

## Y 2014 Earnings Call

### Company Participants

- Wilson Ferreira Junior, Chief Executive Officer

### Other Participants

- Andre Komatsu, Analyst
- Carolina Carneiro, Analyst
- Sergio Conti, Analyst

### Presentation

#### Operator

(Starts Abruptly) (Operator Instructions) I would like to remind you that this call is being recorded.

Before proceeding, we would like to mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of CPFL Energia's management and information currently available to the company. Forward-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions as they relate to future events and therefore they depend on circumstances that may or may not occur. Investors should understand the general economic conditions, industry conditions and other operating factors could also affect the future results of CPFL Energia and 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, everyone; analysts, investors, I would like to thank you for your attention and for joining us during the fourth quarter of 2014 conference call. And during which we will be talking about the status of the year of 2014. The presentation is slightly longer, that I will try to make the presentation quickly covering all the elements that are required by our Investor Relations area.

I would like to talk about the current situation of our reservoirs and in this situation we have 30.1% prospective for the end of the third -- at the end of March, on the 24th, we

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have 28.3. But I think the important point is that we are recovering, in terms of reservoir levels.

Nevertheless, in our evaluation the situation is too quite critical. In spite, we do see an improvement in natural inflow of energy as you can see on the lower box of the slide, we started the year with 54% and it went to 61 in February, we have reached 73 in March and today the outlook of the national operator of the system method (inaudible) recovery is happening. And as we will show you later on is that the -- perspective is that we will not need a compulsory reduction in consumption over 2015.

On page number four, we show you the improvement in the rainfall conditions. Thank you. We are talking about the soil of our reservoirs as well. So you can see that in January, February and March, the improvement is shown as the blue on the map, mainly between Sao Paulo and Minas Gerais in the state of Goias, which is where we have over 80% of our reservoirs. So you can see that there is a major improvement in these areas and you can see this also in the ENA or natural inflow energy, where especially in February and March, we saw important improvement.

So this is relevant for what we say on page number five, and I would like to take the opportunity to clarify something that we said last week. In green, we have the official load forecast of the National System Operator and here at the CPFL we have been working with red lines as you can see here on the chart. That black dots are the real ones that happened in January and February, and this led ONS in their four month evaluation to adjust the curve that you can see the dotted curves in black.

But yesterday, according to the ONS, who are the National System Operator, we got closer to the position of CPFL, 66.7 than the original ONS, which was 68.4. So it is important to say this because at the start, we had a forecast for growth of the loads, as you can see and we are working at CPFL with minus 3% vis-a-vis this figure that is to say, a stable load or steady load vis-a-vis last year 0.2%. So my statements regarding the drop of 3% were not regarding last year, but regarding the forecast for this current year established by the ONS.

So having clarified that I would like to ask you to turn the page, so that we may talk about the 2015 outlook; we should be closing March in 30.1% and if we look at the blue curve it is plotted with 84% and 88% is the figure by the ONS for April. So 84% it would be 36.8 and it should be slightly higher than this. And the important point here is the fact that if we have an ENA of 84% during this period up to November and it is important to say that the probability of it being lower is only 20%, which means at 80% is the probability of being higher.

And the ENA for the dry season as you can see has been higher, and on the left on the lower part, we can see that ENA of the national integrated system and none here in the last 10 years lower than 84%, quite the opposite the average is 104% in the Southeast and Midwest, which is a 105, the average, we had last year only 80% of storage, but in the whole interconnected system we had 97%.

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So this is the reason why we believe that there will be no need for any kind of rationing. And in fact, with this new load and with this potential and with the natural inflow energy, it could be even slightly higher than this. So, the first thing I want to clarify that we are not concerned whatsoever, regarding the system itself and we believe that we could reach 15% or more.

On the next page, page number seven, this show you that we are operating in a more difficult situation. But there is an important perspective for '15 and '16 of about 6,500 average megawatt hour new ones, because of the startup of Jirau, Santo Antonio, Teles Pires. The ones that are already in operation but adding new machines and still this year with Santo Antonio, Ferreira Gomes and other HPPs and also SHPs and mainly wind generation. For the year, we have about 3,500 megawatt and almost 3,000 in 2016.

As you can see on the right, this further increases our over supply through the conditions from now on, especially are more adequate, they are better. And we look at the load here as of now including the oversupply in the system. So having said that one way or another we are making clear to our investors and analysts that we do not believe in a rationing scenario. And we believe that there will be steady load and increase in energy available due to these new megawatts that I have already referred to.

So on page number eight, I think its right moment to recognize the advances in this sector, so we had the tariff review, the extraordinary tariff review already. And the total coverage of the CDE quota, including the deficits that had accumulated in the past, we had the recognition also of the whole purchase of energy of Itaipu and the adjustment auctions with the higher price and availability agreements with the green flag, and a reset of all this go, so that they no longer have problems related to cash positions.

