

Q2 2012 Earnings Call

Company Participants

- Wilson Ferreira Junior, CEO

Other Participants

- Sergio Tamashiro, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. We would like to welcome everyone to CPFL Energia's Second Quarter 2012 Earnings Call. Today, we have here with us the executives, Mr. Wilson Ferreira Junior, CEO of CPFL Energia. And other officers of the Company.

This call is being broadcasted simultaneously through the Internet in the website at www.cpfl.com.br/ir. In that address you can also find a banner through which the presentation will be available for download. We inform that all participants will be on a listen-only mode during this call -- during the Company's presentation.

After the presentation, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) Another important information that this teleconference is being recorded.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CPFL Energia management and on information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties. And assumptions because they relate to future events. And therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of CPFL Energia and could cause results to differ materially from those expressed in such forward-looking statements.

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Now, I will turn the conference over to Mr. Wilson Ferreira Junior. Mr. Wilson, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, to all investors and analysts who are joining us this morning for our conference call for the Second Quarter of 2012. I'd like to start this presentation on page three of the slide that you received. These are Second Quarter 2012 highlights.

The first highlight goes to sales in the concession area -- strong sales, up 5.3%. We're going to be talking more on that later. Another important point, commercial start-up of two biomass operations -- Bio Ipe, 25 megawatt -- Bio Pedra, 70 megawatt, both in May of 2012. The closing of the acquisition of Bons Ventos wind farms in June.

We are also declaring interim dividend in the amount of BRL640 million, referring to 100% of the results of the Group in the first half of 2012. Investments in the quarter amounted to BRL715 million. We'll give you more on that momentarily.

An important observation for our credit rating -- AA positive by Fitch to the issuance of subsidiaries' debentures and the global scale Ba2 credit rating, Aa3.br national scale by Moody's to CPFL Renovaveis, two important credit ratings confirming the solidity of the Group in both operations.

In addition to that, we have an important 40% increase in the stock's average daily trading volume of our stocks and ADRs, creating almost BRL50 million daily. And finally, the Agencia Estado Distinction Award for Companies 2012, a recognition to companies that despite an unfavorable international scenario managed to deliver outstanding results to shareholders. These are the main highlights for the Second Quarter of 2012.

Moving onto page 4, we'll give you more details on the highlights. We'll start with the sales of energy in the concession area. We can see a strong growth in the captive market, up 5%. And 6.2% for TUSD consumers -- those that pay the tariff to use the distribution system, these grew 6.2%. So 5.3% increase, 14,116 gigawatt hour in this quarter in the concession area of our eight distribution companies.

In the bottom of the slide, we see total energy sales, direct sales to end customers. In addition to the 5% increase in the captive market of distribution companies, we can see in the bottom in the green bar the effect of conventional generation and trading to customers outside of CPFL Energia customers group, amounting to a 13% increase.

And in here, we see for the first time sales in CPFL Renovaveis totaling 820 gigawatt hour. So adding this set of sales on the right, we see growth year on year of 13.3%. Operations are considered in the revenues of the Group. On the right-side of the slide, we can see that we grew slightly more than Brazil in our service area, 5.3% vis-a-vis 5%.

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This is due mainly to a strong growth in the southeast market that grew 3.6% and the seven distribution companies of the Group, notably in Sao Paulo, grew 5.4%. In areas granted to TUSD, the south grew 6.4%. Our RGE operation grew 4.8%.

On slide 5, we see the details of sales by market segment. On slide 5, we can observe that at this 5.3%, we had a strong growth of the Residential segment, 10.4% -- 9.6% for the Commercial segment -- practically stable for the Industrial segment -- and segment Others, mainly the rural segment and public service, growing 8.4%.

It is true that for a more balanced comparison we would consider the same number of days, billing days. So when we compare, considering the calendars of the years, considering the number of billing days, the reported growth of the Residential segment, we had more billing days in the Second Quarter of 2012 than the Second Quarter of '11. So we make an adjustment.

So the growth of Residential segment would be 6.8% and the Commercial segment 6%. Still, these are very strong and high values. And they are certainly responsible for our revenue results in the distribution activity.

Moving on, I want to give you some expectations for the future. This is important because we have a strong growth in the segment according to research done by IPEA. It is due some of the families' expectations in the southeast and south of Brazil regarding the economics of the country. You see that 70% of the families are optimistic in the southeast.

A little bit over 56% in the south. Optimistic regarding the economic situation in the next five years, a lot of optimism, 57%, 55% respectively in the southeast and south. Family financial situation next year, you can see the families and households are very optimistic, more than 80% in both regions, 87% in the southeast.

Moment to acquire durable goods, 38% in the south and 68% in the southeast. Employment reliability, again optimism, more than 58% of the families are optimistic in both regions. On the right, we can see the intention to buy is for household appliances to be acquired.

