

Q2 2011 Earnings Call

Company Participants

- Lorival Luz, CFO and Head of IR
- Unidentified Speaker, Company Representative
- Wilson Ferreira Junior, CEO

Other Participants

- Aleshon Degogac, Analyst
- Catalina Cognito, Analyst
- Marcelo Saph, Analyst
- Sergio Parmachero, Analyst
- Tatiana Feldman, Analyst

Presentation

Operator

Good morning. And thank you for standing by. Welcome to CPFL's Second Quarter of 2011 Earnings Conference Call. Today with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia. And Mr. Lorival Luz, CFO and Head of Investor Relations, as well as other officers of the Company. (Operator Instructions)

Before proceeding, we would like to mention that forward-looking statements that might be made 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.

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

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, ladies and gentlemen. investors, analysts. I would like to start by talking the results of the Second Quarter of 2011 and starting on page number three, where we have the highlights for the quarter.

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We have a 2.7% growth in sales in the concession area. And I will be going into details. It is higher than the Brazilian growth overall, which is 2.5%. And the results are to be positively impacted by tariff adjustments or specifically of our two biggest distribution Companies, Paulista 6.11% in April and RGE, 8.58% in June this year.

There are two important things here having to do with our renewables area. The first one has to do with the approval of the association between CPFL with ERSa, already at the level of Aneel, BNDES, CADE. And financial institutions. And this was concluded in July 2011. And the general shareholders' meeting for the approval will be held in August.

In this asset, CPFL Renovaveis, last week we announced two new projects, biomass projects, coming from agreements with new owners, Alvorada, 50 megawatts. And Coopcana, 50 megawatts as well, both with a total investment of BRL311 million expected.

And coming from the results of this quarter, we are proposing the distribution of BRL748 million of half-year dividends to be paid normally by the last day of September. Dividend yield in the last 12 months, 6%, therefore. And we will be going into details about our funding for our debt extension and funding for new projects, BRL3.762 billion overall. Also, another highlight in the quarter is the conclusion of the reverse stock split and simultaneous split of shares on June 29 on the Bovespa and July 6 in New York.

And some important recognition that we had by Exame Magazine, the biggest and the better of Maiores e Melhores companies. We were appointed the best energy company in Brazil due to its performance last year. IBEF gave us a very important sustainability award in corporate governance. And finally, driven by these results, the appreciation of our stock by 4.2% at Bovespa, exceeding the Ibovespa Index, which was rather negative, minus 23.6%. And the IEE, 2.5% positive for the year.

Now let's go to page number four, the results of the Second Quarter. And we are making remarks here such as we did in the previous months. Especially due to the implications of IFRS in the booking of regulatory assets and liabilities and in order to facilitate the life of analysts, we are trying to report our results in IFRS, of course. But making a disclaimer referring to the impacts in the IFRS because of regulatory assets and liabilities.

In this quarter, besides these two results of regulatory assets and liabilities. And I'm getting into details here. We had this year and last year as well in the respective quarter some non-recurring effects which are very important to be evaluated by you analysts and investors when analyzing the CPFL Energia results for the Second Quarter.

Net revenues, 6.2% increase, getting to BRL3.045 billion during this quarter. And now, the EBITDA reporting a 2.9%, BRL815 million. And the importance of making this assessment on the left, we give regulatory assets and liabilities and non-recurring effects with this year. And this is the non-recurring effects of the Company and we are reporting an EBITDA growth of 16.2%, reaching BRL877 million.

And what is important here is on the lower part of the slide. What are the impacts that we are reporting here? The first one. And I will be getting into details later on, is the

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retirement incentive program with an agreement with the labor unions and we implemented a retirement incentive program in order to renovate our CAGR.

And this started in April and it will be closed in December. It goes from April to December. So it's a programmed retirement of some professionals of the Company with all the indemnifications et cetera. And, of course, we haven't felt all the effects. We have invested about BRL10 million in this program already and we have already recognized the whole program or the forecast amounting to BRL48 million overall. Besides the benefits of renewing our CAGR, it has an economic advantage, of course.

And besides this effect, we have the effect of the ISS provision in Campos Novos mill -- plant because of the legal claim and agreement made during the construction of this plant, an agreement with the city administration and a discount, which was not approved by the city council. And we have made the provision immediately for that. BRL6 million charges for the use of the EPASA grid, the non-recurrent effect at the time. And the positive effect of regulatory assets and liabilities, BRL1 million. And the regulatory assets and liabilities during the quarter were practically negligible.

