

## Q2 2015 Earnings Call

### Company Participants

- Gustavo Estrella, Chief Financial and Investor Relations Officer
- Wilson Ferreira Junior, Chief Executive Officer

### Other Participants

- Marcos Severine, Analyst
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning and thank you for waiting. Welcome to CPFL Energia's Earnings Results Earnings Conference Call for the Second Quarter of 2015. Today, with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia; and well as other officers from the company. This call is being broadcast simultaneously through the Internet through the IR website [www.cpfl.com.br/ir](http://www.cpfl.com.br/ir), where this presentation will be available for download.

I would like to inform you that all participants will be on listen-only mode during the company's presentation. And right after that, we will initiate the question-and-answer period when further instructions will be provided. (Operator Instructions). I would like to remind you that this conference call is being recorded.

Before we proceed, I would like to clarify that any statements that are being made during this conference call related to CPFL Energia assumptions, projections and financial assumptions are only assumptions of the Company as well as information that are currently available.

Forward looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they refer to future events and therefore they depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CPFL Energia and will therefore cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the call to Mr. Wilson Ferreira Junior. You may proceed.

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

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Good morning, everyone. Good morning, investors and analysts that are here with us today to discuss the second quarter of 2015 earnings results. I would like to now with no further due go to slide number three, where we have the main highlights for the second quarter.

We are now for the first time experiencing a sales reduction in the concession area, it was a drop of 2.9% and now for the first time, we also experience a reduction on the residential segment, because of this distribution high pension and lower tariff, slightly higher in the commercial segment and also, we see a downwards trend in the industry. When we compare this quarter with the first quarter of this year, there was a drop which is beyond 5% in the industry. This is because of the economic slowdown and the main segments are being one way or another contaminated by the economic environment.

The Company has kept its investment pace, close to 400 million in the second quarter and 713 million in the first half of 2015. The RGE tariff adjustment occurred on June in the effect in the portion B of 2.84% and this is according to what it was expected. Standard & Poor's reinstated our rating brAA+ and shares were down 2.9% on BOVESPA and 3.7% on New York Stock Exchange. That's because of the exchange variation of the dollar vis-a-vis the real and there were also some acknowledgments related to the company's performance.

In the annual book of Epoca Negocios 360 degrees, we were awarded the best company in the electric industry and according to ANEEL CPFL Santa Cruz ranked first in the continuity of services ranking. We were also the recipient of the Abradee award in 2015 due to our performance in terms of customer evaluation and social responsibility.

On page number 4, we have a breakdown of our sales system. And on the upper side of the slide, we see sales on the concession area of other (inaudible) group totaling a drop of 2.9% as a whole. It's also important to know this, the area in green refers to TUSD for free consumers, they charge service in the concession area, notably large corporations, which experienced a higher drop of 4.2 and in the captive market a drop of 2.4%.

And then on the other chart in the middle, we have sales by consumption. As I said before, this is the first time that this happened, this decrease of 2.9% but there was a slight improvement vis-a-vis the previous year of 0.6% and the continued decrease of 5.4% in some segments -- in the industrial segment and in this quarter, we had more rainfall. So 3.4% in the rural segment not even considering irrigation. So at the end of the quarter, we had 14.191 [ph] of sales.

In the lower chart, we see sales for state and the industrial segment. Both in the Southeast and in the South region, the total sales of the group CPFL were lower than in the region and this also is in keeping with the Brazil numbers. Now, the positive side refers to contracted demand, demand that our consumers have with the distribution concessionaires, that was a growth of 2.1% and in this peak we also saw an increased sizes were stronger and consumers are making more intelligent use and so in the peak we had a drop of 1.4%.

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In terms of the industrial segment, we see very much the same thing where there was a -- the industrial sector was more affected by the crisis in the (inaudible) in commercial sector, but in the lower part of the chart, we have a generation installed capacity. It's stable, reaching 3,129, 5.7 [ph] in the renewable factor because of the plants that we will see further on, but in the blue part of the chart, we have the adjustment of our stake at EPASA. One of our shareholders had the right to exercise preference and that's what happened and therefore now we have 53.8% of the stake at EPASA. This is then our installed capacity generation.