There is a major evolution in terms of the tariff flags as well. So all the additional cost with the new amounts or the new value of the yellow and the red flags you can see here. And this is important because if these costs do not happen the consumer will not be charged for this amount and the discos do not have to keep additional tariffs or under tariffs in order to cope with the problem. So the use of the flag to cover de facto all the real cost of thermal generation and the exposure of the stock price is something fundamental. And we recognized the importance of this evolution in the tariffs.

And now talking about distribution companies, we would like to mention what was approved a couple of days ago, 3.4 billion in the third tranche, so this covers November and December settlement. And good news is the extension that we achieved for one of the tranches of 24 to 54 months, so there by benefiting the tariff situation for the next four years covered by this tariff.

And as you can see on the lower part of the chart these decisions impact tariffs at about 39%, according to the distribution that you have on the slide. So in this period, we have a tariff impact which is relevant as far as consumers are concerned, maybe when we compare this to inflation, so you can see the real increase of 32, because inflation is seven.

So now on page nine, we talk about distribution companies and the situation is totally under control and regularized that still we have an important agenda to be developed with the Ministry and with, well, regarding the GSF.

So, on the slide we point to an expectation of 16.8% GSF, which is quite high amount higher than last year. It was lower than 10% and this stems mainly from the dispatch of TPPs, data base and the higher number of intermittent loads especially wind loads displace it from hydro generation and the effect of the expectation of load increase which was lowered so this is also included here. So in the light of the new market and the physical guarantee of HPPs, we already point to a potential of GSF around 16.8%.

And it is important to mention also that we see a natural concern on the part of the government, be the ministry or the ANEEL itself. And this is something that has to be evaluated and this could create difficulties in terms of investments for hydro generations in the future or price increases. So everybody is very much aware of that and we have been debating with the government saying that some of the elements that have been establishing or determining the GSF are not adequate in terms of being transferred to the hydro generators.

If we want to operate the system in a more rugged fashion placing more thermal generations; of course, this amount should not be transferred to the hydro generators and the same in terms of the use of reserve and intermittent manners displacing hydro generators.

It seems to us that this should be reassessed, we have been very productive and positive talks with the government in this regard and we believe that these alternatives may one way or another be reconsidered by the government.

So that we may achieve improvement in generation vis-a-vis the GSF and it is important to say that as all regulatory model, we have to recognize the advances, the steps forward and we have very big step forwards in the amount of thermal energy that allows us to operate with the lower level of reservoirs and also in terms of wind energy, which is very positive, it's a great potential in Brazil, renewable energy. However, it is causing -- of these elements here. And one way to evaluate this impact would be to place a cap or a ceiling of GSF exposure for hydro generators. But it's important to say that there was a big stride with the reduction of the ceiling price of the stock price. But that there are other elements to be incorporated in this methodology and we are only sharing those that we agreed with. And we're adding that this is something of concern to us. However, we see goodwill on the part of the government in order to tackle the team very soon.

So, now on page 10 we have, although 2014 was a difficult year because of GSF and all the other themes related to cash and the effort of the ACR accounts. We are pleased to share that our EBITDA for the year was practically stable, 0.2% increase vis-a-vis 2013. And we continue to be the biggest private player in the Brazilian power sector, leader in distribution present in the most developed regions of Brazil. We closed the year as the second largest private generator, 3,127 megawatt, 94% from renewable sources and long-term concessions.

And we are also a leaders in renewable energy in Latin America, an outstanding performance, an important recovery in our commercialization activities in the free market, free consumers with focus on special consumers and this has always been a very strong activity for CPFL. And it is important to mention the initiatives of the group to increase surface capacity in themes related to electricity. So our services activity increased in the past and the initiatives that we had in Telco also with the platform able to commercialize fiber optics for operators, Telco operators.

On page 11, just to talk about each one of the segments; distribution, a drop of 12% on the EBITDA, basically this was because of the effect related to the conclusion of the implementation of the third cycles tariff review. And it's important for the company to get into this new cycle with high efficiency and this can be seen here on the lower part, the operating per CSV. And in the theme of distribution, it is important to say or to talk about the quality of the concession area. The market establishes advantages for the company capped by the EBITDA and you'll see the Firjan index here, 90% of municipalities covered by CPFL, higher than the average of Brazil, the median of Brazil. And this involves employment and income, education, health themes et cetera. To each one of these themes apply to the distribution market of CPFL, you can see that they are higher than the median and 42 are among the one with the best position among the almost 6,000 municipalities in Brazil, the same happens with the indicator of economic dynamism which based on GDP, per capital GDP industry added value, industrial companies and 83% of municipalities of CPFL are higher than the median of Brazil on 17% are among the top 100 in Brazil. Of course, we bring a lot of benefit to our concession area and the efficiency of our company from the viewpoint of productivity and quality of service is also.