It is important to express that last year in the same quarter we had a very positive result because of the provision reversal that we had in the Company of Paulista de Forca e Luz, of claims that we had with PIS and COFINS. At the time, it brought a positive result of BRL40 million to the Company at the time. And at the time, we had a regulatory assets and liabilities result amounting to BRL3 million.

Because of that, the EBITDA this year -- or this quarter was driven by these non-recurring events, BRL63 million, less than the recurrent results. And the results last year was BRL36 million, higher than the recurrent amount. Due to the magnitude of this impact, we thought it would be important to facilitate your job, analysts and investors, to make this disclaimer. Of course, this disclaimer in the EBITDA line, it has direct impact on the net income.

So if we look on the upper right, we are reporting a net income of 18.3% less than last year, BRL294 million. And if we had recurrent results here, we would be reporting BRL335 million with a slight increase year-on-year, 0.2%. And you have the details on the lower part. But the major driver of this result are the EBITDA effects that we have just mentioned, in this quarter BRL63 million less. And in last year's quarter, 2010, BRL36 million more.

Besides on the finance line, we had accounting adjustments of depreciation of plants that occurred in April for the Septico[ph] more specifically that were started up this year so BRL20 million. And BRL21 million of positive adjustments of regulatory assets and liabilities on the financial part of this account.

On the lower part, we have the net -- we have the same quarter last year. In comparison, BRL4 million of financial revenues, the net effect of the PIS and COFINS of Paulista and Piratininga that were reported in the EBITDA, besides BRL2 million negative of regulatory assets and liabilities at the time. Therefore, in the same way, a recurrent result would be

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BRL41 million higher in this quarter and the opposite would occur in the Second Quarter of 2010 when we had BRL25 million more net income.

Okay. So having made this disclaimer, on page number five I would like to get into details about our retirement incentive program. As you know, the Group has almost 8,000 employees. So the program was aimed at 500 and we had 445 adherences already. 130 of our employees quit immediately and those who did not need any training for their successors. And the program is developed together with our succession program, our career plan. And 315 are professionals that are already training their successors in the Company. And they will leave the Company by December 2011.

The total costs that have already been posted in this quarter, as I said, BRL47.5 million we have already dispersed would be 131st one[ph] BRL10.2 million and we have already provisioned BRL37.3 million additional up to the end of the year. I talked about the advantages of the program. Besides modernizing and renovating our CAGR, we see a permanent reduction of the payroll as a whole because this is the population that has the highest salaries in the Company. And because of the retirement incentive program, we will have a 43% reduction in the remuneration of these jobs, a payback of 2.5 years -- or in 2.5 years. So, this is something very important for the future of the Company.

Page six, our energy sales and our TUSD in the quarter. Sales in the concession area on the upper left grow by 2.7%. Captive market reasonably stable. We see details here and we've had less days of billing vis-a-vis last year. And I will talk about that on the next slide. With a slight 0.8% drop in free consumers, very active, 13.2%. So, with a positive impact on the Company, additional revenues of TUSD in the concession area therefore, we are talking about a 2.7% growth.

And on the lower right, we compare the Company to Brazil overall, 2.5% -- 2.7%, vis-a-vis 2.5%. So the country is already slowing down gradually. And this slowdown is bigger in the Southeast. The Southeast grew 2.8% and our operations in the Southeast, seven of the eight distribution companies, grew by 2.2%. In the South, a very important result of RGE, 2.3% the South. And RGE, 5% growth.

So, because of all of that, the results of the Group in distribution is slightly higher than Brazil overall. The important impacts per class of consumption are reported here, 2.2% increased residential, 4.6% commercial, industrial, 1.6% and the other segments 5.4% growth, 2.7% overall. And later on, I will talk about the residential and commercial segments, which are the ones that are the most impacted by two events that occurred in this quarter -- lower temperatures and number of days billed. So, slightly lower than last year.

And because of holidays and the result in total sales of energy, we see a slight drop, 1.2%, 0.8% in the captive market, certainly impacted by the lower number of billing days, which means that in the next quarter we will have more billing days. A 2.4% reduction in the free market in sales and mainly because of non-recurring operations that we had in CPFL Brazil last year, 2,953 gigawatts, where we sold part of the inventory in order to cover EPASA. So a non-recurrent event last year.

Now, page number seven, where we make this view more clear, the temperature in the major areas -- or main cities in our concession areas of distribution, those that have the highest number of consumers. In red, you can see the long-term average temperature, which is the basis for our budget. In green, the result in Q2 2010, a little bit outside the red. And in blue, the temperatures in Q2 2011.