In the next slide, in view of the unfavorable economic landscape, we also had a significant tariff increase, which demands from consumers some rationalization in their use of power. The first aspect to be mentioned is the unemployment rate, which was 4.5% in April of last year, but April of this year is 6.3%. So there was an increase of 50% in the number of unemployed people.

So, in addition to the unemployment rate, there was also a significant effect on the income math. There was a negative peak of 4.5% in this second quarter, 4.6% more particularly. And this concerns us and this is part of the economic challenges that we have to overcome. That's why the confidence of consumers are -- the confidence is lower. We are talking about 83.9 in terms of confidence index. So, usually is always over a 100. Therefore, this is another item that deserves attention.

On the lower part of the slide, on the right hand side, we have the price variation verified in the concessionaires of the CPFL company, particularly the residential segment. This is -- there is a 67% price variation. Well, 48% refer to the extraordinary tariff adjustment and then we have also to look at increases in Itaipu which was noted in early March, but since then, we have a red signal because this increase was then altogether 67%. When we compare to the inflation of 8%, the actual increase was about 50%, which is in keeping with the new rationale of consumption on the part of consumers.

On page six, we have a picture of the results of the outcome. Here, you have the consumption per residential customer. As of the second quarter of last year, the behavior have been negative and it became more aggravated in the second quarter of this year due to an actual increase in the energy prices.

While, we were able to keep vegetative growth of our operations and in that same period there was an addition of almost 200,000 new consumers, so totaling 6,828 million [ph]. Therefore, we see a growth in the number of units, but by the same token there was a decrease of 5.6% when we consider residential consumers.

It is also important to notice that there are several alternatives to rationalize power. In the chart below on the right hand side, we have a breakdown of the electricity use. So, as tariffs increase, it is just natural to expect a certain rationalization.

Now moving on to page 7 and this includes the results for this month, an increase in the allowance for doubtful accounts, but in the green line we have delinquency in index over

90 days. So, despite tariff increases in percentage terms, this has been slightly below the numbers from previous years. This is due to certain factors.

And in the chart below, I listed what actions we are undertaking at the moment to try to avoid the advance of delinquencies. We have tele collection or the bill collector, we increased that by 50%. We did 1,706,000 tele collection actions. Pre-cut, we added 400,000 pre-cut of energy. Delinquency, there were 794,000 in addition to what we had before in terms of conventional cut, there was an increase of 54% and circuit break disconnections, we had an addition of 25,000 or more 47% and electronic registration of unpaid obligation also with the new measure that was initiated, adding 31,000. These are important measures because there was an increase of almost 67% in the tariff. From absolute values, we went from BRL120 million to BRL156 million.

Now, when we look at this increased behavior, going from 64 million to 85 million, we see that in percentage terms, the delinquency rate was stable. Once we look at all of the numbers from the chart and when we compare the behavior quarter-on-quarter, it goes from 47 million to 41 million, so that was an increase of 75% in the results for the quarter. So, we've been successful because we were able to limit the number -- to restrain the number of delinquency but there were several delinquency, the numbers are higher. But in terms of allowance for doubtful accounts behavior, it's been similar.

Now in the next page, we see the results for the quarter. On the topline, we have the reported results, reported according to IFRS. We have revenues stemming from the increase in tariffs and distribution and also we will talk about EBITDA. Net income, the numbers are justified by two events and the EBITDA was because the slowdown in the market and then in terms of net income because of increases in costs of our debt position. Therefore, there was a drop of 10.3% of EBITDA, 79 million and also net income was down by 37.9% or 55 million.

In order to help you understand better, we have the initial results listed below which talks about generation and then we have a list of non-recurring elements. Likewise, in terms of revenue, the behavior is the same but EBITDA that was down by 2.1% or BRL19 million and net income is slightly positive by 3.5% or 9 million, reaching BRL264 million in this quarter.

The chart in the lower part of the slide, we have the proportionate consolidation of generation, amounting to 6 million in our results, 35 million in net income and then we have also other sectorial assets and liabilities. Comparing it to the same quarter of the year before, we are just adding up 38 million or 37 million in terms of net income. In this quarter, related to GSF, there was an important impact of 141 million.

