

## Q1 2011 Earnings Call

### Company Participants

- Unidentified Speaker, Unknown
- Wilson Ferreira Junior, CEO

### Other Participants

- Marcio Prado, Analyst
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning. And thank you for standing by. Welcome to CPFL Energia's First Quarter of 2011 earnings results conference call. Today with us we have Wilson Ferreira Junior, CEO of CPFL Energia; and Mr. Lorival Luz, CFO and IRO as well as other officers of the Company. This call is being broadcasted simultaneously on the Internet at [www.cpfl.com.br/ir](http://www.cpfl.com.br/ir), the Investor Relations site of CPFL. And you will also find the presentation for download. And we inform that all participants will be in listen-only mode during the conference call -- during the Company's presentation. Afterwards we will have a Q&A session when further instructions will be given. (Operator Instructions). I would like to inform you that this call 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's 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, they depend on circumstances that may or may not occur in the future.

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

Now, we would like to turn the conference over to Mr. Wilson Ferreira Junior. Mr. Ferreira, you may proceed.

**Wilson Ferreira Junior** {BIO 20013669 <GO>}

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Thank you, very much. Good morning, analysts and investors who follow us and who listen to this earnings results conference call First Quarter of 2011.

Let's go to page three where we have the highlights of the quarter. During this quarter we started to report our results on two different basis, a comparable basis on IFRS. We had our balance sheet in 2010 in IFRS, therefore we already have this comparison. And it is important to start evaluating this based on what we call the pro forma, regulatory pro forma process, which is a process that will be mandatorily be tracked by the agency. And that will allow us to put more clearly the recurring themes of the Company based on the so-called regulatory accounting process. So based on that there is no change in what regards our revenues.

So we are announcing a growth in our net revenues based on IFRS of 5%, BRL3,023 million during this quarter. And in the EBITDA and the net income calculations, that we will detail later on. We already have the two different comparisons, we have the EBITDA reported in IFRS growing by 3.9%, reaching BRL1,020 million during the First Quarter of '11. And in the pro forma regulatory process we reached BRL896 million with a 8.1% growth year on year.

What is important to say here and that we will make it very clear a little bit later is that the difference between the two EBITDAs reported correspond exactly to the regulatory assets and liabilities as the main component of this variation for regulatory purposes and for the establishment [ph] of our tariffs, the pro forma, regulatory pro forma EBITDA is more adequate.

Our net income, as you can see, has a drop of 4.5%, reaching BRL466 million in IFRS. And the drop would be smaller according to the pro forma net income regulatory basis, 2.3% drop, reaching BRL380 million.

Overall, our results are being driven by the growth in our sales. And that we will be dictating afterwards, 5.4% on a recurring basis and on the specific case of the net income because of the startup of projects and the increase in interest rates of the CDI. We have a slight drop during this quarter.

It is important to mention that in this quarter we had the tariff adjustments that are listed here in one year. And more recently the Paulista, 6.11%. And all the others that occurred during this period both for the small concession areas in the states of Sao Paulo -- Santa Cruz with 8%; 6.84%, Mococa; 6.57%, Sul Paulista; 6.42% for Leste Paulista; and 5.22% in Jaguari. All these tariff adjustments happened in February 2011.

We have already shared this in recent webcast, that is to say about the acquisitions by CPFL Energias Renovaveis, that is to say the incorporation of CPFL Energias Renovaveis when we announced the merger between CPFL and ERSa and also the acquisition of SIF Energias for BRL1,494 million. And we will be reporting this profit.

After these two transactions we maintained our credit rating, AA+ and we also approved in late April, April 28 the grouping and the split, the reverse split and the split of our stock

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that we had already announced as a proposal last year. And finally, the Company for the third consecutive year was elected the most sustainable electric power company in Latin America in '11 by Management & Excellence magazine. And we will be referring to that at the end of the presentation.

So now let's go to page number 4. On page number 4 we have the breakdown of the market. I always refer to the right because we have this resolution by the state government of Sao Paulo in late 2010. So this was the last month that we reported on the left. The total amount of the month and the billed amount on the right, the comparison was not possible on a comparable basis because the legislation was enacted in the middle of this period. So now we are reporting a 5.4% growth in our sales in the concession area of our distribution companies. And this corresponds to a 1.4% growth in the amounts billed, that is to say in the captive market. And corresponds to a very strong growth, 18.4%, in the free market, free consumers.

Header 2 in the concession area of the eight [ph] distribution companies of the Group in the lower part of the slide, we see the detailed by segment growth. So this will be -- this shows the vitality of Brazil right now with a growth of industry in high voltage and low voltage, 4.2%, industrial; residential, 5.3% growth; commercial, 6.9% growth.

And in the other categories, in the other segments namely in the rural areas, 7.4%. On a weighted manner this means 5.4% growth overall in the Group. And when we consider the total energy sales and those that were billed directly to consumers and concession areas, we see 1.4% growth in the captive market, which is the one that is billed directly to consumers and distribution companies. And the free market with a 2.3% drop, reminding you that our report shows some non-recurring events, mainly in the supply to EPASA at the beginning of this year. And that has already been concluded. Overall, we had a 0.5% growth on the billed basis, that is to say billed directly to consumers.

