

Q2 2014 Earnings Call

Company Participants

- Eduardo Takeiti, Investor Relations Officer
- Fabio Rogerio Zanzelice, Chief Executive Officer
- Karin Regina Luchesi, Chief Executive Officer
- Wilson Pinto Ferreira, Jr., Chief Executive Officer

Other Participants

- Carlos Herrera, Analyst
- Carolina Carneiro, Analyst
- Henrique Peretti, Analyst
- Pedro Manfredini, Analyst
- Sergio Tamashiro, Analyst

Presentation

Operator

Good morning, and thank you for holding. Welcome to CPFL Energy Second Quarter of 2014 Earnings Results Conference Call. Today, we have here with us the executive Mr. Wilson Ferreira, Jr., CEO of CPFL Energia, and other officers of the company. This call is being broadcasted simultaneously through the Internet in the Investor Relations website of CPFL Energia at www.cpfl.com.br/ir. In that address, you can also find the presentation for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will be a questions-and-answers session; at that time, further instructions will be given. (Operator Instructions). It is important to mention that this teleconference is being recorded.

Before proceeding, let me mention that forward-looking statements are being made in this conference call about the company's business prospective, projections and operating targets and financial targets are beliefs and assumptions of the company's Directors, as well as based on information currently available. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur 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 and could cause results to differ materially from those expressed in such forward-looking statements.

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

Wilson Pinto Ferreira {BIO 1528124 <GO>}

Good morning to everyone, investors, analysts that are with us in this conference call for the release of the earnings results in the second quarter of 2014.

I will move directly to Page 3, the first three pages of this presentation and this report pertaining to this topic that is of concern to everyone, the energy term of the Brazilian energy system. We'll start by pointing the levels of the reservoirs in the national integrated system today is slightly above 30%. The projection, according to the ONS, is to reach the end of August at around 35%.

Of course, that -- the situation of the reservoirs is mostly due to the lack of rainfall. The chart flow shows and demonstrates, at this point, as you can see, the red line corresponds to the long-term average under 100% normal conditions. And the blue marks the rainfall that occurred, especially in the first quarter of this year. Clearly showing great difference between the expectation of rainfall in the southeast and the actual rainfall.

So, this, call this, gap that has been demanding from the operators a greater dispatch of thermal energy and -- but please understand, we're operating under good conditions. It's important to note, and we mentioned that on the previous call, that over the past few years, the average in the dry period has been above average, and this year, it still occurs. And the table on the right side shows that this year, there have been greater rainfall in the south region. But, you can see that in the national interconnected system, in June, we had 164% of the average in June, 100%; and then August, we're having 81% of the average. In the average of the dry season as last year, we're holding 107% of the average. So, this has been allowing for certain preservation of the reservoirs.

And there's another aspect on Page 4, which is important for the reservoir aspect, which is basically the reaction of the market, especially the three markets where we've been seeing since March important differences in terms of the load performance and the forecast of the national operator, ONS.

So, you can see the blue curve was the projection for the year, and the red curve that was strong in the beginning of the year, we discussed that in the first quarter, but starting in March, it started to decrease and the load was, of course, reacting or responding to higher prices in the spot market and has been deepening. So, we can see that there's a peak in the load difference of 4.6% compared to the estimates. And in July, it's 3.4.

So, these numbers are important and ONS, in their quarter reviews, started already adopting this new load performance projection, and we included that in the curve at the bottom, the extension of the red curve. So, that will be the green curve on the top is this review. Of course, it's important to note that the load contribution were, in fact, in the reservoirs, is up 2.2%. So, the load responding to the reservoir has preserved 2.2% accumulated by August.

Page 5 brings the thermal dispatch, also a great measure. We've been able to preserve the reservoirs due to the intensive thermal dispatch in average of 15.2 average gigawatts

since the beginning of the year. You can see that the behavior has been quite regular between 15,000 and 16,000 megawatts since the month of February. And we've also had over this period the entry in operation of a certain development, as you can see at the bottom, we had 944 added megawatts in February, 900 in March, almost 800 in April, the last two months combined it's another 700 megawatts, the highlight being the wind and hydro in the entry of this new capacity.

FINAL

And the question there is, then, what is the perspective for the future. We pointed that on Page 6, starting at the top chart, showing the performance of the stored energy in the interconnected system, with two different assumptions here. These two scenarios that are discriminated at the bottom, the CPFL scenario for storage by the end of November of 25% and of 15%. So, you can see it's included here, the team operating with a greater possibility of it being above 20%. So, if there's a minimum ENA of 95% from August to November, remembering that the average is 107%, but if you have a minimum ENA of 95%, we would end November with 25%, and the probability of having an ENA below 95% in the average is 56%. So, there's 44% chance of it operating above this number.

On the other side, a more critical scenario. If we were to have ENA of 71%, reminding you that we're operating at 107%, we could reach 15%. That's important to evaluate here, the probability of having ENA below those 71% and this probability is of only 6%. So, 94% probability that the natural inflow energy for that period will be higher than 71%. Of course, in this field of probability, we were between 15% and 25% at the end of November and the greater probability is that, that value will be in the higher end rather than the lower end.

It's also important to know that, for the future, we have important additions of new installed capacity. As I reported in the previous page, about 3,500 megawatts that were added in the first half of the year, and we still have 3,140 to be added in the second half: 1,400, wind; 450, thermal; and 1,254, hydro. And in the future, considering the next two years, around 6,400 in 2015 and slightly above 7,000 in the year of 2016. The main power plants are listed here. We're talking about the remaining machines at Jirau and Santo Antonio, producing more than 4,000 mega and other hydro and thermal plants, especially (inaudible), more than 1,000 megawatts, and the hydro plants of Teles Pires with more than 1,800 mega of installed capacity.