Provisions for asset write-off, there was an incident already reported in the cogeneration plant of Bio Pedra. We also have the reallocation of costs with basic network losses, which occurred last year of 12 million and labor contingencies, there was an agreement with the union of a lawsuit of 2001 of 50 million this quarter.

So to summarize expenses, when we have a positive sign, it's because this is what we are doing to rearrange the recurring base. So, the non-recurring items is 197 in terms of

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EBITDA and 139 for net income. Considering assets and liability and the proportional consolidation of generation, the overall impact of EBITDA was 191 million. It would be better by BRL191 million if we didn't have the recurring items.

In the next page, on page 9, I show the EBITDA figures. On the two ends of the slide, we have the effect of regulatory assets and liability of non-recurring items that we just referred to in the proportional cogeneration. It was minus 10.3% and in a recurrent way, we will justify this drop of 2.1. So, in the second quarter of last year, EBITDA was 903 million and we went down to 884 million this quarter. We also reported an increase of 32.7% in our net income of BRL1,168 million.

Most part of this result comes from distribution. We see here an increase of 42.4% or about BRL1.2 billion [ph]. And on the right hand side, we break down the numbers for distribution. Now CVA was 881 million. This is the financial asset and liability and then there was a review, extraordinary review of tariffs, tariffs that took place in March of 48% and sales in the concession area was down by 2.9%. All of that generated an increase of BRL1.2 billion.

In terms of the renewable energy, there was a growth of 9.3% or 3 million, which was an anticipated co-generation. In terms of commercialization and services, a growth of 0.2%. These are two separate effects. There was a growth in the service area, and we were slightly negative when compared to the last quarter in terms of commercialization and, all in all, we had a positive 1 million.

For conventional generation, if we compare the cost, this was more related to an accounting effect of all of the lines, different tariff and with hedging, because last year, as of the second quarter, unlike what happened this year, we noticed that when it comes to conventional generation, there was a drop in revenue of 16.4% or 96 million, but looking on the other renewable energy, we had a cost reduction.

So, EBITDA is positive, when it comes to generation and there is the elimination between the segments and in terms of the commercialization of the generation company between our companies and then we have differences in the numbers. But in distribution there was a growth of 1.2 billion and this is also followed by increases in cost, if we compare costs of energy which appears down below. We increased distribution, but there was also an increase of 67% of cost.

Clearly, there is no loss of margin in this quarter and this was mostly by the reductions we had in the market as I just reported and particularly coming from the residential side. Speaking about commercialization and services, it was up by 0.6% or BRL2 million because of a more intensified service rendering.

Conventional generation, there was a drop of 96 million, but there was a cost reduction of 144 million and these referred to mostly accounting expenses. In renewable generation, there was an adjustment of minus 26% or 7 million. If we look at the performance of our main activities, we were positive in conventional generation,

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renewable generation and in distribution, we had a loss of margin and this was justified due to losses in consumption.

On page 10, we also break down the numbers of our EBITDA. I do apologize for that interruption. Now in the next slide, I breakdown that BRL1 million of operating costs and expenses. There was an increase of 0.1% in operating costs and expenses. There are expenses -- there was -- PMSO services, we render more services to an associated revenue and there was also an increase in our revenues in thermal electric generation and then we had more room for thermal electric generation. We therefore had to acquire fuel oil from the company but at better conditions. So, we acquire fuel from suppliers.

But if you exclude this effect, meaning, the drop in PMSO services and fuel acquisition, there was an increase of 14.7% or BRL64 million of PMSO. Excluding the effects above, there was an increase of 14.7% when compared to IGP-M of 5.6%. I would like to point out that there was an increase of 7% in personnel expenses due to a collective agreement, collective bargaining agreement. We were able to contain the actual gain and we passed through inflation during the same period. There was also an increase in materials of 10.7% or BRL2 million and increases in services of 3.1%. So, if you add personnel, material and services, the increase comes close to 35.6%.