As you know, lower temperatures have an impact on the market, the commercial market, because of the lower use of air conditioning because of lower temperatures. And in residential, more specifically, due to the lower functioning of refrigerators, et cetera. And all this has an impact on the sale of energy.

And this breakdown for residential and commercial segments, you can see on the lower part of the slide. And here we have the number of days billed. At the Company of Paulista de Força e Luz, which is our biggest distributor both in residential and commercial, as you can see, two days less in residential and 1.8 days less in commercial.

You can see that in Piratininga and RGE the effect is similar, a little bit higher on each one of them because of the reading calendar because of holidays, et cetera. And this is the reason. From the economic viewpoint, there is no impact because the lower number of days billed in our revenue and the non-billed revenue. So it has no effect whatsoever within the comparison between the volumes of energy. And I see that some analysts made a remark about that.

So we have details here on the lower part of the slide, we report from the accounting viewpoint a 2.2% increase in residential. And if incorporated the calendar effects and temperature[ph] effects, that would be 6.6%. So the real sales would have been higher. In the commercial consumption, we have a similar situation. And we report 4.6% and we would have reported 6.9%. So this disclaimer is important because of the doubts raised by some analysts and investors.

Now, page number eight, with EBITDA details. As we have been doing in our previous statements on the left, the so-called recurring results. And here we have the non-recurring effect that we have already detailed. And the regulatory assets and liabilities effect, as I've said before, they are totally indifferent. They are irrelevant for the comparison purpose.

What really impacted our final results are the non-recurrent events of last year and of this year, highlighting the retirement program. So, comparing the BRL791 million EBITDA with the BRL815 million, the events that determined this variation are in principal the increase in net revenues, 6.9%, or BRL180 million. And three important themes here, tariff adjustments that we had already mentioned, especially the Paulista in this quarter that occurred as of April, RGE as of June. So, they capture just a small part of this effect, the effect will be felt in the next three quarters.

The increase in the TUSD, driven by the higher volume of energy in the free market. So here we have one additional event, BRL63 million. And additional net revenue of Foz do

Chapeco, EPASA. And Baldin, which brings BRL66 million to the results. And, of course, the revenue increase has a higher tax deduction, 8.7%, or BRL118 million.

And now we talk about the variations in our costs, energy costs and charges, because of a lower growth, 1%, or BRL15 million. And already including the effects that I have just mentioned, a 45% increase in operating costs and expenses amounted to BRL142 million. And here we have three different things. The first one is the reversal of the PIS and COFINS provisions of Paulista, BRL40 million, non-recurrent at the time. And the second is the retirement program that we have just mentioned, BRL48 million, inside the ISS tax provision of Campos Novos, which went to our results.

And finally, the physical inventory of assets of the distribution Companies. And this is one effect that we maintain here as recurrent. But they are all reimbursed in the tariff review process. So they are occurring on a quarterly basis and we carry out the inventory of the distribution Companies about one year and some months before the review.

So here we already have the BRL11 million. And this is recognized as tariffs when the tariff review is carried out. And we have the cost of the operation here for the plants that were started up last year for the Foz do Chapeco, EPASA. And Baldin, amounting to BRL10 million. And if we remove these non-recurrent effects that we have on this chart, our recurrent cost would be 6.7% higher than the same amount of last year or on year-on-year basis and 8.6% IGPM. So, we are totally in line with the main indicators of our expenses, that is to say the IGPM. And we are below the IGPM, as you can see.

Now, on page number nine. On net income, a slight 0.2% increase, or 18.3% minus as reported. 2.9% increase in the EBITDA is a major driver, BRL23 million in growth. And then we have many negative results here. The main one, or the deterioration in the financial result, 116%, or BRL98 million. This is due to the 65% increase in our financial expenses, BRL122 million.

And it is important to stress the accounting adjustments that I had reported about the plants, especially Foz do Chapeco, be it in the UBP, all the depreciations that were recognized in April in pre-operational stage, BRL13 million here and BRL7 million in depreciation. These are non-recurring. But they affect the quarter. And the financial expense due to the start-up of Foz do Chapeco and the plants were started up and the financial expenses start to be recognized, BRL26 million. And I would like to remind you that we had BRL66 million in revenues from these plants.

Operating costs, BRL10 million. And the financial costs, BRL26 million, therefore, they are creating value, BRL66 million in revenues. BRL36 are operating expenses and financial expenses. So they add BRL30 million overall to this overall value in this comparison that we are making.

And, of course, we have about 60% of our debt indexed to the CDI. And the CDI going up in value, 0.6percentage points, therefore with an increase in our financial expenses of BRL42 million in our financing operations. And due to the same effect, we had cash and always invested in CDI, an increase of 23% in our financial revenues.

