

## Q3 2013 Earnings Call

### Company Participants

- Lindolfo Zimmer, Chief Executive Officer
- Luiz Eduardo da Veiga Sebastiani, Chief Financial Officer
- Unidentified Speaker

### Other Participants

- Felipe Leal, Analyst
- Lilyanna Yang, Analyst
- Maria Carolina Carneiro, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good afternoon and thank you for waiting and welcome to the Companhia Paranaense de Energia Copel Presentation regarding the earnings for the first nine months 2013. We would like to inform you that all participants will be in a listen only mode during the company's presentation and then we will start the Q&A session, when further instructions will be given. (Operator Instructions)

Before we continue, we would like to clarify that forward-looking statements made during this conference call which refer to Copel's business projections and operating and financial targets are based on the beliefs and assumptions of the company's management and also depends on currently available information.

Forward-looking statements are not guarantee of the performance as they involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances which might or might not occur.

Investors might understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Copel and could lead to results which differ materially from those expressed in these forward-looking statements.

We have with us this afternoon Mr. Lindolfo Zimmer CEO of Copel; Luiz Eduardo Sebastiani, CFO and IR officer; (inaudible). This call may also be followed on the company's website, [www.copel.com/ri](http://www.copel.com/ri). We would now like to pass to Lindolfo Zimmer, CEO of Copel to take the floor.

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

Good afternoon and welcome to Copel's call regarding the first nine months of 2013. I would like to thank you all for coming over to our -- listen again to our call and its pleasure to talk to you.

Well, now talking a little bit about our highlight, we have booked net income of 923 million between January and September of 2013, which was 12% higher, they are now compared in the same period of last year.

As you already know, a large amount of this growth is competent of better electric energy contract and also the strategy of allocation adopted by our subsidiary Copel Distribuicao SA in the first quarter when we sold the energy on the stock market at high prices.

However, it is necessary to mention that our effort in the control of that manageable cost.

Copel has been contributing to the company's result and this is just a beginning, since we have convinced and we will still reduce the cost even more. We have written a plan for economic feasibility for Copel term and we have established a traffic to reduce our cost by 300 million till 3015.

Another highlight is the restructuring to which the company is going and it shipping greater utility and greater cost control in different segments. Regarding new investments, we would like to give you more review of how work is progressing including the seven wind farms that we or the wind farm that we have acquired recently, at the whilst we got two left where we have the state facility.

And finally, I'd like to draw your attention to some good news. Copel board has just approved just a mile ago, the creep movement of 325 million to shareholders. This amount includes the net income of 650 million, which aimed in the first six months of the year, which is therefore a payout of 50%.

And this is going to bring with the expectations of the shareholder, so that they might participate in the good moment and now I would like to ask Dr. Veiga Sebastiani who will go into further detail about the dividend prepayment and also comments on the periods earnings.

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

Thank you very much and good afternoon and thank you very much for coming to Copel's earnings call. First, I would like to say a few words about how pleased I'm together with our CEO to communicate the pre-payment of dividend.

As you know since I ever took over as CFO, I have been commitment to cost control and with financial discipline investments, as with the alignment of Copel's capital structure appear in the market to those decisions a very important phase of it.

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First on our cash flow we realized there was space to carry out a prepayment, which reflects with the effect of the retail earnings in the first half of the year.

We will be distributing a 100 basis related of interest on equities which corresponds to the maximum possible to for store claim and a 145 million in dividends, a total of 375 million. And the show that we have right dividend others will held the concession rather as a vendor and will become payments will be drawled out from 16th of December.

Regarding the results, as you may see on slide number four, operating revenue increased 10.6% between January and September 2013, totaling R\$6.7 billion. Main reasons for the growth of this revenue was the increase of 34% in the revenue of energy supplied to end customers basically due to the readjustment of 9.55% applied to tariff as from 24th of June of 2013. Second item because of the increase of the energy in the revenue bookings after the third cycle of tariff review carried out in June 2012.

As a fair draft, we may highlight the increase in the revenue supply to end customers was influenced by the growth of 197.2% as a supply of energy to the three markets of Copel generation and transition.

As far as electric energy supplied to distribute the growth, it was 20% and tends from the allocation of energy resource term, carried out by Copel system in the first quarter. The increase of the average price of electric energy supply to contribute due to the relocation of part of the energy portfolio Copel (inaudible) for bilateral contract after the regulated contract expires.