What was different in this quarter was item 11 and this is led by legal and judicial expenses, adding 67.6% when we compare to the same quarter of last year, mainly due to some labor agreements with the unions and also stemming from the current situation of the country, because of outsourcing and solidarity that our company has when it comes to third party.

I already talked about allowance for doubtful accounts of 75.6% or 18 million and there are other effect that are amounts to 7 million. Private pension fund was up by 35.8% or BRL4 million. So certainly, this quarter, we are reporting an increase in expenses and we already elaborate more on that in the report or we break down the numbers.

Looking at inflation, we also had extraordinary events on the legal and judicial expense line and that stems from this extraordinary tariff increase we experienced. So, these two items and we see that they account for about 48 million out of the 64 million reported for the quarter and this is certainly below the 5.6% of inflation according to IGP-M. This means that this is a long term program related to -- for management of our expenses or managerial expenses.

The program has been very successful and the program is illustrated in the next page. On the left hand side, we have the nominal amount 1.1%, if you're doing a comparison but when we look at the real adjusted PMSO from the moment we deploy ZBB [ph], there was a drop of 15.2% whereas IGP-M had a different performance of 20.7%. So, this event had no extraordinary event but our optimism related to our capacity to manage expenses is positive, reporting a slight increase in nominal terms and a slight decrease in real terms, 248 million in actual basis from the moment we introduced ZBB. So our expenses in actual terms was BRL1,000,330 [ph].

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Now on page 12, we reports the variation of net income. The reported results was down by 37.9%, but there was also an increase in recurring amount of 3.5%. (Technical difficulty) 2.1% or BRL19 million. So the increase in our revenue and we have to subtract expenses and operational expenses. We had a decrease of 16.7% in the negative net financial result or 35 million this was due to variation in the concession financial assets, 68 million and the effect of marking to market of operations under Law 4,131, the non- cash effect of 24 million, reinstatement of sector financial asset and liabilities, that's the new name for the CVA, BRL17 million.

We also had a currency variation in Itaipu. I reported that has an increase in our revenues 9 million compensated by sectorial financial assets. So, when you look at this box on the right hand side, CDI 10.6% and now it is 12.9%. So, this was a very relevant increase in CDI. So, for this reason, we have expenses that are higher by 84 million in this semester and other 2 million. We had a 6.6% increase in depreciation and amortization because renewable plants have started off and the effect was 18 million and as a result of a lower result, we had a decrease of income tax and social contribution, positive BRL11 million. So our result is slightly better when we look at recurring items 3.5%. We reported a net income 37.9% lower.

Now on page 13, we look at these results from the viewpoint of our indebtedness. As you look at our debt, it remains approximately the same from BRL13.6 million to BRL13.8 million. For the first time, we are reporting the effect of the adjusted EBITDA from 3.54 up to 3.67 and we also included the impact we had due to carry over from last year, actually you can also see that in previous quarters, they increased of CVA, the adjustment of CVA and cash balance.

Otherwise, we would be at 3.23 instead of 3.67. Now, comparing first quarter last year to this first quarter, we see that there was an increase in the amounts reported. Even with this increase, this extraordinary tariff increase, we still have cost carryover and these are relevant amounts, above BRL1 million, approximately BRL1.5 million. So, we are at 3.67.

On the lower portion of the slide, we see the evolution of our cash balance and the CVA balance. Now it is important to look, at end of last year, we had BRL4 billion, and we carried over 911 million. Now this quarter, 1,638 million [ph] in CVA at an increase of 43% as compared to the first quarter of this year.

Although in March, we applied the extraordinary tariff increase and we also had the introduction of the new flag system. So the concessionaire had great effort in its cash balance but as our cash balance has now the same level as in the end of last year, but we had this relevant impact of CVA which also affected our indicator of net debt over EBITDA, which is 3.67 instead of 3.23.

Now on page 14, we look at the gross debt cost, going up to 11.4, and in real term, this is the good news. We keep the same level of 2.3%. You can actually see why our financial expense had an increase, because 71% of our gross debt is denominated in CDI, 21% in TJLP, 7% is prefixed by PSI or BNDES. Despite all that -- I mean, despite our very comfortable cash position, our cash at the end of this quarter 3,300 million which is

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enough to cover 1.8 times the short-term amortization. So, if you look at our debt amortization schedule, the short-term is 10% of the total and the average tenure is 3.74 years.