So it's important that beyond the impacts that we have here and the reaction of the load for the future years or future months, we'll have important added capacity above 16,000 megawatts of new capacity in the coming months. So I think this closes this chapter, especially the energy aspect of this year and the perspectives for the future year. I believe the situation will -- there is indeed an important improvement in the scenario, especially in the past three months.

Very well, moving on to Page 7, we present the highlights of the second quarter of '14. I believe the first aspect is the market growth adjusted here. There were fewer days of revenue, but in comparison -- with the adjusted comparison, there's an increase of 3% with a highlight for the residential and commercial concession areas around 8% of each, and the industrial area, a decrease of 3% as we recently mentioned.

There's another highlight of the second quarter. The efforts we made with the government and the disbursement of the sector funding, the ACR Account, in the amount of BRL805 million in this account pertaining to CPFL assets in the second quarter. And this account will be detailed, but it is to cover the involuntary exposure of distributors and thermal dispatch. We also have the economic tariff readjustment of RGE in June of this year of 21.82% and some highlights.

Commercialization and service have been very important for this moment of the industry, when we talk about the reaction of the industry, that's on those three markets that it occurs. So, it's an important reaction, and of course, CPFL being well positioned. CPFL Brasil generated in the second quarter alone an EBITDA of BRL 70 million. Investments this year are smaller than last year, but we invested BRL280 million in the second quarter and BRL520 million in the first-half.

We also maintained the company's rating with a stable outlook by Standard & Poor's for CPFL and its subsidiaries Paulista, Piratininga and RGE. I think that, as a result of this improvement in the prospective, there's also a positive reaction of CPFL's shares, which went up both in Brazil and in New York. That also is clear in the daily average volume. In the average volume and the number of trades, we had an increase of daily average of nearly 6,000 in the first half, an important recognition that the company received from the largest and best companies by a magazine, EXAME, and CPFL Paulista was considered one of the best companies.

Moving on to Page 8, energy sales for the second quarter. Considering there were two fewer days for revenue, we have the evaluation of the reported and the adjusted, comparing the same days of sales days, with an increase of 3% in total sales, a highlight of 6.4% for the distribution market and a decrease of 4.4% in the industrial consumers.

So, in the concession area of the CPFL distributors, that's the behavior. The captive market is very strong, led, as you can see on the right, by the residential segment and commercial segment, beginning the dry year also with the irrigation in the rural market, all with an increase of 8%, and of course, a decrease in the industrial area, which is surprised of the spot market with 3.1% decrease. CPFL, in the context of concession areas, is slightly below the growth of Brazil at the same time. It's highlighted there's greater growth in the southeast region. There's an important reduction in this region, and we still faced growth of 0.5% and the south with 3.3% compared to 4.4%, considering that RGE's area is the most industrialized area of the state.

Analyzing the generation installed capacity, especially considering the added capacity of the renewable segment, this number reaches 3,127 installed megawatts, a growth of 5.6%, verified by the addition in the renewable area and a small growth in the conventional area due to the increased share of our EPASA thermal plant, reaching 2,248 conventional and 880, that's our proportional equivalent capacity for renewables.

The next pages will have evaluations of this market in terms of perspective and clarifying its behavior. Page 9 discusses the industrial performance. It is the main power consumer in the distributor's area. We have a negative performance for the industrial factors. You can

FINAL

see that industrial production that had been bad in the first quarter has experienced greater decrease in the second quarter, a decrease of 5.4%. So, that's 2.6% decrease in the first half of the year compared to the previous areas with notable aspects and the loss of 20 -- of employment.

The confidence level of the industry is the lowest in recent times, and an industry that has a great support and is important for the segments, the vehicle production had a decrease of 16.8%. An important aspect here to highlight, works that carried out by CNI and presented to the candidates and the comparison with different countries, including Mexico, which is a competitor for Brazil, the first thing is appreciation of local currency. You can see that in this period, Mexico had a decrease and Brazil has had an appreciation of 20% compared to the US dollar. So, that removed competitiveness from the Brazilian industry in the international market.

There are also other items and dimensions that, considering the long term, make it clear and fully justify the results that we can see in the industry. Wage growth in Brazil of 100% and local currency, 27% in the United States and 67% in Mexico. Noting that the wage component is crucial in the industry, in terms of productivity, it's an aspect that becomes compromised due to the cost of labor in Brazil. And we've had in the last years, especially the last two years, there had been an exemption of payroll taxes, but as a result, the increase in production is up 3% in Brazil versus 19% in the United States and 53% in Mexico.

On the other hand, the cost of utilities, including electricity and gas, in the case of gas in the United States and Mexico, they are still benefiting from shale gas, and in Brazil, there's an increase. Our competitors have a decrease. Bureaucracy, with ranking -- doing business 2014, Brazil ranked 116th compared to United States being fourth and Mexico, the 53rd. And in terms of the nominal interest rates, in Brazil, it's extremely high, much higher than in our competitors, and the tax burden is also higher. Of course, that -- there is reason for the industry to behave and lose competitiveness. It becomes very clear when we look at these elements.

It's also important to mention, Page 10, going beyond that, just the cost of exporting containers in Brazil comparing to our competitors in Latin America, Brazil holds the highest cost of \$2,200 per container compared to 620 for China, for example; it's almost three times more expensive in Brazil. And there's no doubt that this response, especially for the trade balance, with -- by aggregate factor, we're at the area of manufacturers where there's greater presence of labor force, the best five years, an important moment in Brazil. We see this change of the profile of Brazilian middle-class, where there could be greater demand for the industry, but it's not competitive to meet this special moment and lose its share.

