

## Q3 2017 Earnings Call

### Company Participants

- Adriano Rudek de Moura, Chief Financial Officer, Investor Relations Officer
- Sergio Luiz Lamy, Director, President, Copel Geracao e Transmissao
- Unidentified Participant
- Unidentified Speaker

### Other Participants

- Marcelo Sa, Analyst

### Presentation

#### Operator

Good morning, and thank you for waiting. Welcome to the presentation of Companhia Paranaense de Energia Copel's for the presentation of the results for the third quarter of 2017. I would like to inform that our participants will be in listen-only mode during the Company's presentation. And next, we will initiate the Q&A session when further instructions will be provided. (Operator Instructions)

Before proceeding, I would like to clarify that any statements made during this conference call involving Copel's business outlook for financial and operating forecasts and targets are mere beliefs and assumptions of the Company's management and the information currently available. Forward-looking statements are not guarantees of performance, as they involve risks, uncertainties, and assumptions, given that they refer to future events and thus are dependent on circumstances that may or may not occur. The general economic conditions, industry conditions, and other operating factors could come to affect the future performance of Copel and lead to results that are materially different from those expressed in such forward-looking statements.

Here with us today are, Mr. Adriano Rudek de Moura, CFO and IR Officer, Mr. Fabio Malina Losso, Governance Officer, Risks and Compliance; Sergio Luiz Lamy, Director, President of Copel Geracao e Transmissao; Mr. Antonio Justino Spinello, Director, President of Copel Comercializacao; Mr. Dino Botto Portugal, Associate Director of Copel Comercializacao; Acacio Massato Nakayama, Associate Director of Copel Distribuicao; Mauricio Dayan Arbetman from Copel Telecomunicacoes; Mr. Rafael Moura de Oliveira, CFO of Copel Telecommunications. The presentation by the management of Copel can be followed through the website of the Company, [ir.copel.com](http://ir.copel.com).

I would like to give the floor to Mr. Moura, CFO and IR Officer.

## Adriano Rudek de Moura {BIO 3590957 <GO>}

Good morning, everyone. I would like to thank you for your participation in this conference call. Initially and exceptionally, the presentation of the results of this quarter was delayed by a few days, mainly due to issues related to the financial statements of a subsidiary of the Company -- an indirect subsidiary called Araucaria TPP, as communicated to the market on November 14th.

It is, in summary, an investment that is still being assessed by the Company with the support of independent experts. This task is not yet concluded. But we are doing all we can to finalize it as soon as possible, and we will keep you informed. The expectation of 3.2 of ITR [ph] , you will be able to find additional information on this subject.

Now moving on to slide three. I would like to initially highlight the reversal of losses of 75 million posted in the third quarter of 2016, with posting of net income of 390 million, which is posted in this quarter. With those results, we already accumulated year-to-date a net income close to BRL1 billion. And it's still slightly lower than that of 2016, where the year-to-date net income in the same period averaged 1.58 billion. This result stems from a combination of factors that we will elaborate more during this presentation.

However, I would like to mention two extraordinary events that positively impacted the result in this quarter. First of all, the adhesion to PERT, the special program for tax regularization, stemming from an understanding with the Brazilian IRS in terms of taxation of CVA. And just to give you a brief history, in June of 2016, the Brazilian IRS issued a new understanding through Cosit's Reply to Inquiry Number 101. And that's changed the taxation of CVA according to the accrual basis and no longer to cash basis. This effect came since 2014.

This understanding is supported by the amendment to the concession contracts in December 2017 and ensures that any residual balances from sectorial financial assets and liabilities will be indemnified at the end of the concession. And as a consequence, any impact from this execution and changes in the taxation regime from sectorial and liabilities had a positive impact in net income of Copel Distribuicao of 114 million this quarter. This impact did not affect the Company's EBITDA and was also recognized in the income tax line and also the line of financial results.

The second extraordinary relevant item that had positive effect in the quarter was the impairment reversal of some projects amounting to 158 million. In this case, this amount had a direct impact on Copel GeT's EBITDA, as we will see further on. Thus, the operating performance measured by EBITDA of 644 million, which is up by 48% when compared to the same period of 2016, also includes the positive impact of the impairment reversal of 158 million. That improves EBITDA of Copel Distribuicao, as we will see further on.