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Now, getting into the depreciation line, an 18% increase, BRL31 million. Highlighting the accounting adjustments of Foz do Chapeco, BRL7 million. And the start-up and depreciation itself of course EPASA and Baldin. As a counterpart, we had a decrease in our income tax because of the lower result year-on-year, BRL39 million. So the reported net income, BRL294 million. And recurrent, BRL335 million.

On the next slide, we proposed 100% distribution of the results, BRL748 million, in the first half. So, going back to our track record, getting to a 6% dividend yield in the last 12 months of BRL0.78 per share, already split, BRL1.50 more or less before the split. 100% net income being distributed and we are close to six years since our IPO with a dividend yield of the IPO of 123%. Or since that time, late 2004, we have already distributed BRL8.4 billion in dividends.

On the next slide, we talk about investments. And we were able to host an international meeting about the smart grid, the intelligent distribution grid, that will facilitate the life of both operators and consumers. And here we have some details about an investment that we announced during this international meeting, where the CPFL is the only Brazilian company to participate in this Global Intelligent Utility coalition.

So, this group met here in Brazil with 150 people, people from Aneel, from the Ministry, people in charge of defining the standards for the smart grid to be implemented in Brazil. The group has about 20 members, the biggest companies in the world. And CPFL has the Brazilian company. And in this technology, we have already announced BRL215 million invested -- to be invested along the next two or three years, already affecting our operations. These investments will allow us to have a better operating flexibility and lower maintenance costs.

In tele-metering, we are implementing intelligent systems to measure consumers of the A group, 50% of the company's sales. So a major use in this activity. And the mobility project, where we would have the losses and costs measured in our technical and commercial processes, a reduction of losses and costs. 75% of that is recognized on an asset base.

Mainly what we are doing in terms of tele-metering and the operation project. And here we have the automation of our grid and other things. And simply that on one hand will provide for a better reliability for our consumers, a lower number of outages. And when we have an outage, a lower time of outage. And also allowing the concessionary to have less outages and a lower cost in order to repair mobility.

Therefore, together with the operation and the advantage of allowing us to locate our vehicles in a more efficient manner for dispatching purposes so we will be able to bill the consumers in a more accurate and faster way.

On page number 12, we have the details of the two ventures that we announced recently in the last couple of weeks, co-generation Alvorada co-generation and Coopcana co-generation of (inaudible) in Minas Giras, Coopcana Imparanao[ph]. We are installing 50

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megawatts and 18 average megawatts exported. Investment, BRL150 million in each one of the operations, more or less.

And the pipeline for biomass co-generation of CPFL Renovaveis with the two new investments amounting in March 2013 -- 213 megawatts of installed capacity. And the investment announced to be made slightly higher than BRL900 million. We continue with our investment strategy, a diversified investment in Renovaveis in biomass.

On the next slide, we report the status of our plants which are under construction. Bio Formosa, already commissioned, 97% ready. The sugar cane harvest in the northeast of Brazil is displaced vis-a-vis the southeast, which means that we are getting exactly at the time of the northeast harvest in Q3 and the others in Sao Paulo.

Buriti, Bio Ipe final phase to be commissioned in late Third Quarter, commercial start-up in the Fourth Quarter. And Pedra, this is for next year, already we're 29% realized. All of them have already obtained financing and amortization, that you see on the lower part, between 10 and 13 years depending on the projects.

On the next page, to report the beginning of construction of our wind farms, the first one is Santa Clara and then Eurus. You can see a 20% construction of these farms. And here in the case of Santa Clara, with financing obtained with the BNDES. And Campo dos Ventos, we are negotiating financing at the moment.

Page 15, our debt profile. The funding in this Q2 reports and funding operations, low devour[ph] was ahead of the incentives -- the initiatives, issue of debentures BRL2.8 billion. CDI plus 1.37%, average maturity 6.1 years. So we have series at five years, seven years. And the average maturity of these two is 6.1 years. And they are making feasible either the rollout of the refinancing in commercialization, generation. And distribution and also providing the necessary resources for the closing of the CIF operation with Jantus -- chiefly with Jantus, 37%.

One important innovation, already using Law number 131[ph], already swapped with CDI, BRL1 billion in July, 2011. We did this with Paulista and Piratininga and we already provide resources for the debt roll-over for the first half of 2012. And the appeal of this operation is the cost.