So we did the survey and we observed that 98% of the customers in the regions that we operate -- this is a survey done in the concession area of the distribution companies -- 98% have no dishwasher. 94% of households -- and we are talking about warm regions in summer. And in the south very cold in winter -- 94% have no air conditioning. 53% have no computer or notebook.

45% of the households have no microwave oven. And 33% -- that's surprising -- have no washing machine. Such households are willing to acquire durable goods. And these household appliances will make a difference in the future. The annual residential consumption per capita we have in the bottom part of the page.

The situation at the CPFL Group of companies was around 695 kilowatt hour per inhabitant in 2009. Brazil in ten-year plan projects a household's consumption of 814 kilowatt hour. But it is true that Brazil at the same time had a consumption of 518 kilowatt hour per inhabitant.

So definitely our consumption is higher, almost 40% higher, should be maintained at that proportion at the end of the decade, we should probably surpass the 1,000 kilowatt per hour per inhabitant. But it is important to compare with other countries in Latin America. Venezuela, Argentina, Uruguay, these countries consume more than what we intend to have at the end of this decade in Brazil.

If you look at Australia on the other hand, Australia is more or less in the same latitude of Brazil, they consume about four-fold more than what we had in 2009. This is just to show that obviously the households are doing really well at this point. And this could be responsible for a significant development and increase in commercial and residential energy consumption in the country.

We move into slide seven to the results of the Second Quarter of 2012. Always the disclaimer, in the top line we have the results that we reported, IFRS results. And at the bottom, especially for analysis, that presents a more balanced set of results because it considers the regulatory assets and liabilities' effect. In IFRS reporting, this does not happen.

In the Brazilian GAAP, we would consider the CVA accounting, the variation of powerful aid values. And we also consider nonrecurring events in the bottom line. And so we report a net revenue reaching BRL3.212 billion in this quarter, a 14.9% increase -- EBITDA of the Company reaching BRL930 million, a 14.1% increase -- however, the net income, BRL234 million, 20% down.

It is important to observe in the bottom line, however, that when we consider regulatory assets and liabilities, we have practically the same net revenue, BRL3.119 billion, 14% for the net revenue, already considering regulatory assets and liabilities and nonrecurring events -- EBITDA growing 19.3%, BRL1.062 billion -- and the net income practically stable, exactly the same number that we had in the Second Quarter of 2011, BRL344 million.

At the bottom of the slide, we see the details about the nonrecurring events. You will remember in the same quarter of 2011, we talked about the retirement incentive program. We've just seen the results.

The result does not show that the provision for contingency of ISS tax on services for Campos Novos -- the basic network charges due to EPASA, this is a nonrecurring value of 2010 -- accounting adjustments in UBP accounting of the generation companies -- and physical inventory of the distribution companies' assets, this has an effect in both quarters and these values are recovered at the moment that we have of tariff review.

And also consider the tariff review of regulatory provision. This is considering not only Piratininga value. But also the value of the five more concession areas in the state of Sao

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Paulo that were acquired by the Company in recent years, an effect of BRL63 million in terms of EBITDA and BRL42 million effect on the net income.

In addition, other regulatory assets and liabilities' values, which are quite significant. And that will be recovered by the Company along the next 12 months, a result mainly of the exchange variation in this period, the dollar appreciation, even Company policy for such events had readjustment and they had the exchange rate of 1.80. And exchange rate currently is around 2.

If I consider all distribution companies, they have purchases of energy availability, a contract for a thermal PP. And they are all volume priced according to PLD values that also increased a lot because we had somewhat a lower rainfall. So PLD fell between BRL140 per megawatt hour and BRL180 per megawatt hour. While last year, we had values of about BRL80.

These important variations though will be captured by the CVA account. But unfortunately, in IFRS, these are not considered as they used to be in the past with the Brazilian GAAP.

So that would be a variation that we can see on the next slide of BRL75 million on the results of the Second Quarter of 2011 -- effects on the EBITDA this year, BRL132 million -- and these nonrecurring values and regulatory assets and liabilities at BRL50 million for the net income last year. And BRL110 million for the Second Quarter of this year.

So we consider that the results are quite positive, particularly considering the close prospect for the Company and its activities. And we'll be talking more about that momentarily.

Moving onto slide 8, we'll talk about EBITDA, values before taxes, depreciation and amortization. We have here the reported value, BRL815 million. Actually this reported EBITDA in 2011, BRL815 million. But then considering regulatory credits, we would get to the amount of BRL890 million.

Now we are reporting an EBITDA of BRL930 million, a 14.1% increase, which added to the credits that the Company has in terms of regulatory assets because of PLD, exchange variation, et cetera. The recurring value would be BRL1.062 billion, corresponding to a 19.3% increase vis-a-vis the previous year.