I would also like to highlight growth in our operating -- consolidated revenue of 25%, which mainly reflects the growth of 5% in the grid market of Copel Distribuicao and the average adjustment of almost 6% applied to the tariffs of Copel Distribuicao as of June 24th of this year. I would like to remind you that operating revenues in the third quarter

2016 were negatively impacted by non-recurring effect of 206 million related to the re-measurement of RBSE.

Operating costs and expenses were up by 16%, mainly reflecting higher costs with energy purchase due to higher GSF and on average was 83% in the third quarter of 2016, while going up 64% in the third quarter of 2017. And the highest PLD on stock [ph] price of that was BRL436 per megawatt hour. In this quarter, an average of 112 megawatt hour in the same quarter, almost four times high. So recently, this impact comes from a drought [ph] hydrological imbalance in the country -- the highest in many, many years.

So now, moving on to slide four. It's clear to see now the performance of each business, where we will show EBITDA reported per subsidiary. Starting with Copel GeT, still the most relevant results in all of our business. EBITDA was 381 million, up by 76% vis-a-vis the third quarter of 2016. As we already mentioned that there is extraordinary impact related to the reversal of impairment related to generation assets amounting to 163 million, mostly impacted by the reversal related to Araucaria TPP and the wind farms, stemming from a discount rate reversal and also the assumptions related to the available energy for long-term sale in relation to Araucaria TPP.

In October, we signed a new contract for that purchase with Petrobras' contract for the supply of 2,190,000 [ph] cubic meters a day. That does not include the take or pay clause. With that, the plant is now available for the SIN, or the National Interlinked System, as of October 14th, when it is added to ONS. In terms of this contract, it is worth mentioning that on November 24th, we filed an amendment to the contract that aims at extending its effectiveness until December 31st of this year. And that also includes the possibility of presenting corporate collateral from the parent company as a guarantee for the payment of the contract.

However, the impairment reversal was just not higher due to 43 million of provision for Colider HPP operation. The start-up of the plant had to be reviewed because recently, the EPC contract had difficulties with the National Elevation of Equipments at the Brazilian IRS. And it should start up in May. The second turbine could start up in July. And the third should start up in November 2018.

Another aspect that in terms of performance of Copel GeT was the like-for-like comparison due to the non-recurring negative impact of 206 million in the third quarter of 2016 related to the re-measurement of RBSE. Now, Copel Distribuicao saw an improvement of almost 43% of EBITDA vis-a-vis the third quarter of 2016, which is the equivalent to an incremental BRL13 million. And this number reflects the performance of the grid market and the improvement in managerial costs and lower balance for provisions, mainly related to allowance for doubtful accounts.

Now, in terms of consumption performance, consumption of energy, and the concession of Copel Distribuicao, the economy of Parana was up by 1.6% in the first six months of 2016, mainly boosted by agribusiness and industries. The industrial production in the state was up by 4.6% until September, which has highly contributed to the generation of jobs. Parana created 28,603 formal jobs from January to September of this year, according to

the General Registry of Employed and Unemployed, CAGED, recently published by the Ministry of Labor.

It was the best result in the last three years. And it's rebounded the economy. Also brings about positive results to Copel. In the third quarter of this year, the grid market of Copel Distribuicao, as we mentioned before, was up 5% vis-a-vis the same period in 2016, whereas energy consumption in Brazil was up only 0.4 % and in the Southwest of country close to 4%, according to data published by EPE.

Now, speaking about the reduction of costs in the distributors, there was a reduction of BRL14 million, with provisions mainly seen in PLD, where manageable costs in Copel Distribuicao, excluding some estimated market provisions and reversals presented a reduction of about 1% or in the organization of 2.5% in the last 12 months. Copel Distribuicao selling costs with personnel and managers presented growth of 1%, a lower performance, considering the adjustment of 9.15% applied to salaries as of October 2016. And this is a result of a very rigorous discipline to reduce costs in all areas of the Company, including a reduction of 228 employees due to a policy of not filling up vacancies.