And I think it's important to mention this moment that the market is living here in Brazil, on page 5. We have some drivers of this growth. If we consider the very positive performance in the second half of the year, it has repercussions, as you can see that it has repercussions in all segments. And we mentioned two specific segments, commercial and residential, because they are billed directly by the concessionaire [ph].

We have a real wage increase, 9.6%. An increase in credit, 14.4%. Retail sales, because of these two moments, 10.4% retail sales increase. And furniture and home appliances going up by 16.5%. You can see based on that the results that it brings related to energy consumption. And we adjusted seasonally here. And we present to you what we can measure on a daily basis which is the sales in megawatts hour per day.

What we can see very clearly is that change in the trend as of the second half of last year with a major growth. And we are only measuring in megawatt hours per day from December last year vis-a-vis March this year. So we can see a growth in this quarter of 4.4% on a daily basis in the residential segment and 5.1% on a daily basis, seasonally adjusted as well in the commercial segment.

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So this shows very clearly the effect stemming from the increase in total payroll in the country and the increase in credit in the country with a positive impact on the residential and the commercial segment.

Now, let's go to pages 6 and 7 where we show our variations both in EBITDA and in our net income. We can see on the upper part of the slide the breakdown based on the regulatory EBITDA. We have the effect of the accounting procedure of assets and liabilities that go to the tariffs afterwards. But in the IFRS procedure they happen at the same time, they are simultaneous.

So we start with the regulatory EBITDA of last year, BRL829 million in the same period. So then you have the regulatory effects that are added to that, basically related to the regulatory assets and liabilities, the graphic account, which is the CVA, BRL153 million which posted according to the IFRS model, this establishes the starting value of this quarter, BRL982 million. To this BRL982 million we -- in this figure we have three important variations that establish the 3.9% growth that I mentioned at the beginning of my presentation. The first one of course refers to the increase in net revenues, BRL81 million increase.

And this increase in the net revenue is made up by two positive events. I think you remember that I was talking about the increase in the TUSD of the free market, what is billed in the concession area, 18%. And this means a 40.6% increase in the TUSD revenues, BRL98 million. Besides of course we have the start up of our project, mainly Foz do Chapeco and Baldin, bringing an additional BRL79 million to this position.

On the negative side in January, during the whole of January we had the recognition of new charges by the agency. And this means 20% increase is sectorial charges in deduction from the operating revenue, BRL63 million. So we have two positive effects and one negative effect. And they are recognized in the tariff in the next step. And they establish the increase in BRL81 million in our revenues.

And we have two other events, they are -- the amount is smaller. But it has an impact on the EBITDA, a 0.8% increase in energy cost and charges, amounting to BRL11 million. And here we have the breakdown. First an increase in the energy charges, mainly the system service charges, ESS and connection charges, BRL23 million in these two charges. And on the other hand, a positive aspect, the reduction of 1.1% in energy cost. And specifically linked to the drop that we have been seeing, the foreign exchange rate affecting the purchase of Itaipu on a cash basis for the Company. And in IFRS it's not reported. And finally, we have the third element which is the increase in operating cost and expenses by 9.2%, or in absolute figures, BRL31 million.

It is important to stress here that we have the start up of these plants, Foz do Chapeco HPP, Baldin and EPASA TPP. And because of their startup the revenues we have the cost of these operations BRL10 million overall.

And in the First Quarter of last year, driven by the slight delay in the transfer of EPASA to the Group, we have the premium paid by this postponement in the ANEEL authorization.

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And you remember that when we started to invest in the plant it had already a delay vis-à-vis its commitment, all covered by operations in the Company. And there was no kind of delinquency at all as we see in other areas of the market. So the BRL6 million premium was paid.

Besides an event that I forgot to mention, the physical inventory of assets, the distribution concessionaries are having their tariffs, as you know. And it is their obligation to carry out the physical inventory of their assets. So this BRL10 million are recovered in the tariff when the tariff reviews happen. But it's a non-recurring event because it happened one year before the tariff reviews.

And I also wanted to mention that last year, 2010, after the First Quarter in June we usually have most of our salary adjustments in our operations. And at the time we had an average adjustment of 6.1%, amounting to BRL8 million in our payroll expenses on a quarterly basis.

Okay. So having said that it is important to stress that our recurrent cost of our payroll and material and third-party services, et cetera, adjusted by the events that I have detailed would have been 6.1%, that is to say very close to the adjustment that we had in '10. In terms of our payroll. And much lower -- lower than the IGP-M for the period, which was 10.9%.

And lastly, in order to allow our analysts to have a comparable basis we incorporated the regulatory effect, BRL124 million, which would be deducted by the -- from the EBITDA in IFRS. And that would be the regulatory EBITDA which is the object of the evaluations by the agency, close to BRL900 million, which corresponds to, on a recurrent basis, a regulatory recurrent basis a growth of 8.1%. So it is a positive result from the market viewpoint. And also positive from the viewpoint of creating cost management for the Company.