In this explanation, that can be clearly seen here. We see an important variation of regulatory assets and liabilities. So we are going to detail now the reported number, the 14.1% increase in EBITDA from last year to now, a 14.9% increase of net revenues which due mainly to a 5% increase in sales to the captive market and average tariff readjustments of our distribution companies of 5.3%, practically half of the revenue increase is due to this item.

Also the integration of CPFL Renovaveis is BRL122 million plus conventional generation and commercialization and services, operating more strongly than in the previous year,

also using secondary energy, amounting to BRL110 million.

And finally, the 6.5% increase in revenues from TUSD. 6.5% increase in revenues from TUSD, another BRL21 million. And with the increase in revenues, there's also an increase in deductions from revenue, 8.7% amounting to BRL128 million in this quarter. Even though we did a rotation of our independent auditing firm and following the guidance of Deloitte, our auditing company now, we've started the reclassification of PIS/COFINS tax credit based on depreciation for deduction from revenues.

It is the first time that we're mentioning this. This has no impact whatsoever on net income. But we did that tax credit in our financial line. Now, the reclassification of tax credits of PIS/COFINS based on depreciation are now included. Earlier this was a 14.9% increase in the net income.

This is what justifies the regulatory assets. We have 23.5% increase in the energy costs and charges. Of this, 26% increase in costs were purchased energy for resale, BRL324 million. Here, the PLD and exchange rates are important. And 11.1% increase in charges, charges that always increase in January of every year.

Some concession areas do not include that in their tariffs until they have the tariff readjustments. So this BRL34 million will be somewhat recovered by CVA. It's important to mention, I talked about the exchange rate, 1.58 to 2. And is also -- it's also important to mention PLD, 164.55% in the Second Quarter of 2012, when they used to 20.45% in the Second Quarter of 2011.

So we see a greater increase in the cost of energy and charges. The good news is that we had a reduction of 12.3% in our operating cost and expenses, adding to BRL56 million. In our previous year in the same quarter, we had the retirement incentive program and the extraordinary provision of ISS tax in the Campos Novos HPP amounting to BRL10 million.

On slide 9, I give you our Personnel, Material, Services and Others cost, PMSO. We had here the reported amount of BRL456 million. It's the second blue bar in the top graph. However, it's important to highlight that in the BRL456 million we would need to remove the nonrecurring events that ISS provisions, which I mentioned a little while ago. And the physical inventory of assets, these are amounts recovered in the revision processes and the retirement incentive program, which would give us a recurring PMSO of BRL387 million when adjusted. So this reported amount of BRL456 million.

So there is this reduction that we had highlighted of BRL56 million, BRL33 million for personnel and charges. And BRL23 million for material, third-party services and others, to finally reach a reported PMSO of BRL400 million. And incorporated BRL28 million for the consolidation of CPFL Renovaveis. And BRL7 million for the physical inventory of assets underway to conclude the tariff review cycle.

So this is the comparison, reported amounts, reduction of 12.3%. And in adjusted value a reduction of 5.8%. And at the bottom we see why all of that is happening. I tried to

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capture with my team some important items. Because of our already zero-based project, we see for example, improvement in airline tickets purchasing.

We increased the average time for advanced purchases. We had a 15% reduction in the price of airline tickets. Paper consumption also showed a 36% reduction. We are now using more e-mail. We are restricting printing in the Company -- so 36% reduction there. And increase in Xerox copies, photocopies. We had the removal of local printers.

And that brought about a 77% reduction in the unit cost of printing. So these are often significant and substantial values. Operationally, something also happened. For example, vehicle fleet. Monthly about BRL3 million reduction in our vehicle fleet cost, the reduction of kilometers driven, optimization -- optimizing the use of vehicle pools, fleet management, telemetry equipment.

Collection initiatives, we also started segmenting our customers with specific action plans for each segment. And finally, one highlight for the quarter, reading and delivering of bills, a BRL2 million to BRL3 million reduction there involving the alignment of the values charged by banks for all distribution companies or discos -- bills sent by e-mail and layout changes in the new paper type for warnings and re-warnings.

So these are some measures that we have adopted in the Company. And that all together accounted for this reduction, which is pursued by us and which is part of our strategy to prepare the Company for the tariff review cycles that will be coming up.

Page 10, I give you a report on our net income. Here we're seeing comments I've made before. If we look at recurring net values, net of regulatory assets and liabilities, we are talking about a 0% variation compared to the same quarter of last year. But in the reported value, we see a BRL20 million reduction.

We talked about an EBITDA increase of 14%, BRL115 million. And here, reverse reduction in the negative net financial result, 30.9% increase, BRL56 million, mainly due to an increase in interest expenses of the Company, about 19% increase in interest expenses amounting to BRL58 million -- consolidation of CPFL Renovaveis, BRL44 million -- currency effects from energy from Itaipu at the distribution companies BRL16 million -- and increase of debt BRL15 million.

