

## Q3 2012 Earnings Call

### Company Participants

- Unidentified Speaker, Company Representative
- Wilson Ferreira Junior, CEO

### Other Participants

- Alexandre Kudak, Analyst
- Marcio Prado, Analyst

### Presentation

#### Operator

Good morning. And thank you for waiting. Welcome to CPFL Energia Third Quarter of 2012 earnings conference call. Today with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia and other officers of the Company. (Operator Instructions)

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

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions. And other operating factors may also affect the future result of CPFL Energia and may lead to results that 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>}

Thank you, very much. Good morning, everyone. I would like to thank you for your presence and for your presence all investors and analysts during our Third Quarter of 2012 earnings conference call.

And I would like to start with page number 3 where we have the highlights for the Third Quarter of 2012 starting with the growth in our sales in the concession area, a 1% growth. In this quarter we have two days less in our revenue timeline normalizing this.

We will be talking later about that. And this would mean almost 3% growth if we adjust this. And also the commercial startup of the Santa Clara wind farms which occurred in July.

And I would like to mention that due to negotiations with the agency in spite of the fact that the farms are not connected to the network -- to the grid because of delays in the ECG[ph] we're already receiving the resources and billing for the wind farms (inaudible).

I would like to highlight the acquisition of the Ester power plant and we have already published a material of information. And September 28 we paid out the dividend of BRL640 million on September 28.

In the normal course of our activities from the investment viewpoint, BRL660 million in Q3, very much aligned with our estimate, our annual estimate. And I would like to highlight the conclusion of the first tariff review of Piratininga distribution company of the Group with results that are very close to the ones that we had already informed.

The market ended[ph] corresponded to an economic repositioning of 7.7% post tariff review. And the annual tariff review applied on October 28th. And I would like to talk about the maintenance of the credit score of brAA+ by Standard & Poor's for CPFL Energia and for the subsidiaries of the Group at a national scale.

And maybe due to this moment of the market, a very important moment of daily -- average daily trading volume in our stock, both in the Brazilian market and by means of our common stock and also ADRs in the US market, we reached average daily trading volume of BRL50.1 million. And many other recognitions for the Company, for the Group in this last quarter. And I would like to highlight the VOCE S.A. survey about the best companies to work for.

For more than 10 years we have been participating in this important survey carried out by this magazine and two awards -- two new awards. The first one -- where we get the first one, the EPOCA Climate Change Award of 2012. And especially the EPOCA Business 360 degrees. And the Company ranked first in the sector and the third in the general ranking. And the first survey involving not only economic results. But also corporate governance and the treatment that the Company gives to sustainability and human resources and strategy.

So this award is very much encompassing from the viewpoint of evaluation. It is more encompassing than the others. So we were very happy to get this recognition for the first time for CPFL in this list.

And finally, the Carbon Disclosure Project Report that highlighted the Company due to its performance and the disclosure about our CO2 emissions. Very well.

On page number 4, we have the energy sales in the Third Quarter. On the left, we see sales of our accounting release. And we see a 2.7% drop in the captive market and 11.1%

increase in what would be the free market in the concession area, giving a total of 1%, highlighting a very important move here.

In Q3, migration of free consumers. But also the fact that we are comparing these quarters to the number of days billed, which is lower in Q3 2012. On the right we see the volume already normalized in order to allow us to compare the segments.

And this is important. And based on that we have a 2.8% growth; in the captive market 3.2%, in the free market 1.8% growth.

And let's talk about the lower part of the slide, the sales in the concession area highlighting the behavior of each one of the segments. So you can see here. And this is already in a normalized base, 5% increase in the residential market, 5.9% increase in the commercial segment. So both sectors quite strong.

And this moment in our economy is very positive for these two segments. And it is also positive for Discos as this segment is a low-voltage segment. And from the viewpoint of tariff mix, we have the best tariffs in the portfolio of the concession area. And the slight upturn in the industrial segment, 0.8% and the other segments with 2.1% increase.

On the right, on the lower right, you see the configuration and the effects stemming from the 2.4% to 2.8% between residential and commercial reported. And the adjusted amounts that I have already referred to, 5% residential. And 5.9% for commercial.

On the upper part, total energy sales billed by the Company to our consumers reported. We have the 9,795 gigawatt hour captive, a 2.7% drop year-on-year. And 10.3% increase in the free and conventional for outside the Group. And finally the higher participation due to the startup of many plants of CPFL Renovaveis reaching almost 1,000 gigawatts hour.

So in the comparison of this quarter to the same quarter last year, we see a growth in energy sales of 6.2%. So the sales results are important. This is a moment of recovery of our economy. And we will be talking about that in detail later on.

On page 5, we have a comparison. Accounting-wise we grew less than Brazil 1%, vis-a-vis 1.8% and a positive highlight for the southeast. In our concession areas we were higher than the average for the southeast and negative in the south, where we had 1.5% growth, vis-a-vis 3.3% for the south region as a whole.

And on the lower part, as you know, we work with LCA Consultores who draw our scenario. So the expectation is that over this quarter we will see a major recovery in industrial production which will naturally mobilize our sales up by the end of the Fourth Quarter of this year.