In the first nine months of 2017, Copel Distribuicao had an EBITDA of BRL462 million. This result was much better than that posted in the same period the year before. Obviously, this didn't happen by chance, because it reflects very strict improvement plan to improve profitability of the Company so that we can resume the regulatory levels as soon as possible. Copel Telecom, on the other hand, posted growth of 32% in EBITDA in the third quarter. And this was mainly due to the increase in the number of customers.

Now, moving on to slide five. In order to make a better comparison, we present the recurring EBITDA per subsidiary. That is, we are excluding the impacts stemming from extraordinary items that we already mentioned. Thus, not including the effect of the impairment reversal amounting to BRL163 million this quarter and the negative impact of 206 million related to the re-measurement of RBSE in the third quarter of last year, GeT presented a reduction of 50% in EBITDA, reaching BRL219 million. And this mainly stems from the higher costs with the purchase of energy, which went from BRL12 million in the third quarter of 2016 to 195 million this quarter. In addition to increases in the costs with taxes for the use of the grid, resulting from the adjustments that occurred in July of this year.

However, the accumulated EBITDA, the recurring EBITDA of Copel GeT, is over BRL1.2 billion, only 6.5 million lower than in the same period of the year before. And this continues to be the highest contribution in terms of EBITDA of Copel with 46 -- accounting for 46% of the total. Again, I would like to reinstate the continuous improvement in the result of Copel Distribuicao with a growing recurring EBITDA of almost 42% in the quarter and an improvement of over 24 times in the year-to-date results, with an increment of BRL443 million, being the second-most important business of the Company.

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In the case of Copel Telecom, we must also acknowledge the relevant increase in EBITDA, both in the quarter, year-to-date of 32% and 18%, respectively, mainly supported by the growth in our customer base. In summary, in like-for-like comparison, I think the main message is that recurring EBITDA had a significant improvement at Copel Distribuicao and Copel Telecom, both this quarter and year-to-date, when compared to the same period of the previous year. And in the case of Copel GeT, EBITDA was negatively impacted due to the relevant increase in costs with the purchase of energy, also impacted by the GSF and PLD, posting the worst levels in the last few years, especially in the third quarter.

Just to give you an idea once again, the average GSF in the quarter was 64.2%. Whereas in the same period of 2016, the average was 82.8%. In the case of the average PLD, in the quarter of 2016, it was 112 and this quarter 436. Year-to-date, this impact was diluted at Copel GeT, mainly due to the good performance in the first quarter. Whereas in the country, GSF and PLD were very positive. The bottom line is that consolidated EBITDA in the quarter was down 26% when compared to the same date of the year before. However, it improved almost 24% year-to-date on a recurring basis.

In the next page -- next slide, you will see a summary of what we've just said.

Moving on to page seven. Here, we can see more detail that growth of operating revenue up 25% this third quarter when compared to the same period of 2016, surpassing BRL3.6 billion. In order to run a better comparison, I would once again remind you that the revenue of the third quarter of 2016 had a negative impact of the adjustment of BRL206 million related to the re-measurement of RBSE. However, excluding this effect, we will have an increase in revenue in this quarter of 17%.

Now, elaborating a little bit further on the impact of the revenue, let's talk about the notice that revenue of energy to distributors posted growth of 12%. It's basically explained by a growth of 0.8% in the volume of energy sold to end-consumers and the readjustment applied to Copel Distribuicao tariffs as of June 24 this year and which resulted in about 10%.

Now, sales to consumers. We already have Copel Distribuicao's -- sales to Copel Distribuicao. This was the first full year of operations at the subsidiary that this quarter alone posted revenues of 216 million.

Now, availability of the network posted an increase of 12%. And that was impacted by a growth of almost 5% in the grid market by the distributor and also the tariff adjustments by Copel that resulted in an adjustment of TE [ph] of 0.85% as of June 24th 2017. Now, Telecom's revenue was up by 29%. And this reflects the expansion of the customer base of Copel Telecom, as mentioned before.

