

Q1 2013 Earnings Call

Company Participants

- Luiz Eduardo Sebastiani, CFO, IRO
- Unidentified Speaker, Unknown
- Vlademir Santo Daleffe, Chief Distribution Officer

Other Participants

- Antonio Junqueira, Analyst
- Lilyanna Yang, Analyst
- Sergio Tamashiro, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the Companhia Paranaense de Energia COPEL's conference call for the presentation of the First Quarter 2013 results.

We would like to inform you that all participants will be in a listen-only mode during this presentation and then we will start our Q&A session when further instructions will be given. (Operator Instructions).

Before we proceed, I would like to say that any statements made during this conference call involving COPEL's business outlook or financial and operating forecasts and targets constitute the beliefs and assumptions of the Company's management and the 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.

Investors should understand that 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 said forward-looking statements.

(inaudible) of this call this morning are Mr. Luiz Eduardo Sebastiani, CFO and IR and Vlademir Santo Daleffe, Distribution Officer of the Company. This presentation which will

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be delivered by the management of COPEL can be followed on the Company site, www.copel.com/ri.

And now we would like Mr. Luiz Eduardo Sebastiani to take the floor. Mr. Sebastiani, you have the floor.

Luiz Eduardo Sebastiani {BIO 17969160 <GO>}

Thank you. Good morning. Welcome to the COPEL conference call presenting the First Quarter 2013 earnings. We would like to thank you all for tuning in to listen to our call and say that this is very important to us and this is a very important moment for us too.

Unfortunately our CEO is not present today. He is traveling but we have with us a very important person also Vlademir Santo Daleffe who is our distribution Officer who took (inaudible) at the beginning of April and he is already (inaudible) employed with COPEL; has been with COPEL for a long time and he was distribution officer in 2010 and came back to this position with the mission to align our distributors and the the sign [ph] by our CEO to align our distributors with the new cost reality.

This is very important to COPEL, the articulation between the financial department and reality in the distribution company with so many challenges.

Talking about the highlights we reported net income of BRL399 million. As you can see on slide which is 25% higher than the First Quarter of last year. So year-on-year we have a good growth, 25% and much of this income is the result of the strategy adopted by our subsidiary, COPEL, Geracao e Transmissao, COPEL G&T with allocated the energy which is available in spot marketing resulting in revenue of BRL319 million from the spot market and the (inaudible) situation and the First Quarter also was important for the increase of the price energy which was linked to the cost of the whole distributors.

And also this increase in prices led the government to decree 7945 was held as an executive compensate through transfer of resources from the energy development account or the energy and charges relative to the current situation of the electric sector.

COPEL received BRL204 million to offset these costs in the First Quarter. We would also like to say something about COPEL's commitment to cost control since it has suffered through adverse, the first results we presented in the First Quarter.

Now, let's detail these facts. On the fourth slide, we can see that we have a defined mission by the Company and now the finance department with the Company and COPEL's distribution we are stringently controlling costs.

So COPEL G&T held in the First Quarter 2013 sold to the spot market non-contracted energy, 9% of our assured energy guaranteeing a revenue of BRL390 million.

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But as report on slide number four, besides the effect of this allocations, the average price of energy commercialized by COPEL G&T increased considerably as from the beginning of 2013 and this increase occurred into the strategy adopted by the Company of reallocating the energy which is contracted in the regulated environment to the pre-environment which offers better more attractive margin and also because of the average price of sale this leads to the reallocation to the free market for that energy allocated in 2011 and 2012, about 900 megawatts on average and also we can see here the actual level of prices that should keep steady in the next few years reminding that the amount shows current until March and will be readjusted according to inflation.

Regarding the contracting of energy, our focus continues in prioritizing the allocation to the free market. We are focused now on the allocation of available energy in the next few years. The commercialization that we do will always be through auction.