On the next few slides, we're trying to give you the scenario that is the basis for our positive outlook for the Fourth Quarter with a whole set of measures established by the

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government that we understand one way or another will drive energy sales in the different segments where we operate.

Some measures to offset the crisis, the reduction of the IPI tax for home appliances and vehicles. And with the maintenance of these incentives, reduction of the IPI for capital goods. And the postponement of the deadline for the tax payment, the PIS and COFINS tax payments. So this is all positive for the recovery of the industrial segment, structural measures that are perennial, investments in new projects and stimuli for the infrastructure.

We're living an important moment of construction of roads, energy, oil and gas. And the Minha Casa Minha Vida program. We will see the volume of financing increasing very steeply.

The new automotive regime recently put in force and the Pre-Salt and the sporting events, we are on the brink of the Confederations Cup and almost getting to the World Cup already. And other measures that certainly will incorporate competitiveness. And the provisional measure 579, due to the reduction of energy cost, will be important mainly for the industry and commerce.

The unburdening of the payroll for 40 sectors, the fall of interest rate and spreads. And more competitive exchange rate being maintained around BRL2 per dollar and a greater fiscal gap allowing us to see a tax burden reduction. And one important fact that we have in this table is the investments in infrastructure.

For the sixth consecutive year, we see an upward curve as a percentage of the GDP and in 2004 it was 0.8% and in 2011 2.4%, three-fold increase. And an important evidence of that, although we have an evolving list than we would like. But the fact is that in 2007 in the competitiveness ranking of the World Economic Forum, we ranked 72nd; in 2011, 53rd; and this year 48th, a slight improvement.

And this is a permanent trend that stems from the structural measures that our government has been taking.

And as a synthesis, on page seven of these structural measures as growth drivers, 17 million new jobs created in the last eight years, reduction of poverty and social inequality, social mobility; 55% middle class in 2011. So expansion of income, credit. And more access to the consumption of durable goods, a real increase of 63% of the minimum wage.

I was talking about housing loans. And we reached BRL80 billion last year. We have already had BRL61 billion this year. And we will close the year with a BRL100 billion being in housing loan approvals.

All this has an impact on household consumption. And in the case of the lower part -- lower right, the number of new connections being made in the concession area of CPFL, which is already a consolidated and mature area. In 2009, we connected 2.2% of vegetative[ph] growth per year.

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This meant a 134,000 new connections in this area which was already one. It was already unified. The eight distribution companies already belong to the CPFL Energia Group. And this meant a 130,000 new clients being added or 2.2% of the existing platform at the time. This year, looking at the performance until September, we have already connected 215,000 this year, 3.3% increase on the client base of the Company.

So certainly you can see that there is a differentiator dynamics here. We will practically connect twice the number of consumers that we connected about three years ago. And on the upper part, this is the center of the slide, which is the outlook for household consumption.

In 2010, Brazil reached the eighth position in the world ranking with BRL2.2 trillion. And stemming from this moment that we are living in the Brazilian economy, the expectation is that we should reach the end of decade, the decade at 2020 in eight years time with BRL3.5 trillion, or the fifth position in the international banking for household consumption, BRL3.5 trillion. And with a higher number of connections. And the real growth that we see basically in the residential and the commercial segment.

So you can see that all these data are -- have a positive bearing on the volume of sales of the concession areas.

And okay. So having said that, let's turn to page eight where we start to talk about the results of Q3. As we usually do, on the first line, we have the results reported in IFRS and we can see a 16% growth in our revenues, net revenues, reaching BRL3.454 billion, an EBITDA growth of 9.2% exceeding BRL1 billion. And a drop in net income of 15.2% reaching BRL321 million.

It is important to stress here. And you track this. And we always talk about that in our releases, that stemming from the application of the IFRS we see an important move and which is not recognized of regulatory assets and liabilities and in order to facilitate the work of our analysts and also to facilitate the management of the Company, we also report the current results of the Company net of the effect of regulatory assets and liabilities such as we had before in the Brazilian GAAP coming from the incorporation of the CVA[ph].

And here we have a better basis for comparison between and among quarters and the real performance of the Company. And according to this method, we see a 14.3% increase in net revenues, an important change in our EBITDA reaching almost 19%, BRL1.184 billion. And the net income would be slightly positive by 6.1% reaching BRL425 million.

And we have a very clear idea of the movement. And on the lower part, on the left, we have the effective EBITDA and here net income in EBITDA, we have a difference in the cost of energy for EPASA in 2010. At the time it was a non-recurring effect recognition that we had.

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And it was highlighted in that quarter and put in a release to facilitate your understanding. And finally, the recognition of the revenue from the low-income subsidy as you can see and some negative recognitions as well coming from the application of the new accounting method for the electric sector. And BRL17 million excess here in Piratininga.

The adjustment in our allowance for doubtful accounts and we became a little bit more conservative in this, we are reinforcing our contingencies of BRL54 million here.

Then we have the positive and the negative effect of the physical inventory of our distribution assets last year. We saw a reversal in our position and this year now we already recognize the cost with this inventory. And this is non-recurrent event because it is recognized in the tariff review of the distribution companies.