Now, the acknowledgment of the CVA line reflects mainly higher costs with energy purchases by Copel Distribuicao, impacted by GSF and PLD in the period.

And finally, the reduction of 33% in other operating revenues mainly reflects lower revenues of construction within that. And that's contributed to the revenues of third quarter 2016. And they've started up in the last 12 months.

Next slide, on page eight. We give you more details on costs and operating expenses. They reached 3.2 billion in the third quarter of 2017, up by 16% when compared to the same period of 2016. However, we would like to remind you that in this quarter, we acknowledged 158 million in impairment reversal, partially offsetting the other increases. Excluding this impact, the increase in costs would be around 22%, maybe explained by higher costs due to purchase of energy.

This cost due to purchase of energy totaled BRL2 billion, up by 784 million in comparison to the same quarter in 2016. And as I said before, that alone had an increase of 183 million worth costs with the purchase of energy. With the distributors, it is worth mentioning that the costs related to GSF are part of the sectorial financial assets and liabilities line, as I mentioned before. There was a reduction of about 15% in costs, with the use of network due to the increase in the stock price throughout 2017, partially offset by higher costs with service costs in the system due to higher thermal dispatch and the readjustments and the tariffs of the transmission line of Itaipu.

In the case of provisions and reversals, excluding the reversion of the impairment of 158 million, there would have been a reduction of 36 million equivalent to 38%. And this mainly reflects a lower provision in PCLD and labor issues. Now, manageable costs had a stable and flat performance in comparison to the third quarter of 2016, despite following adjustments of about 9.15% and other adjustments that we will elaborate further in the coming slides.

Now, moving on to slide nine. It is (inaudible) noted that even with the adjustment of 9.15% applied to salaries in October 2016 and costs with personnel and managers and excluding provisions related to indemnifications to retirees and other costs, even though all that, we still posted a growth of almost 2% vis-a-vis the third quarter of 2016. This performance reflects some of the measures and the policy adopted by the Company of not filling up vacancies. This can be noted through the number of people employed by the Company.

In September 2016, our headcount was 8,563 employees. Where this year, by the end of September, we had 8,418 employees, a reduction of 145 people in the 12 months. And still talking about costs of the personnel, the total cost is 353 million this quarter. And currently, there are 170 people who adhere to the voluntary retirement program. Only in the third quarter alone, there were 67 people that adhered to the program, with an additional cost of approximately 12 million.

Moreover, I would like to say that salaries did not have an actual increase in 2016. And the readjustment applied in October of this year was just reflecting the INPC of September that reached 1.63%. Costs with third-party services and others presented a reduction, mainly reflecting the review of all the contracts that we reviewed recently. The manageable costs were down by 0.2%. However, considering that the inflation in the period of 2.5% cost will present a actual drop -- a real drop of 2.7%.

Another important point that should be highlighted refers to the control of manageable costs that the management carried out in comparison to the budget forecast. There was a reduction of over 340 million in the first nine months of 2017 and a budget forecast of 2.3 billion for (inaudible).

On slide 10, here, I would like to highlight our leverage level, where we can see a slight improvement vis-a-vis the previous quarters, now slightly below 4 times. However, this is still a topic that may require attention. I would like to remind you that this increase in net debt over EBITDA ratio of the Company is a consequence of a more aggressive strategy of investments in the last three years and should improve organically with the start-up of these projects starting next year.

We understand that the additional cash generation of these new projects has a lot of the combination of several initiatives -- from (technical difficulty) deployment to the reduction of costs. The physical and financial schedule of some projects should also reflect an improvement of leverage. And as we are talking about the appreciation of the asset divestment, I would like to say that once they -- we recorded a material fact about the participation of Copel as selling the public offering of a follow-on of unit of Sanepar. Initially, it will be 6.4 million units.

We are still talking about the leverage level of the Company. We are very focused in reducing this leverage and keeping with the charges of the covenants at the most 3.5 times. I'd like to emphasize that we are continually pursuing is a very rigorous financial discipline to evaluate new investments as well as looking at all -- doing all we can to focus on the projects that we have underway to comply with all of the contractual demands and terms, so as to preserve the pool of resources, which are already posted for such projects.