On slide five we can see the CDE results for funds transfer and as we have mentioned the government issued decree number 7945 which designs the transfer of energy development (inaudible) funds to control the exporters in the stock market limited to the amount not included in the quarterly allocations and secondly to cover the (inaudible) chart, ESS, which refers particular in this to the good parts [ph] of formal units that are outside of the order priority. With Auto in the March balance sheet, we posted BRL213 million which refers to the CDE funds, BRL119 million which goes on the line of charges. And BRL94 million on the cost of energy license.

We received BRL204 million from CDE in the First Quarter BRL204 million in the First Quarter and the difference of BRL9 million was estimated in the private company and transferred by CDE will be adjusted in the next quarter.

The next slide we can see here earnings. As you may observe, which has to do with operating revenues. It has grown 17.6% year-on-year totaling BRL2.4 billion due first of all by the growth of 72.1% on the line of sales to distributors, basically the allocation of energy short term [ph] also the spot market as we have already mentioned.

Second the increase of 26.8% is a revenue of sale of energy do basically to the growth of 216.7% in the energy sales to the spot market or the free market of COPEL (inaudible). Another reason for this growth is the increase in percentage of the booked revenue as sale and delivery of COPEL Distribution, a fact, which is the constant of the entire production since June 2012 which can also justify the reduction of 31.5% of revenue for (inaudible).

Also the (inaudible) items it is important to say that this revenue line was impacted by the extension of contracts (inaudible) 2001 of transmission assets which was met to a reduction of BRL189 million of the annual allowable revenue, the RAP of COPEL G&T.

Other revenues which include construction, telecom, gas and other revenues was 50.8% totaling BRL371 million driven mostly by the growth of construction revenues and by the increase of rentals revenue of the thermoelectric plant at Anna Carnia [ph] which dispatched in this period.

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In the First Quarter 2013, the operating costs plus expenses increased to 90.1% vis-a-vis the previous years because of two basic factors. First the increases, 36% electric energy bought through resales and second, an increase of 5.6% in the (inaudible) bought for resale an increase of 39.5% which total BRL842 million for transferring resources from (inaudible).

First of all, for the purchase of energy and the second factor, the entry of new energy contracts as we have -- as we already seeing in the plans and substituting contracts like contracts of regulated markets regarding 2005 and 2012.

And for sector [ph] greater costs regarding the charges of (inaudible) and (inaudible) charges, besides greater costs of the regulated market the cost with the purchase of energy through motivated by the increase of the appreciation of the dollar and we can see that also we have the transfer of the CDE account.

On the next slide, we have the goals for COPEL across segmented in the APNSO and construction costs. We can see this in the comparative between the year on your consolidation. The cost increased 22%. All of this increase however can be explained by the increase of 26% in parcel or portion only and by the growth and construction costs which are not considered (inaudible).

I'm sorry, I have no sound.

The cost for PNSO dropped 2.3% and the IGP-M in the period 8%. This is very important and I'm sorry, the sound is very bad and I have no sound for moments.

Analyzing (inaudible) material services and other it is possible to observe that the personnel line which encompasses besides costs for salaries and charges the costs with pension plans show a growth of 6.5%, also (inaudible) IGP-M of the period.

And also regarding the succession and voluntary redundancy program, we would like to inform of 712 [ph] layoff for 2013, 135 that occurred in the First Quarter and 113 are employees of COPEL Distribuicao.

By the end of the year, another 577 people should resign from COPEL. Our expectation of this program brings a reduction of 3% of the total in 2013 and 10% in 2014.

And this is very important and we no longer have a (inaudible) of our payroll and it's going through reduction of (inaudible) of 7% in real terms in 2014.

Slide nine, EBITDA, the consolidated EBITDA in the First Quarter grew 10.4% vis-a-vis what we are seeing in the first period of 2012, BRL675 million and 28% as a net revenue almost in line with what you are seeing in the First Quarter 2012.

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COPEL accounts for 84% of the generation of consolidated cash and EBITDA which was negative and a COPEL Geracao e Transmissao account is rated 4% in generation of consolidated cash, COPEL Distribution was BRL101 million negative basically because of the strong growth of cost of energy has already been detailed.