Now, let's go to page number 7, which refers to our net income. So the same rationale on the right and on the left. So we have the net regulatory effect of the amount that we have just mentioned, BRL113 million and EUR120 million. So on a net basis, EUR98 million referring to the First Quarter of '10; in IFRS, BRL488 million. And, as I said before, a 4.5% drop reporting net income for the quarter, BRL466 million.

So we have -- you have the evaluation of the main variables there to establish this result. The first, I have already said, 3.9% increase in the EBITDA of the Company. And the second one is a decrease in the financial result, about BRL49 million -- BRL59 million or BRL49 million for the first comparable basis of year on year. And this was because of a 40% increase in our financial expenses, amounting to BRL75 million.

And this is important to stress that practically half of that is driven by the startup of the project which are financed. And of course as of their startup they start to have the financial expenses referring to their financing, BRL34 million, specifically due to financial expenses corresponding to financing for the implementation of the projects that are already in operation.

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And on the other hand, as you can see this on the right of the chart, we have an increase of the Selic rate, which indexes about 59% of our financing operations, 2% to 2.6% year on year, a 30% growth, year on year in the Selic rate. And because of that we had an increase in our financial expenses that are restated by the Selic of about BRL36 million, which justifies the increase in our overall financial expenses. So the startup of these projects on one hand and the increase in the Selic rate on the other hand.

And the positive effect of the cash investments of the Company. So we have an increase in our financial revenues. However, it was not sufficient to offset the increase in our financial expenses. So this 25% increase brought about BRL25 million increase in our balance sheet. So BRL75 million minus BRL25 million means in our bottom line BRL49 million. Besides, we have a 16.3% increase in depreciation and amortization also because of the start up of these plants. There you have all the details for Foz do Chapeco and Baldin. And finally, the positive effect of the decrease in income tax and social contribution due to the change -- the slight change in our results.

So, it was a very predictable result. The Company's results driven by higher sales, expenses under control. And we have these commercial startup with an increase in financial expenses. And that changes the result slightly.

So, having the same on the right the net regulatory effect, BRL85 million, we have here net -- regulatory net income of BRL380 million corresponding to a drop, year on year, a drop by 2.3% year-on-year.

Very well, now, let's go to page number 8 to reemphasize the creation of CPFL Renovaveis on the left. We have all our assets that are the objects of this operation, our biomass operations that are under CPFL Brazil beside the acquisition of the four wind farms in operation of SIF Energies. And the 22 small power plants which originated from Paulista object of the regulatory split carried out 10 years ago. And our small power plants, SPPs, the Sul. And besides the CPFL Energia, which was the investment vehicle (inaudible) and the other wind farms in investments today that participated in the auctions carried out in '09 and '10.

So we are carrying out our merger with ERSA, which has 12 SPPs, 11 in operation, 1 under construction. And 4 wind farms under construction as well. With that we have 648 megawatts in operation already because of this merger and an additional 600 megawatts in certified project, an additional BRL2,734 million in projects under development, 2,741 megawatts in the case of SPPs.

This means that they will have their executive project and their environmental licenses and all the other regulations and all the sets of array of operations having to do with authorizations by the agency, vis-a-vis these wind farms, which means to say that their installed power on one hand and on the other hand their capacity factor to establish the assured energy.

And finally, in the case of biomass, this means making these projects feasible, vis-a-vis the mill owners on the left we have CPFL Energia. And it's a very satisfactory operation. And

we can have more details on page number 9 regarding the ownership structure of this transaction that we believe will be concluded by September this year.

On May 4, we have already forwarded the documents to ANEEL and to BNDES. We have already held meetings with these two agencies, very good meetings. And we are working on making this feasible in all the regulatory parts. So that the transaction may be made feasible.

And we will have a meeting with Qazi [ph] as well with part of this process. And we believe that in the light of the first talks that we had with them, we believe that this kind of restructuring of the Company will occur between August and September this current year. And we are talking about the Company where CPFL will hold 73.6% and the current shareholders of ERSA 36.4%, a Company that has an equity value of BRL4.5 billion. And that for projects under construction 380 megawatts already. And with the cash contribution of BRL571 million by shareholders, as you can see on the screen number 9.

And now, let's go to page number 10 where we have more details about this portfolio in operation, both assets coming from CPFL Energia, the 22 SPPs, the 4 biomass plants, the 4 wind farms that stem from the SIIF operation amounting in installed capacity of these assets amounting to 493.7 megawatts. And in average megawatts of assured energy, 211 megawatts, average megawatts. And we have ERSA with the 11 SPPs that they have, all brand-new, made in the last few years. And that have an installed capacity of 154.5 megawatts. And in average megawatts a very positive relation, 95.4 megawatts, average megawatts.

And to a great extent, this establishes the final configuration of the ownership structure of CPFL and ERSA. One-third and two-thirds in average megawatts with an adjustment based on the cash position that was done by the ERSA Group. And here we have the details of the PPA, the purchase power agreement coming from CPFL, 39% in Proinfa. Basically, the wind farm acquired together with CP Bilateral [ph], involving CPFL Brasil 31%, free market tariff to consumers 8%. And to be defined, 16%, besides 5% in auctions.