And finally, other adjustments, negative adjustments by BRL3 million last year and BRL3 million positive here this year. So stemming from these non-recurrent events for the two quarters, we have BRL32 million positive last year, BRL55 million negative this year.

But we must recognize another two elements which are important. The first one is the temporary procedure of distribution companies, particularly in the case of Piratininga. And the five smaller concession areas that we have in Sao Paulo State, the tariff review -- they didn't have the tariff review in the previous year.

So BRL56 million recognized now. And when we have the reviews, we will be working -- recognizing this over the next few years. And of course, the account that has a more intensive movement and that some times gives us a different idea from what it should in the recurrent -- recurring results of the Company, the CVA or the regulatory assets and liabilities, the BRL141 million favorable to the Company. So this brings to the difference that we mentioned, adding the two lines of the non-recurrent and the regulatory assets and liabilities of BRL139 million added to the result of what would be the Third Quarter in our EBITDA or BRL104 million in the result of our net income.

Very well; so now let's go to page number 9. And evaluating the EBITDA and the net income of the Company. So on the other part we have the 18.9% growth that already includes the recognitions, be it of non-recurrent effects or the regulatory effect. So BRL39 million on the left.

So we reported an EBITDA of BRL956 million in Q3 2011 when in fact it should have been BRL996 million and the same in this quarter. We are reporting BRL1.044 billion being reported this quarter when driven by the recurring movements in the regulation we -- of the regulatories we would have something close to BRL1.184 billion.

So this is just for a comparison between the reported values, a 9.2% growth, BRL996 million to BRL1.044 billion, BRL956 million to BRL1.044 billion. And here you have the growth in the net revenue, BRL476 million to a great extent due to the increase of the net sales to the captive market and the adjustment -- tariff adjustment itself of 4.3% that we saw between the quarters over the last year amounted to BRL53 million.

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We also see the increase in the volume of short-term energy, 20% growth or BRL62 million and a TUSD revenue of 9.7% coming from the movement of free consumers over this period. We see the increase in other revenues amounting to BRL26 million and the highlight, I have already made the disclaimer of the low-income subsidies and this is non-recurrent as I said before.

Then we have the effect of consolidation of CPFL Renovaveis of BRL170 million and Conventional Generation and Commercialization and Services, an addition of BRL66 million.

Deductions from revenues, basically the reduction in the sector charges and the PIS/COFINS tax credit that in the last quarter we already made this disclaimer to you amounted to BRL72 million.

Now, we have an increase in the energy cost and charges, even higher percentage-wise than the growth of our net revenues. So here we see 19.2% increase in the purchase of energy for resale, BRL246 million, a 10.7% increase, in charges, BRL38 million.

In a quarter-over-quarter comparison, it is important to say that due to the provisional measure in January or February we will see a reduction -- impressive reduction in these charges. And it is important to say that the increase in the cost of energy is due to the variation of the value of the PLD from BRL20 to BRL31 and mainly involving thermal energy, the average spot price.

We see an increase of 26.9% in the PMSO expenses on the next slide as the management of PMSO is really in specialty of our Group so that we do not have the wrong interpretation we make a disclaimer in the next page showing that what seemed to be a BRL104 million growth in fact corresponds to a drop of BRL4 million or 1.1%.

So you can see the reported value in IFRS, BRL386 million, a 26.9% increase over BRL104 million reaching a reported value of BRL490 million for Q3. And I would like to stress that these amounts -- we have a whole set of events that should be better clarified.

The first one is the CPFL Renovaveis output curve. We had BRL25 million the previous year and we have BRL49 million now. This the growth of the Company that corresponds exactly to twice the volume of energy generated and installed. So the Company and the growth curve -- and naturally it should be highlighted even further in the comparison of our expenses.

And on the other hand we have the reports of the distribution companies. We had a reversion in the previous year and this we placed BRL2 million in this quarter.

And finally last year I think you remember that because we were at the end of the incentive program to retirement. So we had BRL3 million more totally non-recurrent. And this year driven by the tariff review procedures, we had not only the BRL15 million and the asset write-off and the accounting manual as I said before. But we also made a

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reinforcement of our provisions amounting to BRL54 million. So we made the disclaimer. But in order to be able to compare the BRL376 million, we should compare with the BRL382 million, we generate a 1.1% drop in this cost.

And in order to make it even more clear on page 11, we show you in detail our personnel expenses in materials and services and others on a quarterly basis. So you can see on the first line, on the upper line, you can see the amount, the reported amount on a nominal base.

In blue, we always see our expenses in personnel. And in green, material, services, others. And third party.

So here you can see a 2.2% growth in Q1 comparing Q1 2011 to Q1 2012 and you see a drop here in Q2 and 1.1% drop between Third Quarters, Third Quarter 2011 and Third Quarter 2012. It is true that in this period we see a growth in the IGP-M as you can see on the lower part of 3.7% comparing the First Quarter's 4.4%, comparing the Second Quarter's 7.5% in the Third Quarter's comparison.

So if we normalize based on the effects of the IGP-M, we can see that in the Q1 we see a drop of BRL9 million in payroll and a BRL3 million growth in MSO on a real base.