Clearly, on the other side, there's an important agenda to increase efficiency, productivity and competitiveness of the industry, some more recent aspect. There are things to be done intensively in terms of concessions and infrastructure and public-private partnerships. There have been important movements in highway constructions and airports.

FINAL

We will have that on ports in energy, something I had already discussed; the exemption of payroll taxes for certain factors; important aspects connected to education incentives, qualification of the workforce, and the innovation program called Inova Empresa, as well as the New Ports Law for us to be able to expand, as you can see at the bottom, the investment in infrastructure. And even though it has increased from 1.8% of the GDP to 2.7% of the GDP, Brazil should be running at around 5% of the GDP, if we compare to competing nations.

We also have the investments in electric energy. In the next four years, we will invest something close to BRL200 billion in different areas: hydro, wind, transmission. It's an important investment in energy, considering the points or the moments we've leaving and we're experiencing, as it is one of the infrastructures that is better evaluated in the international market when we talk about Brazilian infrastructure.

Another aspect, just to report, the seeds that was planted during the World Cup, that's on Page 11. CPFL had its participation because it's a concession area, it has more than 10 national teams. You can see 3.6 billion viewers. Half the world was watching the World Cup, 4 million tourists, 1 million foreigners. So that's 95% of which says that they plan to come back, more than 1 million new jobs generated, almost 18 million passengers in the airports, an increase of 13%. And of course, on the same side, the World Cup had negative impacts in Brazil, paralyzing certain areas of activities, so there was a decrease in that period in retail sales and in the industry itself, where the employees were also watching the World Cup.

There's some estimates in the injection of 26 billion in resources, almost 9 billion in urban mobility, almost 7 billion in airports, an increase in capacity to 67 million passengers, so that's more than 52% capacity increase for airports, moving BRL122 billion in the period with direct and indirect effect. And the estimated impact of 1% in the GDP based on what was observed in other countries. Different factors that benefited from the World Cup, and I think what's positive here is the expectation or the projection of tourists in the future. There's a clear change of the behavior in 2014 and in the years to come.

As I said, on Page 12, we can see a little bit of the work that CPFL develops. This is to indicate how much we stop for this. With seven cities in the concession area of CPFL hosted national teams, so we carried out a work that was coordinated by the ministry, with a 24-hour team, 45 key points for monitoring and between substations and transmission systems. We invested to increase reliability in this area as we invested BRL2 million. We had duty of field teams connected with Brasilia and then you can see a little bit of the load performance on June 5, when there was no game, and June 12, when there was a game. That's why sales decreased at that point, because there is a stoppage either of retail activities or industrial activities, especially.

We've mentioned here the expansion of the Viracopos Airport; we will enter operation by the end of the year. For the region, for CPFL, it is an important investment of BRL2.1 billion, with a capacity for 22 million passengers a year for this airport, with economic impact in the production value, added value, salaries and wages, a large number of job positions generated as well. The region of Campinas and the neighboring towns will be -- will expand because of this expansion of the Viracopos Airport.

Page 13, reporting the results of the second quarter. As usual, we have the comparison of the IFRS with those issues that you already know, especially in the accounting of regulatory assets and liabilities. And to facilitate the analysis for investors and analysts, we included here: the recurring results, the proportional consolidation of generation, the regulatory assets and liabilities, as well as the evaluation of non-recurring items.

On overview, we've increased IFRS 10% of our revenue, reaching 3.677 billion in this quarter, which led to an important improvement of our EBITDA, which increased 49% to 156 million [ph]. But, it is true that we had non-recurring events in the second quarter of last year, markedly, the installments that -- of the ICMS tax from last year. So, when we look at the bottom, the increase of the EBITDA is 2% or BRL18 million, reaching BRL903 million. Maybe that's the company's greatest truth.

Net income last year, because of the non-recurring items, there was a loss, so we've reported that loss in IFRS, with an increase of 7.5% or BRL18 million, which would be the recurrent income of the company, reaching BRL255 million. You can see at the bottom, we see the effects of this change between the consolidation of the IFRS and the consolidation -- we can see the first lines, the consolidation, proportional consolidation of generation and the regulatory assets and liabilities.

In this quarter, it was relatively small, but they're greater with the non-recurrent events of last year. Last year and this year, we had exposure to MRE and energy purchase, both on CPFL Geracao and CPFL Renovaveis, greater this year. There's an extraordinary event of the allocation of costs with basic network losses in the distribution segment; considering comparing to last year, there was the installment and the legal and judicial expense, but there is other contingencies of 277 via ESS provision for conventional generation in CPFL Renovaveis.

And the maintenance of EPASA assets, there was an increase of BRL9 million. So, the difference of last year's EBITDA and this year's EBITDA in 2014, it's from 672 to 903. So, there's a difference in the EBITDA of last year from 516 to 585, the variation of BRL311 million.

So, this assessment being done, it's important to highlight, on Page 14, the importance of the resources from CDE to the ASR Account. The coverage is done for two of the four variations, with the main ones in voluntary exposure, which, this year, reached 1.534 billion in May and June. We had about BRL150 million in thermal dispatch, a total of 441 million. So, for the year, CPFL voted this action, and the consumers have discussed as a difference of the increase in the rate for consumers in the future in the value of 1.975 billion. These values in orange here at this table were used in our balance sheet of this quarter. The reason why we had a change in date, trying to meet the great effort that the government has made for us to have this accounting item.