On slide 11, we have a net income of COPEL which was BRL399 million in the first three months of the year, 35% above the same period of 2012 besides the revenue (inaudible) relative to spot market it also contributed to the increase of income and the higher financial revenue. We may observe that COPEL G&T closed the quarter with a profit of BRL407 million and a net margin of 47% while COPEL Distribution presented a loss of BRL68 million consequently a negative net margin of 5%.

So generally speaking these are what we have to give to you and convey to you about this market (inaudible) and we are now ready for our Q&A session. And as I have said, we also have financial director and our distribution officer, Vlademir Santo Daleffe. Thank you.

Questions And Answers

Operator

And now we would logo on to Q&A session. (Operator Instructions).

Our first question comes from Mr. Marcelo (inaudible). You may proceed.

Q - Unidentified Participant

Good morning. I have a question regarding distribution. You have an increase of cost with (inaudible) so part of this has been offset by funds which came from CDE but I would like to understand first in this quarter was an increase which has not been transferred to the tariff. So what would be the CDA of the quarter that is distributed and what would be the level of recurrent EBITDA?

A - Unidentified Speaker

Good morning, Marcelo. I will ask Felipi [ph] to take the floor who is our Investor Relations Manager to answer your question.

Good morning, Marcelo. Good morning everybody. Regarding your question, you analysts helping (inaudible). What we can say is that partly a variation compensation plans is that we have a land [ph] of financial account of 2011 [ph] which was BRL85 million in this period.

And for some reason this was not considered (inaudible) this was not in line -- it was not relevant to be disclosed. We had this BRL85 million of financial performance which rise and like with price regarding exposure to CCEE contracts and very technical thing regarding COPEL Distribuicao.

And they were not reported in our explanation of CVA because they're not significant enough. In this quarter, the value is greater. So we will not -- could identify in time this need to put in this value as well in our lines.

But this does impact the economic balance. So BRL85 million was the amount. And it is predicted to be expected in the future as well. But this does this not impact directly our result. It will be recovered in the future.

Q - Unidentified Participant

What was the number you said?

A - Unidentified Speaker

BRL85 million, 8-5, plus BRL40 million CVA. Well, if it has been compensated, EBITDA would've been positive, yes. We also have (inaudible) of accounting, which classifies this information.

Operator

Our next question comes from Mr. Eduardo from (inaudible) securities. You have the floor.

Q - Unidentified Participant

Good morning. I would like to repeat what you said because I'm not sure I understood. The CVA last quarter was BRL85 million plus BRL40 million. Is that right, BRL105 million? And then I have another two questions. Regarding the revenue with CDE, you said it was BRL390 million.

I don't remember having seen that in the release. Could you tell me about that? And what is the amount of energy associated to this BRL390 million? That's one question.

And another question is about the Distribuicao area. What are the steps that you imagine that can be taken to recover the profitability of the distribution area?

A - Unidentified Speaker

Thank you.

Our accounting people get that for the (inaudible).

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

This is Eduardo Good morning, everybody. So in fact, the question, the CVA in the First Quarter is BRL125 million. Regarding your second question, is that the energy that we booked in the First Quarter was a supply or sale by COPEL G&T of BRL700 million. And we cannot foresee on the orders of consumers with BRL393 million, which is

Q - Unidentified Participant

But it isn't ramped out separately?

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

No it's in their energy supply.

It's very important from BRL212 million to BRL130 million [ph] it's under the sale of energy line.

Q - Unidentified Participant

And the amount of energy sales, do you have that?

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

9% of our energy in terms of megawatts, 170 megawatts.

Q - Unidentified Participant

And another question is (inaudible) regarding COPEL Distribution?

A - Unidentified Speaker

This is (inaudible). Good morning, Eduardo. Good morning, everybody. I'm sorry the sound is very, very bad.

So PMSO, the short step taken on the 1st of May was the restructuring of COPEL Distribution, allowing us to have to (inaudible) and this allows us to take the commitment of --

No, our expectation is that our costs be reduced by 500 employees. And until 2014, we should have 700 we will -- by the end of 2014, we will have about 6,000 employees. Today we have 7,500. Besides that, we cut -- or managerial reductions will contribute to this besides the currently management position, this will be reduced.