And comparing the Second Quarters also stemming from the important reduction due to our retirement program, we see a BRL40 million reduction in MSO and zero in personnel, already producing the expected result in the Third Quarter; drop in personnel of BRL10 million, MSO dropping by BRL22 million. BRL78 million reduction overall in PMSO on a real base in a comparison of the nine first months of this year, vis-a-vis the nine first months of last year.

And I would like to remind you that we had an expectation of reduction in the real base of personnel around BRL25 million. And our estimate was BRL50 million due to the application of the ZBB[ph] and something similar to that due to the application of our shared services center.

The year hasn't reached an end. But we have already reached almost BRL80 million in nine months and this expectation of a BRL120 million, we'll be very close -- the kind of result will be very close to that. So this is very important for you to understand based on the IGP-M and inflation that are on the upper range of the targets. So it was important for me to mention this to you.

Next on page 12, we have a breakdown of our net income, we will be breaking down not only the 6% growth. But the drop by 15%. And primarily it stems from our growth in our EBITDA, 9.2% EBITDA described of BRL82 million. And also a reduction of 15% in the financial result on a net basis which was negative at BRL31 million. That's the second bar.

Basically here we have a reduction of financial revenues at BRL62 million. Obviously, there is an important reduction in CDI and the balance of the Company -- the net balance of the



Company, still very vigorous. But lower as a result of the Company's acquisition using part of its cash.

And on the other hand we have a reduction in financial expenses at 7.3% or BRL31 million. This total amount will be highlighted. Actually there is a significant reduction -- a contribution of CDI reduction in our financing account for 60% approximately.

So we have BRL66 million reduction in our expenses -- financial expenses. And also lower expenses with Itaipu billing back to exchange rate at BRL25 million. And consolidation of CPFL Renovaveis. Now we are the controlling party with BRL69 million.

And a non-recurring event related to interest and penalty over payments related to the integration of Paulista network amounting to BRL20 million for the integration of these assets in the net base of the Company for tariff review purposes next year. These amounts have to be considered until October this year.

So that was provision for this quarter. Update of the plant's UDP[ph], we started mentioning this last month. So that's only a quarter-on-quarter comparison. And also increased appreciation and amortization stemming from depreciation of generation projects at Renovaveis, start-up and resulting depreciation. And changes in posting PIS/COFINS as I mentioned last quarter with a new procedure adopted by the Company.

Our surplus is BRL20 million roller for pension funds, it's still a surplus. But BRL20 million lower compared to the First Quarter of last year. And also as a result of the reported income, there is a decrease in income tax and social contribution.

As a result this quarter our net income reported in IFRS is BRL321 million, also stemming from the net result of non-recurring events particularly regulatory assets and liabilities. Our recurring income is BRL425 million this quarter.

Moving to page 13, leverage, BRL12.7 billion at adjusted net debt, 2.94 times the net debt to EBITDA ratio on an adjusted basis by our covenants. Please know this amount is comparable to covenants with 375[ph] and from the moment CPFL adopted that measure in all its financing, that's the result we have.

And this is, well, only on the reported basis our EBITDA. The reported EBITDA with its debt would amount to 3.45 by IFRS. But I'd like to stress that the Company recognizes -- about almost two years ago we mentioned this topic about potential volatility in reported amounts under IFRS stemming from the non-consideration of CVA. So we decided to have all our financing, including this index of the adjusted EBITDA amount which is recurring to the Company therefore at 2.94.

Another highlight is the cost of debt, which keeps on going down, again at 4.5% in real terms, 9.8% on a nominal basis. And with this distribution of 64% in CDI, 27% in long-term interest rate. And already with a relevant stake of 6% in Prefixed. So these are PSI programs with a 2.5% interest rate.

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I'll be addressing that later. IGP amount has to do with the debt we have with this foundation on a long-term financing. IGP is an index of pension plans.

Please note that with this net cash position in late September, now we have BRL2,664 million.

On page 14 we can check the figures more clearly. And now we show the profile of amortization of our debt. The cash amount of the Company shows enough coverage for 1.3 times our short-term amortization. In other words we exceeded 2013. And we paid a little bit of 2014 as shown on the slide.

In 2013 we will have BRL968 million in the short term over the next 12 months. And in the last quarter additional BRL554 million. The mid-term will be 4.5 years, that's the tenor. And in a short term accounted for almost 12% of the total.

This quarter, as you can see on page 15, we also had other funds from BNDES finance for CapEx. And we also had the approval and disbursement of BRL606 million. And under this format, 55% of the amount is on long-term interest rates well spread. And 45% prefixed at 2.5%.

The average cost of the debt is 5.56% per year. And the tenor is up to 10 years maturity. This is very important because it does change already. We're highlighting this by the way because it happens in early October, therefore after the Third Quarter.

But in the first weeks of October you will see a change in the debt profile, CDI accounting for 62%, long-term interest rate at 22%. And prefixed at 7%. So 35% of our debt taken with long-term BNDES funds.

As a result our cash, early this month, was already stronger to something around BRL3.3 billion. And therefore we can have a cash coverage to 1.6 times amortization in a short-term basis, remaining at BRL1.94 billion. And the other short-term debt accounting for 11.6% annually. So slightly below our September position.

