

## Q4 2015 Earnings Call

### Company Participants

- Adriano Fedalto, Copel
- Antonio Sergio de Souza Guetter, Copel
- Luiz Eduardo da Veiga Sebastiani, Copel
- Luiz Fernando Leone Vianna, Copel

### Other Participants

- Carolina Carneiro, Analyst
- Lylianna Yang, Analyst
- Miguel Rodrigues, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning. And thank you for waiting. Welcome to the Companhia Paranaense de Energia Copel's call to present the Fourth Quarter 2015 Earnings. We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. And following, we will start our Q&A, when further instructions would be given. (Operator Instructions)

Before we continue, we'd like to make clear that any statements made during this conference call, involving Copel's business outlook or financials and operating forecast and targets constitute the beliefs and assumptions of the Company's management and information currently available.

Forward-looking statements are not guarantees of performance and 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.

We have present with us in this call, Mr. Luiz Fernando Leone Vianna, CEO of the Company; Mr. Luiz Eduardo da Veiga Sebastiani, CFO and IR Officer; Mr. Gilberto Mendes Fernandes, Manager of Business or Officer for various [ph] Business Management; Mr. Jonel Nazareno lurk, Business Development Officer; and Mr. Antonio Sergio de Souza Guetter, President of Copel Distribuicao; and Mr. Ricardo Goldani Dosso, CEO of Copel

Renovaveis. This presentation may be followed on the Company's website [www.copel.com/ir](http://www.copel.com/ir).

Now we would like to ask Mr. Luiz Fernando Vianna, the Company's CEO. Please, Mr. Vianna, you may proceed.

## **Luiz Fernando Leone Vianna {BIO 2065945 <GO>}**

Good morning. Thank you very much. Good morning, analysts, the press, investors and others interested in our Copel. Welcome to our call on the results of the Fourth Quarter 2015. Thank you for all those who follow us and I would like to say (inaudible) to talk to you.

I wish to talk, first of all, about the events that were significant in 2015, especially those which contribute towards the rebalancing of the electric sector. First of all, let's talk about generation. And yesterday, we see it in newspapers much news about floods and their consequences. Last year, the situation was totally different. The hydrologic crisis reached its peak and when it was -- hit the lowest levels, historic levels, shrinking the capacity for hydric generation, which was left -- 15% below the expected in 2015 and will raise the cost for the purchase of energy and it was very difficult to adjust the coverage of the contracts of those who have water as their main source of energy. All this problem was because the agents of the sector mobilized to make possible to reassess the hydrological risk, a solution which brought a little bit of relief for the cost of the generators and contributed to mitigate the risks that cropped up in the period of critical hydrology and the thermal dispatch.

Copel opted to reassess the hydrological risk of the CCEARs, for Copel GeT and Elejor with the recognition of BRL134.7 million in the Fourth Quarter to recover the cost with the purchase of energy. On the side of the distribution, the drifting of the Brazilian economic crisis was direct reflex for the consumption of energy, contributed to a drop of 0.7% of the captive market of Copel distribution in 2015. The result is negative. However, it is much better than that of Brazil as a whole, which dropped 1.7%, clearly showing a greater resilience of the Parana economy even in an economically adverse situation in which Brazil finds itself. The drop in the consumption of energy also comes from the so-called tariff realism, which began to be practiced with the introduction of the tariffs flag and the extraordinary tariff review carried out in the beginning of 2015 in April.

These mechanisms, which brought significant readjustments for consumers were essential to make tariffs more adequate to the reality and the costs of the sector. And consequently, adjusted the (inaudible) cash position of the distributors. In 2015, Copel Distribution received BRL916 million through the tariff flag, resources which were used to knock off costs for the purchase of energy and the charges.

Another significant advance was the conclusion of the process of renewal of the distributor's concession. In December, we signed the fifth addendum to the contract of concession of Copel Distribution, which extends the concession until July of 2045 and

brings about new conditioning factors of financial, economic and quality efficiency to be complied with this year.

