

Y 2014 Earnings Call

Company Participants

- Jonel Nazareno Iurk, Chief Business Development Officer
- Luiz Eduardo da Veiga Sebastiani, Chief Financial Officer
- Luiz Fernando Leone Vianna, Chief Executive Officer
- Sergio Luiz Lamy, CEO - Copel GeT
- Vlademir Santo Daleffe, CEO - Copel Distribuicao

Other Participants

- Liliana Young, Analyst
- Maria Carolina Carneiro, Analyst
- Sergio Conti, Analyst

Presentation

Operator

Good afternoon. Thank you for standing by. Welcome to Companhia Paranaense de Energia (COPEL) conference call to present the earnings for 2014. We would like to inform you that all participants will be in 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, we'd like to mention that any statements that may be made during this presentation relate to COPEL's business outlook, projections, and operating and financial goals. They are based on the beliefs and assumptions of the company's management and on information currently available. Forward-looking statements are no guarantee of performance. They involve risk, 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 might also affect the future results of COPEL and lead to results that differ materially from those expressed in such forward-looking statements.

Today with us we have Mr. Luiz Fernando Leone Vianna, CEO of the company; Mr. Luiz Eduardo da Veiga Sebastiani, CFO and IRO; Mr. Marcos Domakoski, Chief Corporate Management Officer; Mr. Vlademir Santo Daleffe, CEO of Copel Distribuicao; Mr. Sergio Luiz Lamy, CEO of Copel GeT; Mr. Reinhold Stephanes, CEO of Copel Participacoes; and Mr. Ricardo Goldani Dosso, Director of Copel Renovaveis. This presentation will be delivered by COPEL's management and may be followed at the company's website at

www.copel.com/ri. Now, I will give the floor to Mr. Luiz Fernando Leone Vianna, CEO of the company.

Luiz Fernando Leone Vianna {BIO 2065945 <GO>}

Good afternoon, everyone. Welcome to our 2014 earnings conference call. Thank you all for joining us today. I highlight that I'm really happy to talk to you today. Let me start by saying how proud I am for being the CEO of this company where I had a chance to start my career back in 1973 as an intern. I spent most of life at this company. I have a degree in Business Administration, Electrical Engineering and had several different positions in a rewarding career and here I became the first CEO of Copel Geracao, an activity between 1999 and 2002 when our generation company ranked among the Best 100 Companies To Work At according to ABRADÉE [ph] magazine and also the first state-owned company in Brazil to be included in this important national ranking system.

I accepted the invitation by Governor Beto Richa and came back to COPEL, taking the challenge to make an even better job. COPEL has made a lot of strides over the past four years. Our footprint is spread over 10 states with generation and transmission projects. Our distributor is currently the best in Brazil and also in Latin America in terms of customer service.

Our Telecom has taken its optical fiber network to every town in Parana state and thanks to COPEL Renovaveis, we are just beginning to write a promising chapter in the history of the company. Our mission is to keep on searching for higher efficiency and also profitability to maximize the value of the company.

We also keep on searching for better efficiency without losing sight of our renowned quality. However, our challenges are not restricted to running the company to meet these goals. The electrical sector is going through a complex stage due to several factors, particularly low rainfall volume, which reduced the levels of reservoirs and required continuous operation in thermal power plants, which in turn brought huge impact to companies and consumers. Despite this challenging context, COPEL has achieved excellent results as we can see on slide 3, which shows the highlights of the period. In the fourth quarter of 2014, the company's income totaled R\$271 million and are now 52% higher than in the last quarter of 2013. In our consolidated results for 2014, our income totaled R\$1.3 billion, growing 21% vis-a-vis 2013. The results in Q4 stem from two basic drivers; revenue is greater than R\$1 billion due to the recognition of the net balance of sectoral assets and losses related to the impairment of over R\$800 million, impairment of generation assets, primarily from Colider Plant.