Now, on page 16, just reporting a review of maintenance of our credit rating at the Group level AA+. And here we just want to highlight Standard and Poor's rating. Diversification in generation, investment in Renovaveis, the growth in the contribution of this segment for the CapEx in the Group, stability and efficiency of the distribution business. And proper level of liquidity and good access to long-term credit methods used by the Group. So CPFL Energia and its subsidiaries maintain a credit by S&P with a stable outlook over 2012.

On page 17, just a breakdown and report the third cycle of Piratininga tariff review exactly as we expected. The Company had the highest growth in our Group.

We imagine a tariff review with a reduction in EBITDA around 30%. And that's exactly what happened. There was a change in the depreciation rate from the provisional to the final value, stemming from the use of a new accounting manual and also depreciation terms

the normal base BRL2 billion gross -- BRL2.5 billion the net base is BRL1.233 billion (sic; see slide 17, "BRL1.273 billion").

And we have WACC before taxes. As a result the Parcel B is BRL554 million (sic; see slide 17, "BRL574 million") and that's the amount that is interesting to the distribution company. It is based on that that we can have effective results.

Repositioning was about minus 4.45%. And tariff adjustment subsequently let end-consumers over the financial economic repositioning was 7.71%. Not only the tariff review. But also the use of the adjustment for annual tariff adjustment index, close to 7.71% with 1.08% financial component, or 1.5% for low voltage. And almost 10% for high voltage. The average effect is 8.79%.

Next on page 18 we show our segments and a little bit of the distribution segment challenges. Now we have the first fiscal using the 7.5% WACC and that will take huge operating efficiency and a huge efficiency to allocate capital.

I believe this financing that we reported to BNDES is evidence of our actions in that sector. But it is a consolidation moment; Brazil is very poorly consolidated; the three top players have 35% and the consolidated world works at figures higher than 60% or 70%.

And now the market is fragmented. But this is a profile of overall distribution companies. Half of them are large, half of them are small distribution companies with less than 1,000 gigawatts per hour and a higher number of companies in the southeast and south with 42.

One of the challenges for distribution, they have to do with operation and consolidation that will happen in the future.

On page 19 we report a very low effect, virtually insignificant when it comes to the use of PM 579. When it comes to distribution, less than 3% of the Group accounts for renewals at distribution companies with excellent operating indicators.

And the economic effect that these PM 579 does not reach distribution companies, particularly because they are insignificant prophecies to reduce the regulatory WACC. It already happened for distribution companies.

Please bear in mind that owing to the three tariff review prophecies the companies had a reduction of 42% in Parcel B when it comes to distribution tariffs. This efficiency is possible thanks to processes properly done by the agency.

And on the other hand we have two small hydro plants. They were included in distribution companies and they account for less than 1% of our installed capacity and they will be the subject of the application of PM 579 establishing a tariff for these generation companies in order to advertise them.

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Not only we will start to think about renewal of concessions as of 2027 with privatized distribution companies. And as of 2032 or 2035 with our generation companies; we are very comfortable in the Group as a whole.

On page 20, we will show a little bit of our expected effects trying to break them down to three segments, Generation, Commercialization. And Distribution. For conventional generation what we propose is tariff high enough to cover operating costs plus spread, the spread and by incentivizing the efficiency or the efficient operation of these plants.

Obviously there are important challenges in the power plants that are about to be renewed. In addition we also have amortization of non-depreciated values exactly as it happens now with the net base of distribution companies.

As to CPFL, obviously like we said before concessions are on a long-term basis, maturity as of 2032. Our exposure right now is virtually none. And it's important to stress that we already operate with costs that are lower than the ranges proposed as we could see in the release by ANEEL last Thursday. As to free market commercialization, renewable energy is cheaper at least as proposed by PM 579 will be exclusively to ACR. And the regulated market therefore will have lower prices when it comes to buying distribution companies today.

But it still has to be further assessed once we have the approval or not of all the generation companies and then we have a clear picture what might happen to the free market. But if you consider that some of these generation companies could be sold in the free market, it is possible to assume a liquidity restriction, at least a little bit before this anticipation. And the A4 segment which was migrating with approvals or grace periods of six months now will follow the same rule that we had to the conventional segment.

For CPFL this environment is clearly more competitive. There will be pressure on margins. The Company's performance stands out in commercialization and I believe that sales, particularly for the A4 segment, will be more technical. I also believe that companies that have consolidated or have credibility in the market end up by benefiting such as CPFL.

It will be critical particularly for smaller consumers to have good reliability and that's what our Company can add to these potential free consumers.

As to distribution, we understand the rules and requirements for quality performance will be higher. Naturally there'll also be an impact of the change in the contract process and allocation of quotas. We have insisted and we already have statements by the government in the sense that an occasional contract will not reach a surface which is very important to all of us. Just bear with us for a moment please.

### Unidentified Speaker

I apologize to the audience; now resuming, as to distribution we have the rules. The new rules are requirement for quality in the sector that will be detailed further on by ANEEL

and any potential changes when it comes to contract of energy and allocation of this energy, vis-a-vis the other distribution companies.