Using this market window, 100% of CDI already swapped, as I said before, with an average maturity going from three to five years. Still, some are three years, some are five years. So, all the refinancing for next year and all maturities are already, to a large extent, covered by this 4131 operation.

Page number 16, still talking about our net profile, BRL7.94 billion adjusted net debt due to the operating result in the first half, the down-payments of dividend. And the additional availability of fees up[ph] to the close of the operation, which will occur still in this quarter. And because of the funds raised with no arbitration for what we want, BRL4.4 billion overall availability, cash availability. And if we use the net debt/EBITDA ratio, when -- we'll

net of 2.3, we are kept in the same line higher than -- slightly higher than 2 times, which is what we have been observing.

Because of these operations, we see a relative increase of the participation of CDI in our debt. It was 61% at the last quarter, now it's 68%. And the capital structure was kept unchanged 47% to 53% equity/debt. And here we see a decrease in our result when we look at our financial debt, 4.3 years, 21% short-term. So a reduction there. And 79% long-term.

Page 17, our stock performance. Going up more than the Ibovespa and New York, be it in the quarter, be it in the year. And all the indices that we participate, IEE. And all the governance indices, IBRX, et cetera we are better than all of them. So, the stock market already, of course, is suffering because of the world or international market. But we're still performing better than our peers.

Some important awards and recognition by Exame Magazine, CPFL Brazil, for the second consecutive time, was appointed as the best company in the electric power energy. And when we look at the ranking, the energy companies, Paulista, our distribution company, was ranked second and Piratininga third among the electric power companies.

As I said before, the case of our annual report, the innovation that we did as from then, was recognized by the IBEF and we received a Sustainability Award because of that and the Greenbest Award as well, where CPFL won in the wind energy category and was ranked among the top 10 in the transportation category with our electric vehicles project. So, these were my considerations. And together with my team, I will be available to you if you wish to ask questions.

Questions And Answers

Operator

Ladies and gentlemen, now we will start the question-and-answer period. (Operator Instructions) Our first question comes from Mrs. Catalina Cognito from Santander.

Q - Catalina Cognito

Good morning, everyone. I have two questions. The first one has to do with your investments. You highlighted in the release the higher amount used to reinforce the electric system in the distribution area. You have the new projects that you announced in the last couple of weeks and (inaudible) biomass. And maybe you could give us an update about your total investments expected for 2011 and '12, if you have this figure so that we may have some idea. And how much would be distribution? How much has to do with reinforcement of the grid?

And a second question has to do with your thermal projects. We saw that in the auction apparently you were not able to get a previous license. And when do you believe that you

will get that? And are you going to go ahead with the projects? Do you have any expectations of getting this license and to participate in the next auction?

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

Catalina, I will start by your second question, the thermal project. We have our partners and depasa[ph] in three gas-fired projects. This was the only one that in the evaluation of Petrobras we could have this kind of partnership. Unfortunately, it was exactly the one that we had the highest difficulty in terms of the environmental timeline.

We are focusing on this area. We are not going to participate in this one because we have not obtained the license on time. But we believe that in the next few auctions we will be participating, either with this project or with other ones that already have the license but that we were not qualified by Petrobras. So we are going to work in both fronts, obtaining all the licenses and with qualifications with Petrobras.

And what has to do with the amount of investments? If you look at our details of last month, in 2012 we had BRL1.653 billion and we are increasing this by BRL200 million for 2012. And in 2013, we had BRL1.290 billion with Coopcana and Alvorada. It's going to be an additional BRL100 million, BRL1.390 billion.

These are the changes. So these estimates will be occurring in a more pronounced manner among these that I have mentioned now over 2012 and 2013. So being BRL300 million more than what we had estimated originally.

Q - Catalina Cognito

Thank you, very much.

Operator

Our next question comes from Mr. Aleshon Degogac from Citigroup.

Q - Aleshon Degogac

Good morning, Wilson. Good morning, Lorival. My first question has to do with the tariff review of Piratininga. October is very close already and do you expect -- do you know when Aneel will be publishing the final methodology for the tariff review?

And what would happen if this didn't happen on time before the Piratininga review? Would we only have a review in October 2012 with a financial adjustment or would something be adjusted in the meantime? And also, if you could give us more details about the CDC[ph] 10% as regarding the reduction of your personnel reduction and the financial expectations.

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

Regarding the tariff review first, our expectation today comes from the meetings that we have been holding with Abrage[ph] and the agency is that the final proposal of the

agency occurs between September and October. And jeopardizing the final terms for Piratininga. But the regulation itself, there should have been a review already (inaudible) this month. And in 60 days top this tariff review should be done with a retroactive effect of the anniversary of the review.