So, in the next couple of pages we have an evaluation of this -- a further evaluation of this result, starting with the EBITDA. On Page 15, as I said, in the comparison of IFRS, it increases 49%. But, as I had said, from last year to this year, we have the variation of regulatory assets and proportionate consolidation at lower values of around BRL 30

million each. The non-recurrent over the last year were BRL 311 million. What we're trying to detail is this variation from 885 million, which would be the EBITDA adjusted in the second quarter of '13 and 903 million, which is the same adjusted EBITDA for this year. So there's a variation of 2% here.

Three elements determine this variation. The first one is the increase in net revenue from 10.9% or 357 million. In this case, we have the increase in distribution with the tariff effect of 202 million and the market mix effect of 60 million. We also have the conventional generation at 138 million. The contract of generation are basically indexed to the inflation and a small increase of share at EPASA and Renovaveis, especially in the entrance of new partners.

In the case of commercialization, there's a decrease of revenue, but there was a margin expansion. So, the decrease of the revenue is a 68 million. But, immediately below that, there's an increase in energy costs, where the energy was purchased to -- or 99 million lower price. So, this increase is in the strategy. But, considering the increase in cost of BRL235 million or 12%, so greater than our revenue, noting that this value is made of the ACR deposits. The ACR versus CDE from last year is up 142 million more this year compared to CDE last year. So, this increase is made of that.

Distribution -- not, it is exposure the highest cost, especially in some cases as Piratininga, A-1 [ph], generates an increase of 285 million on distribution, 32 million for conventional generation and 17 million for Renovaveis, very connected to the GSF aspect. So, we have the determining impact in this increase of EBITDA. The increase of our operating costs and expenses of 22%, two-thirds of this variation is due exactly to the fuel oil of EPASA. There's an increase of revenue for generation as we had mentioned, conventional generation, including EPASA. But, there is an added cost of fuel, 73 million. So that responds to two-thirds of the variation in costs and expenses.

There was also a variation in the PMSO related to service segment of BRL 13 million, because there was an increase in the volume of operations and services, and there was an increase in personnel expenses of 25 million, noting there was a Collective Bargaining Agreement in the beginning of June, and that's already an increase of 7%. And the other companies experienced that in November last year. RGE, for example, was one of the largest ones, and we are experiencing increases of 6% and 7%. So, this personnel expense variation is important.

There was a slight reduction in our expenses with Private Pension Fund of BRL8 million. With this, we had an increase of 2% in our EBITDA. It could have been better if we didn't have that. But we are pleased with the actual growth of our operations, which is potentially greater once we have a stable system.

On Page 16, we have a detailed analysis of our manageable expenses. This is something important for the company. Now, analyzing the last 12 month phenomenal values, we had an increase of almost 100 million compared to the end of 2013 from 1.353 billion to 1.433 billion. And even in real terms, we had an increase of BRL35 million in that assessment.

What is important to see here is that we had done these works in 2011 that corresponds to a real drop of 12%. It has been 14.8%, and the difference of those 2% is exactly regarding the weighted increase that we had. But, in this period of time, we have a reduction of 9% in personnel, 60 million, and 14% in MSO or 135 million, totaling that 198 million.

Now, let's turn to our net income assessment on Page 17, and considering the same criteria, we are now providing more details of the net income from BRL237 million, the managerial one, compared to BRL255 million, an increase of 7.5%. The first element of that variation is the EBITDA; we just showed an increase of 2%. The second element is an improvement on our net financial results, which is negative. It was less negative. Here, first, we have the net increase of exchange adjustments and monetary increases, BRL37 million. We had an increase of UBP, especially of BRL9 million and a net increase of debt charges totaling BRL20 million.

Finally, we have here the third element, which was an increase in depreciation and amortization for Renovaveis. That's why you have an increase in value and income tax and social contribution with BRL50 million, because we had an increase of the tax bracket there. Once again, here on this chart, we see an important variation of CDI of 7% of last year to over 10% to this year, and also to the exchange, considering the exchange rates. Remember that when we first showed Itaipu in the financial areas, those results are accounted here.

Now, on Page 18, we have a final balance of this first half of the year compared to the prior year. And the results are already adjusted. So, here, we can have an x-ray of our activities at the moment. So, in managerial speaking, we have grown 9.6% for CPFL Energy net revenue; 1.2% in our EBITDA for CPFL Energia as well, a drop of 2.4% in the net income of the company. Remember, in the first half of the year, we are comparing here the first semester of 2014 until the first half of 2013. And here, we had the end of the tariff review profits. We have 48% of distribution, 44% with conventional generation and renewables and 7% of commercialization and services. That is the EBITDA breakdown.

So, now, we had the growth of distributor. In the distribution, we had a net revenue of 8.7% higher, the EBITDA, minus 17.5%. And because of the mix of the market is improving, we have a drop that was due to the main distributors in the Group, CPFL Paulista and Energia, that had tariff review in the second quarter of last year. And now, we see the full results of 7.5% in the EBITDA. And the net income is lower in 24%. We understand that higher productivity, the cost reduction, these are on our agenda permanently to help us recover a good perspective for the distribution.

On the other hand, for conventional generation and renewables, we had a growth of 35.8% in net revenue. The strategy of seasonalization and a new project coming in helped that. The EBITDA also increased 16.5%; net income, 15.2%. And let's remember that here, we have financing and TJLP, so no relevant variations there in terms of interest rates. These two topics represent a success and generation.

FINAL

And for commercialization, remember, last year, the second quarter was a quarter that did not have much in terms of sales of commercialization. We started having problems with price increase and a spot price increase and the perspective that we would have a new instrument that was used from August on the (inaudible) to have a correct pricing. So, the comparison is not a fair one here. But, we did not have much movement in last year, and we did have a loss this year. So, the drop in volume is seen, BRL1 billion in terms of net revenue, minus 2%, but it was an important improvement in the EBITDA results, 776.3%. And we have BRL98 million in the net income. That is due to the strategic capacity of the management of CPFL Group in Brazil due to those results.