And as soon as we conclude the hiring of the consultancy, which will identify questions of productivity, our structure will be much leaner as well.

Regarding Eduardo, allow me to say the following. With the prevention of our balance sheet in 2012, we reiterate that now in the final phase to be taken to the market for the first processes, international competition. And liquidation.

The contracting of a consultancy company specialized in analyzing organizational systems and productivity is employed in order to allow us to -- and in the next few days, at the end of May, we hope to have this company.

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We hope that we will be continue the good service to help us here and set it on effect. So I just announce to you that we are announcing this to the market. And this service will be contracted.

Operator

Our next question comes from Antonio Junqueira of BTG Pactual.

Q - Antonio Junqueira {BIO 15403195 <GO>}

I have two questions. One is on the cost of personnel. If you take your details reported and go back to the BRL125 million and BRL29 million in the pension plan expense. And we have operating expenses in our financials, we can see that the EBITDA of BRL65 million more or less in the distribution company, (inaudible) the regulatory EBITDA of COPEL, it is a quarterly. (inaudible)

So in your distributor business, you are having half the efficiency of the benchmark company. So could you tell us about that? And will the reduction of your 700 employees, because of the revision of certain processes, do you have an expectation of reporting a number in line with the regulatory demands? What would be magnitude that you expect? What will you gain with this improvement of systems and reduction of the headcount? That's my first question.

A - Unidentified Speaker

Hello this is (inaudible) speaking. And I'm going to ask Vlademir here to answer because it has to do with COPEL Distribuicao.

A - Vlademir Santo Daleffe

Good morning. In fact, our selling (inaudible) our expectation is that we will have in 2014 BRL800 million. We are working with a reduction of 20% by the end of 2014. This will make us certainly amongst the annual benchmarks. So our expectation is to recover all of this by 2014.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Thank you. Still on reducing the headcount issue. There was recently the voluntary redundancy program. The number that I referred that you have in the beginning of 2013 is that the 700 number that you have at the beginning of 2012, could you say that?

A - Vlademir Santo Daleffe

Well, not yet Antonio, because we've started really working on this in April. So year-on-year, this has not happened. But by the end of the year, just for the voluntary redundancy program, we had 400 employees but none of these 400 vacancies will be refilled.

The natural turnover of the distributors during the year is 309 for next year. But would not be refilled again. So we are quite sure that we will have 700 employees left, even though we will not have any incentive policy. And last question?

Q - Antonio Junqueira {BIO 15403195 <GO>}

Well, you have had a position, as I see it very interesting in the auction, the transition auction. You did due diligence, you did your calculations in a very competitive market, you dropped out.

So I think this is what people were expecting. But I want to know if since you have made the investments and since the opportunity was not interesting, you took the right decision. When do you think that this company will increase its payout?

A - Unidentified Speaker

Well, as regards to this question, yes, this is the way to go. And we're working on this. It's still what we just did recently.

We were successful (inaudible) as capital. And we will not forget proposals if provisions are not favorable to profitability regardless of all expectations, which people might have.

And so, of course, it's important to find new sources of revenue. But we are very careful about getting into new projects to bring in profitability. And this just reinforces our outlook in aligning COPEL to the companies with electric power section regarding payout, this is work that we are internally showing that it's very important for this company to pick up a position at this level.

But we will do this cautiously to be able to progress both these new projects. COPEL does not have such a strong dividend policy aligned with the sector.

But internally, we will seek to align the Company to this and more than having a level of dividend we wish to present at the right moment when the Company manages to have good results.

And this certainly will occur in the next few months to have a better policy to present. But it is within our outlook to have aligning or to align COPEL with the other companies in this sector, companies like Selig [ph] and others.

They have a very well-defined policy about dividends. And this is our target. And this is a -- much in aligned. What we are trying to do at the moment is optimize our cost and have the best results to present to the market and to the shareholder to build our quality, capacity to our cost reduction and building the income of the Company.