Another important fact was the income from Araucaria TPP, which reached R\$155 million in Q4, 2014. I would also like to highlight that the Board of Directors proposed a payout of R\$623 million as dividends and interest on capital, which accounts for 50% of the income achieved in 2014. Out of the total amount, R\$381 million were prepaid in 2014; R\$242 million is the outstanding dividend payout required to meet the amount proposed and it will be submitted for approval at the Annual Shareholders' Meeting, possibly on April 23rd.

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On the next slide, we will focus again on the results and also the economic performance of the company. However, before we get into that, let me comment another important event that recently occurred. Let's start with new assets as we can see on slide 4. We have concluded the construction of another transmission project. In December 2014, we had the start-up of transmission line Acailandia-Miranda II. It is a project led by Integracao Maranhense, an SPE, in which we hold 49% stake, partnering with Elecnor, which holds the remaining 51%. With this start-up, we added R\$31 million in Annual Allowed Revenue and reached R\$240 million in our RAP, considering all assets in this segment. The start-up of other important projects like Matrincha and Guaraciaba is scheduled for the coming months and will increase our RAP to R\$375 million in 2015. As to wind generation in December 2014, we had a successful participation in A-5 auction and traded 55 average megawatt from six farms, which all together account for an installed capacity of 136 megawatts.

It's always important to highlight that the energy was sold for the best price in the auction, with a minimum negative premium of R\$0.03 only, strengthening our commitment to pursue projects that bring good returns to COPEL. Thanks to this achievement. Our current portfolio of wind power total 663 megawatts and starts generating revenues in 2015. The start-up of our first complex, Sao Bento Energia with 94 megawatts of installed capacity has already occurred and the construction phase of three popular complex with 184 megawatts of installed capacity is just about to be concluded.

The same holds true for Sao Miguel do Gostoso in which we hold a 49% stake. Lastly, it's important to comment on the extraordinary tariff revision of Copel Distribution. As shown on slide 5, ANEEL issued a decision regarding the extraordinary tariff adjustment of several distributors. In COPEL's case, the agency approved a 36.79% adjustment, which has been fully in effect since March 2, 2015. As you all know, the extraordinary adjustment was necessary to restructure the revenues of distributors regarding, number one, the significant increase in comp with charges and energy purchased; and number two, the end of the policy to transfer fund from CDE and ACR account as had been happening for the past two years.

Just as a reminder, in 2014, more than R\$1.2 billion were transferred to the distribution company in order to offset cost of energy purchased. Turning back to the adjustment of nearly 37% yield, more than 22% pertained to the increase in the CDE portion, whereas the remaining 15% relate to a review of energy purchase costs, particularly an adjustment of over 46% in Itaipu's tariff at a high price used in the adjustment option, which took place earlier this year in January when the distributor purchased 302 average megawatts for approximately R\$386 per megawatt per hour in a six-month contract. These were the main events of the period.

Now I have the pleasure to turn the floor over to our CFO and IR Officer, my friend, Luiz Eduardo Sebastiani who will comment now on the highlights of the period. Most of you already met him. Sebastiani was COPEL's CFO and IR Officer, that was between February 2013 and March 2014 when the company strengthened its efforts to improve the operating efficiency by expanding the policy to cut down costs. At that time, the company also began to search for a better capital structure, more suitable to our industry profile.

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He comes back after being the Secretary of the State Treasury in 2014. Sebastiani, welcome back.

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

Thank you very much, Luiz Fernando Vianna. We also want to mention the presence of our business officers and also all the CEOs and our wholly-owned subsidiaries, they build COPEL with all our employees, our staff, we have a little bit more than 8,000 employees and staff at COPEL. Once again, I wish to thank everyone who is following this conference call. I'm very honored and excited to come back to our COPEL.

Thanks to the high quality and reliability of its services and the great commitment to its personnel. The company has set the example to Brazil and the people of Parana is very proud of you. Please rest assured that our commitments remain the same. We are paying keen attention to cost management in order to continuously improve our efficiency. We also pursue good opportunities for growth without losing sight of the company's financial discipline. COPEL has made large strides in recent years, but we are confident that we can go the extra mile.