On Page 19, we have indebtedness assessment. We have net debt of 13.2 billion with adjusted EBITDA of 3.828. So, the ratio of net debt to EBITDA is 3.35, a drop. We've been dropping in the last two quarters. The real debt cost went from 3 to 2.9 in the quarter, although it has increased nominally. And the gross debt breakdown is almost the same as the prior quarter: 70% of CDI and 21% in TJ, 6% with the NDF, prefixed in PSI. That amounts to 27% on these two, and we still have 3% with pension funds.

A sound situation for cash for the company on Page 20. We closed the quarter with over BRL4.5 billion in cash that covered our position. We have 1.51 times of short-term amortization for the next 12 months. It's very well balanced as you can see in the chart. And we have an average term of around four years. And in the short-term, we only have 17.4% of the total of the debt.

Let's turn to pages 21 and 22 and discuss our generation projects, those are being constructed and built in Renovaveis. So, we have two strong ones in the quarter: Campo dos Ventos and Sao Benedito. These are two sets of wind parks -- wind farms with a lot of installed capacity, 230 installed capacity. We are having -- signing contracts this year. We also have executive project, and those should be operational in the beginning of 2013. And at the end of the year, we also were awarded Pedra Cheirosa Complex, also to be operating in 2018. We are negotiating the supplying of the wind turbines. And here, we had -- we were awarded that in the auction, a 125 megawatts hour up to 2037.

On Page 22, we talk about Macacos wind farm, the last one that was being constructed here. We have 78 megawatts installed, 37.5 average. Its PPA is up to 2033. The current value is BRL161.50 per megawatt hour. And the revenue here should be over BRL52.6 million on an annual basis.

So, these two pages, we already talked about the shares performance. And here, it was above BM&FBOVESPA in the same comparison with United States, with 9.8% increase in this first half of the year in Brazil, and 16.2% increase in New York Exchange. Here, we would like to highlight the increasing volume and increase in business volume. We reached BRL42 billion on a daily basis with 5,800 businesses, and we are present in the main indexes of the stock exchange market.

I would like to close the presentation with an important recognition, which was an award from Exame, a Brazilian magazine and also an award from Abradee, as Brazil's energy

operation management, we have been recognized as the best energy company in the south region with RGE.

So, after those main remarks, we are here available for your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will now start Q&A session. (Operator Instructions). Our first question is from Mr. Carlos Herrera, UBS.

Q - Carlos Herrera {BIO 20355147 <GO>}

Good morning, I would like to have an idea, if you can talk about it, about the CapEx execution in the year. We've seen that you confirmed the guidance of 1.4 million, but so far, you have just executed 520. Can you provide us more information, please?

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

I will turn the floor to Carlos. Thank you for your question. I'll turn, actually, the floor to Eduardo, and he's going to go into details about the CapEx.

A - Eduardo Takeiti {BIO 20684444 <GO>}

Carlos, good morning. This is Eduardo. Yes, that is true. At the end of last year, we have announced the CapEx with a share of CPFL Energia of 1.4 billion. We have already executed BRL500 million. We are obviously assessing it. There is a base to be closed, especially in Piratininga, that is going to start to close for next year, and we are going to start a new cycle there. So, we're starting to assess what is going to be our strategy for the next half of the year, especially for CapEx for Piratininga, for RGE and especially Paulista, considering their cycle is only going to be concluded into an '18, we still have time to work on that CapEx. But so far, we do not have any review of that BRL1.4 billion announced. We have no reviews for a lower figure there. It is important to say that, obviously, already considering the financial stress that we had along the year, the CVA loading that was important due to hydrological risk and so on, we have been very careful here, but we are not yet defining the value that we are going to attribute to each distributor.

So if the market drops 3%, 4%, obviously, we have less pressure for investments. But investments that are going to be part of the base of each one of the distributors are there, are preserved. And here, we could have a timely adjustment, but very little for two or three months of delay. And obviously, they are related, to one side, to a prudent management of the cash of the company, and on the other side is associated to a lower pressure of the term where -- the time that we're going to take to conclude some stations.

And that is related to the volume of demand that is allowing us to have the type of management temporarily. But this is short. This is little. The investment that we have for forecasted for this 5-year cycle is usually, say, are they are, still there. And especially for the concession areas, such as Eduardo said, Piratininga, that we are closing the basis for the second half of the year, they are totally there kept. Thank you very much.

Operator

Excuse me. Our next question is from Mr. Pedro Manfredini from Credit Suisse.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good afternoon, thank you very much for this call, I would like to ask you, Wilson, how do you see especially with all these tariff increases that we've had and the last adjustment from distributors, how do you foresee a change in the consumption pattern? Do you think that you're going to have an impact of the demand of the final consumers considering the increase? Is that sometimes are really above 20% knowing that, until next year, we have some tariffs that are under control? And do you expect any changes in that standard, not only in consumption, but also in laws? I know that you have little problems with laws, but analyzing the general landscape of it, do you believe that drastic change in tariffs would impact on losses? That is the first question. My second question, if you allow me, is about seasonalization. If you can tell us a little bit more about what has been seasonalized in this first half of the year and what would be an exposure for the second half? And correct me if I'm wrong, an exposure if you are going to be long in the second half of the year? And if you are buying in the second half of the year, have you already mitigated that with other contracts or other energy contracts?