So, these are the more recent wind farms in the case of ERSA, 56% in the free market, contracts already signed with the consumers and Proinfa, 32%. And the auctions, 12%.

We can see more clearly on the lower part of the chart, all the projects in operation already coming from each one of the players. And you can see also the projects under construction, something close to 380 megawatts. And the 600 megawatts which are certified will be the object of qualification of these companies according to their strategy in the next auctions. And the overall assets under development amounted to 2,741 megawatts, which gives us a very important growth reserve for the Company in the near future.

On page 11, very briefly, some comments, on the acquisition of SIIF (technical difficulty) BRL544 million as net debt. (technical difficulty) about a qualification of the farms, the capacity or load factor and also the (technical difficulty). These farms have just recently

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been operating, about one year. So here we have a breakdown by farm. And we have the load factor between 28% and 48%.

Obviously, this acquisition also brought to us in addition to technical capacity, we also have more than 20 experts not only in farm development but also maintenance and operation of these farms which is something new and also important to us considering our potential for growth in wind power. In addition, we also have a project portfolio close to Quintanilha Machado which is the closest. And we also have additional 412 megawatts of certified projects already included in CPFL Renovaveis operation in addition to 320 in developing projects, adding to 867 megawatts.

On page 12, just to give you a sense of the status of the projects under construction. Part of the merger process, well, they have to be concluded before the merger, we are very well on the schedule as you can see except for Pedra which is scheduled or those investments should be up and running in the Second Quarter of next year. As to the rest from 54% and 88%. Already in the final phase we have Bio Formosa, also trying to breakdown the investment schedule. And we already have the capital structure in each one of these projects when it comes to BNDES.

Here we show not only financing, under long-term interest rate but also if we consider the previous program, PFI for investment sustainability and we ended by being fortunate enough to have it apply to all projects. And we have a fixed amount of 5.45% for some assets of the previous (inaudible) which were also included in this process. So this is very positive, ranging from 10 to 13 years for each one of the investments which I said before are at regular or adequate construction periods.

On page 13 here we have our investment underway for wind farms. Actually two investments for wind farms; Santa Clara and Eurus. And also Campo dos Ventos and Eurus. Different steps, Santa Clara in the first auction, scheduled to be the startup second term of next year. The capital structure is ready, financed within 16 years with long-term interest rate, plus 1.7%, IPC [ph] contracted of EUR801 million.

Next on the second column we have Campo dos Ventos II which was qualified in the auction last year. And finally Campo dos Ventos I, III, IV, V and Eurus V. These are the projects that are now used for the free market. And they could be together with Campo dos Ventos II. This decision has already been made in terms of contracting. And the amount related to that contraction action announced in terms of financing with BNDES.

Now, on page 14 we just want to show you our schedule for the startups, vis-a-vis what we said before. So we have movement between the second and Third Quarter of our sugarcane-fired operations; 75 megawatts now in the Second Quarter, 40 megawatts in the Third Quarter. And the last project of the second half of 2012 with 70 megawatts.

For SPPs in the First Quarter of '13, under construction by ERSA additional 20 megawatts. And for wind farms scheduled to startup in the Third Quarter of '12 with 188 megawatts and the Third Quarter of '13 with 258 megawatts. As a result we can also have a potential assessment of our contracted energy. In dark green we have already contracted. And in



light green uncontracted, which will be the purpose of these operations in the free market.

And obviously they also allow the Company to better qualify these farms for operation vis-a-vis, A-3 auctions and reserve auctions that will be -- that will happen in July this year. So the strategy is being defined by the Company. And it will be soon disclosed to the market.

On page 15 I just want to report the Company's growth process or the Group's growth process in terms of energy generation more specifically this year stemming from the conclusion of these projects. This is our stake with CPFL Renovaveis. This is just related to our stake. And then we reach 2,640 megawatts early the second half of the year. And also we have plans considering current investment to be close to 3,000 only with the conclusion of the wind farms under construction and our stake for CPFL Renovaveis.

Next, page 16, just to show you that now today our date is expected for July 2012, A-3 to biomass, wind and natural gas, July '11 for PPA 20 years and hydraulic source 30 years. For the reserve auction the same date, biomass and wind power 20 years. That's our long-term contract. And this will also feed up to other alternatives for CPFL Renovaveis in addition to the project for natural gas, 224 megawatts.

(inaudible) that we also be involved in the A-3 auction. Obviously, we are expecting potential licenses for this group of hydropower plants for A-5; that should be in late this year. And we keep on working based on these projects. Our engineering department and also partners are further assessing our chances, particularly in major hydroelectric projects that still remain in Teles Pires, Apiacas and Ribeiro Goncalves and other significant ones.

So we keep on working with our engineering department prospecting other opportunities so we can keep on growing in hydroelectric power plants. And we've just concluded our major project, Foz do Apiacas. Now, on the next slides we just give you some brief comments on our debt profile. As you can see in the First Quarter it dropped slightly from BRL7.98 billion to BRL7.68 billion, that's the net debt, obviously influenced by the cash composition of the Company.

We have here cash and cash equivalents. As you can see, in late April we paid dividends. So naturally the Company had higher cash almost BRL2 billion. And this variation between the net cash position in December and March determines this drop in the adjusted net debt to EUR7.68 billion.