And the user password which is broken down into both charge for the use of distribution and transmission showed a drop of 32% due to the effect of tariff review of Copel carried out in June 2012. The extraordinary review after the MP 579 and the extension of the contract of transmission assets, which led to a drop of about 189 million out of Copel GeT, other revenues including revenues from construction, telecom, gas and others totaled 59%, a total R\$1.3 billion due impart for the growth of construction revenue, a consequent to the transmission distribution and transition and because of increased rent revenue from the thermal electric plant Araucarias, which had a greater dispatch in the period.

On the fifth slide, we go in further detail about the costs and operating expenses between January to December 2013, which shows an increase of 12% vis-a-vis the same period of previous year which can be attributed in great to be included of 19% in different with electric power compared to or both growth retail account to R\$2.3 in the period. Already met from the 264 million to transfer to the CDE, the use of good charges showed a reduction of 50% in the period, impacted by lower costs with charges for the system of the charges, the company publication of law 12,738/13 which extended transmission concessions as because the transfer of 330 billion in rig in the period, both the cost including pension plans benefit showed a reduction of 7% in the first nine months of 2013.

Due to lower costs integration in charges, even considering the wage adjustments of 5.6% and 1% as from October 2012 to May 2013 respectively and number of that provision

for alternative which will turn to the successful voluntary determination program, which was closed in December 2012.

Now further to charges showed a slight increase from 1.3% due to business spread expenditures with services which are attributable to communication and data processing.

In the next slide we separate expenses with energy for retail and as a result it grew 19% and totaled about R\$3.3 billion in the first nine months of the year. Energy purchase in the regulated market grew due to three factors.

First of all it was adjusted by inflation. Second, the start-up of new hydroelectric energy contract and substitution of existing energy contract which expired in December 2012 and in view of higher cost with a similar electric contract because of the cost effect.

And the third payer cost with the regulated market contract costs with the CCEE energy purchase grew in the highest spot market cost, while the cost of Itaipu grew due to the appreciation of the dollar.

On side number seven, we detail the transfer of CCEE resources as you know the Government issued decree number of 7945 which includes the transfer of CCEE resources. Through the first nine months of 2013 the company booked a total of R584 million as resulted in CDE and R\$764 million which referred to the out cost of energy as 320 million which refer to the compensation of costs with charges as I have mentioned.

Please note that the amounts which refer to third quarter is very low, which we already expected because now the tariff adjustment of Copel distribution and higher cost of energy charges of thermal dispatch were included in the tariff and what was mentioned result in 14.61%.

Remember the 9.55% were applied in June as rent 256 million will be corrected by and we will make a financial portfolio to which will be applied in next result within June 2014.

On slide number eight. We show the evolution the distribution cost, looking down into partial construction cost. You can see that when they compare between the first nine months of 2013 and the same period in 2012, costs went up about 9% and basically it is explained by the 92% increase in construction costs which are not considered in the regulatory balance sheet.

Costs with CMSL dropped by 0.5% where as the IGPM by 4.4% in the period. And if we analyze PMSO individually, it is possible to observe that expenses that include this size of cost with salaries and charges, the expenditure with social securities and about a presence already concerned to the adjustment granted in the period.

You may know such that the reduction of approximately 15 million in Copel distribution alone and when they consider the consolidated values of reduction is 65 million and that's of extraordinary costs with the voluntary redundancy program, it is approximately 42

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million for the first nine months of 2013 or 4.8%, which shows an important downward trend that should continue in the next few quarters.

You can see the importance of 2014, the company's distribution of the Copel distribution. It shows a major challenge for all the companies in this sector and dealt with a lot of confidence by Copel.

Coming back to the distributive cost and expenses represented a 10% increase in the period motivated by non-recurring costs of losses related to the physical and accounting reconciliation of assets on net of these launches and actual cost would go up to 43% in spite of the market curve and the inflation EBITDA.

Going back to the result, on slide number we can see that the consolidated EBITDA grew by 5% between January and September 2013 and among due to 1.6 billion and a 23% margin on the operating revenue in line with what we saw in the previous year.

Cash generation by Copel G&T accounted for 78% of consolidated EBITDA that is for Copel Telecom represented 5%. On the other hand Copel Distribution represented \$37 million EBITDA reverting the downward trends that we saw up to June, until the last quarter.

So you can see a reverting of the downward trend already this quarter, the EBITDA margin of Copel GeT reached 60% and Copel Telecom 22%, Copel Distribution, deliver EBITDA margin of 1%.