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

Okay. Pedro, about your first question relating to industry, to the market and especially losses. Right now we are assessing this system that is related to market volume. We do have an expectation that this tariff increase will have some kind of impact in terms of market volume. But it's important to stress that we do not have any defined figure yet, especially because we were able to see prospectively the market. If we have, in the industry, an interest to reduce the higher demand, the interest in this first half of the year did not happen.

So it's nothing that is worth mentioning. So now, in the beginning, we are working, assessing the type of event. I'm not going to say that this is surprising, but it's not happening. It did not happen. And anything like this is worth to mention. So we always close the budget in the third quarter. So maybe in the next quarter, we can give you a better idea. On the other hand, relating to losses, here, we have an important aspect.

So you know that this is already a very effective company in terms of losses. And the aspect that you talk about, we are very well-protected. The company has just opened a help supervision center, all managers from Group A industries and large commercial areas are in a mesh network. This is the first concessionary to have this type of system. And here, we do real-time monitoring so that we do not have any type of event related to losses. We are able -- to the type of monitoring in over 20,000 consumers in real-time,

FINAL

once again. So we do not expect any type of downside because of losses. We are very robust there. And let me just remind you that -- and maybe this explains a little bit of that non-movement of the companies. In the beginning of last year, all industries had reductions in the tariffs of around 20% to 25%. They also had tariff, positive tariff effects from tariff reviews that we discussed here that took away 17% of the EBITDA of distributors. So these were two things that have benefited the industry. And just the recent movement, which is the increase of tariff. And for CPFL Paulista are better RGE. It reached 21%. But for Paulista, it was below that.

So probably that explains the demand and consumption that are still there in spite of being little bit lower. Especially in the free area, you have seen that we do not have an expectation to change deeply that behavior, and we do not have an objective element. And the main one would be requests to reduce load. We do not have that in our distributors. And we have full capacity to manage losses due to this tele-supervision system, that measuring system that we have recently implemented.

Now about seasonalization, I will turn the floor to Karin. She is the CEO for CPFL Geracao, and she's going to go into details.

A - Karin Regina Luchesi {BIO 19664924 <GO>}

Hello, good morning, about the seasonalization of contracts of CPFL Geracao, we had seasonalization that was positive in the first half of the year. And the second half of the year, that position is already locked with a gain in the year. And now, about the second half of the year, there is an expectation of a negative effect coming from GSF.

We expect that this is going to have a higher impact, which is going to be transferred to our generation and in the second half of the year. So seasonalization of contracts was very assertive. We have already a position locked for the second half of the year with a gain in the year.

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

And just adding to what Karin said, there are two main elements that we should consider. Even that the -- if the behavior are similar to the generators, we have three events that are important here: first event, our major position, which is Serra da Mesa, does not have that risk because of the contracts we have signed, and we announced in the second quarter for you. We do not have the risk of GSF and that share of hydraulic generation.

And second, you already know that GSF is used for accounting in the region where concessionaires and generators are. And CPFL specifically, generators, all in the second quarter, are concentrated in the South. Basically, we have Barra Grande, Campos Novo and Foz do Chapeco. So we have there GSF in the South that is not general but, and last year, we already had PLD in the South that was lower than in the Brazilian average. So I would say that we have these two upsides within a generalized downside.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you very much for your answers.

Operator

Our next question is from Carolina Carneiro, Santander.

Q - Carolina Carneiro

Good morning, everyone. I have only one question. We see that some contracts are being signed with large amounts for three to four years with average price of BRL150 per megawatt hour. I would like to elaborate more. Is this level of price sustainable? Have you seen this type of liquidity in the renewable market? If so, do you see an appetite there for contracts for this type of price and renewables as well? Thank you.

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

Thank you for your question Carolina. I'll turn to Fabio Zanfelice. He's of the CEO of CPFL Brasil, and he's going to comment on your question.

A - Fabio Rogerio Zanfelice {BIO 20938488 <GO>}

Good afternoon, Carolina. Really, we have seen an extension of terms of contracts, specifically for energy purchasing we -- which we had not seen before, not last year or the prior year. Consumers actually wanted contracts of -- in the short term. And now we see that they are really choosing long-term contracts from three to five years.

Obviously, there is, as you've said, something in 2015 that is going to be regarding liquidity because the scenario might be a little complicated due to the recovery of reservoirs and that is going to press the free market. We see that there is an uncertainty matter relating to the system's conditions. So we have a free market for 2015 at a little bit higher price, but this price is going to be diluted along the next year. It is a fact that the level of the price where the free market has changed, it's a little bit higher, and this has been seen both in purchasing and selling Energen. And once again, we would like to stress the rollover of contracts.

We believe that prices for consumers, some of them are already closing their operations. Some consumers that in 2014 may be expected the definition of the scenario, they are already working in a preventive manner, closing contracts at the long terms, as we have mentioned.

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

And to add to Fabio's comments, it's important to say that for CPFL, we have focused in commercialization trying to analyze that market of special consumers, those that are going to use collateral of energy or renewable energy. And the project that I have mentioned of Sao Benedito and Campo dos Ventos, these are projects in which the volume ticker is CPFL Brasil; so already changed in the position there for renewable energy in the long term, it's going to benefit as a supplier -- it's going to be benefited from long-term volumes.

FINAL

Bloomberg Transcript

And of course, as we've said before, we did have reductions in the energy price in the last two years. Truth of the matter is that it is increasing. We have reported Paulista, and now it's showing increases, and there is still an amount to be transferred considering the amount from TJ [ph] from last year. That is going to increase the competitiveness on -- of the free market in this special area and where CPFL has a very positive position to take advantage of that market. Thank you very much.