We also try to show --- well we have projects operating now when we can see some result in the First Quarter already. And we can also see a drop in the net debt-EBITDA ratio from 2.38 to 2.27. And on the other side we also have a breakdown to make analysts' lives easier. Impacts from projects underway already with a contracted debt. But excluding EBITDA.

In this case from now on we will only be reporting and posting biomass which are in the final construction phase excluding EBITDA and wind farms that are beginning to be built.

So this can be normalized once these financing happens. And then rather than 2.27 we'll have 2.11. As I said in the beginning, we also maintain our credit rating after both transactions by Standard & Poor's and Fitch Ratings.

And then next we can also see our debt breakdown. And we also try to detail from this quarter not only a breakdown between long term interest rate and CDI as we did previously in addition to IGP which is the index for financing, debt financing of the Company vis-a-vis pension funds coming from privatization, 20 years IGP. But also the part coming from operations that are beginning to be more significant prefixed in the PSI program. Prefixed here announced 4% of the total amount. It's important to highlight that in addition to increased interest rate, our cost went down to 4.7%.

Lastly, on page 18, we have the impact on the Company stock. We had a positive quarter, exceeding not only Bovespa, which was negative. But also our 9.73% on a comparable basis, we close at 12.6%. And slightly higher with Dow Jones in our ADR, considering the foreign exchange appreciation. So here we have a breakdown of the Company, comparing to the main indexes on the right.

We also have stock exchange indexes. And the good news is that it also increased volume and the Company's liquidity. This March, we have BRL35.4 million on a daily basis or BRL20 million in New York, BRL16 million in Sao Paulo. And as a result of those factors we had an appreciation in our market cap which at the end of the First Quarter was BRL22,320 million.

I conclude my presentation on page 19, just highlighting something very important. We always are acknowledged by all energy companies, basically they are long-term companies, companies that to a great extent are part of communities. They have a very strong relationship and necessary relationship when it comes to the environment, preservation and sustainability. Therefore, as indicator, that is in more details in terms of how it is calculated and also sustainability compliance which can be quantified not only considering risk assessments.

This methodology includes 150 different criteria to be analyzed in companies and states. It is very good for CPFL. We were ranked the top Company, greater than 90% in the index. And for the third time in a row was elected the most sustainable energy company in Latin America. So we are really honored. And it shows a very successful strategy when it comes to an energy company focusing on each one of these dimensions.

So these were my remarks. With my team of officers, Lorival, Gustavo, Marcello [ph], Roberto Castro and Alessandro, we will be here happy to take any questions you may have, our analysts and investors. Thank you, very much.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions). Marcio Prado, Santander Bank.

### **Q - Marcio Prado** {BIO 15398968 <GO>}

Good morning. Thank you for the conference call. I have two questions, one is more focused on results, the second is more sector-related. But both related to regulation and distribution and also accounting purposes. When it comes to the results, focusing on IFRS, not only CPFL but we have a series of companies reporting the EBITDA income higher than the market, probably because of this transition phase. So my question is the following. What about CPFL's net income? It is way higher in the First Quarter compared to what you previously had. And chances are we are going to have something even stronger and maybe also in the Second Quarter.

When CPFL analyses dividend payment, for instance in the past, overall speaking the Company had a 95% payout. I assume that the analyses for payment were more focused on sustainability for that payment. But coincidentally or not, that lends to a 95% payout compared to Brazilian GAAP. Do you envisage an adjustment in the payout as a result of a stronger income accounting or postings related to IFRS? So what is the outlook for the IFRS and payout? Do you think there will be a striking difference when it comes to income posting?

And the second question has to do with the (inaudible) proposal when it comes to the tariff review, the new regulation, the acts adjustment, could you comment on that please? What is your opinion when it comes to the previous proposal? And what are the expectations and the outlook for the tariff review processes, Piratininga, for instance, probably in the second half of the year? Thank you.

### **A - Unidentified Speaker**

Well, let's address results first. Our vision is slightly different from yours. The result is here. If you compare it to last year. And by the way the effect stemming from a regulatory assets and liabilities are virtually equivalent. I would say it's slightly lower because of the startup of two projects and expenses. So maybe that's why the net income is slightly lower compared to the budget. And the difference is not significant, particularly when it comes to the net income that will be earned if we hadn't had IFRS.

What I'm trying to say is that the dividend distribution Company, policy of the Company is at least 50%, it's a public policy. We've been trying to have a stronger base, 95%, for two reasons. First reason, the Company cash, if we don't use it we have a negative arbitration. So that's the main reason why we are constantly managing our capital structure in order to try to optimize it. That adds value to shareholders. We can have a more adequate and timely use to the funds. And the Company has a capital structure that can strongly mitigate income tax payment.

On the other hand, obviously, if you have a potential acquisition, well, that's the only condition that we might consider changing the payout, not the policy, the policy will be maintained. That has not proved to be necessary, I mean, this kind of approach,

particularly because considering the Company's financial rating we have been having positive access to the debt market, I think. This can be evidenced by the costs. They show the Company's vitality, not to mention that the Company can also use the capital market.