And talking about Copel Distribution, I cannot but mention that the subsidiary has a new CEO in 2016. Mr. Antonio Sergio de Souza Guetter. A career employee of Copel. Mr. Guetter is a Civil Engineer and held the position of CFO and RI in 2014. And many other executive jobs throughout his career in Copel and the Fundacao Copel. I am quite sure that Mr. Guetter will greatly contribute to the continuity of the business, particularly at this moment in which the renewal of the concession is imposing new challenges.

On our next slide, I would like to say that in 2015 we kept up the pace and we once again surpassed the total of BRL2 billion in investments. For 2016, the number is even larger. We plan to invest BRL3.2 billion and half of this amount will be earmarked for generation, including the construction of wind farms and the payment of the concession of the Governador Parigot de Souza plant, which was won back in November of last year. With this new concession contract already signed, Copel Generation and Transmission will operate it and maintain the plant until 2046, adding in 2016 revenue of service fees of BRL130 million a year. And as for 2017, besides this revenue, we will also have the revenue from the sale of energy, 30% of the total of the energy of this plant which will be -- Copel will be able to sell. We also won the rights of building and operating three substations and 230 kilometers of transmission lines in Parana and Santa Catarina. These projects were won without a discount and when operational will add BRL98 million to Copel GeT rack.

And still regarding our ongoing projects, in January of this year, Aneel recognized 626 days waiver of responsibility for the hydroelectric plant Baixo Iguacu and thus avoiding the degree of penalties or any other obligation stemming from the delay. And in 2018, we will have the first turbine coming online. And finally, I'd like to say that in January of this year, Copel Comercializacao was established, which has as an objective reinforce the position of Copel in this market, allowing for greater agility and also flexibility in the commercialization of sale of energy. The subsidiary will act in a segment with great potential of growth and we'll be able to sell both conventional energy and energy with incentives.

Now I'd like to ask Luiz Eduardo Sebastiani, our CFO and our IR Officer, who will go into further details on the earnings of the period.

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

Thank you. So much, Mr. Vianna. Good morning. And thank you once again for participating in this call about our results.

I'd like to start with some remarks about the Company's leverage level. As you can see on slide 5, the Copel's debt level, measured by the net debt over EBITDA ratio, grew in the last few [ph] years. And 2.8 times at the end of 2015. In spite of the growth, our indicator (inaudible) our covenant was 3.5 times. It's also important to remember that the increase is connected to our robust program of investments, has been mentioned by our President. And also we have to mention the important partnership developed with BNDES.

FINAL

And this will allow the financial support necessary to implement several projects with the Company, that we are already using and having ahead of us. As we have already told the market in January that we are working on the issuance of BRL300 million in debentures for Wind Farm Brisa Potiguar, which will be underwritten by the BNDES and BNDESPar. These debentures have a differential with a term of 16 years and the fact they will be split up into two series. One will be pegged to the long-term interest rate and the other, it could be adjusted Consumer Price Index. And will mean an important reduction of financial cost.

And before we present the earnings in details, we would like to talk about some of the non-recurring events, which had an impact on the Company, especially in the Fourth Quarter. The most relevant events have to do with legal questions and we had an important progress in our litigation with Ivai Engenharia. In October 2015, the Superior Justice Court announced [ph] a sentence of the Justice Court of Parana, which sentenced Copel to pay BRL540 million [ph] regarding executorial work at the Small Hydroelectric Plant about -- regarding the bypass of the Jordao River. Based on the decision, the Company has revised its losses estimated from this suit and recognized a reversion of BRL210 million in the Fourth Quarter 2015.

Another important event was the test of impairment in the assets of generation, which led to a reversion of BRL66 million recognized in 2014, motivated by better hydrologic conditions, which increased the outlook of generation for 2016. And we also had a renegotiation of the hydrologic risk, which led to the reversion of BRL135 million in cost for the purchase of energy, as for the (inaudible) mentioned by our CEO.