Operator

The next question is from Henrique Peretti, JPMorgan.

Q - Henrique Peretti {BIO 18446440 <GO>}

Good afternoon, everyone. I have two questions. First is a follow-up to Pedro's question. Can you give us a GSF outlook for August and September and up to the end of the year? The drop in consumption, is it providing any changes? Can you give us any figures? And the second question is about the renewable of distribution concessions.

We know that everything is taken now due to reservoirs, the other distributors and now is also concerned with the fourth cycle of tariff review. Do you have anything new about the concession renewal? Or is that going to be postponed to next year? Should we expect now to work on that in the transparent way and to follow up the process? Is that going to be delayed? Or is that going to be in a rush, as it had been done in the past? There was not much transparency. Thank you very much.

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

About GSF, let me turn to Karin. Please, Karin.

A - Karin Regina Luchesi {BIO 19664924 <GO>}

Our expectation is a higher GSF that could reach 10% in the second half of the year in average, and that would provide 7.5%, almost 8% GSF in the year. That is our expectation. And about what you asked in terms of concessions renewals, you are right. NAL's agenda is totally taken. Whether by the profits of the fourth cycle of tariff review, whether with discussions on regulatory repairs. But I believe that this is only going to come out next year. I do not foresee that this process is going to be surprising.

All interactions that we have with the regulators are -- tell us that this is going to be an easy process, that renewal is certain unless there are any financial compromising on the distributors. Therefore, we are going to have an opportunity of a possible consolidation. But I do not believe that we're going to have, first, any surprises that is not forecasted because of the process then would be much more difficult. And I assure you that it's going to be totally transparent and timely.

Q - Henrique Peretti {BIO 18446440 <GO>}

Thank you very much.

FINAL

Bloomberg Transcript

Operator

Our next question is from Mr. Sergio Tamashiro, Safra.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good afternoon, everyone. Wilson, in your last presentation, we see that there are increases of installed capacity in a robust system. But we end up seeing every year that there is hydrological risks, and this year, I think, the situation is more serious. But also, we had that in 2010, 2012, 2013. That is -- we have always had that hydrological risks, but, at the last minute, it rains.

So my question is do you have that installed capacity but the assured energy is not overestimated? What do we do in that situation? What are your solutions? And my second question now, coming close to elections, what are the main flags that you, generators, distributors and commercializations are -- that you're taking to the main candidates? What are your main proposals to changes and improvements in the sector?

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

Tamachiro, thank you for your question. And those are not easy to address. Let's -- let me start by what we are advocating. Obviously, what we have said about the large distributor is what we always advocate. No matter what's going on, we understand that there is an important room for the process to be as transparent and replicate if possible by all agents, where we would have lower level of seasonality. That has to happen in elements in which math would find problems in occurring.

So I would say that starting by situations in which we see that there is room, for instance, the regulator in the last movement, we removed regulatory risk, FX risks, change of the medium and average profits that were not adequate. But to choose the mean and the average, it was important because investors invest on a daily basis, not on an event of a year. And they might avoid an investment in a year when you have FX variation or interest variation that is too high.

So it is incomparable to use the average, because we are subject to the average of the whole period. And that's where they invest on a daily basis. But if we discuss the FX rates, those remove consistency from the process. And I doubt that if they were decreasing the walk, those would be removed. So obviously here, there is an important discussion with the regulator to bring it back. On the other hand, it's fundamental that we have a more transparent procedure regarding the assessment of remuneration basis of assets. As you know, there are some agents who had write-offs that were important.

And the write-off and whether my criteria of accounting is too so simple, and then there are not going to be any parallels on its base and it's not going to recognize what you have seen, there is a problem there because it was not considered investment, it was considered expense. So those was -- they reduce allowance. If we have any of these elements, that fund left the cash of the company, and it should be considered at least an expense. And we should have supervision on that, that we do understand, therefore, that there are important improvements to be made in the base assessments so that it is even

FINAL

sounder. And finally, in the very broad terms, if we consider other avenues or revenues for sharing or even loss trajectories, we understand that those should be object of further investigation. Other revenues, obviously, that is part of the privatization process that we had out there.

And on the other hand, as I said, some intentions to reduce losses and other processes that we understand that in the math model, they have -- are squared in the normal curve, positive curve, but obviously, as all processes on the end, they are squared, it's not the same. So here -- there -- that area, we should have a process to identify what happens. We see some processes here where we already have the lower loss of the industry. And we still had a math loss that was even smaller.

So we have to have that to keep what we have already got so that we do not bring the company to a scenario of huge losses, and that ends up being un-payable. So in terms of distribution, that's what we have. For generation, there are improvements to be made. I will not be able to go into details of all of them here, but it is true that we are having a displacement of that GSF.

That business is being higher for hydraulic generators due to a set of criteria that some of them are correct, so the GSF, because we had the thermal dispatch and the merit order, there's nothing to say about it. But of the merit order, then we should question. So here, we have a set of improvements, and we are discussing those in our associations, and very briefly, we will be able to bring that to you. But in terms of improvements, I feel that from all candidates, a real interest to know our proposals. No one is interested in having a stressed situation like the one that we are living now.

It's also important to recognize that we now have a very a typical moment. On the one hand, we had 1/4 of the generation that was not submitted or was not willing to take part of the a 0 or a -1 auctions, and I'm not questioning that. I'm just saying this is atypical. The process of concession renewal happens about every 20 years, and at this volume, just in this moment of 2015, we see something very atypical. And second that, all this came along with one of the worst moments of the hydrological risks.