Hadn't used it so far. But considering a potential acquisition or a major acquisition that's also one alternative to fund the acquisition. So right now, even if we consider IFRS effect. And if we check, well, BRL80 million, that would be the difference. Right now we don't foresee any need to change our methods. Obviously, only the future will tell more appropriately.

And I would like to remind you that over the last quarter, stemming from the result of the Second Quarter of last year, we also wanted to provide our shareholders, all shareholders actually, lower volatility on the balance sheet. That's why we also consider those BRL200 million from the deficit of the CESP Foundation in 2008. So we could be having lag [ph] way and mitigate strongly any kind of potential volatility stemming from the Foundation's results.

With that, undoubtedly, our policy is very cautious, considering our minority and majority shareholders, all the Company's shareholders' base. We understand the policy is adequate. And we are also trying to apply it in order to have a good capital management structure.

What about your second question? ANEEL, right? I had the chance to show to some journalist, to share our vision. I think this process had a very positive interaction as the tariff process revealed while we provided the best number of contributions involving not only the stakeholders involved in the review, distribution companies directly represented and also through the association but also the civil society, significantly contributing to the process.

And that is a clear evidence to me that the energy issue or energy price is something that has been concerned by everyone. But not in the sense that we have to lower cost at any cost. I think the sign shown by the process showing that it was closer or it was -- it followed the direction showed by this distribution company.

But it clearly stated the need that this factor and the segment of the energy business more specifically should be sustainable. In other words, always try to recall you that over the last two cycles of tariff review the contribution made by distribution companies concerning privatization up to now with the final tariff was lowered by 50%, from 50% to 25%. So if there is a segment that contributed to moderate tariffs over time, it was actually distribution companies. It was the only that did it more objectively. All the other components, for several different reasons, well, they had increase in stake or even larger or higher than inflation rate.

The only one that was way below inflation rates were distribution, distribution companies. And that came from the privatization process and the tariff review process, encouraging the price cap phase in order to improve productivity. And that actually happens. And this

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productivity could be shared with consumers, therefore reducing the stake of distribution companies in energy prices.

It is true that over this time we also had a significant increase in transmission. But not because the price of transmission increased but because the transition or transmission systems in order to be more robust and more reliable virtually tripled its size. So this increased stake of transmission to a large extent is thanks to the improved structure that has been used to provide more trust and reliability to all consumers in Brazil.

On the other hand, we also had an increase in generation, virtually aligned to the generation index which is the IPCA index. But what improved more than what we expected was an increase in charges and taxes. ICMS, for instance, the main charge, it has different policies. They vary among different states. But that's a significant amount, even higher compared to distribution that renders public services.

On the other hand, we also had a change in PIS, COFINS or Gene [ph], not to mention the increasing charges that over the time had the highest of all increases that we saw throughout the chain. So modest tariffs have to be pursued. And (inaudible) should be only focused on distribution? No, that's not true. Now, just going deeper into my answer, I'd like to address two topics.

First topic, we had some awareness, changing the direction or the change. So we do have a perspective to increase walk [ph] and also improvement in the X Factor. We also have to consider annual regulatory framework. So there is a set of important actions that are part of the technical notes.

What is our opinion on that? Number one, it is not enough yet. It is our understanding that there is room for greater acknowledgement vis-a-vis walk, in order to have this service -- in order to provide sustainable services.

We cannot confuse the proposed walk by a concessionaire that started 15 years ago that has -- well, yesterday I was asked -- do you think we should exclude foreign exchange risk? My answer was I have no doubt we are going through a more timely moment when you come to foreign exchange rate. I don't want to judge any values if its 160 or 180. But what I have to say is that over the last three tariff review cycles, right after the privatization, we had a mismatch of the so-called range. And it was two.

And we also one day before the election of the Lula President we were close to 4. And in 2008, the dollar was close to 2.50. So, obviously, as a trend the dollar is becoming more stable. But there have been fluctuations at given times in the economic cycle. And they can be very significant. From the regulatory aspect, well we evolved by creating CVA. But please bear in mind that the working capital is there at these company and they maintain foreign exchange. And consumers, well, those variation (technical difficulty) into 12 months. And also they are packed to Selic.

And we know that when we have this kind of difference or impact de-coupling in foreign exchange, especially exogenally [ph], the financial system also becomes more entropic.

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And in order to finance working capital, be by anticipating or paying in dollars in terms of energy purchase, the amounts are higher. I remember that in 2008, we went to lending operations with the banks with a shorter term. And we even had a longer term for two years. That's a 125% of the CDI. And we carried this position to the consumers and not only the exchange rate variation but also the dispatch of TPPs at 100% of the CDI.

So I would say that there is room for a debate in terms of bringing this walk to a more adequate level. And it is different from the WAG [ph] that is being applied as an assumption for the generation or transmission auction; for a very simple reason. First, because of these auctions that are going to happen in the future. So you're going to look to one single position for the future. And there is no tariff review for these projects over their useful life.