For CPFL what we expect as potential impacts, these are limited impacts considering have a low exposure for concessions, particularly lower concessions that we'll be doing 2015. I also mentioned that account for 3% of the Company's EBITDA and stronger assets. We have long-term concessions. And the strongest as CPFL believes to be due as of 2027.

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

This is Wilson again. On page 21 we show the main economic impact by this measure. Particularly when it comes to payroll and inflation, you will have a potential reduction of inflation rate, possibly 20% reduction which is something significant to be taken in to account inflation-wise.

And on the other hand it might improve distribution mix. And more sales for residential and commercial segments.

For the industrial activity, the impact of a tariff can have several natures. Some factors are not so exposed to competition and therefore they have to work on the margins again and there are several sectors that may lower their cost to increase competitiveness and gain more market share.

So that's what we expect in the investor segment, increased consumption and lower idleness when it comes to demand contracts. And as of 2014 we'll be maintaining consumption and hiring demand contracts considering further stimuli to the economy that already require investment in the industrial activity.

On page 22, we give you a time-line of the different steps of PM 579 to have already happened. And October 15, the majority of distribution companies show their interest. And the same goes for transmission and some companies --- some generation companies have not fully complied. But in the statement of interest we have unanimous position when it comes to the three segments.

On October 1st, we had a draft of addendums, the release of tariffs and generation and transmission companies were called to sign these addendums. And this is expected to happen within 30 days or until December 1st.

Once we have this posting on December 11th, we have the approval of the TUSD number stemming from this potential compliance. On January 1st, those new generation and distribution tariff will come into force.

And in January 21st we're going to have the final ratification of quotas to distribution companies. And that's an important move. And we have to wait for generation compliance. So we can come to the final quotas to be recognized in an extraordinary decision by distribution companies on February 5th.

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This schedule is very aggressive. But at least it's the first move. So on the first day of the month, it happened according to our schedule.

Now, very briefly let's move on to the next slide, just to follow our generation projects for Renovaveis. Over 2013, as you can see we have a set of projects, Salto Goes plant at 94% concluded, please note that this is contracted as IFA[ph] and BRL165 already financed by BNDES.

And it would be starting up in the first half of the year. Our two TPPs of co-generation and biomass, Coopcana and Alvorada starting up at the same time at similar stages, one at 38%, the other at 41% concluded, financing already approved by BNDES. These plants will get into -- will start up in the Second Quarter of 2013, totaling 120 megawatts or 47 average megawatts during 2013.

On the next page we show the startup of our wind farms. Macacos Complex, also LSA[ph], to be analyzed by BNDES, it's for alternative sources. Campo dos Ventos II and Atlantica Complex, both starting up in the second half of 2013. And other wind farms are today about to be analyzed when it comes to financing by BNDES.

So the wind farms Campo dos Ventos and Atlantica Complex have tariffs for the auction reserve -- reserve auction, an IFA for 2010 of BRL152.

Next on page 25, we show Campo dos Ventos I and Sao Benedito. These projects are scheduled to be delivered in 2015 considering the delays we have in our transmission system to be sold in the free market, additional 254 megawatts to be installed and to startup by 2015.

That concludes our presentation. Now just very briefly on page 26, we show our stock performance. Ever since the issue of the measure maybe with the qualifications that are being delivered, we show lower volatility. However, over this time-frame we've also been slightly affected going down 9.3%, vis-a-vis 15% from IEE or a positive variation of IBOVESPA at 9%.

For the year we perform above IBOVESPA and IEE for ADR as well. So had a drop of 9.8% this quarter vis-a-vis growth of Dow Jones at 4.3%. And positive performance for Dow Jones Brazil Titans at 2%. Like I said, the highlight is higher volume at BRL50 million daily, growing 43%. When it comes to daily volume and stock performance, as you can see on the right, our performance is above IEE and above IBOVESPA.

I conclude on page 27 with this important recognition by the Carbon Disclosure Project in 2012, CPFL was considered -- has one of the best disclosed credit notes or ranks particularly when it comes to climate changes and a set of assessments to generate value to stakeholders and also unique corporate governance, supplier engagement, innovation, renewable resources, Smart Grid, the electric car. And so on and so forth.

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CPFL was mentioned in the report as a highlight thanks to having described its actions, very straightforward with quantitative details, that's something key to all of us. Please bear in mind that CDP gathers about 670 global investors that manage assets of about \$78 trillion. So this recognition is particularly important to all of us.

Finally on page 28, this is our centennial month. And we'll be opening solar (inaudible) dependant -- our solar plant will be inaugurated in Sao Paulo about BRL14 million starting up in the Fourth Quarter or at the end of this month.

The power plant in Campinas, all the panels have already been assembled and we are in the final part of the electrical installation. Please note that the participants of our sixth Investor Meeting to be held on December 4th, these participants will have the chance to visit the first and the greatest solar plant in the state of Sao Paulo.

These were our remarks. And with my team of officers we'll all be happy to take your questions. Thank you, very much for joining us today.

## Questions And Answers

### Operator

(Operator Instructions) Philippe Liao[ph], Merrill Lynch. Mr. Liao, we are waiting for your question.