It's important to mention that the Company has benefited not only from the increase debt stock, because we have to set a robust CapEx and acquisition processes. And we are also benefitting from an important market intelligence in funding, which is our funding is CDI-backed.

So there was a 2.8 -- CDI of 2.8% in the Second Quarter of '11 and 2.1% in the Second Quarter of '12. And more recently, we had a drop of TJLP which is an important indicator for the financial commitments and obligations of the Company. Savings of financial expenses amounted to about BRL65 million.

On the positive side, we had a 55% decrease in UBP, BRL17 million, mainly due to the nonrecurring net effect adjustments of the generation companies' UBP accounting. In addition to a worsening in the financial result, we had an increase in depreciation and amortization, 52%.

And as in the case some of our analysts, we know that you have this question in your mind that reclassification of PIS/COFINS that was happening on the basis of the revenue that we highlighted a little while ago is directed here at the same proportion. That's why we're having no effect on profit, increasing the line of depreciation and amortization.

This item has as a main element in the consolidation of CPFL Renovaveis, BRL57 million. And on the other hand, reclassification of PIS/COFINS tax credits based on depreciation for deductions from revenues, BRL50 million. We consider to have a surplus of BRL20 million for the pension fund.

And we have a reduction of income tax and social contribution, amounting to BRL5 million. So the reported results, which is 20% lower, however, the recurring results considering additional investments to grow the Company, we are breaking even, zero-to-zero comparison, BRL640 million, that's the result for this half-year or distributing 100% of net income as dividends, amounting to BRL640 million or BRL0.60 per share to be paid in the last day of September. For those who were investing, the dividend yield is 6.1%.

Next on page 12, as we said before, we'll be breaking down the CapEx of the Company and the major acquisitions. They are not all listed here, just the main ones. For the CapEx of the Company, here we highlight the last 12 months. BRL715 million over the quarter, BRL339 in distribution, BRL371 million for generation. And BRL5 million for commercialization and services.

And the total over the last 12 months is BRL2.437 billion. Strong investment in distribution, therefore, concluding the format of our basis, regulatory basis for each one of the distribution companies. And for generation, naturally a very intense program, remarkably in the area of renewables, adding to BRL2.437 billion.

And in this area, this is where we are in renewables. That's where we had several operations of acquisitions over the last 12 months. I just made a point in mentioning the major ones, Jantus wind farm, the acquisition of CIFI [ph] and Bons Ventos wind farm, both in operation.

And if we add these two transactions, we have almost BRL2.600 billion and BRL1.400 billion in cash operation and BRL1.200 billion in debt taken by these transactions. Here we are not mentioning debt because the closing is this quarter. But we have additional BRL112 million.

If we focus on this picture alone, if we add BRL2.437 billion over the last 12 months as CapEx, we would still have the fruit of these acquisitions, cash expenditure of about BRL1.5 billion or adding to something around BRL3.900 billion as investment to grow the operations of the Company in each one of the sectors we are active in.

And that has an impact on debt. Now on page 13, we report the results. And just as an important -- well, the debt at the end of the Second Quarter is BRL11.8 billion. And here we have an important consideration to make. The Company also understands and I've been highlighting in this presentation the impacts related to the format or how we account for according to IFRS.

We had negotiation with all our finance agents. And here we have a calculation that has an impact on our covenants. And this calculation adjusts the Company EBITDA according to their operations. As you can see, we have proportional consolidation of CPFL Renovaveis for IFRS 100% of the debt. But for covenants, financial covenants, we will have another share.

And the same goes for CERAN, also posting for IFRS 100% and consolidating 65%. Naturally, we have inclusion of CVA account. It is the core of the Company's results at the date of operation. And naturally, we also mention pro forma EBITDA of assets involved in acquisitions.

Out of this measure, our EBITDA, known as adjusted EBITDA. And basically it is the EBITDA of the core of the Company's activities of BRL4.182 billion, now compared to BRL11.8 billion as leverage. Therefore, we have a net debt -- adjusted net debt, adjusted EBITDA ratio of 2.81%. And this is, therefore, the indicator used by our finance agents to assess our covenants that are always greater than 3.65%.

On the other hand, if you were to consider only the criteria of IFRS as reported, our net debt EBITDA ratio would be 3.33%. It's important to mention and also to give Lorival and his team congratulations for having made this achievement and negotiating with our finance agents. We are very comfortable now when we report these results vis-a-vis our debt. On the other hand, the debt profile, it remained unchanged this quarter.

That was just concluded in June 30. 61% of the debt is backed through CDI, 31% long-term interest rates. And prefixed is basically operations with the NTS [ph] of PSI, a program to sustain our investment in growth. And on the other hand, 3% which is backed by IGP and that's the recognition of the Company's debt for pension funds or long-term debt.