On page 12, just to show the vitality of this area in the last few years, as you can see the concession area of CPFL is more or less 10% higher than the average of Brazil, showing the average of four last years. 3.3, the growth of Brazil and in our concession area, 3.6% increase in our concession area. And the potential of the residential markets more specifically in the upper part the total market the lower part residential market has the characteristic because of equality, mainly because of tariff and tariff density, you can see that the average of Brazil growing by 5.3 and CPFL 6.2.

So the advantages that I mentioned are to a great extent mentioned here under regional advantages, especially in the stage of Sao Paulo and Rio Grande do Sul. And here we are talking in an objective manner almost 50% of the GDP of Brazil is covered by these two areas with all the advantages that are mentioned here on this map.

Now page 13, generation; in spite of the GSF last year, in spite of that we were able to grow 3.1% on the CAGR of the last four years as you can see the CAGR was 22% a year, 3.1 last year, very much impacted by the GSF. Here, CPFL very always keeps its attention focused on PMSO. The operating costs applied to the physical guarantee in reais to megawatt hour, you can see that the figures of CPFL are the benchmarks for the sector, 24% lower than the average for the sector and 10% lower than our first competitor. So we have been dealing with that extensively and we have been very effective in this regard and we make it a point of sharing this with you.

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So as you can see all the figures of our operating efficiency here, it's important also to mention that they are long-term concessions. The first ones mature after or as of 2030 with a very good diversification of sources, we can see hydro, wind, biomass and even thermal. So we were very careful to have this kind of base, generation base. And because of that we are the player with this lowest volatility possible.

Now going to page 14, reporting the important commercialization and services vis-a-vis 2013 for us and for all the agents in the sector was a very liquid market and we recovered in 2014 over 250% increase vis-a-vis 2013. And with an important strategy put in place, especially for free customers, especially, special free customers and together with CPFL Renovaveis. So the growth in our consumer or special customers' portfolio as you can see on the lower part of the chart.

We understand that the company has been very focused on this market that has the potential of going forward vis-a-vis what we have today and this is also reported on the lower part of the slide, 1.9 giga today and it could grow an additional 6.5 gigawatt.

And it is important to stress as well that our operation is matched with the alternatives of value-added services and client relationship, energy efficiency and the array of services that we offer is much bigger than the price of energy itself. So it is the main reason for this increase in free customers, 290 of them receive CPFL services.

Now on page 15, we show you the highlight for Q4 2014. The results are characterized by increase in sales in the concession area of 2.1%, highlight residential and commercial. Also accounting of the balance of sectorial financial assets pursuant to CVM resolutions, 831 million impact on the EBITDA and this address an institutional action by the company that we led over the last three years in terms of having regulatory assets and liabilities in a transparent fashion mentioned to investors and analysts and we were able to achieve this in commercialization and services as I said, a major recovery. Investments made last year, higher than 1 billion; in Q4, 300 million. Downgrading to AA (bra) by Fitch Ratings and this determine the measures that were taken afterwards, but our shares are in the ISE for the 10th consecutive year and CPFL generation won Lot I of transmission auction and some important recognitions.

The company was classified as a Member of Sustainability Yearbook 2015 by RobecoSAM, which is responsible for the review of the Dow Jones Sustainability Index and also the Exame Sustainability Guide in 2014, also recognize CPFL for the 11th consecutive year.

The next page, energy sales in the concession area; As I said before, growth of 2.1 overall with a 4.9% increase in the captive market of distribution and a drop of 4.4% in the TUSD, which are the three customers that we had and unfortunately, yes, last year we had the continuation of a lower performance in this area, sale by consumption segment, especially allowed for the commercial area 5.8% in residential and a drop in industrial, 3.5%.

As I said before, when we look at the installed capacity, 38% increase in our renewables energy, the delivery of project and our participation higher than 51%, this is 915 additional megawatt, to our position reaching 3,127. We continue to grow more than Brazil in total

energy consumption and the highlight here is the Southeast region, a region that where consumption dropped and we grew 1.8%.

On the next page we see the energy sales for the year of 2014. You can see a drop in the free market of 3% and increase of 4.9% in the captive market. Captive market, we have a highlight here for commercial sales to the commercial area of 7.9% and 7% residential with the drop of 3.4 in industrial. The market profile changes slightly. You can see here in the pie chart, 41% industrial; residential 27, commercial 17%. In concession we grow a little bit more than Brazil 2.6 vis-a-vis 2.3 and the highlight here is for the Southeast.

Just to talk about how dynamic the region is that showing the theme that brings concern to us, which is industrial consumption. We are talking about 3.4% drop in industrial consumption and this is aligned to a drop in industrial production of 3.3%, highlighting capital goods dropping 9.6 and consumer goods, durables minus 9.1; so one way or another, this drags down industrial consumption.

And you can -- and this is made clear here with the lower use of the capacity getting close to almost 81% capacity and our average is close to 84. So, the drop in the last year, mainly in the last few months and beginning of this year brings concern to our mind. And the only plus here is that there is optimism on the part of the industrial segment and we see this because there is a drop in consumption.