Before going to the Q&A session, I would like to say that during the summit of leaders of the Global Pact conducted in New York on September 22nd, Copel was chosen by the UN to coordinate the office of the Global Pact for Cities Program in the South region of Brazil. This proposal involves the government, companies, the society, and universities to develop innovative projects and also to look for solutions for several urban challenges. Copel reinstates its commitment towards the development of society and business in a sustainable manner.

Moreover, more recently, we launched a public offering to attract start-ups interested to engage in innovative partnership in technological areas related to their areas of operation, so as to look for projects, products, solutions, and services that can add value to the businesses of the Company. In exchange, the start-up selected, we will seek some big [ph] money to deploy products, solutions, or services in the Copel environment, in addition to contracts and exposure to partners.

I must also say that for the fifth time in over the last seven years, Copel Distribuicao was elected the Best Distributing Company of Energy in Latin America. The announcement was made during the international seminar promoted by the Commission for Integration of Regional Energy, CIER, in Montevideo in Uruguay. And in addition to that, Copel was

also recognized by customers as a benchmark in information and communication and social responsibility. This acknowledgement stems from our investments to improve the quality of the energy we provide to customers.

And so, the highlight goes to (inaudible) recently concluded the first phase of the projects that involved the new technology that will be utilized to reduce the shutting of some -- in some rural areas of the entire state of Parana. In the first phase, we inserted 960 reclosers. And for each installed equipment, on average, we reclosed some equipment, especially in services. And this has the purpose of optimizing maintenance and services of our technical team of Copel that have to be relocated.

So this is all of the highlights. And now we are available to take your questions.

## Questions And Answers

### Operator

Thank you very much. And now, we will initiate the Q&A session. (Operator Instructions)  
Our first question from Marcelo Sa from UBS. You may proceed, sir.

#### Q - Marcelo Sa {BIO 16454581 <GO>}

Good morning. And thank you for this call. I have two questions. The first question is about transmission. There was a legal barrier caused by ANEEL saying that you could not participate in transmission auctions. And now, this has -- this ban has been released. So my question is whether you are still interested in participating in the auction that will take place in December? Considering the fact that now the rainfall came again. It's beginning to rain again. And so, considering that the rainfall will be within the average, it's probably that GSF will be lower and maybe the stock price should be lower next year. What is your view about that, considering that you will have more than 30% of energy already contracted for 2018?

#### A - Adriano Rudek de Moura {BIO 3590957 <GO>}

Good morning, Marcelo, And thank you for your questions. Here is Sergio Luiz Lamy from Copel Geracao e Transmissao.

#### A - Sergio Luiz Lamy

To answer your first question about Copel Geracao e Transmissao's participation in the next auction of new transmission concessions, in fact, ANEEL recognized their mistake. Once they imposed that legal barrier so that Copel could not participate in the auction. So once that case has been solved, I can assure you that Copel will participate in the next transmission auction, very much in keeping with its strategic objectives.

Now, about your second question. We saw that Copel Geracao e Transmissao could be in the range of 30% of energy not contracted for 2018. In fact, this number, it's a pure figure for energy contracts terminated and does not reveal anything, considering the setup of



new generation projects. In fact, if we take into account the schedule of the new start-ups, I may tell you that we have been preparing ourselves to participate in this new auction of A plus 1 -- or A minus 1, minus 1 in the auction of 2019 and '20. Looking at all of these aspects, we believe that our contract level would be about 85% of contracts for 2018. So the energy contracts terminated would be around 20%, which is absolutely in keeping with our projection for PLD amount and GSF amount for the coming year.

I could even say that we could state that there is no expectation of having a very favorable GSF or very favorable stock price for 2018. It will be -- I mean, our expectation is that certainly, our position will be much better than that of 2017. But we still believe that the amount will be reasonably high in 2018. Therefore, unless -- of course, I'm saying that considering the fact that we will have a good level of rainfall in the Southeast region, still in line with the long-term average. And this long-term average will not be able to recover the reservoirs. Because in order to recover the levels of our reservoirs, we would need a much higher rainfall in the long run. As we do not have good expectation, certainly in 2018, we will still have some reasonable levels of PLD. Therefore, we believe that this level of contract is still safe and comfortable. And it will give us better results further down the line.