Now on the next page, it's important to show the solid cash position of the Company, closing the quarter with more than BRL2 billion, having paid this quarter about BRL750 million as dividend. And served to the investments made and that we made reference to before. However, the debt coverage is for 1.2 times short-term amortizations of the Company. Short-term BRL1.735 billion for the last -- for the next 12 months.

So there is plenty cash for this operation. As to the Company's financing profile, 4.3 years and the short term is 12 months, only with 11% of the total. However, the Company is very much linked naturally with macroeconomic scenarios. And obviously, it is not insensitive to this more complex scenario when it comes to the world scenario.

So for those reason, more precisely, we had a prefunding in July to operations -- to finance our operations of distribution. Basically, that's it. Both by denture issuance and CVM IV 7.5 modality, a very successful operation, amounting to BRL1.3 billion at an average cost of CDI plus 0.8% per year with a seven-year tenure. So this prefunding will allow us to be preventive when it comes to our future tax.

And funding, well, we already had very good operations in this modality, expanding our list of operations, international agents, swap by CDI. And here, we also have close to BRL3 million at an average cost of 104.7% CDI. So these are very successful operations, very competitive costs and the best benchmark in the sector.

And we feel comfortable, as you can see on the next slide. In late July, our cash position was close to BRL3.6 billion and it covers more than two times short-term amortizations. And they improve our debt profile to 4.4 years. And also short-term around 10%. So our finance company can also have prepayment operations for next year.

On the next page, just an important report of credit rating, both for CPFL Renovaveis and also the three discos that was the subject of BRL1.3 billion as debentures. I would just like to highlight now the variation. It is the first time we do that for renewables. So here we report our experience in the construction and building of SPPs, the strong shareholders of the Company, diversified energy.

It is the only renewable platform with three sources -- wind, SPP, biomass, with a stable cash flow. And we can ensure long-term financing. And now for debenture issuance, here we report the market position and the asset base of the Group with strong cash generation ability. And moderate leverage and robust liquidity. And positive strategies to expand generation.

Now on page 18, I would just like to give a brief report of the tariff review. This is the schedule of our first operation of CPFL Piratininga, which started in June 19. Aneel submitted the order to the Company. And in July, we had a public hearing and also we published the first documents. And then we'll have interactions until October. In August 16, we had our face-to-face public hearing.

Suggestions and also class entities and consumers will be present. On 17, we will be closing the hearing and it is the final term. And then there'll be a submitted final proposal to the Company. In August 18, we have a meeting with a rapporteur. So probably on October 12, we have a meeting with Aneel's Board and then we'll be publishing the tariffs.

On the next page, let us try to be more didactic. Let us show the moves behind these results. In the upper part, we have a table of the main data. I know this is important for each one of the analysts. This is just to show that Aneel usually publishes or disseminates consumers' perception. In this case, 8.8% negative -- see slide 19 8.18%.

However, the tariff repositioning or maybe the right views of all the tariff review elements amount to minus 3.4%, unlike 8.8%. 8.8% is consumer perception because they work with

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two different bases, not only the economic base of readjustments. But also the financial one -- working on recovery or payments, or basically CVA.

So important is to consider the repositioning is minus 3.4% as economic value. And at the bottom of the chart, our team try to show the movements of the regulatory EBITDA just to give you a sense, a clear idea of this movement. First of all, the regulatory EBITDA of the second cycle of the Company, which happened by the end of the process, was BRL236 million.

What happens over that time? First of all, for process effect, there was a monetary update. Please know that the monetary update at the base is 32.91% for this period. And that's highlighted in the note at the bottom of the slide as EBITDA. And basically, we have EBITDA here. So it is monetary update, which is the asset base updated by IGP-M considering BRL78 million in the previous WACC.

But as you know, the process review, tariff review included a WACC reduction. So that base updated, that allow us to have 9.95% remuneration, now can be 7.5%. Therefore, 2.45% less. And considering that base, it leads to the reduction of BRL51 million that I mentioned before.

So we would be starting the cycle for the monetary update and WACC reduction with a result of BRL263 million as EBITDA, regulatory EBITDA, pro forma EBITDA before the third cycle. And then, we will see what happened between the second and the Third Quarter.

First of all, investment by the Company over the cycle, investments that have been reported to you as I just broken down before. BRL101 million is incremental at the EBITDA base according to the new regulatory WACC. And to this move, as part of the process, we also have assets of the protected base on an incremental basis, 100% depreciated basically from the hedged or protected base of the Company.

So they've been fully amortized, depreciated. So there is no further remuneration there. They have to be written off. So that's the effect, new effect over the period exactly to make up at the end. The life cycle or there are some assets that have already expired. So we get the feeling and have the sense that we invested more than depreciation.