Now looking at generations, just taking about the investments we're conducting right now, you can see, especially the first two, so Campo dos Ventos and Mata Velha, they will have their start-up next year. So it's more than 250 megawatts, they are under construction, has a PPA of 20 years, the second has 10% of 2013. So that's 143.3 per megawatt hour until 2047. And Pedra Cheirosa, with start-up in 2018, priced BRL133 and Boa Vista SHPP start-up in 2020, the price will be BRL207.64 [ph] per megawatt hour. So, the prospects are bright. Today our focus is to conclude construction and obtain BNDES financing for these projects.

On page 16, we can see the four tariff review cycles for CPFL Piratininga. You have a simplified comparison of the effects. We have actually shared with you our positive view are favorable. If you're looking at a WACC variation from 7.50% to 8.09%, BRL15 million, special obligations remuneration BRL11 million. Now when we look at technical losses, we had a methodology change so that we will reflect better our efficiency or our most efficient plants and this is the case of Piratininga and so we had 9 million. Again, we had a methodology simplification in other revenues, which will give us a net variation. We would be sharing minus 36 and we're now sharing minus 32.

The only negative number here regards a irrecoverable revenues that the agency proposed an extension of the aging from 49 months to 60 months and we had a reduction in our capacity to absorb irrecoverable revenues. The Xpd factor is higher than 1.1%, it's now 1.53%, but we have a loss of 4 million. So, the total effect is BRL29 million additional, only considering the effect that have already been reported.

Therefore, I'd like to tell you we have a schedule for Piratininga tariff review cycle. We have already conducted the first steps, the first stages of the cycle in June between CPFL Piratininga and now we also had meetings with the agency. In July, we opened the public hearing or public consultation process in the end of July. And day before yesterday, we had the public hearing, it was -- in present we had a very good public hearing and now we have the mixed event final deadline for contributions from consumers and then we will receive a proposal, including the agency considerations.

On the 25th, we'll have a meeting with ANEEL so that in October we'll have the Board of Directors meeting, the agency and so then we will have the new tariff in force as of October 23. So that's the end of the process that started early this year.

On slide 18, we have to talk about this improvement in NIPS reservoir levels. We closed July with about 41% of the reservoirs. We today have about 39.5%. So, this is when we begin to rationalize the use of reservoirs. We had a load reduction. So, therefore, we are being able to protect our reservoirs. Also, the use of thermoelectric power, which is allowed for us to be slightly above the levels we had on the same date last year



And it's also important to say and if you can see that in the lower portion of this slide, we've had a better hydrology, better rainfall in the South East, Central West, we had the wet season. So you can see that in the dry season we had a favorable condition, 108% better than expected. I think you will remember we spoke about this two or three reports ago, we've had the same situation, that is, we've had a better performance than the average. This is a favorable prospect.

If we go onto to the next page, page 19, still talking about the reservoirs level. The curve, the first load evolution curve projected. This is our first projection, expecting to grow 3.3% compared to the previous year. So, we have the reference of 61 [ph] per kilowatts hour, 67, the first of the ONS, then we reviewed this curve, actually, we have already talked about that, our curve -- our reference curve is the blue one, ONS is using the green curve. So, we are showing that the load evolution is 2.8% lower than last year, 65 compared to 63 and ONS have this view of 64.5 and we're talking about a drop of 2.3% compared to last year.

Now, moving onto slide 20, you can see the scenario for reservoir levels until year end. So, if ENA is 91%, let me remind you it is now 108% rate. So if it goes down to 91%, we would close the year with 15%. Now, probability -- today, a clear probability is much more that will close the year above 20%, possibly around 25%. The 25% is what we are reporting here. So, that would be in August to 90%. So probability is that ENA will be 44%. So actually, we expect to see an improvement in the reservoir levels at the end of the dry season compared to the previous year and we may also have higher numbers but we believe we have a good level of certainty so if the rainfall is better than expected, then our situation will be more comfortable especially because of the current tariff scenario.