And then, we will be able to define our dividend policy better. And I repeat, aligned to all the companies with the power sector in Brazil and (inaudible). This year in the balance sheet of 2012, we will have an evaluation of our financial results.

I would wait for the moment for -- to announce this special policy. So it has really been an important growth from last year to this year. And our results will have a more specific impact on this.

Operator

Our next question comes from Gabriel [ph] (inaudible) from Itau BBA [ph]

Q - Unidentified Participant

Good morning. Thank you for this opportunity. So let me try again the importance of all of the details up to now. Distribution, you recognized, you are on the track to regulatory target. And dividend management continued well. You're also discussing this.

So could we join the two events, COPEL's management will only be favorable to dividend payouts seeing the regulatory efficiencies being achieved or will you be waiting also for, let's say, we agree to the average price generating a financial flow, which management would consider sufficient to improve its remuneration level of the shareholders?

A - Unidentified Speaker

Well, these are two questions, it's important to consolidate our EBITDA with COPEL Distribuicao. And so the goals are certainly important, what this would strengthen the Company and this strengthening of the Company certainly will give us much better conditions to align and conclude our dividend policy.

And so it is -- the better our financial conditions, the more able we would be to present to our shareholders a return or a payout of that dividend. And generally, this will be good for the Company. So this is absolutely important. So your question is important. And that we are very focused on this as well to improve conditions for all.

Q - Unidentified Participant

So what about the timing or the recurrence or seasonality of these discussions of yourselves and the top management about the question of the payback of the shareholders once a year, or once -- or twice a year or every meeting.

So I'd like to know how this schedule works and the seasonality of discussions of the management's outlook.

A - Unidentified Speaker

This is the second half of the year, we will discuss this question more in view of the results, which we will have already have on the balance sheet. Therefore, the outlook for the second half of the year. So let's just wait for the end of the balance sheet. And then we will present this.

We know that this is important currently for the weak [ph] market and for the Company and compatible and necessary of innovative growth for the Company. So what we have to do is have significant results as we are striving towards to define this payout.

Operator

Our next question comes from Ms. Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you. I'd like to know if you're discussing the receivables from the State of Paraná. And how do you see the opportunity to use this cash which could come from that?

Do you think that this already -- will be earmarked for new projects, or do you think that the debt [ph] level lows should continue at these levels, or do you think that you might have an extraordinary dividend?

A - Unidentified Speaker

Hello, Lilyanna. I think it is possible to do a little bit of both. First of all, we have to define whether this will be conveyed to the market through to the end when we have something to declare about the CRC [ph].

We'll continue to discuss this with the government of the state regarding the amount and then, we know that the records or the reference of the CRC in general and the records and the levels that have (inaudible) the value. And having the prospect of achieving this value. And entry of this from the (inaudible), we will then have a plan for the use of these funds.

And we will not see the start of this before the dividends. So we will have this -- I would say that we have already been working with the government of the state for some time now. But nothing has been officially set about the amount, which will establish these covenants [ph].

But it's nothing to pass over. We do not want to have these important funds repaid to the Company without any plan to use them. And investment plan for these funds. We will not take any projected steps before we have this to present to the Company and to the investors, to the shareholders and also the major shareholders until we have this.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Well, could you elaborate please? As we see it, this transaction, once it's concluded, do you have to have a shareholders meeting, or can the board decide on this and the management?

A - Unidentified Speaker

Well, it is already defined. This has already been done and it will have to be approved by the board. The government had a very important role meeting with the board.

At this time, there will be a conflict of interest. But certainly, it really -- it will be discussed by the board now and the evaluation and approval of Aneel [ph] will be well-consolidated because we must have all measures taken and also announce in the market every concrete step that will be taken.

So this will be done in a very transparent way for COPEL with regards to -- rather than restructuring our debt. To us, it has to be something very important to increase our possibilities of giving revenue and COPEL investments.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you, very much.

A - Unidentified Speaker

Thank you.

Operator

Our next question comes from Sergio Tamashiro from Banco Safra.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Thank you for coming. I have two questions. First of all, (inaudible) 2013, 2014, early adjusted to seasonality for next quarters. And what about contracts, medium-term, long-term, what about the energy markets and the prices?