So BRL111 million -- see slide 19 BRL101 million, of incremental investment and BRL89 million as EBITDA of write-offs of assets that were fully depreciated. And then there is another remark on the quality of the cost end of the Company. And here we have different volumes and adjustments made by the regulating agency.

As we can see in the asset auditing reports already delivered according to the new methodology of the accounting reports for the electrics. So we have a slight adjustment of BRL16 million. Anyway, we would be starting and basically that's what's included in those reported at the top, BRL258 million, a regulatory EBITDA of the Company.

Please note that at the top, you will see on the third line in pink the regulatory EBITDA 'G', which adds 'C' which is our reintegration regulatory quota. And also 'F' which is capital remuneration or the net base multiplied by WACC before taxes, BRL259 million and that is the regulatory EBITDA of the Company.

And at the bottom I just wanted to show the move of the EBITDA that stem from the movement that happened over the review monetary correction, the use of the new WACC, investment or incremental investment, written-off assets, 100% depreciated and our adjustments.

Now on page 20, just to report finally. Here we have the start-ups of Bio Ipe, 29 megawatts -- Bio Pedra, biomass larger, 70 megawatts -- a PPA or a contract of LER of BRL154.12 per megawatt hour, which will also give an annual revenue of BRL33 million per year.

And next on page 21, you can see the conclusion of our first wind farm that we'll build directly, 188 megawatts. And this farm is located, as you know, in Rio Grande do Norte, Santa Clara wind farm. It was the subject of a first auction that took place in late 2009. We started construction in 2010, financed by BNDES, 65%-35% ratio.

And this asset also has LER contracts at December and updated by the end of last year a 20-year contract. And it will also bring revenues amounting to BRL112 million per year. And this is important to show, as you've been following up some of our farms. This is not the only farm. Some of them were completed within the timeline. July 1, our farm was available for the system.

However, the commercial operation depends on a SEG that is not ready yet. The Company has a protocol with all the documents at the agency level showing the farm availability. And we are confident that these are the documents required. It will be in compliance with the revenues as the LER.

And on page 22, here we report the status of the main projects under construction. Salto Goes with 80% concluded, financed by BNDES. That's an SPP. So the SPP will be starting up in the First Quarter of next year. And the two HPPs -- see slide 22 TPP, for biomass under construction started at the same time.

The difference of completion is related to the licenses. The whole process is expected to be completed in the Second Quarter of next year. Two are 50 megawatts, two HPPs. And now they are being analyzed by BNDES.

On page 23, here we show the amount of assets to build in 2013, 104 megawatts on average basis. And here basically, we are referring to wind assets. The Macacos complex with 25% concluded, installed capacity of 78 megawatts. Campos dos Ventos II adds to 30 megawatts.

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And Atlantica complex, recently acquired in the second half of the year of 2013, amounting to 120 megawatts. We have already requested financing by BNDES. And they all have a PPA with the system, as you can see on the right -- Macacos, 137.30 megawatts per hour -- Campos dos Ventos, 133.70 megawatts per hour -- and Atlantica, 147 megawatts per hour. They are all in the currency of December 2011.

Now just concluding 2014, two further projects underway. Campos dos Ventos, this is the largest, 138 megawatts. And Sao Benedito, additional 116 megawatts, adding to 254 megawatts. Start-ups scheduled for the Second Quarter of 2014. These are for the free market. Financing has already been requested to BNDES.

I would just like to conclude, first highlighting how happy we are to be awarded, having the Distinction Award by Agencia Estado in 2012. And also the ABRADDEE Award. RGE was awarded as the best distribution company in the south. Paulista and RGE were also acknowledged, thanks to the management quality. And CPFL Leste Paulista for social responsibility in 2012.

I conclude, just showing on page 26 our actions and our stock performance. Here we have the average daily volume. That improved about 40%, just confirming the importance of that operation of stock bonus or the split of shares, generating more liquidity.

And today, we're trading about BRL50 million on a daily basis -- BRL30 million in New York and BRL20 million here in Sao Paulo BOVESPA. And stock performance over the last 12 months, the Company has performed above ISE and above IBOVESPA, as you can see at the bottom chart.

So these are my remarks. And with my team, I'll be happy to take your questions. Thank you, very much for your attention.

Questions And Answers

Operator

(Operator Instructions) Vinicius Canheu, Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

My question has to do with the consolidation of the distribution industry. This has been, for a long time, a topic of CPFL since the IPO. One of the many important answer was the tariff cycle, review cycle.

But now that we have the first tariff readjustments coming out. And the capital market is already reflecting the impact looking forward, I want to know can we, in the next year or month, follow this movement or is it time to wait?

And only when the reduction cycles are over, should we have some kind of movement, especially by CPFL, which is if not the main player, one of the main players in the industry?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you, Vinicius. This is a good question. And I'd like to start answering things. Know that the tariff review is the main driver for a consolidation to occur. In this case, we have a tariff review which requires from concession areas, is much higher efficiency level than ever before.