However, there is no drop in the contracted demand, so the lower part of the chart shows this. You can see that the demand contracted shows the intention of industrialists or entrepreneurs in terms of production and in spite of drop in consumption it has been -- remaining positive and there is a drop of 3.4% here, because of the installation of new plants or confirmation or contracted demand by already existing clients, we have a growth in 2014 of 2.3%.

And then I turn to page 19 with results for the fourth quarter. Now, let's see that from now on the differences between IFRS and adjusted base are not as significant. But we had in the fourth quarter, thanks to the accounting of the financial assets and liabilities for that is what is determining the main variation of the IFRS vis-a-vis what we call the proportional consolidation for generation that takes in a real participations plus the sectorial financial assets and liabilities and also nonrecurring items. We have here a growth in the IFRS of 42.3% in net revenues and EBITDA of 47.2% and net income of 45%.

And we know that this is thanks to the fact that we are bringing in (inaudible) factors in this quarter. We see here, especially in the recurring items we are talking about a revenue increase of 28%, a drop in the EBITDA of 9.7%, a 100 million, 929 million and also net income drop of 25% that represents BRL280 million.

We can see in the bottom chart the reason of these differences between the IFRS and the adjusted base. The effect of that proportion consolidation for generation and also because of the IFRS that takes out 52 million in the company, the sectorial financial assets and liabilities added 325 million in the sectorial financial assets and liabilities; that are exclusively related to the fourth quarter of BRL831 million.

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And then we have the effects of GSF 145 million, which are positive with a sub-total of BRL686 million and that is the major difference between the IFRS and the adjusted base of our company adding to 413 million of EBITDA. And then we have 929 in the adjusted base in EBITDA and 1.342 in the IFRS. And we have a non-recurring factor, amount of 447 million and in the bottom line we have a 189.

So now, let's turn to the differences between EBITDA and the net income of the company. We will now see the results of 9.7% and remember that we are here have assets and non-regulating assets that we are comparing on the end. So we do have that 40% growth. And that middle part we have a growth of net revenue of 28.5% and 979 million. And we can see that we have 721 million some distribution, remember this sectorial financial assets and liabilities were up BRL325 million, commercialization and services 229 million an important investment vis-a-vis 2013 and conventional generation of extra 57 million. So we had less wind in renewables in the fourth quarter. So we have a drop when we compare it to the prior year.

On the other side, we had an increase of 46% in energy costs and charges and distribution 642 million, commercialization, because we had a larger volume of sales, it was 149 million. We purchase more, but we sold more at a higher price. And in conventional generation we had a consumption of BRL71 million and CPFL Renovaveis, 11 million. That is basically the effect of hedges done for the quarter and also the GSF that we have verified.

And then return to the final part to explain an increase and PMSO expenses of the company, up 208 million, an increase of 40% and I think it's important to say that almost half of it is related to acquisition of fuel oil for EPASA and also a growth in the services line that they have associated revenues. So, I would say 86 million of those 208 million are related to that and we have other 70 million that are related to accounting issues in different -- a measure that we have been taking. So a profit-sharing program provision 15 million.

According to ANEEL's new instruction we had to do capitalize personnel costs, 13 million; fines asset reclassification that are now part of the operating area BRL26 million, and allowance for doubtful account 17 million. So we have here from those 208 million, 75% have been explained due to a non-recurring events in these two first lines.

In fact, we had an increase in expenses BRL50 million and which are related whether through Collective Bond Bargaining Agreement of 10 million, legal and judicial indemnities 8 million and an increase in material and services of 27 million, distribution 19 million, and generation 9 million.

I think that is important to see now on page 21, the performance of our costs. We have a cost growth in nominal values from '13 to '14 of 7.4%. And when we compare it in real terms, we had an increase of only 2% and if we see since the moment when we have deployed all these in 2011, we had a drop of 15.8%. And the company costs in real terms when we compare to IGPM that has increased 18.3, 8.6 decrease in personnel and in MSO reduction of 21%.



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Now let's turn to page 22 to follow the net income, same thing, if we analyze the middle part of the chart, we see a drop in 25% of net income and that is explained by a reduction in the EBITDA of 9.7%. We just went into the detail, those 100 million, an increase 29 million in the negative net financial result. And here we have several issues, are the CDI increase of 9.4 to 11.3; 70% of our loans are related to or indexed by CDI. So there was an increase of 45 million. The exchange variation for Itaipu, remember that the exchange rate has had an important -- has played an important role lately.

Restatement of escrow deposits 74 million. The effect of mark-to-market and 4,131 operations and non-cash effect of positive 80 million. The fines reclassification that I have just mentioned, it went out of the financial area, it went to the operating area, so this will represent a 20 million; restatement of concession's financial assets 10 million and there's effect of other measures that represented 7 million. There is an increase of depreciation because we had assets coming in.