On slide number ten, we show the consolidated net income of Copel BRL923 million year-to-date through September to represent higher on a year-on-year basis. As we have already said, net margin was about 14%, in line also with the previous year.

Analyzing the results of subsidiary, we can see that Copel GeT close the period with BRL734 million, net income 33% higher on a year-on-year basis. And index margin up 36%. Copel Telecom posted BRL35 million net income corresponding to 62% increase on a year-on-year comparison. The year-to-date net result of Copel Distribution the nine months was BRL43 million.

These were the main highlights about Copel's results and I would like to give the floor back to our CEO, Mr. Lindolfo Zimmer and he will be talking a little about the restructuring of the Company about the prospectus with our cost reduction plan and also investments that we are making.

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

Thank you, Sebastiani. On the slide number 11, we show you the configuration of Copel after the conclusion of restructuring, the cost of debt is already undergoing and with these changes we try to streamline our internal processes and facilitate the separation of cost and separation of activities of the different subsidiaries and among the changes

already carried out for our holding company reduced from ten to five the number of executive areas.

Now, this slide is often the holding company has accept to kick off Finance and Investor Relations, corporate management, institution of relations in new business regarding subsidiaries besides the ones that already exist Copel G&T, Copel Distributing, Copel (inaudible), look at the company now has Copel Participacoes which was created with the objective of managing the company stakes and owns Copel portion of our result will be concentrating the company's investments in energy generation from renewable sources including the recent acquisition of seven wind farms in Rio Grande do Norte.

On slide number 12, we describe the economic sustainability plan of Copel Distribuicao submitted in October and the objective to reduce cost and match the results of the subsidiary to the regulatory framework and the plan provides for a cost reduction of a Copel Distribution with PMSO of 6% a year between 2013 and 2017 and we expect a \$300 million reduction in operating costs by 2015.

The highest contributions for this result will be made by the reduction in our headcount by the Voluntary Redundancy Program and the exclusion of 163 management positions equivalent to 60% of management positions driven by the restructuring implemented by the subsidiary as of April 2013.

Now more specifically about the Voluntary Redundancy Program, 337 people were leaving the company in the last month of 2013 for the whole year the total decrease in headcount will be 764 and among these about 500 are Copel Distribuicao. It's important to remember that since we launched the Voluntary Redundancy Program in 2011, a thousand people have already left the company. Still total about the Voluntary Redundancy Program in order to meet the need to continue reduce your pay bill cost, we recently launched a new program called Incentive Redundancy Program which should allow us to further reduce our headcount.

And a slight reducing our cost with pay roll, the company carried out 400 cost reduction initiatives with MSO then with that we had save these amounting to R\$30 million in 2013 in Copel Distribuicao alone.

I would like to highlight that the plan improved the trial set of the CRC credits from Copel Distribution to Copel Holding Company and its actual which subject to approved will allow us to settle the intercompany loan with Copel and the transfer of funds to the distribution companies cash guarantees, a sound capital structure for the subsidiary in the next few years and it's important to say that the cost reduction is not limited to Copel Distribution similar, there is through the incentive to gross reductions and also reduction in management, so that also being carried out at the other subsidiaries in Copel over 300 proposals coming from our employees are submitted with the objective of cost reduction.

And on slide number 13, finally it's important to give you an overview about the investments that we're making in the generation segment, this will be adding 636 megawatt of installed capacity in the next few years and we have already reached 60%,

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(inaudible) busy schedule at the beginning of October we included the resolution of the Spanish important step that will allow us to continue the construction work for them as to the less bank and despite you got your BP construction work has already started and follow the schedule with no intervention orderly.

The wind farm in which we hold a 49% stake compile the deconstruction of the fore front and they are already being remunerated as the concept that in your operations, although the last transmission lines have not been concluded yet.

And the project for the seven wind farms recently a project benefit launch under way and should be concluded by the end of 2014.

In transmission, we are adding 2015 kilometers of lines to our portfolio, which will deliver an additional of R\$203 million that's doubling our revenue from the segment. In general these are the main highlights for Copel's results and now I would like to open for questions from our listeners.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Carolina Carneiro from Santander.

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

Good afternoon. I would like to clarify in today's meeting, what was approved, you would know the change regarding the policy of different payout to 50%, will digest all the adjusted decision to pay at this moment to pay -- income was it an effective change, this is a minimum dividend, which is just paid [ph] or is just a prepayment of the payments, which does not necessarily mean, but the payment for the year will be 50%.