With regards to our result, as our CEO said, the fourth quarter was strongly affected by non-recurring effects which are listed on slide 6. The strongest impact was 1 billion posted in Copel Distribution revenues related to the net balance of sectoral assets and liabilities. These assets had not been recognized in the balance sheet since the adoption of IFRS, but now they are being posted again after the execution of an amendment to the concession contract. This amendment assured us that the residual amount of GDA [ph] and other financial items not recovered through tariffs will be included in the indemnification calculation should the concession be terminated.

After this amendment with a concession contract, by means of CVM Resolution 732 of 2014, the recognition of sectoral assets and liabilities has become mandatory. As we can see on the slide, the revenue from sectoral assets was posted in two different lines, as operating revenue and as interest income, according to the accounting guidelines approved by CVM.

The fourth quarter also had a significant impact on expenses, which were impairment losses at Copel GeT, showing a reduction of R\$807 million in the recoverable amount of generation assets; R\$680 million relate to the total amount of Colider Plant. The reasons to lower the recoverable amount of generation assets arise from the critical hydrological scenario with recurring lowering of GSF, increased PLD and maintenance of different serve [ph] and price at high levels. In Colider's case, more specifically, these losses were even higher due to a delay in the start-up of the plant, which is now scheduled for April 2016.

It is important to say COPEL GeT has already filed for an exclusion of liability with ANEEL and we are monitoring the process very closely. With regards to our consolidated results, on slide 7, we can see that our operating revenue increased 52% in 2014, virtually reaching R\$14 billion. The main drivers for revenue growth were, first, a 31% increase in revenue of

sales to final customers, basically due to a 24.86% adjustment to tariffs of Copel Distribuicao as of June 2014 and to the market growth over the period.

In 2014, I can point 126% growth in the electricity sales to distributors account stemming from, number one, higher revenues in CCEE due to energy sales from Araucaria Thermal Power Plant, and number two, the energy sold in the spot market Copel GeT, which eventually benefited from the high driven settlement price of the period. As to power grid availability, which is made up of TUSD and TUST revenues, there was a 10% rise due to a 4.9% growth in the Grid market of Copel Distribuicao and the annual adjustment of the RAP and the start-up of new assets in the transmission segment.

Other revenues, which consist of construction, telecom, gas and other revenues, amounted to approximately R\$3 billion, growing 57%. And this is explained, number one, the recognition of the balance of sectoral assets, as I mentioned before; number two, by a higher construction revenue, which is an account of record of the highest investments in distribution and transmission; and number three, a 17% growth in our telecom revenue, which totaled R\$165 million in 2014.

The next slide, number 8, shows a breakdown of our operating costs and expenses in 2014, which totaled R\$12.4 billion, an amount 53% higher than the numbers posted in 2013. The main reason for the rising costs is that 53% growth in expenses with energy purchased for resale which had already exceeded R\$5 billion. This amount includes the compensation of R\$1.3 billion of CDE and ACR account, which was booked along 2014. Cost with charges of the use of the grid went down 5% mainly due to the accounting reclassification of R\$233 million regarding a refund of surplus financial announced of the Reserve Energy account according to ANEEL's decision 4786/2014.

By September, surplus amount of the Reserve Energy account have been posted in the power line, therefore, reducing expenses with energy purchased for resale. However, after new instructions by ANEEL, the refund of the surplus amount eventually decreased cost per charges, leading to the reversal seen in Q4 2014 and also in the full year.

As for gas purchased, costs have significantly increased due to operations in Araucaria plant since Compagas buys the fuel to supply the plant. Personnel costs, including benefits, went down 1% and reflects our efforts to control management costs, particularly when compared with the inflation rate of the period, therefore, showing an actual drop of 7%. Costs were also strongly affected by the increase in provisions due to the R\$800 million posted as impairment losses in Copel GeT as we said before, and also higher provisions for legal claims, totaling R\$324 million in 2014.