Slide 6, we show in the earnings the operating result, which grew 6% in 2015, surpassing the total of BRL14.7 billion. You may notice with this expansion there's a growth of 32% in the revenue of the delivery to end customers, reflects the readjustment applied to the tariffs of Copel Distribuicao during 2015, a year in which we had two readjustments which were necessary to deal with the increase of the cost with charges in energy. On the other hand, the revenue delivered to utilities, which shows the great part of sales to the Copel GeT and the totality of the sales in Araucaria Thermoelectric had a reduction of 15% in 2015, reflecting a reduction of the spot price. And the revenue from availability had a growth of 7%, reflecting the effects of inflation, partially impacted by the retraction of the grid market in the [ph] distributor.

On the item, other operating revenues, there was increase of 33%, particularly the expansion of the client base of Copel Telecom and Copel Gas.

In the next slide, we've detailed the cost and the operating expenses, which totaled almost BRL13 billion in 2015 and about 5% above that was listed in 2014, which stemmed to a great extent to the increase in costs, both for retail, which rose 19% year-on-year. This increase reflects the higher cost of the acquisition of Itaipu Energy, which rose significantly due to the readjustment of the tariff of depreciation and the readjustment of contracts by inflation and the end of the transfer of resources from CDE and the ACR accounts. And we had more expenses with the charge of the good use and greater dispatch of the thermal plant.

Management costs went up 14%, because of more expenses with personnel and third-party services and inflation. And the necessary cost to maintain Copel's quality standards. And we had a real quantity of -- a series of climate events throughout the year in Parana. Now, the line of provisions and reversions showed a retraction of 83% in the period due to the reversions of the litigation of Ivai and the impairment already mentioned.

Slide eight shows that EBITDA was 10% above that booked in 2014, totally BRL2.6 billion in 2015 with a margin of 18% over the operating revenue. The cash generation of Copel Generation and Transmission accounts for 68% of the consolidated EBITDA. The Copel Distribution accounts for 12% and Copel Telecom 4%, the other group companies account for 16% and the main contribution came from the Thermoelectric Araucaria. Regarding EBITDA, Copel GeT drove 2015 with a margin of 61%, Distribution with 3% and Telecom 37%.

As we had many extraordinary effects in the period, we present on slide nine the adjusted EBITDA of the Group and the main subsidiaries. On Copel GeT, notwithstanding the effect of renegotiation of GSF, or the reversion of the litigation of Ivai and the impairment test, EBITDA would have been 17% lower than booked in 2014. And the main reason for this drop is a greater deficit of hydric generation and lower spot price compared to last year. But (inaudible) considering that only the adjustments in sectorial assets and liabilities, which was booked in 2014, the 2015 EBITDA was 26% lower, reflecting market contraction, greater costs with the service of third-parties and with provisions for several events. Notwithstanding these events, consolidated EBITDA would be 20% less than in 2014. And the client [ph] effect is exposed with our lower dispatch of the Araucaria.

Slide 10 will show the consolidated net income of Copel, BRL1.3 billion in 2015, 5% lower than that of 2014. Analyzing the result of subsidiaries, we may observe the Copel Distribuicao registered an income of BRL206 million, a drop of 53% in comparison to 2014, a year where we had registered sectorial assets driving results. Copel GeT closed the period with an income of BRL1 billion, 51% higher than that of the previous year. And Copel Telecom had a profit of BRL55 million, a drop of 7% year-on-year.

These are our highlights and we are now actually closing for questions. Thank you very much.

## Questions And Answers

### Operator

(Operator Instructions) Carolina Carneiro, Santander.

### Q - Carolina Carneiro

My question has to do with the cost performance. Even without the reversion with provisions and the thermal plant that you mentioned in your release, we would see that particularly on the item other costs, you've had a significant improvement regarding other causes. So what led to this better performance of other costs and leaving aside the

provisioned reversion, just give us an idea what would be the cost performance, especially in Distribution?