### A - Unidentified Speaker

Thank you very much Carolina.

I'll talk to the end of your question. Well, it should be this year and next year, 50% for the two years and it's important that we have announced this, it's very important for the Company for Copel and the aligning of the company with other companies with the electric power sector and it's important that the analyst know of the commitments that we have with this outlook. It's very clear to us that this is a track we will follow regarding dividend payout. We have a recent track (inaudible) of 25% payout.

And now that 38% and we have reached this level that is more positive. So, obviously this points to an outlook or to the possibility of another level of payout for the Company. Therefore, this is a decision taken as from the possibility for Copel to do this for the payout of this year. And -- but we know that this is all part of a process, an important part of what the company is doing. And there is a long way that (inaudible) in the near future.

## Q - Unidentified Participant

And one more question to clarify, what has changed in fact in the mind of the Company. I remember that lot of calls you've always said that you wanted to participate in several auctions and you have a very intensive CapEx program and obviously cost reduction, but you have in terms of CapEx program regarding purchases and most of distribution and generation. Do you still have this view of this aggressive approach and keep your payout and are you going to randomize things on a case-by-case basis and then identify what the payout would be.

And another question regarding this and another point is I would like you to share a little bit about the balance between the payout payment, which is now higher vis-a-vis the fact which you have not yet received or the tariff that you have to repay this year and obviously not wanting to speculate, but reduction we know that you still have a balance to receive from the tariff, but the tariff should grow also in the distribution business. So you have a (inaudible) how much will be transferred and what your balance will be or do you still not know this really.

And will you evaluate paying next year according and what's your payout will be if you don't get the total tariff value?

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

Well, at this moment things are favorable, according to what we have presented to the market and we also have an important cash flow and investments have been significant in equity with a book considerable value over this year.

So as these conditions are favorable from now on and recently we have the alteration of the BNDS for financials of -- and a very important to the financial global fund and the income finance. So I think that what we have at this moment we'll actually we continue without dividend paying out.

And also we have a report to sustainability level not by plant, we have very favorable conditions, no debt level and with prospects and much optimistic in future for the Copel Holding Company and very favorable elements to be worked on.

And therefore, and also with close optimization that there is lot to be done on the tariff.

We have to find more efficient people for our company. So I think there is everything to be done to be consolidating risk in that without obviously monitoring our financial discipline as a feel that had a new that we have done important investments, we are doing this in wind energy and renewable to also make this efficient. This is part of Copel's structure and we're working hard to look at a very important fact for Copel in alignment with the rest of the electric power sector.

## Operator

Thank you. (inaudible) from Credit Suisse.



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### Q - Unidentified Participant

Good afternoon. Good evening in fact, thank you very much for the call. I had a question about dividend, but it's already cleared, but there are two other points that I would like to raise, about the vital for the A minus one options and do you have a very big exposure there.

So I would like to know if you intent to participate in this options and what kind of product will you be bidding for if you bid? And regarding the next round of talks you wish to participate, so I would like to understand your strategy for this area and how this fit into the renewable of the company, are you going to participate in a consortium and what is your strategy?

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

This is regarding Copel Distribution. We need to buy 966 megawatts, which is a significant amount. And our expectation is to have an attractive carry [ph].

### Q - Unidentified Participant

But I believe we would like to know about the strategy of the generating company, (inaudible) right?

### A - Unidentified Speaker

We have been talking, he is not here, but the value is attractive. And I cannot talk about the strategy because it hasn't been defined yet. And we should be waiting for a few days until the auction is realized.

### Q - Unidentified Participant

And what about gas? And what about the strategy for gas?

### A - Unidentified Speaker

The Company has already been accredited and they have partnered with us. And we believe it's very important for us to be positive this moment when the new source of energy arrive, presented a very significant participation.

And this situation, the other countries encourage us to do this, and we couldn't just stay outside and not participate in this possibility. So we are studying and we're addressing a plan and addressing our project. And then we will be deciding whether we will be participating in the auction or not. Thank you. Next question.

### Operator

Next question, Mr. Felipe Leal from Bank of America. Mr. Leal, you may proceed.

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

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Good afternoon. I would like to know if you have any news about the negotiation of the prepayment of CRC with the state government?

### A - Unidentified Speaker

Felipe, we followed this very closely. We are here in the State of Paran and follow in the local press of course. The development of the desolations [ph] regarding negotiations of the state government. Yesterday, the governor of Paran Beto Richa met with the President, Dilma Rousseff and she mentioned that these process that are analyzed would be completed very soon, but to the announcement that was made by the state government year-to-date, we are expecting the release of the financing to be provided by private bank and then be able to level the CRC and Copel is already prepared to settle.