In the case of Piratininga, for instance, it's objectively -- we had the announcement of these measures in October, then this would be put in force by December retroactively to October. So this idea of postponing it to October next year, this will not occur. This will occur sooner, mainly for those that have already had their anniversary.

And the second question had to do with our retirement incentive program that we call PDV[ph] here. And something around BRL12 million per year, which this is what this program could produce, that is to say this retirement incentive program or redundancy program.

Q - Aleshon Degogac

BRL20 million or BRL25 million?

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

Yes, BRL20 million, BRL25 million.

Operator

Our next question comes from Mr. Marcelo Saph from Bradesco.

Q - Marcelo Saph

Good morning. I have two questions. First, I would like you to talk about the commercialization company, the performance of the Company, because it's difficult to forecast the results of the First Quarter of 2011. You had EBITDA BRL92 million and the Second Quarter, BRL52 million, a drop in the margins. So could you please talk about that and what you expect from now on for the commercialization company's results?

And the other question is a comparison between BR GAAP[ph] and IFRS last year. In the Second Quarter, BRL193 million on BR GAAP. And adjusted for the IFRS it was BRL157 million, BRL84 million difference. But now we're informed that the impact on regulatory assets and liabilities was only BRL3 million last year. So could you please explain, because we need that in order to be able to estimate the impact of regulatory assets and liabilities for the Third Quarter of 2011?

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

Marcelo, first I'd like to turn it over to Vasalo[ph] so he can answer the second question first. Just one second, please.

A - Unidentified Speaker

Thank you. Good morning, Marcelo.

Q - Marcelo Saph

Good morning.

A - Unidentified Speaker

In addition to regulatory assets and liabilities, there are several IFRS effects that are changes in depreciation rates for IFRS, which are being calculated. And we also have records -- how should I put it -- UBP. And we didn't have that before, among several items. And the most important one is regulatory assets and liabilities. And they vary on a quarterly basis. Sometimes they can be totally positive or negative.

Think about a similar circumstance from the first to the second Q. There are several items involved in differences[ph] when it comes to IFRS. And to some extent, this is all reported. If I have a look at our figures on December, this is very clear for distribution companies. For instance, if you check Paulista, Piratininga. And RGE, you can see all the components that have an impact on our earnings. So, if you want further information, just call me up. I can give you -- there are several figures involved. Thank you, very much.

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

Now, this is Wilson again. When it comes to the first question, commercialization company performance, there are some impacts here. One of them is the LD[ph], or settlement cost or price. This year, the volume -- today, the greatest volume stored is water. The market price is way lower, it's really going down, something around BRL30 to BRL40. So obviously that does have a direct impact not on our commercialization companies. But all companies involved in operation.

Now, please note two additional elements. First, as I said last year, we are covering exposure of EPASA. So we had something realized to increase the volume of operation last year, unlike what we're having this year. And that has a direct impact on when we compare results from last year and this year.

And a third element is that a good share of our balance has to do with biomass. And they occur as of sales -- as of May. So we do expect to have higher figures from our operations over the next three months because we have more biomass to be traded.

Q - Marcelo Saph

Actually there was a drop in the margin, for instance, if we compare the first Q of 2010 to the second. So just from one quarter to another. And the figures were already low in the first Q. So that's why I asked.

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

Maybe you can send me this note and I'll try to put you in touch with my commercialization team, okay?

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Operator

Our next question comes from Tatiana Feldman, Morgan Stanley.

Q - Tatiana Feldman {BIO 16528278 <GO>}

Good morning. I would just like to have a better understanding of financial expenses over this quarter. I understand there was a non-recurring effect. But still we can see that there was strong growth year-on-year and also from the First Quarter on.

So, do you think there is a specific reason for a different behavior of financial expenses for the rest of the year? And what do you think about the net debt/EBITDA ratio? It's slightly higher this quarter. I understand there are some projects that are not included because they don't generate EBITDA yet. But how can we think about a longer timeframe for the tariff review or those ratio? You think it will go up?

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

I'm sorry, I forgot your name. Tatiana?

Q - Tatiana Feldman {BIO 16528278 <GO>}

Yes. Tatiana from Morgan Stanley.

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

Thank you, Tatiana. Maybe -- I think it is clear, there are two important events -- non-recurring events, which are accounting adjustments. And the second point, which I consider to be important, is exactly the fact that active plans will not be included right now so they are -- they have started up. So recurring financial expenses did increase.