And so that's -- I would like to say that it is very rare that you are going to have all distributors exposed and all of them with such a high demand of thermal dispatch. If we do not recognize that this is a rare moment and really an atypical moment, you're going to solve problems that are not going to happen in the future.

So our peers in distribution and generation and commercialization, everyone has to work together so that we do not try to solve something that should not happen with the frequency that is happening right now. The moment really requests for adjustments, contributions so that investments can happen, and we have enough supply of energy with larger reliability and the prices as well.

I think I forgot to talk about the flank. I think it's something important to mention here about the tariff aspect. I forgot to mention it. As you can see, part of the solution rests in

the recovery that the market may bring. In addition to the supply that you can offer, there's the market demand as well.

So the action that we had last year with CDE and this year with the ACR occurs because we don't have an instrument to sensitize the consumer that when we have such an atypical moment as this, you saw that the industry reacted in the right direction in terms of price. And that will replenish the reservoir but not the captive market because they don't have a price indication when a typical situation is occurring. So it's important here for us to have some type of tariff specificity signal or it wouldn't occur all the time. It would be a specific occurrences, and it would be essential to each of them to have this tariff signal so that the increase, the temporary increase on tariff, when there's the thermal dispatch in place could be an instrument for liquidity to be verified by the concessionaires and maintaining the liquidity of the system. And the consumer will be able to react by reducing the consumption or rationalizing their consumption whenever there is the indication and only when there's this indication.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. But then you -- what you're saying is that today, in my estimate, in my perception about the capacity and the estimates of assured energy, this is more on climate-related ATP?

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

Yes. That is my understanding.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Great, thank you.

Operator

Excuse me, our next question is from Pedro Manfredini from Credit Suisse.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Hello, it's me again, two more questions from me. We're always used to seeing the payment of dividends in the second half by CPFL. Are you expecting the payment of the BRL6 billion that the government has promised? Is that -- which is preventing the announcement of dividends now? Or are you going to make that announcement in the short term? And I'd like to see your understanding as far as the distributors, the conversation with the agents for the A-1 to the end of the year, while distributors have to re-contract a large part of the capacity? I just wanted to understand the discussions for this bid.

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

Great, Pedro. And in terms of the payment of dividends, you're right. We also make this announcement. We have not had any conditions of appreciating this topic with the board this half because as I've said, we've had the indication of the possibility of accounting in

determinate way on Monday. So this will be analyzed by our board on the last meeting and then we will make the announcement. As far as the A -1, I'll turn it over to Fabio, and he'll be able to detail this for you.

A - Fabio Rogerio Zanfelic {BIO 20938488 <GO>}

Pedro, about A -1 in our evaluation, we are considering what will be included in renewal of concessions. In our evaluation, it should be enough to cover the needs of distributors as of 2015. We're evaluating internally the aspects that part of it will enter in January, which is the Energen -- 1,000 or 1,400 megawatts as of January and the remainder throughout the year. So there's a need in the first half that we're evaluating, which suggestion we will make to discuss the issue of the payment of A -1 for the first half. Anyway, our view is highlighting that the quarter covers all the needs that the distributors have for 2015.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Excellent, thank you.

Operator

We now close the questions-and-answers session. I would like to turn over to Mr. Wilson Ferreira, Jr. for his final remarks.

A - Wilson Pinto Ferreira {BIO 1528124 <GO>}

I would like to thank you, all, for your attention to this conference call. Once again, I think there are challenges to be addressed. In the right time, there will be a series of adjustments; other discussions in terms of distributors; the transparent process of the fourth cycle of reviews. I believe that we will have a positive interaction with the regulatory body in the enhancement or perfection of the rules that can provide greater transparency and reproducibility that's what's essential to actually receive investment.

We've recognized that over the last two years, due to this atypical aspect that I mentioned, either at the time of hiring from involuntary exposure and thermal dispatch, requires a series of improvement to properly charge the generator that was attributed to that and to also have a proper adjustment to the market, the whole market, not only the free market, making it clear that it's in atypical moment, prices are higher, and the market has the opportunity to react by reducing consumption in the proportion that the price will cause an impact in the market. That's the second point.

And overall, we're telling you and sharing that in terms of risk for this year, the risk of a compulsory consumption reduction, that there's no reason for that to occur anymore. I believe the institutions that normally speak on that are aligned. It's a challenging moment, but it is not a situation of risk. And this process is only become -- going to become leveled once you have rules to probably charge the agents for their involvement but also especially simulate investments.

Referring to what Sergio was saying, I believe that we are at a pre-election moment where we had the opportunity to show that most of our challenges as Brazilians will be

FINAL

solved with more investments in infrastructure, more robust investments than what we've been verifying. Brazil has a series of needs that could attract capital, and we need, especially the energy sector, that most attracted capital agents, both in and outside of the country, could be used as a display window to attract more investments to other sectors, infrastructure sectors.

That's why I'm optimistic whichever government we will have, they will have special attention to these moves so that the example of the electrical sector and the recovery of the electrical sector by attracting capital, having this tariff reality, recognizing that the increase of 15% to 20% in an election year is not common and it has been occurring. So I would like to say, especially that the decision of not charging the consumer with a blow and to use CDE or ACR, and these are important instruments to use to be able to maintain the capacity of growth for the Brazilian economy.

So we are very favorable to this movement. We participate in it. I understand that the worst is behind us but there is construction to be done in CPFL, and each of its areas and businesses have been able to participate and formulate the necessary adjustments for us to, once again, become the good example, the role model and to have those infrastructure inspiring investment in other areas. So we are particularly optimistic for the upcoming months. Thank you, all, very much again for your attention to our conference call.

Operator

CPFL Energia conference call is now over. We thank you, all, for your participation. Have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.