And renewable generation and distribution; and finally thanks to a lower EBITDA, we had a decrease of income tax and social contribution. Therefore, we explain the drop in our net income of around BRL97 million.

On page 23, we have an overview for 2014 results, so in the IFRS base we had a growth in 20% of net income vis-a-vis 2013 reaching 16, 361 million, and the increase of our EBITDA, 6% reaching 3.761 billion and a drop in the net income of 6.6%, reaching 886 million half-yearly [ph] from the EBITDA to the net income and that is to the increase of the negative net financial result. So, now analyzing the adjusted results, we have a growth of 14.7% and the net revenue 15.687 billion, a drop in the net income, 11.2% reaching 1.1 billion.

It's important to say that in these results here, we have an amendment to the discos concession agreement that has been formalized already and they include a clause to ensure that the balance remaining of rights, not collected through tariffs by the end of the concession, should be indemnified, and also a CVM resolution for accounting the financial assets and liabilities. That had an impact in the accounting figures of 2014, the EBITDA BRL831 million and then the net income BRL549 million.

Now, next page 24, we see a little bit, this is a summary of operations, we talked about them, but in the distribution we have CPFL Energia distribution, conventional generation and commercialization and services. We had net; our revenues are in two digit growth. As you can see, in the EBITDA we had a drop in 12%, in distribution due to tariff reviews and also due to the ANEEL procedures that determines a reduction in capitalization, but there was an increase or a growth in conventional and renewable generation of 3.1% and commercialization of services, a growth of 255%.

So, the net income for CPFL Energia had a drop 11% and distribution, the drop was 21%, so we also have financial matter common in here. Generation, we had a growth in the EBITDA, but also that was due to a more serious economic situation, so there was a net income drop of 26.9% for generation. The company concludes 2014 with part of its results coming from distribution and the other part of the results 44% coming from generation

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and 7% commercialization and services, very well balanced in the regulated market, which is a competitive one.

And now, I will turn to page 25, the proposal from the Board of Directors and from the officers that the result should be converted to a statutory reserve of BRL555 million that proposal of reversal of that statutory reserve is here and through increased capital by providing stock bonus. The proposed is 3.1945% and the ratio of 0.0319451 new shares, of the same type, for each share there to shareholders' stock. Our total capital stock that have 962 million shares, would go to 993 million shares, so we are issuing almost 31 million new shares to be distributed to shareholders under article 169 of law 6,404-76. And subscribed and paid in capital stock would go from 4 trillion to 5 trillion and that is important under the macroeconomics scenario, this hydro scenario is still with challenges to face.

So naturally, the company, it has a strategy to maximize value for the right use of the capital structure. And we understand that right now and we can see a little bit further ahead of that within the limits that we need to work between 3 and 3.5 times, but considering the scenario the recommendation that has been approved by the Board of Directors and that is going to be subject to the assembly is to capitalize those values, and so we had an interim dividend of 422 million already paid that is equivalent to 44.5% of net income of the fiscal year.

And that is the decision that comes exclusively to having a more robust capital structure facing a difficult and more volatile macroeconomic and hydro scenario. That is very important to keep the main elements of value creation for the Group.

So now next page, I'll give you some of the prospective for CapEx. That allows us to grow our investments in 2015 in IFRS of 1.5 billion with 1.3 billion in our stake, an important investment in distribution and renewable generation that should increase in 2016. Remember that '16 and '17 will have the remuneration basis of the (inaudible) Paulista and RGE all coming in. So we are breaking down the investments here, but it's important to say that in 2015, BRL1,300 million.

On page 27, we have well our leverage indicators. At the end of the year we reached 3.49; 3,736 is an increase in the nominal cost as I have said this is a macroeconomic scenario. And you can see that the debt is 71% of new CDI, 19% in TJLP and 9% prefixed in PSI, BNDES, 2% of IGP which is the debt with first fund hedge.

The cash positions of year, so [ph] very robust, we have 4.089 billion. The position that we have in here for 2015 2.900 million. So we are very comfortable, the net term of the debt is 3.8 and in the short term 16% of total. Here we just wanted to bring to you, because we usually do that in the beginning of 2015, also acknowledging a more volatile of scenario, the company went to the market and has raised BRL2.2 billion with average tenor of 3.5 years and the average cost of 106% of the CDI, and even also raise at 600 million with average tenor of one year, at an average cost of 102% of CDI, in order to preserve our liquidity and that volatile scenario. So this company has taken serious measures, preventive measures to face any type of scenario that might come along.

On the other hand, there was an increase in operations. We won the transmission auction. The first auction of 2015 Lot I, Morro Agudo. We have a discount of 30%, so the second assets in transmission that we have taken part and we won it, BRL11 million and obviously we are concluding the first undertaking this month. And this undertaking is trust of the grid improvement in Paulista to have an out flow of biomass energy, which is also an important asset of the Group.