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

Hello, Carolina. I will try to ask Adriano Fedalto, who is our Accounting Manager, who will answer your question.

**A - Adriano Fedalto**

In the Fourth Quarter, regarding other costs, we have worked hard to review everything which we had, in fact to review all our costs and this was the result. And assets receivable and accounts receivable and this is being dealt with -- currently with partners and who is -- and we hope to receive these as soon as possible, these outstanding assets.

**Q - Carolina Carneiro**

And you've already started your discussion about tariff review, I am sure. So could you give us a little idea about the expectations and what can we expect the first number to be till date and when do you think this will begin and how much?

**A - Antonio Sergio de Souza Guetter {BIO 18681355 <GO>}**

Hello Carolina, this is Antonio from Distribution. Thank you for your question. About the tariff review, what I can tell you is our asset base has doubled from BRL4 million to BRL4,800 million [ph]. Aneel, as for next week will be here checking out the numbers. And regarding the revision, tariff revision, the numbers have already been handed over to Aneel. They'll analyze them and then it will be given back to us -- submit them back to us, which will be on the 23rd.

**Operator**

(inaudible), Itau.

**Q - Unidentified Participant**

I have two questions. The first regarding reversion of provisions, because of the contingency of new plant and hydrological risk. So what would be the driver for additional reversion of this provision, about BRL800 million. And your expectations for -- I think in 2015 -- 2016, will the spot market will drive some additional reversion of BRL800 million? And my second question is the energy commercialization, which you have in excess for this year and this would increase in the next few years. So could you give us an idea of what this Company is expecting to re-contract this year? What you have in view? And if you allow a third question, is a question of reclassifying Itaipu, as all the distribution companies are doing. Your study [ph], which you gave us for the First Quarter, this amount of the variation, does this refer to all of 2015 or only for the Fourth Quarter?

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

I will ask Fedal the first question, our Accounting Manager.

FINAL

## A - Adriano Fedalto

Hello, Pedro [ph]. First of all, our provision for thermal, we work with the best estimates. Our responsibility would still have to be analyzed by Aneel due to the objective. I would say that this variable regarding responsibilities and plans for the future bring from reversion higher reversion which we've seen in 2015. We are working hard on this negotiation, on the discussion with Aneel and this variable can bring something positive here.

Regarding the third question and regarding reclassification of the exchange problem with Itaipu, most distribution companies do and this reflects the whole year of 2015, not just the Fourth Quarter. Mr. Vianna will talk about your second question, about commercialization.

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

Well the commercialization company was to sell the surplus, to sell the surplus that we've contracted. And to act as a shielding -- as a shield of keeping customers from our captive markets from going to the free market. If consumer intends to go from our captive market and are noticing a search, a certain difficulty, we're seeing a lot of consumers are seeking out our commercialization company. Next month, we will have the first auction for selling energy.

## Q - Unidentified Participant

In your commercialization strategy, if you could break down this information please, whether it would be prudent now of a short-term product or join this with medium/long-term, or are you going to focus more short-term, one year or 24 months?

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

Pedro, we intend to focus on medium/long-term. It does not mean that we will have no interest in the short term. But the focus will be on medium/long-term.

## Operator

Miguel Rodrigues, Morgan Stanley.

## Q - Miguel Rodrigues {BIO 16533007 <GO>}

I'd like you to talk about the renegotiation with the distributor. So what is your plan to keep the quality metrics and what kind of investments will be needed to keep these metrics during transition period?

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

I would like to ask Antonio Guetter, the CEO of Copel Distribuicao to take the floor.