This account that state government has with Copel and we will be able to identify by the end of this year or maybe in the next or the first three months of next year, so we don't have the info of these fund in order to shuffle about R\$1 million. Thank you very much.

### Operator

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

### Q - Unidentified Participant

Good evening. Continuing on with the last question. In case to receive two or three resources in the third quarter or by the end of the year when you have the distribution list to common shares to stock holders over this to be used to strengthen your cash position.

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

Well, the mix between these two possibilities as you mentioned, obviously distribute these extraordinary resources that will enter the company's cash, but also to leverage new investments, so that we can enhance good earnings. But one situation does not eliminate the other and I think that there will be a possibility of having a mix of the two points regarding of, well, regarding payout of dividend and also financial strengthening.

### Operator

Next question. Mr. (inaudible) from Goldman Sachs.

### Q - Unidentified Participant

Good evening and thank you for your call. Also a question regarding investment. A deal was approved on Tuesday, the ceiling prices for the auction for the (inaudible) and the whole sector has an eye on it. And it is (inaudible) into. So I think with the price of R\$110 bidding price does Copel -- is it attractive to the Company to participate in this auction, which will happen now in December?

### A - Unidentified Speaker

Well, obviously we would carry the possibility of new acquisition generation. But the Company also has responsibility of a retainment in a very healthy and sound way to do what it feels confident in doing and has good returns for its stockholders. The price of a 107 ceiling does not allow us to take a final decision. It proves very low to begin with at fair price. And we will -- we cannot participate in an auction under these conditions, things might change, (inaudible).

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### **Q - Unidentified Participant**

Thank you very much.

### **Operator**

Mr. (inaudible).

### **Q - Unidentified Participant**

Good evening. What about this two stock buyback, it is linked to the dividend to our policy?

### **A - Unidentified Speaker**

No we are not going to carry out any stock buyback plan. The goal was to achieve and increasing our dividend and this is what we focused on during the period and creating all the favorable conditions in order to make the decision. However, we do not intent to carry out any stock buyback right now.

### **Q - Unidentified Participant**

This is Mrs. Lilyanna Yang from UBS.

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

Thank you for the opportunity for the call and what is the ideal capital structure that you probably see for 2015 for Copel 2014 and 2015, taking into account all the new projects and et cetera?

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

Good afternoon, Lilyanna. Our goal is to be better every day, let's say 55% on capital and everywhere on this basis. And also based on our short-term assets, and also our program such as cost reduction, increasing our investment and our dividend policy and we want our capital structure to be a consequence of all these measures and this is our target.

We have very significant management target that has to do with better result to be delivered to our customers and with a compatible cost and this will lead to the other capital structure and in two days of course, we have the new investment and maintaining our profitability levels.

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

About the CRC funds. One of the -- we don't say at the beginning of 2014 to close this transaction and I defend you do not know yet how you will be using these resources between dividends and investments, could you explain that, it is different from what you had in the past?

## A - Unidentified Speaker

I understand that you have been following the CRC issue and we have not changed our position in this regard. We know that there is this perspective and of course we will be distributing pay out dividend as much as we can.

And the majority shareholder works with the focus and a most relevant price for the majority shareholder was to have the track of this debt swap and it have been a lighter debt vis-a-vis the conditions established in the current situation of this debt. But the outlook is that, Copel would not necessarily keep this in cash and we can work both ways this paying out dividend to a (inaudible) I can confirm that. But we also want to bring home value to our Company so that (inaudible) addition of value may mean investment that may bring the higher profitability in the medium and the long-run for the Company. And our prospective is very much focused on dividend payout here. Thank you.

## Operator

As there are no more questions, we would like to give the floor back to Mr. Lindolfo Zimmer for his closing remarks. You may proceed sir.

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

Before finalizing, I would like to thank you all for participating in this call. And I will iterate our commitment with cost control as you can see the evolution of our endeavors already. And we expect that the adaptations of our internal processes may further decrease our cost and thereby improving our results.

I have already talked about the prepayment of our dividend, 50% of net income in the first half and this is a very important point or a step for this management of the Company. And we intend to cater to all our stakeholders. I would like to take our (inaudible) thank you again.

## Operator

Copel's conference call is closed. Thank you very much for your participation and have a very nice evening. Thank you.

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