Now on page 30, this is the status of our generation undertaking. We do not have anything to deliver this year, but in the beginning of next year we have three assets, wind farm, Morro dos Ventos wind farm, Campo dos Ventos and PCH, Mata Velha all of them we started in the second quarter of 2013, and 2018 Pedra Cheirosa wind farms. These are under construction, they are on schedule and we are already working with approved finance and approved the loans from BNDES that something that is always still under restructure and now so Mata Velha under analysis.

31; page 31, we have performance of our stock market. We had a similar performance to IEE, better than the Dow Jones index. And we would like to highlight this average trading volume from 4,200, reaching 5,500 this year all in 2014 on the daily basis. So that allows us to continue, as I said, been in the tenth consecutive year and which has ISE that has 40 company representing 19 industries.

So, now we conclude the presentation. So just extra information, we also are in the Sustainability Yearbook. And now I would like to open the Q&A session. And we are all available for your questions.

## Questions And Answers

### Operator

Excuse me. Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Mrs. Carolina Carneiro, Santander.

### Q - Carolina Carneiro

Good morning, everyone. Can I have two questions. First, well, I would like to more about the selling price that has been announced by for the auction for biomass and wind. Do you have an opinion about this level price, can we expect an active participation of the players for this auction. So can you please give us an overview on that? And my second question is about CapEx you mentioned related to the discussions between the federal government and the regulator about the problems generators have gone through. So you mentioned several topics that should be considered. So I would like to know what is the possibility of seeing something really addressed and solved this year? What kind of expectation regarding you have about those topics that you mentioned? So that they could adjust the GSF that has impacted the generators? Thank you.

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

Thank you for your questions. About the first question, I think, we have an important evidence that the government is aware of the need of establishing better prices. So that we can attract a larger number of players for that understanding. So hopefully we should have a price that would result better competition. We were very happy about that figure of 207 -- 215 for biomass and 179 for price for wind. We understand the competition little bit there, these figures will attract more players. And so I am just confirming we have a positive opinion about these figures.

Now about your second question, yes, we have been saying that and those two topics are very reasonable, the system would not forecast in that type of situations when you create a reserve, but the reserve has not replaced the main provider or the main supplier, especially what happens to wind energy, for instance, so the idea is that the generators are responsible for paying the price for wind energy right now. So it's not a game with the consumer, where you can win or so in that situation, the generator would not be exposed to the stock price, but rather the reserve generation price. And that this batch out of -- the automated [ph] this batch seems is that you should not be the responsible for that. So we are working on it and we should take part on that working in order to identify improvements that can be done. So we are trying to advocate those improvements along with the government. ANEEL is working on this, the ministry that is -- also is working on it. This is important for the generators especially the generators that have now turn quoted.

And it is also especially important to the fine future prices for HPPs and the minus 5 auctions, because if there is not a solution to those problems in that period of time. Then unfortunately, we really have a loss of interest from private investors for the HPP generation. So that's why there is -- I believe there is going to be a task force between entrepreneurs and the government to acknowledge all of those two topics I mentioned and eventually to establish a cap.

So that we clearly have more competitiveness in the hydro source, which is 65% of the generation that we will have to come into the country in the next years. According to EPL [ph], yes, we know that our main source of generation, energy generation in the future will remaining to be the HPP, because that gives us low price and higher stability. So I believe that we are going to have and I don't like to say date, but it's reasonable to think, maybe, saying we have talked about April. But maybe 30 to 45 days to have a development of solutions.

Solution that could mitigate those effects for agent that is important not only for agents, but also for the financing agencies and for CP and also for the society itself, because when we remove something that is disturbing or it's calling financial disturbance, in the financial agencies we are able to keep the level of activities in the HPP that will be auctioned in the future.

**Q - Carolina Carneiro**

Okay. Thank you very much.

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

Thank you.

## Operator

Our next question is from Mr. Andre Komatsu, RPS Capital.

**Q - Andre Komatsu** {BIO 19794487 <GO>}

Good morning.

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

Yes.

**Q - Andre Komatsu** {BIO 19794487 <GO>}

My question is related to the company's leverage and also the possibility of an M&A and the last few days we have seen a movement of listed and non listed companies and also disco companies in Brazil and what is your opinion of that movement? Is there a short term or medium term possibility of anything happening and how are you preparing yourself for eventual opportunities, considering that the regulatory framework is going forward for distribution renewal and all parameters for regulation? How do you see that and how are you preparing yourself for that; do you have any interest in new opportunity?

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

About leverage, I think that what we recommended here allows the company once again to operate with the needed stability. So that is the first thing that I would like to say, leverage is something that we are paying attention and I believe is also under the radar of all players in the market, but that's not going to avoid the company to be interested in alternative to growth, because we do have a support from the financial system and we have a possibility of increasing capital and so on, but do we think that the current moment such as in cost that the market now is more for the buyer in the energy sector maybe because of a higher supply or because of some agents being hurt during this period.