## A - Antonio Sergio de Souza Guetter {BIO 18681355 <GO>}

Bloomberg Transcript

FINAL

The issue of the Aneel metrics for distributors lease is to be very focused on these items. Our strategy is to use as soon as possible investment in technology. We have this benchmark to adapt our technology as fast as possible and the technology which has already being tested throughout the world, the best possible. And also the budget for the program that we have is such that we'll be fervently attack the most difficult points and bring about a return as quickly as possible. And run no risk to be exposed to long-term issues. We have a bit of leeway in the first and second year to do the necessary investments to guarantee the continuity of the concession for the further years.

**Q - Miguel Rodrigues {BIO 16533007 <GO>}**

And also can we have an estimate of what the additional investment would be. And if this would be integrated into the addendum, is this being discussed? And in operating costs, how much operating costs would be needed to achieve your objective?

**A - Antonio Sergio de Souza Guetter {BIO 18681355 <GO>}**

The investment is about BRL500 million for the next three years, that's for the years 2016, 2017 and 2018. These will be greater investments in the end, to improve the quality of the grid.

**Q - Miguel Rodrigues {BIO 16533007 <GO>}**

And operating costs, will there be additional costs?

**A - Antonio Sergio de Souza Guetter {BIO 18681355 <GO>}**

Yes, obviously investment in quality of the grid automatically brings -- will bring eventual cost reduction. And we have to consider when possible outsourcing. And I've said that we are going to do a surgical analysis and attack problems generally more rural areas where they generate high maintenance costs. So we have to use this investment to get a return immediately and we have an immediate cost reduction. Also a plan like, for example, reducing of leaks, if we have a better maintenance of the grid.

**Operator**

Lylianna Yang, UBS.

**Q - Lylianna Yang**

I have two questions. First of all, the projects have crossed revision line. Why such a delay for coming into operation and the investment seems to be more higher than your original guidance? Second question about demand. What about the demand for the regulated sector? Why it is your A4 clients, why can't they work with the commercialization company? Why hold an auction?

**A - Antonio Sergio de Souza Guetter {BIO 18681355 <GO>}**

I'm sorry the sound is very, very bad. Your telephone is not clear at all. Good morning, Lylianna, this is Guetter speaking. I will ask our President, Mr. Vianna to take the floor.

Bloomberg Transcript



FINAL

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

In fact, we're in -- we have a delay, the transmission line (inaudible) brings about the environment causes, which have brought these delays. We have greatly concentrated our resources; human, financial and now we'll have -- by the end of the month, we'll start working on these lines. So finally we would solve this.

From an investment point of view, this is quite recent. We have investments realized up to now of BRL1.564 billion [ph]. And this is market share, a higher market share, (inaudible) 38.2%. So it's very important to say that even CapEx is above the forecast. We are still well below the CapEx foreseen by Aneel. But I think the most important thing is the coming into operation of these lines as from next month.

Could you repeat the second question please?

### **Q - Lylianna Yang**

Give us an idea of what the growth or demand will be for the next year or the next quarters? And you said Copel is going to hold an auction to sell energy. So why not use your verticalization strategy and especially with your special clients. And why not buy energy bilaterally [ph] with your commercialization company?

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

First of all, the question of the auction, we have a legal point which we have to make with sale of energy, even if the grid is our own plant. This is not possible to be done. Otherwise, we have to give transparency. There are some requirements which we have to comply with. Now, obviously our, plant they have -- obviously they will have special treatment.

### **Operator**

(Operator Instructions) If there are no more questions, I would like to ask our speaker to make his final remarks.

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

I would like to thank you all very much for coming. And we say that 2015 was a very difficult year. And we are very pleased to be able to come to the end of this year at a very positive situation. My message is that we believe that 2016 will be even more difficult. The challenges will be even greater. But we also believe that we will have a good year for our Copel.

Once again, I wish to thank you all and I wish you a good weekend. Thank you.

### **Operator**

Copel's call is now closed. Thank you, all for your participation and have a good day.

Bloomberg Transcript

FINAL

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

Bloomberg Transcript