quick ones, I know it's very late. For energy sales, part of the energy contract is for 2013-14. Oh, you have already talked about that. But I would like to know from you what about the sale of this energy in the short run, has the government given you any signs of the change you're -- how are you placing this energy in the free market?

And what about manageable costs? I was checking and there was a significant increase in manageable costs. You have already justified the reason why you had this increase in manageable costs, but I see that year-on-year the growth was rather significant. So I would like to know which level, maybe regarding personnel or payroll incentives, what is recurrent and what is not? And after the tariff review, would the contributor suffer a loss due the fact that it is not reaching some targets of the manageable costs?

I would like to know what you are doing in this regard and in the short run more in detail so that you don't have a very negative impact on the distributor's bottom line. Thank you.

## A - Lindolfo Zimmer {BIO 2132989 <GO>}

Pedro, I'm going to answer part of that and then Ricardo will answer the rest, about the energy sale. The contractor has some difficulties generating because of the construction term currently in force. We only have 5% of our generation conditioned to the renewal of concessions. That is to say 200 and some megawatts, it's very little, so this is not bringing any difficulty whatsoever to the Company as a whole.

# A - Ricardo Portugal Alves {BIO 2448971 <GO>}

Regarding the one that has already been decontracted, it has already been sold, all of it, in better condition and our report already shows a significant expense of the free market of about 44%. And this means a higher number of customers and this energy is being reallocated at much, much better value than the ones that we had before. So 22% growth in terms of value, so we are proceeding this way.

We contract with customers that are captured on when they become free, and they become free, however, they are more or less -- they have to stick to the free markets and they are part of our scenario. And the distributor offsets the energy with the expansion because Parana has an expansion that is higher than the national average.

In 2013, you have 12% only to be placed and we are not in a hurry. We believe that the trend we expect to see in the next few months, of having a good productivity, the trend will be that this energy would be placed at a better price than the current price. Today, we have BRL95 to BRL100, and we believe that could go up by 10% if we are patient.

And this energy is not made available yet, so we are not running the risk of any loss so far, so we are totally comfortable with that. Of course, as of 2014 or '15, growth goes up to 30%, 35% and so on and so forth. And by then, we expect the economic side of the issue to be tackled and that energy can be sold at the healthy price.

Regarding the third tariff review cycle, the impact that we had was an accounting impact. In relation to the future of the distribution company, we see that the tariff reduction was a minor 0.75%, which is a very low value and is known to be offset by the growth in the market that is already occurring. And if we consider the elasticity -- the GDP elasticity, let's say it's one by one between the GDP growth of Parana and the growth in energy consumption. We can already have an idea that we will still see an expressive market growth in the Copel's concession area.

And another aspect, companies at the same size of Copel had a sharper decrease than Copel had in its tariffs. And regarding the costs, there is a major concern remain the part in Copel to start analyzing in depth all these costs and bring them down. Because of that, there's a third one that was launched called (inaudible), and our CEO always goes back to this issue almost every week.

We deal -- we talk of it -- we have the Succession and Voluntary Redundancy Program that is already underway and we have already said that in previous conference calls. The effect of this program will start to be felt by the end of 2013 and over 2014, so there is really a major satisfaction because we are aware of the fact that we have to tackle these costs. It's not a problem of our Company, but of all companies, in fact.

We have to tackle our costs and control them and we believe that as of 2014 we will have implemented the ZBB system, which is a requirement by our president, our CEO, Lindolfo, and we are starting to take steps in this direction. Unfortunately, in 2013 we will not have ZBB yet. We will have a pilot just to see how things will play out, but for 2014 our budget will be really zero-based, we will have a ZBB system implemented already.

#### Q - Pedro Manfredini (BIO 21633245 <GO>)

Thank you, very much, Ricardo. Still talking about cost reductions, what is your target, to take 2012 as something recurrent? Do you have any idea of what kind of cost reduction you will be able to achieve by 2014? Can you quantify that?

#### A - Ricardo Portugal Alves (BIO 2448971 <GO>)

No, it's very difficult to quantify. I can tell you about our Voluntary Redundancy Program. Our expectation is that when the target -- the target is around 1,200 or 1,300 employees. And when they join the program by the end of 2014, we will be able to reduce our payroll between 10% and 12%. We still have 600 employees who participate in the program. They still have to join.

And regarding the manageable costs, yesterday we started the process for the budget for 2013 and our CEO established that costing. Exception made to payroll costs, all of the other costs will be analyzed in that and we intend to keep the same values as this year's.

#### Q - Pedro Manfredini (BIO 21633245 <GO>)

Thank you.

### **Operator**

As there are no more questions, we would like to go back and give the floor to Mr. Zimmer for his final remarks.

## A - Lindolfo Zimmer {BIO 2132989 <GO>}

Concluding our presentation, I would like to share with you the great satisfaction that we had recently when we received two relevant awards in this sector. The first one, which I have already mentioned at the beginning of this call, was the Abradee Award in the client evaluation category, announced in late July.

We received this award, and you all know that the award is granted based on the Perceived Quality and Satisfaction Index calculated based on answers given by customers about items such as the delivery of energy, to information, communication, price, and social responsibility.

And last week we were in Sao Paulo to receive another award, the award of The Best Company in the Electricity Sector given by the East Originator magazine. And this award has the objective to list the best companies in Brazil in 29 different sectors, according to the fulfillment in five different dimensions -- financial, human resources, innovation and quality, social and environmental responsibility.

And Copel was considered the best in innovation and quality and also in social responsibility and environmental responsibility. And these were the consequences of the current expansion strategy of the Company and we intend to consolidate our position among the large companies in this sector, recovering our investment capacity and

diversifying our energy mix, all this respecting the principle of generating value to our shareholders. And we are looking beyond the next 12 months and we want to perpetuate upper end, we want to be the best company in the sector, in the decade.

We are aware of our difficulties and we are working hard to optimize our costs. And you may be sure that we will be boosting our balance sheet with economically attractive projects with rates of return in line with the ones that are delivered by the most efficient companies in the sector.

Once again, I would like to thank you for your participation. And we are available to you if you wish to ask any further questions and our Investor Relations area is available to you at all times. And thank you very much.

### **Operator**

Ladies and gentlemen. Copel's conference call about the results of the first half of 2012 is closed. Thank you, very much and have a very good afternoon.

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