We have to analyze our interests but always focus on the value creation perspective, so I'll be very honest, in the distribution area we are always paying attention to those movements and of course those movements could make a lot of sense and to get off to create value; that is a first comment, but as you yourself said, there are some things that are still under definition with concession renovations is still underway, the concession renewals are still under discussion and nothing is going to happen while that is not defined and we are prepared, we are paying attention to the opportunities.

Once again, always analyzing that perspective of value creation and we understand that when you have over 30 concessions being renewed that is a positive moment to see changes in the consolidation always respecting that perspective which is value creation. We are always attentive to that. Same goes for renewable energy generation, we get today there are players showing some interest, recently we had Angevic [ph] but also we have intensive players that somehow have shown interest in high production, but we

are in a position in which we can do assessments and doing the businesses going to depend on conditions that if we can share positive results with the market.

We know though that this program has a delay until we understand the renewable conditions, because and they have to be there up to June. I believe that next month we might have those decisions already.

**Q - Andre Komatsu** {BIO 19794487 <GO>}

Thank you.

**Operator**

Mr. Sergio Conti, Goldman Sachs.

**Q - Sergio Conti** {BIO 3441214 <GO>}

Good afternoon, Wilson, I have two questions. And two are based on (inaudible) statement, talking with the market economies and our economists here what we can see is that everybody is to working based on a scenario of tariff reduction for 2016 for distribution? As we saw an increase in CDE this year, a strong one, economists believe that this will exit next year and that tariff should go down, considering the real devaluation that we see now, the fact that the CDE should have the inclusion of the RDE [ph] account that has not been factored in that is a just very small part of RD&I. And then next year we will have the CR second tranche being transferred. So looking at that it seems like next year we will have another year of high distribution tariff. Maybe higher than what we saw in real-terms this year, and not in the specific case of CPFL case, but if we look at the sector as a whole, we could have an impact in terms of delinquency or losses, and you deal very well with these two things. So my question has to do this scenario. And I would like to know what you think about the scenario, whether you agree with that or not, but in this difficult scenario for distribution strategically speaking how do you see CPFL for the next two or three years?

Would you go more towards generation mainly if the regulative works well, the GSF cuts as is being claimed by the sector? Or do you believe CPFL would be interested in considering natural gas TPPs, of course with the right internal rate of return?

And the second has to do with the currency devaluation in Brazil. If we consider the RTA of March it was 2.8 exchange rate, if I'm not mistaken. And based on what you have been talking with, with the agencies and associations, if we have like 3.30 exchange, do you believe ANEEL will be going more towards an extraordinary tariff review in the second half just to transfer the difference in the exchange rate? So these are my two questions.

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

I am going to start by the second question, okay, about the exchange rate first. February and March, well these were rather small and they have already received very high increases. And as you said yourself with \$1 close to 2.8 and most of the companies that involve consumers they start their tariff rate adjustments as of April. And this is where you

will already have the exchange rate closer to the one that we see today, closer to BRL3, so subjectively I not believe that there will be an extraordinary tariff review in the first half or the second half of the year, in order to build in this difference in the exchange rate.

I believe that companies that have already had their ATR they will have to carry this in their CDE. And I don't believe there is any room whatsoever or additional room to put any additional tariff increases especially extraordinary, everything is this LTE tariff. I believe that this was quite good and the position in the CDE of these companies vis-a-vis last year will be have (inaudible) decrease.

Now going to your first question, I do agree with you that we still maintain pressure on tariff, and the only good thing in the last few months was a possibility of -- it was the agreement regarding the extension of the term from 24 to 54 months of CR account. I am first going to mentioned one case. In Paulista, Piratininga [ph] and RGE which are our main concessionaries, we were working with an increase in real-terms, because of this effect plus 9% this is what the cost would be in terms of including in the adjustment for next year, 24 months of motivation of that CR account.

And with the decision that was made our evaluation is that the figure is no longer 9.7, it is now around 4.5%, which is a major benefit. So you are including a new element, which means that the tariff tends to go up slightly. And still in 2015 you have this effect. And from then on in 2016 and 2017, then we will see a drop in the tariff and that could be 10% vis-a-vis this new level.

So you have going up almost five and then going down about 10 because of this extension. I believe that the tariff will continue to be under pressure and because of that concessionaries, we'll have to pay keen attention to delinquency. This is very important and we have already put this theme in our tariff with ANEEL and with the Director General because the value that we have today in the third and the fourth tariff review cycle, they are still based on a situation that we have a trend regarding lower delinquency and now there was a 39% increase in the tariff vis-a-vis 7 inflation to a real increase of over 30%, so we are paying a lot of attention to that and we have already talked about that with the regulator, we believe this should be further assessed because the behavior on the part of customers will probably be different vis-a-vis delinquency, so we are paying attention to that.