Alessandre Kudak, Citigroup.

### Q - Alessandro Kudak

My first question has to do with provisional measure 579. What about the A4 migration -- A4 consumers' migration; does this measure have any impact on your migration and on prices? And what about the effect on the price of conventional energy as well?

The second question is the following; I would like to know what do you think about the proposal for a public hearing by ANEEL last Thursday which has to do with the allocation of 100% of the transmission cost stemming from the 579 provisional measure to consumers only and we know that today it is split half and half more or less? Thank you.

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

I will answer the first part and Fabio[ph], our Planning Officer will answer the other. Regarding the A4 migration, the movement is almost imperceptible so far. It is not something to be highlighted right now.

Also regarding the price of conventional energy, our expectation to be verified based on the drop of the price of the purchased energy in this Discos market is that certainly the cut price and the TUSD of Discos will make the break-even for renewable energy to be lower than the one that we estimated or that we show in the market during this semester.

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In the same proportion as the drop of the average purchase price of distribution companies before and after the provisional measure, we expect a drop in the same proportion in reais per kilowatt hour around BRL15, it could reach even BRL20 megawatt hour, the drop in the purchase price or the competitive price for the free market for special consumers. I had already emphasized that it will be tougher. So sales will be more technical. And also these consumers didn't have a burden for the entry and the exit of Discos.

Their movement was quite free so to say in order to benefit from alternative sources. And with this new rule that they will have a five-year term, they will have to do the math and they will have to have a reliable supplier so that they can do this change in a safer manner. This is where I believe that our Group, due to the fact that we have a very big experience with distribution. And a safer distribution commercialization because we're not speculative, we may have an advantage there. And now I would like to give the microphone to Fabio, our planning officer.

### **A - Unidentified Speaker**

Could you repeat the question please?

### **Q - Alessandro Kudak**

Last Thursday we saw a technical proposal by ANEEL that proposes to allocate 100% of the transmission cost deriving from the 579 PM only to final or end-customers and we know that is distributed between generation and distribution. Have you evaluated this technical note?

### **A - Unidentified Speaker**

We already expected this to be allocated to the end-user so that it could bring about the reduction that the government wants. We didn't expect generation to have any reduction whatsoever because then you would not be transferring this benefit to the consumers. We are still analyzing the figures. But anyway we already expected this.

### **Q - Alessandro Kudak**

Thank you, very much. I would like to go back to the previous question. Now that you have a five-year term to migrate it will make a significant difference for you in terms of the incentive market.

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

We must have long term. And this would be a second advantage of our operation because all the bulk that we have in the free market would be allocated into this more technical and more restrictive to consumers. I am sure that we do have this kind of support. And that it will be making a difference for the special consumers in the A4 market.

### **Operator**

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Marcio Prado, Santander.

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

I would like to ask a question about the migration of the A4 customers and others maybe to the captive market in order to take advantage of drops in energy prices because of this provisional measure, the 579. Could you talk about the energy balance of the CPFL distribution companies?

We see at least -- the minus 3 and minus 5 auctions we see that there is an excess contracting of the sector. I would like to know if you in the CPFL have already carried out some simulations of what the 579 means to you. And the mandatory allocation of electric energy to the regulated market. And there are other factors such as the thermals and -- maybe you could say a few words about that.

## A - Unidentified Speaker

I'm going to talk about that very superficially. The question is very good. And I place the other officers of the Company at your disposal to better clarify. But the view is the following. I also expected potentially an excess contracting. And the only thing I recommend to you is to get to the PSR[ph] website and they are our consultants for this theme.

And they have a very clear demonstration that if you're not over-contracted now -- and the case of the Group's distribution company is exactly this, you will not be over-contracted due to the incorporation of this code as you have two different moves here.

You have a move that potentially renews concessions. And it is around 12,000 average megawatts -- 13,000 megawatts. And on the other hand, you have -- just to make it clear, if you consider the replacement amount, that is to say the amount that distribution companies would have mandatorily to re-contract in 2013, this will be done by means of these quotas. But at the same time that you will have -- if everybody accepts, you will have 12,000 -- you will have an excess movement of 3,000 average megawatts, or 3,000 and something, which corresponds to (inaudible).

So if you look at the replacement, it would be 8.5. But something like 3.5000[ph] that will be exiting, you will get exactly the same 12,000 that theoretically will come onboard. So we do not expect any excess contracting or over-contracting of distribution companies stemming from these replacement quotas, be it for the replacement amount or the exit or the final exit of the team.

On the other hand, in the seminars that we participate in and coordinate, for instance (inaudible) coordinated a module and a seminar two weeks ago, we had the participation of the regulator and APA, et cetera. And they also talked about that. And they said that the movement does not intend to cause over-contracting and should this happen this would be considered in order to transfer this tariff. So we do not expect any negative impact coming from over-contracting. And besides we do not believe there will be over-contracting.

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

I would like to add something Louis[ph]. If today we see a migration of client, electro-intensive[ph] clients A4 from CPFL in the short run it would be difficult because there is -- you do not have a relevant over-contracting. There wouldn't be a problem in terms of receiving or getting these clients onboard. So this is a question.