Let me move onto slide 21. So this has been a different period of time for the stock market, not only in the Brazilian market. CPFL had a drop of 2.9%. IBOVESPA went up 3.8% and New York Stock Exchange, a drop of 3.7%. The daily average trading volume went up to 5.434 and also in terms of amount BRL43 million a day. Price in New York, you can see a comparison here between BOVESPA and New York Stock Exchange.

Now, we have two more slides, first about awards and recognitions. CPFL maintained the leadership in energy according to the evaluation of the 250 best Brazilian Companies by Epoca Negocios and this is a 360 degree evaluation including government, best employer, economic indicators, management et cetera. So, CPFL has been awarded as the best company in the year. So, we are the utilities sector leader.

Now looking at the ranking of service continuity, ANEEL evaluations, CPFL was selected as the best distributor and Abradee also gave an award to CPFL and RGE. In CPFL, we were awarded in the customer evaluation category for the first time because of the quality improvement. In RGE, we were awarded in the social responsibility category, which is also extremely important for us.

On final slide, I wanted to share with you this positive view we had looking at the electric mobility program. On the right hand side, you see some of the reasons why we believe in this good prospect. Now, we already have 10 million electric vehicles in activity and CPFL

has an experience of 90,000 kilometers. So, if you compare the energy cost to the gas cost, then you have 65% savings in the cost per kilometer, considering the tariff in Group B that is low voltage, which is the highest price of energy.

So, this opportunity -- this represents an opportunity, because of the current consumer behavior in Brazil. And because of the commitment that countries have to -- with the climate -- to stop the climate change, we had the signature of this important agreement and as a result of these commitments, Brazil is one of the largest economies in the world and is committed to these policies, we believe that electric vehicles will continue to grow.

We expect to see 10 million electric vehicles in 2020 as Brazil owns the fourth largest vehicle market in the world and we've been working, CPFL Energy has been working on this market since 2007. If we look at the consumption of vehicles, an electric vehicle will consume 73%, we are talking about higher volumes, although it will consume 73% of the consumption of a house, we have a very large vehicle market.

We've already implemented a partnership with Rede Graal, the gasoline station, so we will have electric power stations. The first highway where we will have 30 charging points in public and private places in this first highway, so it's going to be possible to use this technology already available. You will be able to charge 80% of the battery in only 30 minutes, in only half an hour. As we've said, we've been working on this development since 2007 and not only this is a good business prospect, but we're also helping the planet.

Now, in the second quarter, we have our Financial Director (inaudible), our Vice President in Business and Market (inaudible), our Legal Vice President and also of Institutional Relations. Thank you.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now begin the questions and answer session. (Operator Instructions) Our first question comes from Marcos Severine, JP Morgan.

#### **Q - Marcos Severine** {BIO 3322666 <GO>}

Good morning, Wilson. Thank you for the call. Wilson I have two questions. First, about this decision of ONS to connect this 2,000 gigawatts capacity now and also this decision of reducing the red flag to BRL45. It's clear that the rainfall prospect is better than expected, consumption is also less than expected, is weaker than expected. Do you have an estimate of the impact that this reduction will cause on the expected revenue, because until June, the flag accounted for about 80% of the cost and I also wanted to know if this scenario may worsen after this decision of reducing -- of having this reduction now?

My second question, Wilson, regards to 7, I don't know if you have additional updates about the negotiations. We looked at different scenarios. Actually, the agency ANEEL is

now part of this process with the public hearing. So, what is the most updated scenario you could share with us today?

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

Well, thank you for the question. I'll begin from your last question and then I'll ask someone to help me answer the first part of your questions. Well, I think this is something very favorable, very positive. I believe that we will have a final solution for this problem with us. Next month, we will already see a definition I believe already next week. I don't -- I mean, I cannot share with you now, what I believe will be the solution, but I believe it's going to be a very reasonable solution to restore our investment capacity, I mean company's investment capacity still this year.