**Q - Sergio Conti** {BIO 3441214 <GO>}

And what about the strategy regarding generation vis-a-vis distribution work in this scenario?

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

As you saw on one of our slides, half of our position is what we call regulated operation, which is distribution and transmission and the other half, I'm not going to say it's non-regulated because of course, there is some regulation, but the tariffs are established once and they are just ordinary adjustments there is no tariff review and there is no bigger interactions about the improvements of the GSF as I said before.

And talking candidly what we have been feeling from the government is the intention of strengthening the regulatory framework. All the decisions being made are being made this way, so tomorrow if I share investment opportunities, be it in distribution or generation, well generation today lacks improvements in GSF, be it in terms of future investments or for maintenance of the level of satisfaction vis-a-vis already made investments.

And for this reason I believe that the government will be working in this direction and if they do that the evolution of CPFL -- well, we are very well positioned, be it in the regulated distribution area or in the generation area, so we maintain our interest in growing hydrogenation. We have been participating in auctions. We are not the winning bidders, maybe if we were -- maybe we had risks more clear in our mind and some of these ventures are very bad in terms of return and we got into renewables and we had an extraordinary expansion in this period, which shows that our decision was right, the rates of returns are higher and the risks are lower, because of the cost of these projects.

Having said that I believe that the next few years will be pretty sure in which there will be a progress in the consolidation of the sector. We do not have a preference either for one or for the other. We are very pleased with distribution maybe well, one of the main reasons is the increase in (inaudible), but we still have some public hearings regarding the ex factor and delinquency et cetera should be dealt with. And we will probably continue with a very big appetite for distribution and right now it's necessary to have further improvements in generation, so that we may keep our outlook for this area and all the opportunities are on our radar screen.

Nevertheless, they have to make sense as far as value creation is concerned, but we do not have a preference for this or for that be it greenfield or brownfield projects, what we are interested is to bring more value to our shareholders and being sure that we will be able to operate these assets in an efficient manner and offering quality to our consumers, so this is our objective. So we need to make further improvements in generation, regulation and after we achieve that we will be paying attention to all the opportunities and we have a very powerful new business development area in the company. We have a VP there and of course, we will be choosing the opportunities that bring a higher return.

**Q - Sergio Conti** {BIO 3441214 <GO>}

Okay. Now from the thermal view point, we know that the company has already published and the company continues to study thermal project, even coal and you have already mentioned this a few times in the south and more specifically in natural gas that was mentioned by the government about one month ago. It seems that there will be a specific auction. Are you going to taking this into account, will you be interested in participating or is it not because of your focus on renewable energy?

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

Just to clarify, we're not going to get into thermal because of GSF. It will be because of thermal energy and not because of GSF. We already have an important experience in Paraiba, we have learned quite a lot and we didn't have the necessary skills at the time, we have already developed them and we are operating TPP very efficiently and when we



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compare it to others, we see that even more clearly. Yes, we are interested and I had already said that hydro generators have to participate in the thermal hedge. It's important for the country to have hydrothermal matrix. And of course the players that tend towards renewables, they must keep a commitment also with TPPs. So this is our case, so our evaluation opportunities in the core area in our natural gas, this is real and it is real according to this outlook of good ventures that may be very well operated by CPFL and of course that will bring additional value to the company. But we are not going to do thermal to solve the problem of GSF at all, because GSF today has characteristics that really shows GSF as if being bigger than it is in reality. So the thermal project can be compared to any hydro project, and of course we will be considering the thermal projects according to this perspective.

**Q - Sergio Conti** {BIO 3441214 <GO>}

Thank you.

**Operator**

(Operator Instructions) The question and answer session is closed. And we would like to give the floor back to Mr. Wilson Ferreira for his closing remarks.

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

Once again, I would like to thank you very much for your attention and for your participation in our call about the results of the fourth quarter of 2014 and share with you our expectation that 2015 is a challenging year. But due to the interaction and the willingness on the part of the government has already shown that there will be major improvements in terms of regulation for depreciation and generation. And we understand that we are on the right track and we believe that what has to be done will be done.

On the other hand, we believe that this year due to the market effect, potential market effect with the volatility in the economy and we don't have a clear picture of what it will be in the future, but we place our best on our concession area, so that we may deliver a differentiated results from the rest of the country. And of course, we will have to operate our assets in a vigilant manner and paying a lot of attention to all the good signs of efficiency and management, et cetera.

So looking very carefully at our course and all the opportunities have to be assessed in depth and very carefully, because there will be opportunities as I said before and in this kind of market a good buyer or a good operator like us, we can have differentiated conditions. So we know this year is a challenging one, but for CPFL we are very bullish. So over the next two quarters we expect to be able to show you the results.

Thank you very much for participating in our call.

**Operator**

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CPFL Energia call is closed. We thank you for participating. And we wish you all a very good afternoon.

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