Slide 9 shows that our consolidated EBITDA increased 28% in 2014, totaling R\$2.3 billion, with a margin of 20% over the operating revenue. Copel GeT's cash generation accounted for 37% of the consolidated EBITDA; Copel Distribuicao accounts for 35% and Copel Telecom 4%. The other companies of the Group accounted for 24% and the main contribution comes from Araucaria TPP.

As to the EBITDA margin, Copel GeT closed 2014 at 29%, Distribution 29% [ph] and Telecom 49%.

Slide 10 shows COPEL's consolidated net income, which exceeded R\$1.3 billion in 2014, therefore, 21% higher than 2013. On analyzing the result achieved by our subsidiaries, we can see that Copel Distribuicao reversed the loss of the previous year, closing 2014 with an income of R\$428 million, reflecting the recognition of sectoral assets. Copel GeT in turn closed the period with an income of R\$682 million, an amount 32% lower than in the previous year.

This drop is explained by the recognition of impairment losses and Copel Telecom's income amounted to R\$59 million, growing 23% vis-a-vis 2013. As we can see, our results was strongly affected by non-recurring effects. To give an idea of what the company's earnings would have been if such events have never happened with adjusted numbers as you can see on slide 11.

In order to adjust the results for Copel Distribution, we have excluded the net balance of sectoral assets and considered CVA mutation, which was the adjustment required to show what the distribution companies' results would have been if all costs with (inaudible) have been factored in as the Copel GeT was adjusted result excluding impairment losses of generation assets. If we took all these adjustments into account, the consolidated net income would be around R\$1.6 billion and EBITDA would amount to R\$2.7 billion. These were our highlights and we'll be happy to take your questions now. Thank you very much.

Questions And Answers

Operator

We are opening the Q&A session now. (Operator Instructions) The first question is from Liliana Young from UBS. Please go ahead.

Q - Liliana Young

Thank you for taking my question. My question is about the projects that are in progress. You have just had an impairment task. Could you explain about Colider, for instance, and what about (inaudible) in terms of the return expected? Thank you.

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

Good afternoon. Our strategy, let me -- to your Copel generation and transmission, to answer your question, but before that I think it will be interesting to make our -- can we go one by one first?

Q - Liliana Young

Perfect.

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

About Colider first.

A - Vladimir Santo Daleffe

Good afternoon. This is Vladimir speaking from Copel GeT. Liliana, the assumption we used for the Colider impairment was very conservative. In reality, that vision we had by the end of last year when we worked on our assumptions. Like I said, it's a very conservative approach with only five months of reliability exclusion. As you know, the delay of Colider is over one year and we understand all of them have COPEL's exclusion for liability. Today, we are more bullish after we have submitted our reasons for exclusion of liability at ANEEL and after debating extensively all the justification and reasons, and by the way the first conclusion about ANEEL's statement. Now our expectation is to have a much longer term compared to what we first thought when it comes to exclusion of reliability, but our expectation is to have ANEEL's statement in April based on our last meetings with ANEEL. So, we're just awaiting for ANEEL's statement and now we are more optimistic compared to when we worked on our proposal for exclusion of reliability.

Q - Liliana Young

What is the return expected for Colider if you take into account only five months of exclusion of reliability -- or liability?

A - Vladimir Santo Daleffe

The internal rate of return will be around 2%, which is slightly positive. By the way, that's a very conservative assumption like we said before.

Q - Liliana Young

Perfect. Could you give us some color about other large projects like Baixo Iguacu and others please?

A - Vladimir Santo Daleffe

About Baixo Iguacu, our current expectation is that there won't be a strong impact on the return originally assumed by the project. All the factors considered responsible for the construction of the first factor was the severe hydrological events that we had back in June 2012. It led to a problem in the stock markets in the work.

And secondly, we had an injunction for the installation license which is a -- well, the effects of the injunctions will be put aside. We already have a favorable opinion of TN[ph] deal, and therefore, we believe that all the reasons and drivers that led to this project will be considered exclusion of liability. They will be based on the assumption that the early internal rate of return around 7.4% will be maintained. Is that okay, Liliana?

Q - Liliana Young

Okay, that's good for Baixo Iguacu. Thank you.