And the second question, I will be more technical here. And maybe we can continue to talk about that after the call. But usually the hedge is about 3%.

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

The provisional measure generated 5% hydrologic hedge. Do you agree with that? And today it is complicated for the Company's distribution companies to receive these clients that have to migrate from the free market in the short run. So I would like to confirm how you see this.

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

I would like to better clarify what I said about liquidity. The consumers that have a higher volume of energy traded in the free market are the conventional consumers, they are not the special consumers. In number of clients they are almost similar. But in volume of energy the conventional segment is overwhelming. I would say over more than 80% of the free market is the conventional consumers. And they do not have a way to go back to Discos. It is important to stress that.

I imagine that the average purchasing price of distribution companies after the effects of the 579, it depends on the disk[ph]. We have some simulations where you should be between BRL110 and BRL120 per kilowatt hour after the effect. And the free market for these large consumers is selling at BRL100 more or less. So these customers are not going to benefit from this drop in prices.

They didn't pay this price in the captive market anyway. And they will continue to pay the same price that they paid in the free market. What occurs is the following.

Those who are catering to the market -- the conventional market most possibly are companies, not only these. But possibly part of these companies that have concessions to be renewed today could be operating in the free market. And these companies, if they adhere to the 579 proposal, that is to say they renew, they would have to earmark this volume of energy channeling it to the captive market to these quotas.

And this is what we understand should bring about an impact on liquidity -- on the liquidity of the free market because we will no longer have that backing associated to the free market and it will be associated to the captive market. This is our expectation regarding the theme of the A4 market that you referred to.

I would like to remind you two points. When I say that Discos are not over-contracted, I would like to mention that most of them, also because of the lower performance of sales

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this year, they are more on the BRL103 side than in the middle of the range and I would like to remind you that although distribution companies have the 3% range, a good planner operates with 1.5 upwards and 1.5 downwards, not only 3 downwards.

And in our Group we operate in such a way as we have our supply between BRL100 and BRL103, that is to say 1.1 to 1.5 so that we have leeway in an event. If you operate very close to BRL103, if a crisis comes, you become over-contracted and you end up losing volume. And the planning process, a more efficient planning process is the one that positions the Company in its purchases between BRL101.5, more or less 1.5%.

So only in this case and in this case alone if you remember what I said will you see that if there is a move that we do not believe will have, I would like to stress that, if we see a move of A4 special consumers on the free market to the captive market, depending on the volume, then you would be able to absorb that if you already have a 1.5% more volume, already contracted in the distribution companies higher than the efficient intermediary point in order to absorb the deterrents of consumers and besides the potential effect as I said before.

We cannot say that it's absolute or we plan to come in here, of the amount of contracts plus the top of the chain in the amount of purchase. And I do not believe, I repeat, we will see a strong move of return of A4 consumers to concessionaries. The A4 segment in Brazil, we believe, has between 20,000 to 30,000 consumers and in the CCEE, we have a volume that go within a 1,000. So we are only talking about a handful of consumers that could maybe return. I don't know whether I have answered. But anyway, if you want to talk with our people later after the call, then please feel free to do so.

## Operator

(Operator Instructions) Now we would like to close the question-and-answer period. And I would like to give the floor back to Mr. Wilson Ferreira, Junior for his closing remarks.

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

Very well. Thank you, very much for your presence and for your participation in our earnings conference call and we affirm our belief that we are living a very special moment in our sector, be it to the prospectives for a recovery of the Brazilian economy.

And we wanted to place in our report a whole set of elements to show you that the next few months will be very energy-intensive for residential, commercial. And industrial sectors and we have already gone through the first of our review process. And the results is very close to what we had planned for and very clearly we recognize the good application of the tariff review criteria done by the agency.

So I think it is important to stress this, this is a positive datum for the sector. And finally, regarding 579, I would like to mention that we are living an important moment today where the regulatory framework that provided for the reversal of the (inaudible) of these assets is occurring as planned and according to schedule.

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And this month there will be a strong interaction of society with Congress so that we may get the final approval for this definition that is still lacking for the sector. And I believe that in the next few days, we will be coming to a conclusion of this.

And this is very important for the ambitions of CPFL which is a Group that has strong controlling shareholders, long-term controlling shareholders and that establishes for the Company a whole set of ambitions that must be consolidated.

And I believe that stemming from this, we will see a movement of consolidation the Company has been preparing itself and been acting with the necessary financial discipline and potentializing all our skills and all our expertise, especially our operational excellence. And the capacity to produce energy and to innovate.

So we understand the skills of the Group will be important in this new moment of the sector. I would like to reiterate our trust in renewable energy that is a bet that we made about three years ago and that materialized more strongly last year with the creation of CPFL Renovaveis.

And that has been delivering all the projects according to schedule and very active in terms of consolidation that will be a reality also in the sectors, especially now after 579 provisional measures.

So this is an important moment in which CPFL restate its long-term commitment with the country and you will be able to have our skills coming into play and being seen as very important by everyone in this moment of consolidation.

So once again, I would like to thank you very much for your participation in this call.

## Operator

CPFL Energia's conference call is closed. We thank you for your participation. Wish you all a very good afternoon. Thank you.

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