Those gains[ph], BRL122 million, BRL26 million comes directly from this position. And BRL42 million, therefore, if you were to check BRL122 million, virtually half of this or -- I'm sorry, in case of CDI, one-third, because of CDI increase our expectation obviously is to reduce CDI as that will directly impact. And positively impact, our financial expenses. One-third are (inaudible) let's say 68% pack to[ph] CDI. And in those variations it accounts for one-third.

Now, let me mention that obviously as a result of the tariff review, there will be changes in our ratio. The ratio will increase because EBITDA from distribution companies will go down. But for CPFL, more specifically, this effect is very different compared to other companies listed because comparable companies that have the profile of distribution companies, all of them, gueles[ph] Electropaulo, have their tariff reduced immediately. Some of them with a retroactive effect, gueles Electropaulo.

Now, more specifically, from the CPFL Group, if you focus only on the remuneration of asset compensation-based, which we are exposed to in this segment, we only have the tariff review for Piratininga this year, about more than 15% of our total asset base.

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First, in February, we also have for a small concessionary. If we add to this stand[ph], we'll have something around 5%. And then we'll only have tariff review for Paulista and RGE in 2013. Therefore, we in fact, included to increase our debt/EBITDA ratio stemming from distribution activities for Piratininga, this effect happened as of this year but will only affect.

And if we check the results of the EBITDA from our order share of EBITDA from distribution companies, it's about 65%. And if you consider 65%, only 15% will be on a short timeframe. Piratininga and other distribution companies. And our variation tends to be very small. Please note that we also have some generation projects. And they change the ratio probably[ph] as well.

So, I would say that the result that you can see as high, very strongly from the variation of CDI. And that was a strategic option taken by the Company. On the other hand, we also have start up of different plants.

Now, more specifically, the tariff review. There is no short-term impact, significant impact. Our pipeline is also great for renewables. For each one of them, co-generation, we are taking -- we are raising funds for the pipeline but with important benefit for these projects, maturity will be shorter than two years and the carryover cost is about two years.

And as of this time, they will generate results. Still, I would say that for the following items -- renewables, financials and slightly related to tariff review. And for all of us, including us, index to CDI or the expected drop in interest rate will have a positive result.

Q - Tatiana Feldman {BIO 16528278 <GO>}

Perfect. That was very clear. Thank you.

Operator

Our next question comes from Sergio Parmachero from Safra Bank.

Q - Sergio Parmachero

Good morning, Wilson. Good morning, everyone. I have a couple of questions. The first question has to do with PDV, or the retirement incentive program. You mentioned BRL20 million, BRL25 million per year. What about the (inaudible)? Can this be transferred for the tariff in the next cycle of the tariff review, or maybe on the fourth cycle? Only if temporary gain and not a potential gain?

Second question, you mentioned a slowdown. So I'd like to have a better understanding of the effect on pre-contract. Do you feel the effect, price of the agreement and the free market and also duration? Shorter terms for instance, particularly when we consider the start-up of new madata[ph] plants. We are not contracted yet. So can you elaborate on that?

And, if we have time, can you also give us a follow-up on wind plant. After the purchase, do you have new metering or measurements? Are you disappointed with the assured capacity, or are you confirming your expectations? Thank you.

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

Sergio, let's talk about the retirement incentive program. We have two kinds of gain. First gain, people will have a higher compensation in their salary replaced by someone with a lower salary. But notice that we are not changing senior by junior. While we -- it's a step-up process.

Somebody's been trained to become a senior employee, it happens over time and then we will have a junior in the position of a senior. So, this move does happen. And obviously, the difference between each one of the salaries, considering job duration, will be to 40% reduction by category. But that's not only for this replacement.

We also have a streamlined process. Some of our new processes were recently -- how should I put it -- they were updated with SAPs, 6.2% CTS[ph]. And obviously, but[ph] also, in-line labor. So, gains come from these two drivers. Updating our processes, surety[ph] development. And, on the other hand, streamlined processes, revamping, after news after[ph] as originally planned. And these are the benefits.

Now, you also asked about the tariff review. Obviously, we will be capturing benefits. But we don't believe they would be needed. Specifically for Piratininga, certainly we cannot do that immediately. And the same goes -- well, this plan, just to make it clear, it was offered to all of our employees in all of our companies. And the majority undoubtedly of our labor is focused and concentrated in distribution companies.

We already have tariff review at Piratininga and five small hybrid plants. And over the next year, we also have an exit[ph], the other layoff of other companies that have the tariff review in 2013. So we are not reducing the number of people. What we're doing is to lower mainly wages and salaries.