Operator

(Operator Instructions) And your next question is from Maria Carolina Carneiro from Santander. Please go ahead.

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

Good afternoon, everyone. I have two questions. The first question is about the distribution concession renewal. We've heard some news in the media Minister Braga mentioned negotiations and also possible metrics to be taken into account for Parana south [ph], and any burden related to the renewal in agreement or any CapEx to be negotiated assuming the quality metrics.

The media also mentioned an expectation that the agency might make a statement soon. So, is there any actual news and could you give us an idea of the metrics to be considered for Parana south and Distribution?

And I apologize if the next question has already been answered. I'm having problems with my connections, I couldn't understand this very well, but what about the impairment that you had, just to have a better understanding. Is this related to the delay of the project in future sales and the GSF might have a negative impact in the project for 2015? So this calculation takes into account horizon in 2015. Did I understand it correctly?

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

Let me talk about distribution first. Maria Carolina, Luiz Fernando speaking again. About distribution and renewal, first of all, we would like to say that if we consider Copel Distribution performance, when it comes to other items guided by ANEEL, and sustainability, liability and also the awards that we've had about our performance and our consumer satisfaction, we understand we have no doubt when it comes the concession renewal with COPEL. I think there is no doubt about it. Now, the burden behind it, we still have very little information on it.

It might be a possibility. However, if there is a burden behind this renewal or these extensions, the burden should be on consumers because there is no margin at Copel Distribution or in distributors in general to absorb any kind of burden. I'll turn it over to the CEO of Copel Distribution, Vlademir.

A - Vlademir Santo Daleffe

Maria Carolina, in reality we are also taken by surprise when we heard this information by the Minister. If I consider this burden, our CEO put it so well, but the information we have - based on the information we have, we are expecting clear information by the Ministry, but please rest assured there is no risk at COPEL of not having a renewal based on the economic sustainability and also based on the quality of the services we deliver.

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

Thank you. Now, the next question is about impairment.

A - Sergio Luiz Lamy

Sergio Luiz Lamy speaking Copel GeT. Answering your question about the impairment of Collider Plant. Our assumption was the following: we consider the whole life cycle of the project. The whole concession period. We worked on the revenue and expense flow. We had the schedule for GSF and the result we are delivering come from a vision throughout the life of the project.

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

Okay. Thank you. Just adding, if I may, how much worth GSF for 2015, and after 2015, which was the GSF you use?

A - Sergio Luiz Lamy

82.5%, 0.825 in 2015; 0.95 in 2017; and as of 2018, 100%.

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

Thank you very much.

A - Sergio Luiz Lamy

Carolina, may I just highlight something about the same topic about GSF. We met personally with the Minister and you know there are several proposals, several players and I've also made a work group and they submitted their proposals to the Minister last week. A good topic about GSF, at the end of the day, like we said before, we are very conservative.

We are considering or based on the assumption that nothing will be done. And the last time that I talked to the Minister a week ago, he considers something within 60 days. So, we could have a solution to minimize and mitigate the GSF topic in the electrical sector.

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

Great, thank you.

Operator

(Operator Instructions) Your next question is from Sergio Conti from Goldman Sachs.

Q - Sergio Conti {BIO 3441214 <GO>}

Good afternoon, Luiz Fernando; good afternoon, Sebastiani. My question is about natural gas. Basically we can see the government giving signs of interest in the increased supply of natural gas, possibly there will be a special auction for it. At the end the year, we also had a private group getting in and with an offer for natural gas on G. So, what are COPEL's ideas about this energy potential? Could we assume COPEL would be involved in auctions for natural gas, and what about exploration and production assets? In Parana, like you said, your base results, but what about any reduction in gas prices in the domestic market? So, strategically, do you think it still makes sense to invest in E&P in Brazil for a

company such as COPEL or would it make more sense to invest in TPPs or like the other group did?

A - Sergio Luiz Lamy

Good afternoon, Sergio. We tend to say at the company that one year our challenge is also a year of possibilities, but you need the right financial conditions to do so. We understand that 2015 will bring a lot of opportunities. There will be auctions in the area of solar energy at least two and also in TPPs. We will also have at least two auctions in the first and second half of the year and also A-5.