We are talking about the important reductions in the operating results of the companies, because of an almost 25% reduction in the regulatory WACC, from 10 to 7.5. This will require from companies a financial efficiency and operating efficiency levels which are much higher than ever before.

And undoubtedly consolidation is an important element in an activity which is clearly scale related for consolidation to happen. Now if we have all the conditions for consolidation to occur, because some concession areas because they don't have scale, some of these utilities will not be able to operate within the new parameters.

So we need to have this condition in place. But it's not sufficient. Why is it not sufficient? Because on the other side of the equation, we have the seller. The consolidation first has to make sense for the buyer. We'll have to bring in technology, skills, we'll need to improve a higher efficiency level to the concession. But it needs to be paid for. It needs to create value.

So I can talk for part of the CPFL Group. We are very criteria-driven. We are very financially disciplined. And we do have in place all the necessary conditions to face the consolidation process and to participate in this expansion. But there's also the other side of the equation.

We have to have the ability to buy at the correct price just to be able to create value for our shareholders and for our consumers and customers. We have to bring benefits of our efficient operations to the markets served. And we need to be able to create value to our investors, who obviously trust us and they want consolidation to bring good results for the Group.

It will allow us to have more scale and more synergy, more efficiency. And at the end of the day, it will translate into an increased operating result for the Company and better net income overall, to make sense. At this point, newer deals are just getting started and they create the right condition.

And then as you know, it is a negotiable process. We are attentive to the opportunities. We have differentiated skills and competencies. And we can create value to the different target audiences, the consumer segment and the shareholder segment. Thank you.

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Operator

(Operator Instructions) Sergio Tamashiro, Safra Banco.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Wilson, still talking about consolidation. And from the standpoint of the regulator, firstly, what about the PMSO? Do you believe that with all of these reductions you will have a PMSO much lower than the regulatory PMSO?

And along those lines, do you believe that Aneel -- well, Aneel was saying that they could try to pass on the holding gain to end customers. Do you think that the regulatory agents will continue of requiring more and more efficiency from the distribution companies?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

We are working to have a reduction in the PMSO of the Company. And undoubtedly, the goal is to make it lower than the regulatory PMSO, which has been the tradition in the past cycles. That's how our distribution companies behaved. This is our goal. And I think I am sharing with you apart of these results in this quarter.

And I am sure that we have other things underway that will allow us to make these adjustments in the next few months, because we have to have review cycles starting in October, expected to favor everyone. We have the other five distribution companies. And then in April in Paulista, our highest assets. And in June for RGE.

So we have the timeframe for these changes and transformations to allow us to work within the new reality, ideally below the values proposed by the regulatory agency. On the other hand, the regulator is always keeping an eye on higher efficiency for the whole system. And I always highlight that the mission of Aneel is to mediate the several interests.

There's an interest on the part of the consumer. And there's also an interest on the part of the investor. In order for consolidation to reach the intended result by the agency, the regulatory agency, it has to promote some kind of balance. If the process becomes unfeasible for investors, consolidation will not occur and we won't derive the efficiency and quality gains expected.

What we would see would be a loss of the operations. And that would not interest sustainability for the system. I believe that Aneel is quite a mature regulatory agency. This process -- while we had almost 15 years from privatization and we want to promote this kind of balance, it's no use capturing everything because if you capture everything and there's no prospect of remunerating investments made in consolidation, this consolidation will not come to be. Again, consolidation is an option of qualified and efficient investor to create value to all stakeholders. They will not just make money.

They will make money but they'll also share efficiency, quality, customer care for the stakeholders' customers. This is followed by lower tariff. But it has to allow remuneration

to investors or the process would not become feasible. So I candidly believe that the regulatory agency will be attentive to this process so as to allow consolidation to occur with all of the expected benefits, including the listed remuneration of investors like us. Thank you.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

My second question has to do with your debt level that has been increasing a lot. But perhaps not a lot but close to optimized levels. But looking forward, with a reduction in EBITDA. But with a very aggressive CapEx program, more than BRL700 million per quarter, how do you see your debt level in the end of 2012 and '13? And you still don't have cash generation from these investments. Do you believe that you would not be allowed to make more acquisitions?

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Well, I tried to explain our leverage level using the correct metric, the metric that we incorporated. Compared with 2.81%, we have a movement that resulted from the reduced EBITDA of operation, should decrease slightly between 15% and 20%.

Of the operations that remain, Piratininga is the operation that we always mentioned as the company that could show the highest decrease. It has had a market growth that was greater over the cycle. So these values can get close to 30%. But for the top level of our operations, the main operations, I was talking about 15%.