So the amount that you get in the auction will be a hedged rate of return. It's almost like a long-term security indexed to the IPCA. It is different from those who have been here for 15 years and that every four years, it is submitted to a tariff review process in order to capture all these imperfections or variations in terms of the markets. Two, you must not mix up the application of a walk to a future option with the establishment of a walk for a concession which is already under way in operation because this concessionary has already had bigger variation and will have to be submitted to the standard [ph] figure every four years.

And on the other hand, I think there is room for evolution in this debate. And in what happens, in what regards the X Factor there is a recognition that the decrease in the participation of distribution companies in the total tariff of 50% which is around 25% nowadays. Hence, it's assumption investment that we have made for increasing productivity, reliability, automation, more sophisticated IT systems, loss prevention systems or loss management systems. And you'll have to invest in all these areas.

Of course in privatization, you have to have voluntary layoff systems or redundancy projects. And when we talk about investing in systems and technology and automation, we're talking about higher investments with a shorter term for the return and the X Factor. Have to share the scale of the concessionary or the market gains. But it also has to make the investment in quality and productivity increases feasible as well as the IT investment feasible.

Of course, if we were to calculate or to capture all these gains in one year time, of course all consumers would be losing and the investments would be made unfeasible. So it hasn't come to the point that we consider as being sustainable. But such as the walk it is in the right direction. And finally, I believe it's important to recognize the theme of the other revenues. And there is a big difference of understanding on the part of concessionaries yet because these are revenues that are non-operating revenues, first and foremost. And it's not a recurrent revenue for the Company.

Ideally, all companies would never exceed their demand. Ideally, companies wouldn't have low power factor. And be it the collection system of the companies or the system for reserves and their substation feed, reserve for overload purposes or protection reserves

or reserves for the power factor for reactive, that shouldn't be done. That would be the ideal situation. However, this is not the real world.

So, ideally speaking, for each one of these aspects, there is a loss on the part of the concessionaire or there is a cost to be borne by this concessionary or the risk of the concessionary not receiving.

How many companies do we have in our concessionary. And they went bankrupt and they didn't pay what they exceeded. How many companies didn't have their load factor, their power factor being too low in their views and they went to the court and we had to hire lawyers and sometimes we don't get our money or sometimes we have to extend the terms of payment.

So this is not something sure that we can count on. This cannot be shared. And it has never been, not even when privatization was carried out. It was considered because such as is the case with our exchange rate which has been more stable now and our inflation rate went from 80% to 6%. So you can see the situation. And you need time for things to stabilize. When we get into this situation, there will be nothing left to be shared.

So let's really focus on the stability situation, recognizing that endeavors must be made -- made in order to achieve stability. Overall, I think this is, in a nutshell, the direction has really given us some appreciation in our stock. We believe that we will -- we must further discuss matters so that we may reach a balanced and sustainable sector, reminding you that the sector is relevant, not only because of the collection with no delinquency that it has to transfer to generators or transmission companies or charges in taxes. There is no option for delinquency.

Everything that is built by the concessionaire is delivered to the chain with no delinquency whatsoever. But it's also a very good sign of growth. And as Brazilians we are proud of this very precise process, that is to say the auction and a very stable process. And to a great extent it is due to the qualification that the concessionaries had in terms of developing future market planning systems. And on the other hand of establishing the PPA, the long-term PPA, which is considered by the financing agents, especially by BNDES as a AAA security. And it is not a AAA because this is the -- the factor is still trying to reach an equilibrium.

And I'm very proud of the major participation of society in this process of interaction with the agency because it showed how much society appreciates stability. And I think ANEEL was sensitive to that.

And with the correct argument and the more in-depth discussion, I believe that we will be able to reach stability. And therefore we will be able to consolidate everything that we have been doing in the sector, making it a sustainable sector, a growing sector that can work with efficiency and with low tariffs.

I know that my answer was very long. But I think it was necessary.

## Q - Marcio Prado {BIO 15398968 <GO>}

I would like to make one remark if you can talk about that. Of course, everybody has to have a chance. About the payout, the volatility of your results will be increasing because of the end of the CVA, that's what I meant.

You used to have a very stable policy both in the first half and the second half payout in order to keep the dividend per stock more stable. Maybe you will have to increase the volatility of your payout policy so that you may offset the increase in volatility in your earnings.

I know it is a little bit counterintuitive. But in order to have a more stable dividend payout policy, maybe it will have to be more instable or non -- unstable. Okay. So thank you very much for your answer.

## Operator

(Operator Instructions).

## A - Unidentified Speaker

I would like to add something to what Marcio said. Undoubtedly. And we have mentioned that the IFRS, due to the fact that it does not allow an adequate reporting of the regulatory assets and liabilities, it does bring about a volatility degree. And our policy has a minimum of 50%, 5-0. And we have been doing this with 95%. And if it becomes necessary so that we may keep being a company that has a growth strategy to pursue. And on the other hand that may give adequate dividends to our shareholders. Of course, we will be paying keen attention to this volatility.

Right now, as I said before, it does not hinder what we have been doing. Of course, time will tell and we will be able to track this. The policy will certainly not be changed. We do not believe that IFRS could bring a degree of volatility that could impact over 50%. However, the payout could have to be adjusted because of higher volatility. And we will have to track this. And the intention of the Company is to comply with the policy. Secondly, as we manage adequately our capital structure, based on the aspects that I have already mentioned, we intend to keep a high payout. And, of course, it will follow the results that we achieve.