When it comes to gas, the big question mark is that despite all the news spread in the media, we still have some instability of the currency and we are also considering doing our financial exploration. We do have plans to expand our TPP at Araucaria and we are also considering even larger projects, too; not only the expansion of the TPP, these are studies up to now, but we consider the possibility and also the probability to have something in that area in the second half of the year, there are big chances, but I'll also ask our Director of New Business, Jonel, to talk about our plans.

A - Jonel Nazareno lurk {BIO 18463563 <GO>}

Good afternoon, Sergio. COPEL is working in two directions right now, the winner of A and B auction in 2013, but unfortunately it is -- and we have an exploration for shale gas and also conventional gas in the state of Parana. COPEL was very bullish with the possibility of binding structures for commercial purposes in the state of Parana. And the second driver is gas import at installation of a regasification plant along the coast of Parana and also to expand Araucaria plant and maybe have another plant in Portal Brasil municipality, another TPP. And this also is related to an expansion project of the market, which is held today by Compagas, the domestic market in the state of Parana with a very interesting potential.

And it's -- well, the challenge we had was how to ensure 20-year supply contracts and we are having good negotiations in order to overcome this challenge.

Q - Sergio Conti {BIO 3441214 <GO>}

Great. What about the project for NGL that was mentioned in Parana Coast? Do you have any schedule when this project might be offered or submitted to an auction?

A - Jonel Nazareno lurk {BIO 18463563 <GO>}

We have a project to expand the TPP and it's already submitted for -- and recorded for the next auction. And Petrobras agreed to have a swap, should we manage to have access to imported gas, maybe we can have a swap via Rio and get from Petrobras as soon as the installation or the TPP at Araucaria expansion is concluded.

And let's move it to some extent, breakdown the regasification process and also for gas pipes from Araucaria to Curitiba, and these would be independent properties. So, we are ready for the next auction in order to expand Araucaria Plant.

Q - Sergio Conti {BIO 3441214 <GO>}

And how much will the expansion be in megawatts?

A - Jonel Nazareno lurk {BIO 18463563 <GO>}

About 200 megawatts.

Q - Sergio Conti {BIO 3441214 <GO>}

Thank you very much.

Operator

(Operator Instructions) And there are no further questions from participants. Now, I give the floor back to the company's management for the closing remarks.

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

First of all, I would like to highlight once again how happy I am to be talking to all of you. I think this first talk is just the beginning. I would really like to highlight how willing we are. We will be in contact with you whenever necessary so we can clarify your questions. We always want to be transparent with the market and this is critical. So this relationship is just at the beginning and we can go even deeper into it. So, once again, I would like to thank you all for joining us today.

This was a great opportunity to share the results achieved. And not only that, but also to address our outlook for the company and also to address the new challenges in the electric segment. Particularly in 2015, we have many, many challenges, but we are willing to take this challenge. I repeat, like I said before, it is a year full of difficulties, but it is also a year full of opportunities and we are pursuing these opportunities, naturally always searching for good projects and trying to maximize our company's income.

In the Generation segment, we have well exposure to GSF risk and that's something very positive. And like I said before, we've very strong expectations that even this low exposure may be mitigated due to actions by the Ministry of Mines and Energy, and the federal government. Another reminder is that even if we consider this reduction, we also have Araucaria TPP and it should also help us to balance the account.

In Transmission, we have many important projects that will be concluded over the year and we intend to add as a result another R\$130 million to our RAP. In Distribution, like we said before, we are getting large strides to further improve our results and performance. Consumer satisfaction and the sustainability index achieved, will both allow us to have the concession renewals and that's something we expect to maintain, trying to optimize our costs without losing sight of the quality of our services. For Telecom, we also have large room for growth. Basically that's all we have to say. Thank you very much. Enjoy the rest of your day.

Operator

Ladies and gentlemen, this concludes COPEL's conference call on the results for 2014.
Thank you.

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