#### **Q - Marcelo Sa** {BIO 16454581 <GO>}

Let me just summarize to see whether I understood it correctly. So today, we will have 30% of energy contracts terminated. Then there will be an auction at the end of the year. And then you could probably reduce that number. So that your target would be to have next year, 15% of contracts terminated. Or today, you are more -- I mean, you have more contracts terminated. And if the rainfall is still within the current average, it wouldn't be enough to recover the reservoir.

#### **A - Sergio Luiz Lamy**

Yes. The PLD projection for next year is around BRL150 per megawatt hour. We consider a very optimistic projection. But if you consider the (inaudible) platform, there is a projection of around BRL185 per megawatt hour. Copel's projection is an average PLD of BRL200 per megawatt hour for our average PLD, unless we have a much higher rainfall level, especially now in the Southeast region.

#### **Q - Marcelo Sa** {BIO 16454581 <GO>}

And I still have a question related to transmission. Now, you're participating in the auction. Your leverage level is still high. You still increased your net debt in the last quarter. And as far -- and I mean, your EBITDA was up. So your net debt over EBITDA ratio was down a bit. It was not due to cash generation. And accordingly, you think that in order to participate in transmission, you will start with a final offering?

#### **A - Sergio Luiz Lamy**

I can probably ask our financial officer to answer that question.

#### **A - Adriano Rudek de Moura** {BIO 3590957 <GO>}

The major disbursements for new projects will occur in the next few years. So our cash level is very much aligned. So we don't see any problems in that area.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Fine. Thank you.

**Operator**

Our next question comes from (technical difficulty) from HSBC. You may proceed, sir.

**A - Unidentified Participant**

Good morning. And thank you for taking my question. We saw that the equity income line had a weak result, especially because of the low performance of the transmission projects. I would like you to elaborate further on what happened there, or whether that was something that was a one-off thing?

And my second question is about the divestment plan. We noticed that you will not participate in the secondary offering on Sanepar. But in addition to that, you will participate. What else do you intend to do? Do you intend to sell more assets?

**A - Sergio Luiz Lamy**

Okay. Thank you. Good morning. Thank you for your questions. And once again, this is Sergio Luiz Lamy. I will answer your first question about our equity income, particularly related to Geracao e Transmissao generation transmission. And then, on your second question related to divestment plans, I will refer your question to our Director for New Businesses who will answer that question. Well, in terms of equity income of Geracao e Transmissao, the issue is very simple, because we were heavily impacted by the tariff review of ANEEL done more recently. The main reason behind this performance is that tariff review. And now, I will give the floor to Dr. (inaudible).

**A - Unidentified Speaker**

Good morning, Dmitry. Thank you for your questions. So, yes, we already have a preliminary study on divestments. And as of next year, we intend to initiate that plan, initiating in January.

**A - Unidentified Participant**

Okay. Thank you very much.

**Operator**

(Operator Instructions) Our next question is from (inaudible) from HSBC. You may proceed, sir.

**A - Unidentified Participant**

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I just have one more question. So on the energy auctions, do you think there will be great demand from distributors? And also, I would like to understand your view about competition?

### A - Sergio Luiz Lamy

Well, Dmitry [ph] . Once again, this is Sergio Luiz Lamy from Copel Geracao e Transmissao. Once again, thank you for your question. I think our expectation is that there will be some demand. I cannot say whether there will be a lot of demand, but there will be some demand. And there will probably be a reasonable level of competition.

### A - Unidentified Participant

Thank you.

### Operator

(Operator Instructions) As there are no further questions from the participants, we will now give the floor back to the Company for their final remarks.

### A - Adriano Rudek de Moura {BIO 3590957 <GO>}

We would like to conclude this conference call thanking you very much for participating. Thank you. And have a very good weekend.

### Operator

Ladies and gentlemen, Copel's conference call on the results for the third quarter 2017 is now concluded. Thank you very much.

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