Like I said, I believe a solution will come up in the next three days and some information will already be available as of next week. It's very important to have awareness about this and convergence in this process led by the Ministry and with the participation of all agents in the market. So, obviously, it is a complex issue. There are differences among the agents because of the obvious impacts of the solution to be adopted and so therefore, I believe we will have a very smart solution to do this issue. I think the solution will be good so that we will once again have investments in the sector and we will be able to protect the results for our company, so that they will be able to make fresh investment. So as I said, we will soon have information. I mean, already next week, we will have more information about this.

Now regarding the issue of flags, the green, yellow and red flags, the CDI went up and one of the reasons is because the flag does not have enough. It was established as 555 [ph] per kilowatt hour and so about 9% -- sorry, 19% or 20%. So it is not sufficient. If nothing was done, then the flag, the accounting would not match, but now when we had a drop in load, 2.1 gig, we still have this problem of, I mean, it still not sufficient, but now we are talking about 600 million. So it is less than what we had before. So I mean, if we keep the flag in red until the end of the year, we will have this result, negative 600 million. So it wouldn't perhaps determine a change in the tariffs.

Now we are having a load dispatch of above 600, the flag above 381, it is a red flag and it should continue. It is obvious that this information -- there is a perception, we can see that and even the President of the Republic spoke about this.

And ANEEL then felt the obligation of opening a public hearing. They started the process yesterday. We now have 10 days when this process will continue and so, consumers, agents of the market will be able to present their contributions. We have observed that in the agency's proposal, we will have an increase, I mean, it's still going to be positive. The prospect was to have 3 billion if they kept the flag at the same level until the end of the year, then the debt would be 600 million instead of 3 billion, and with the agency's new proposal, then we will close the year with the result of 1.6 negative. So, we still have a reduction but less of a reduction than we would have if we kept the flag in the current terms. I believe we will receive contributions from both sides and so it is the right time, I mean, to analyze these contributions.

When we look at the difficulties of the market it's going to be very difficult to face an increase in the cost of energy, I mean, especially for consumers. Now if this is not passed on to consumers now, it will somehow in the future. Now, all of these things have to be weighed. And certainly, the reduction in the dispatch of load is positive because of lower cost and it will allow for us to have a lower negative number instead of 3 million, if you look at the agency, it's going to be 1.6 million and if we keep things as they are now, 600 million.

**Q - Marcos Severine** {BIO 3322666 <GO>}

Just to follow up of this answer, that is if the decision is maintained, if the regulations are maintained in the current term, then perhaps the companies would ask for another tariff review this year or perhaps on the next year?

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

Well, I don't think it is the case of having an extraordinary tariff review. I don't believe in this possibility. I believe that the company will present a contribution to the public hearing process showing that it's just not reasonable to make a change in pricing, because right now we are still running a loss and even if we reduce the dispatch amount we'll still be running a loss at the end of the year. And so I don't think it is a case for an extraordinary tariff review, but just to say that, we had our prices established for past conditions and we will be running a loss at the end of the year because it's not enough.

So I think that our product would be to show this. I mean, perhaps, it would even be cheaper to bring it up to 550 until the end of the year, because we will have a reduction in the load dispatched. And so if it's not passed on this year, then it would probably happen next year and this year we would maintain that also because it would be a lower impact on inflation.

**Q - Marcos Severine** {BIO 3322666 <GO>}

Thanks very much.

**Operator**

Our next question is from Vinicius Canheu from Credit Suisse.

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

My first question is a follow-up question or may be just some clarification. Very specifically for CPFL, now with the change in the flags, I would just like to understand, are you already monetizing the regulatory asset or not? Or are you still accumulating this regulatory assets until the end of the year? Are you going to change the monetization pace or not? This is what I want to understand.

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

Vinicius, thank you for your question. Gustavo is sitting right next to me and I'll ask him to help me with that answer.

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**A - Gustavo Estrella** {BIO 18109709 <GO>}

Hey, this is Estrella. Of course that with this expectation of dispatch reduction, the speed of these assets decrease and as a trend, we will continue to accumulate some regulatory asset, but not with the same volume, much lower volume. What we see is a growing trend not very significant until the end of the year, but it's hard for us to monetize it now, I can only monetize it next year, as of next year. One exception is Piratininga, because there will be an adjustment in October. I will start seeing a reduction in my level of assets.