Second question is about auction. You have said that you have changed your position, you are more diligent. And the internal rate of return it's increasing. And I'd like you to elaborate on the next auction.

And another question, which you talked about distribution is yellow and red light is going on? You have a negative EBITDA now doing a quick calculation on the side of distribution, you have EBITDA with revenue 74%.

It seems fantastic. But if we take the BRL390 million to (inaudible) EBITDA of BRL256 million with a revenue of BRL478 million. In other words, EBITDA dropped to 54%. So the question is I see that the management for distribution BRL156 million and the distribution, BRL56 million.

In other words, we're talking about (inaudible) well, what was the -- I'm sorry, I can hardly hear -- particularly with generation, it seems the generation has a very, very high headcount.

A - Unidentified Speaker

Well, Sergio, regarding your first question with the energy contract, no, our generation was (inaudible).

Good morning, Sergio. Good morning, everybody. We presented in Slide four of our call all the commercialized energy of COPEL Distribution. You will see the example, in 2013, we have 9% of the synergy, which was commercialized in January.

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In 2014, we have 18% first to be contracted. COPEL Duracell is doing many contracts and auction now in the 1st of March and auction of some markets, it's already been sold to the free market. This is why we have still 18% to be commercialized by the end of 2014.

The strategy is to see how the price of the spot market would change until August. We would see whether we leave a technical result or to, say, sell to the spot market next year. But we think we'll still have 18% of energy still free to be contracted.

In 2015, we have 23% of energy and 2016, 31%, in 2017, 49% of energy to be commercialized. And this then is a gain for COPEL generations to be able to have this.

And as has already been said during the conference call, in 2012 to 2013, we already have a gain of margin in terms of average price. So the average price in 2013 is about BRL98 and now on March 2013, it's BRL132 per megawatt hour.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

But you auctioned one contract for more than a year or to five years. So what about this, what about this contract for three years? Could you elaborate on that, please?

A - Unidentified Speaker

In fact, these are three to five-year contracts, Sergio. And it's a question of strategy. The average that we have contracted up to now -- contracts in the future, well, this is the price which we cannot disclose.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Well, it has improved, vis-a-vis last year?

A - Unidentified Speaker

Yes, quite certainly. You can see on our slide number four that the average price at BRL98 and now, it's BRL132. So we must say that 2012 was 105% of our contracted energy in the regular market.

When the regulated market in 2005 to 2012 finished the 800 megawatts, much of this was already with the free market. Now we have 51% of contracted energy to free market and 40% in the regular markets -- regulated market.

Operator

If there are no further questions, we would like to ask Mr. Sebastiani to take the floor for his final remarks.

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

We would like to thank you very much for your participation. And it is very touching to us to be able to, personally myself and all of our team, to be with you. We always want to be

very close to the market.

And I'll say about that commitment with costs and our financial control. And we're trying (inaudible) questions while we have taken the position that we have and that we did at the large auction. Our financial positioning is tied to our mission of financial cost control. And we will not place ourselves at risk conditions.

And as I have said, we are -- we will have a consultancy. Our companies have done this. And we know that COPEL will also. And all COPEL's employees, to respond positively to this challenge of cost reduction, making COPEL even more efficient in the electric power section.

And therefore, we are delighted to be with you. And we are always at your disposal and at the disposal of all of the investors and all those interested in the Company to present questions about the Company, expectations, our work plan, et cetera.

So I would like to say goodbye now and goodbye to all of those who have been with us and particularly on behalf of (inaudible) Mr. Daleffe [ph] and (inaudible) at some time I'm very honored and very happy to have him back here with us in our company to help revenue back with us.

And we are committed to this quality of the Company and know that this is nothing [ph] impossible with cost reduction. So this is what I wanted to highlight and able to speak on behalf of our President, Mr. Lindolfo unfortunately could not be with us today. But you could follow me if you have some questions.

So thank you very much. And have a good weekend.

Operator

Today's conference call is now concluded. Thank you for your participation and have a good day.

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