What about wind farms or wind plants, addressing your third question. In the companies we acquired, they receive very little. So far, we don't have a negative effect. In other words, the behavior when it comes to sales, wind[ph] powered from greenfield[ph] have exactly the behavior that we expected. They have the best behavior when it comes to the fact[ph] of wind plants that we checked recently.

On the other hand, when it comes to metering and measurement of our Greenfield project -- and by the way, that's why I always focus on the importance of keeping an eye on traditional companies when it comes to measurement. So, we keep on working on (inaudible) metering projects. We don't expect to have any negative surprises in the farms that we are currently working on and the ones that are developing now. And we can find similar results compared to farms under construction.

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What about our expectations when it comes to the market, our concession market? Let me try to focus on that better. Our expectation for residential, for instance, if you were to check the expectations for the Third Quarter -- or what we reported in the Second Quarter, 2.2%. And we grew by 5.3% over the First Quarter, our expectation for the year, which already stresses[ph] the slowdown, is 4.8%.

And that's something very mild compared to what we had designed before. Now, as to the industrial segment, by year end we expect 5.4%. And for the commercial segment, our expectation is 6%. So our assessment, when it comes to energy volumes for the year, is around 5%, that's despite[ph] of our concession areas.

Please note that when it comes to free consumers, now, let me answer Sabrina[ph] question as well. Over the next quarter, we increased the number of free consumers, 98 last year and this year, the last quarter, we had 133 consumers. But naturally, it ends up by bringing a very positive outlook. And this can be seen both by an increase in TUSD.

In other words, free consumers keep on having ridiculous[ph] performance and the industrial segment, what we consider the slowdown. But we still have a reasonable outlook for the future. And remember that last year we had significant growth in this activity. So the second half of the year is expected to have -- to consider the impact of slowdown on a high number of free consumers. But the unit average consumption may be lower as a result of the slowdown, higher volume of energy stemming from our activity with biomass.

So, that's the general diagnosis in obviously both cases. If we consider the slowdown and also the historic quarter, undoubtedly we have to work with lower PLD[ph].

Q - Sergio Parmachero

What about the current prices of these agreements and expectations, particularly humadata[ph]? And what about the duration of these? Are they shorter or longer?

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

Let me check that out. Let me ask the --

A - Unidentified Speaker

Good morning, the commercialization portfolio of CPFL Brazil already includes a base that allows us but correct a short timeframe. So, a three-year term for the contracted energy. So, we can say these variations, these fluctuations in the free market is more directly involved when it comes to price. But we are ready to face this.

A - Lorival Luz {BIO 16180455 <GO>}

Sergio, Lorival speaking. At least when it comes to the duration or maturity of the contracts, those have not changed significantly. And if you consider the new volumes for Piratininga, well, obviously there would be impact. But our strategy is not a short-term strategy. It is a long-term strategy.

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Q - Sergio Parmachero

Thank you.

Operator

(Operator Instructions) That concludes our Q&A session. I would like to turn the floor back to Mr. Wilson Ferreira Junior for the final remarks.

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

Again, I would like to thank you all again for joining us in this conference call. It is important to make it very clear that although we mentioned a slowdown, we never mentioned reduction.

We'll keep on increasing, while maybe a little bit slower. But it has to do with international scenario that has become worse recently. But still, we have very positive outlook when it comes -- (inaudible) for future sales. So that's the main driver of our distribution company and also our commercialization company.

So in this case, or specifically good trend, slowdown as in stronger impact on the industrial exporting market. And at the same time it has something very favorable when it comes to storage, regrettably a more negative price outlook. But because of our long-term strategy, would always take that into account.

On the other hand, we are really, really bullish when it comes to renewable energy. We'll be present at the auction with CPFL Renovaveis with several projects and we're very bullish when it comes to the outlook for the future. That's a business area the Company has really been devoted to. Really happy here for the figures for August. During Brazil's scenario, we are very happy with the outlook.

For renewable and generation, that will become a very strong area in the Group. And obviously, with our projects for hydraulics energy and Foz do Chapeco, we are here with a strategy for -- to become more diverse, also focusing on gas-fired at several projects. Still, the perspective for the Group as a whole remains positive.

The market is not as vigorous as past year. But it's still growing and keeps on growing, particularly in exporting activities like residential and commercial segments. So that's an important thing to bear in mind. Co-generation with these two biases[ph], the buyers of thermal and renewable energies and for commercialization, undoubtedly this comes from a better long-term strategy, as I mentioned before. So, the future market tends to be very positive for the Group as well.

Operator

The CPFL Energia conference call is coming to an end. Thank you, all for joining. And enjoy your afternoon. Thank you.

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