I would just like to remind you that in the case of Paulista, this will occur about April and RGE only as of June of next year. So the two main concessionaries, Paulista and RGE, which receive about 70% of our regulatory asset base, it will only occur next year. That's why it's important that we maintain the red flag as it is in order to avoid further accumulation of regulatory asset. But as I said, with (inaudible). It's better for consumers, it's even better for consumers.

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

Okay, fine. This is very clear to me now, knowing that you are not starting the monetization now. What about the scenario for the next quarter? There was a slight increase now and there will be something above the next covenants, but for the next quarter, how do you see your net debt over EBITDA ratio considering the main covenants of the company?

**A - Gustavo Estrella** {BIO 18109709 <GO>}

I think here we have 367 scenario which is very close to our covenant and looking ahead, I think we have some considerations to make there is a period where we will see an increase in energy consumption but this is seasonal and this will occur probably at the end of the year when temperatures rise and so there is potential leverage increase will occur then but after 2016 we will already receive all of the regulatory assets. According to our projection, we will get something between 80% to 85% of the balance of regulatory assets that we will be able to monetize throughout 2016.

And in terms of a short-term expectation, I think we will be close to the covenant limit that there is a downwards trend after 2016, after we receive, we monetize all the regulatory assets. I think 0.5 of the covenant relates to the CVA account and there is another important contribution coming from GSF and this means that we will -- this I think will occur before 2016. As I said, our expectation for the next coming days is that I think that there should be an announcement or the authorities will say something to make some adjustments throughout the next quarters. And with the solution to that topic, we will see a relevant improvement of our covenants to [ph] this year.

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

Thank you very much.

**Operator**

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(Operator Instructions) We now conclude the question-and-answer session. I would like to give the floor to Mr. Wilson Ferreira Junior for his final remarks.

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

First of all, I would like to thank you very much for your attention and for your participation in this quarter earnings results and I do apologize for the setback that I had during the presentation, but the presentation itself, the slides will give you a very good idea of what we experienced, but in fact we are going through a very challenging moment.

It's challenging because of the economic environment and the impact that this bring to our current position. The company is getting prepared to face this environment, this adverse environment and we're doing everything we can to make cost adjustments but the recurring costs are lower, and this is quite important, because it will help us face this moment of market loss.

Yesterday, I met with Minister Levy twice. And to be honest with you, the market mood is different from what we see when we go there, but we see that every single CEO of companies, they are very optimistic and they think that we can have a turnaround of this situation. We sometimes focus on this bad mood but we forget about the opportunities that can be seen ahead.

We do have an extraordinary potential in the agri business. So, moments of crisis have to be seen as opportunities for companies to innovate, to also kept some or eliminate some costs that are not really necessary and as important also whether they focus on finding new opportunities to be stronger and more efficient. This is what we've been working with.

Therefore, in terms of the challenges that we're facing now, we will certainly come up with solutions that will allow us to go through a recovery path in the electric scenario and I would also like to give a very optimistic message. I've talking to you I think for the four quarters saying that we feel, at the time, we had the opportunity to present this to former Minister Lobau [ph] along the -- second half of last year, there were many solutions or many actions that were undertaken, but the minister, the current minister is willing to interact with companies, with the association. Therefore, I think that we can generate other alternatives that are now being looked into and this will help us make important decisions. This week we just had the confirmation of the investment plan for the electric industry, something like BRL200 billion of investments for the next coming years.

I usually say that crisis can be solved through investment processes and we see a lot of opportunities. Therefore, our company and the solution to this problem allow us to probably focus on some particular investment. Now is the time for us to focus towards increasing productivity and efficiency, and we can also pay our contribution to change the mood in the market and in regulatory terms, in terms of the flags and whatever it is, we will be able to find the best possible solution. The CPFL is truly committed to that. Good afternoon, everyone.

## Operator

The conference call of CPFL Energia is now concluded. I would like to thank you all for participating and have a good afternoon.

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