## Operator

Vinicius Canheu, Credit Suisse.

## Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon. My question has to do with auctions. In previous presentations, in previous webcasts, you gave us an idea of the demands to be contracted in these auctions. So could you give us an idea of your expectation for A-3? And still talking about auctions and regarding competitiveness, after quite a long time natural gas came back to



these auctions and you have a supply contract. And as you are competing with other companies. And in the last auctions wind was very competitive.

Do you believe there is room for natural gas to compete with the level of prices that we have in the last few years already in A-3?

## A - Unidentified Speaker

Vinicius, the first answer is the following, something around 1,200 average megawatts for A-3. The question is rather intriguing as far as it concerns competitiveness. We believe that price will go up slightly in the next auction. And this could bring about more competitiveness between gas and wind. But I believe that natural gas is something important to be consolidated as a thermal source of energy in this auction. And this is one of the reasons why we have been developing this kind of project.

And we have the joy to see one of our projects qualified. There is an expectation, yes. And in the last auction for wind energy we saw a major reduction in prices. But at the same time we are living a moment on one hand of implementation of many plants in Brazil, many manufacturing plants that needed to be fed to -- with power to be made feasible. So the rationale of the auction itself led to this, both entrepreneurs and suppliers.

We're put in a checkmate, in fact. And the plants did receive the necessary energy. And on the other hand, we had a surplus of equipment because of the crisis in Europe, which was very strong. And the situation is going back to normal.

We see some growth already in the US because of Fukushima and renewables such as -- as something very present in the Company's strategies. And I believe that in the coming auction I believe we are in the right direction, yes. And we are placing energy in the market at a competitive price at a low price. And the competition process leads to this result but this situation that we had. And this is my personal feeling the situation that we saw last time will not be repeated at least as it was in the past. I believe that rationality will prevail so that we may avoid the hurdles that are in our path.

Of course we must have entrepreneurs that are qualified and that are skilled from the technical viewpoint and that have the necessary resources so that they may carry out this project with low tariffs. But the most important thing is to execute the process. That is to say it has to be carried out and it has to be completed and implemented. We know that this is not exactly what is happening on average. And we're not talking about a lot of cases but they are desirable nevertheless. And I believe that it is the player's obligation to be rational so that energy can be delivered to consumers.

Just to end, we talked about gas, we talked about wind and biomass. In spite of all the potential mainly in your [ph] concession area, the presence is very timid in the auctions.

## Q - Vinicius Canheu {BIO 6300903 <GO>}

Do you think it's going to increase, that is to say the participation of biomass in auctions because there -- do you think the moment has come to migrate to that?

## A - Unidentified Speaker

I believe that as we see an increase in the price of wind energy and as biomass plants achieve a better and better performance and we see this with some of our plants, be it because we will have more time to produce energy because the crops were five months. And they are six months and they are getting to close [ph] months.

And overall, this brings biomass to a more competitive level. And even more than that we are already starting to evaluate alternatives for the burning of the tips and the chaff and the straw in creating a high level of competition or competitiveness. And it's good to be a very good fight, wind, biomass and gas because each one has its own characteristics. And I believe that the environment that was created for competition will make all of them feasible.

Now we would like to close the Q&A session.

## Operator

Now I would like to give the floor back to Mr. Wilson Ferreira Junior for his final remarks.

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

I think we will have another quarter of good results. And I'm very pleased to be able to share this with you and share the development of a very clear strategy on the part of the Company. Our strategy right now is extended with the perspective of renewable energies. And over the next few months we have a very important mission which is to establish this platform and to make this platform as competitive as the other businesses of the Company.

I think it's important to have in this agenda, as I said before, a very positive interaction with the agency so that we may have another tariff review cycle, another tariff cycle in which we may be proud of the benefits, the improvement in productivity and the sharing of our results with our consumers and also the stability of the sector by means of the distribution companies.

I believe that these are the two most important messages that I would like to convey to you right now. Always keep in mind this perspective, that I like to see that the tariff review process is a moment in which the major players, the major market agents once again face the challenge of showing how competent they are. And we are getting ready to face this moment. And all the articulations that we have been living, all this is fundamental.

But when the process is concluded, a new level of efficiency is required. And we are working with a lot of resolve in order to get there. And on the other hand, it is the moment when the potential consolidations are made more clear. So we see the process in a very bullish manner so that it may bring about more advantages to a group that has

been focusing on this strategy, consolidation and distribution, growth in generation, now further strengthened by renewables, not to mention the large power plants, the HPPs and RGPPs [ph] that we started last year.

And finally, with the potential of the Brazilian market and the growth of the free market we will be able to use all the skills that we have developed as market leaders in commercialization to the free market. And together with the Brazilian economy and the positive outlook for Brazil we also see a very positive scenario for the future of CPFL Energia.

Once again I thank you very much for your attention, analysts and investors. Thank you for participating in this call.

## Operator

Thank you, very much. We thank you very much for your participation and wish you all a very good afternoon. Thank you.

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