So that would be a reduction of that amount. It is true. I said minus 3.4% for Piratininga, the final tariff. But we have included here the annual readjustment that will happen. So essentially, it is true that we are going to see a decrease. But let's look at the flipside of the coin, the results of these investments above depreciation.

We are having smaller reductions than some of our peers regarding the so-called tariff review cycle. On the other hand, we have very large investments underway. Some of them already giving us results. I tried to show you three investments in renewables that generated this kind of leverage.

We had commercial start-up investment of around BRL1 billion made there to produce no type of EBITDA. And that now are showing some revenue. I gave you the revenues. You had your own methodologies to evaluate how will be the remuneration of these investments. So I should say that we don't really expect substantial variations in the next two years regarding our debt level ratio in this metric of 2.8%.

It might include slightly, perhaps three times. But very distant, I would say, from our covenants. And maybe the Company once they take the initiative to make some acquisition using our financial capability, we're talking about 0.8 times the EBITDA.

That's our leverage capability in an acquisition operation, an EBITDA of more than BRL4 billion as we had. But please don't forget that the Company has its controlling shareholders controlling -- well, 70% of the Company is in the hands of these investors.

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And in order to fund an acquisition in a more adequate way in the future, we can always resort to the issuance of stock.

Taking advantage of the position of the Company, we set both the ADR and (inaudible) in Brazil in that soft track procedure that allows the Company to have a share issuance in less than a month. So very candidly, we are not worried about that. We feel comfortable. We manage an optimal capital structure.

And you can also observe that the market now allows longer operations, longer expansion operations. And with that, our situation becomes even more comfortable. And we are talking about a good financing. We are talking about financing for the acquisition or one-time working capital and other financing modalities of the Company.

Practically, 40% of the Company's funding comes from funds from BNDES, both for CapEx operations for the distribution company and renewable generation. And the very elastic maturities. So that is not a concern in our radar. We don't think there is a slight upward movement.

And I'm reacting to your question without details data. We can give you more detail. But we should not have increase above 3 in the metric that we used, which is the more real metric. And we also have the possibility of issuing more shares. Thank you.

Operator

(Operator Instructions) Excuse me, that concludes the Q&A session. Now I would like to give the floor back to Mr. Wilson Ferreira Junior for the final remarks. Please go ahead.

A - Wilson Ferreira Junior {BIO 20013669 <GO>}

Once again, I would like to thank you all for joining the conference call for the Third Quarter. Once again, I would like to highlight some of the concepts that really will make it easier for you to analyze the IFRS accounting method. Should be further broken down in order to consider the recurring result of the Company, primarily when there is volatility of the main indexes that affect distribution.

And the current accounting method does not make that so clear to our investors. So it is up to analysts and this assessment. They have a very important role. And it is important for the Company, both in terms of negotiating with suppliers, with proper covenants. And particularly for the Company, it is very important to have this acknowledgement in order to provide a great capital structure. And also envisaging the future scenario.

The operations that I mentioned today and also my colleagues, when it comes to prefunding, we all see this as a sign of our financial discipline, which is critical to us. We are very bullish when it comes to the Company's activities. In each one of these activities over the quarter we had good results.

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For distribution, for instance, the good performance of our market. In generation, particularly because now we can have a higher operating efficiency and the use of secondary energy, generating more revenues to the Group. And we also highlight commercialization. The market is very dynamic. We have been well positioned.

Our organization chart, approved last year, has already delivered good results. The Company is opening representation offices in Rio Grande do Sul, Rio de Janeiro and (inaudible), looking for prospects and trying to have a more efficiency structure, trying to really have new clients and go for clients with innovative strategies.

That's important to be highlighted. And finally and naturally, the topic of Renovaveis renewables. We had a chance to share a little bit the results of this important strategy for growth. It is important to say that for the whole Group, our strategies oriented not only for growth but also renovation.

The program has been very much encouraged both by controlling shareholders, the Company's top management. And it's in top of that that I believe that part of the results we shared, innovation should bring gains of value, more efficient processes. And thanks to better efficiency, we can lower our costs.

We have a good team focused on those activities. We are very optimistic with the same results that we are beginning to have. We still need automation and distribution, be it in terms of measurement or monitoring of our working teams, as well as automation of keys and a modest distribution grid, which is very long. And also the use of more efficient more materials, more reliable materials so we can perform activities.

And all together, it will bring all the benefits behind more efficient operations, better quality of service and better costs. So that's the take-home message that encourages the Group in all our activates, not limited to distribution, even though it is the most demanding cost-wise. But it goes beyond. It also includes generation, commercialization and services.

So we are very happy to have you here with us. And we have a final optimistic message towards the future, linked naturally to the strategy that we have been working together with our shareholders. Thank you for your attention.

Operator

CPFL Energia's conference call is concluded now. I would like thank you all for joining us. Good afternoon. Thank you.

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