

Q1 2016 Earnings Call

Company Participants

- Gustavo Estrella, Chief Financial and Investor Relations Officer
- Leandro Cappa, Investor Relations Officer
- Unidentified Speaker
- Wilson Ferreira Junior, Chief Executive Officer

Other Participants

- Carolina Carneiro, Analyst
- Kaique Vasconcellos, Analyst
- Marcelo Sa, Analyst
- Miguel Rodrigues, Analyst
- Sergio Tamashiro, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia First Q '16 Earnings Results Conference Call. Today, we have here with us the executives Mr. Wilson Ferreira Junior, CEO of CPFL Energia; as well as other officers of the company. This call is being broadcast simultaneously via Internet and the website www.cpfl.com.br/ir, where you will find the respective presentation for download. We inform that all participants will be in listen-only mode during the company's presentation. After that, there will be a Q&A session when further instructions will be given. (Operator Instructions). It is important to mention that this conference call is being recorded.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the belief and assumptions of CPFL Energia management and on information currently available to the company.

Forward looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions as they relate to the 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 could also affect the future results of CPFL Energia, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the floor to Mr. Wilson Ferreira Junior. Please Mr. Wilson, the floor is yours.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, everyone. Good morning, investors and analysts that are here with us for the earnings call for the first quarter of 2016.

Let's start on page three with the highlights of the quarter. Here we have a negative highlight and unfortunately sales drop in the concession area in all segments where we are going to go into details. On the other hand, in the industrial area, the contracted demand still positive. On the other hand we have excellent news which was the reduction on the CVA balance, as you know we had at the end of last year BRL1.7 billion to receive and we were able to reduce that to 0.7 billion. So we have a much more positive position, here the problem has been solved. After that, we have processed this four tariff adjustments for our discuss and we'll talk more about that during the presentation.

Another good news is that, Mata Velha is started. Early as start up, we had initial operations of wind farms for the free market, we will talk more about that as well. We have the renegotiation of the hydrological risk of Baesa, this was one -- the only thing -- major plant where we needed the renegotiation. It is completed now. We will see also a drop in our GSF expenses. We'll talk about my succession as well. There was also an approval of capital increase through stock dividends that was approved in our shareholders assembly, and those shares will be distributed to shareholders from May 5th on in investments of 0.5 billion in this quarter, and also we disclosed our annual report on March 31st. It's is electronically available in our home page.

So now turning to the page four, we have a breakdown of energy sales. You can see that in this first quarter, and in fact, we had an important drop in sales, energy sales of 6.4% here, it is -- we have 5.2 in the capital market and the free market of almost 10%. And the breakdown for a consumption segment shows that we had in all segments important drop vis-a-vis the first quarter of last year. So the economic down turn is strong both in residential as well as commercial residential around 5%, industrial segment of over 10% that does not change our market profile.

And in the bottom part of the slide, you can see two important observations. We are in a leap year, that comparison of drop is a little different, we will go into detail. Both in the unbilled volume as well as energy losses, but when we analyze the load in the concession area which gives us a right view of what is happening. We see that we have numbers that little bit lower. Therefore, we believe in the next quarters we should bring those figures up.

As I had said, the contractors amend is still positive. So we see a movement of positive expectation of entrepreneurs and the industry and obviously we see new companies coming in in the concession area, that's why we have lower values. The contractor demand both for peak and off peak is positive values.

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As I said, we have the recovery of two assets in the renewable area. Therefore, our installed capacity now is reaching 3,128 installed megawatt and that happens specifically in Renovaveis.

On page five, we have our outlook. We have reported a drop in the residential segment and what we try to show you with this chart is that, we possibly have reached a drop in 5%. It has been a stable for few months. And obviously that is because of several situations and circumstances that cause that to becomes stable. First, last year, there was an adjustment in the tariff that was preceded over 50% in the electric segment. And now also -- we have negative tariff adjustment in the second half of the year. So we had to reduce both tariff by since the beginning of the year. So that pressure on the economy in fact has dropped, it is important to say that probably people and there is a great increase and they reacted and so we can see here sales of LED lamp sales in 2014, they amounted 27 million and last year they amounted 81 million, tripled in number. So I would say that the consumption reduction is largely due to rationalization and exchange of equipment such as LED lamp sales that oppose more advantage than conventional lamp.

So considering future outlook that is drop in inflation, and because of that negative adjustment, we probably won't have higher drop in the residential area. So the consumption per client should be stable along the year-end, and now that we have the income of new consumers. We believe that we will have a stable volume for the second, third and fourth quarters of this year.

What is our concern here is on page six, and it is also a concern of the analyst is delinquency. Obviously, we also comparing ourself to other companies, and our figures have been lower PDA or ADA as gross revenue is still low, also nominal value have increased. We had an increase in tariff when compared the quarters that is higher than 50% but we have here from the fourth quarter to the first quarter also an increase of -- from 0.5% to 0.7%, 40% higher volume in terms of our allowance for doubtful accounts. This is something we pay attention to there as a set of question that we have listed in the bottom right part of the slide.

As a company, it's working on it. We have been working on conventional energy cut over 150%, this is the most effective measure. Right now, you're following delinquency in the different segment in the difference industry, especially in the finance sector. So that's why we also have the black lifting and we have lower efficacy but we are also using the electronic forecast and a telecollection. We have tripled in mails. We have the collection agencies almost a 44%. The electronic -- protest, actually is a new initiative and it is important to highlight that this peak has in the background our economic scenario, and this is something that we needed to acknowledge in the agency itself, because the agencies values are lower. And in general, all segments of the economy are going by this problem.

Now on page seven, I'll go back to one of our highlights. The total losses that have an increase in our area in March, but if we analyze the moving average of 12 months, it's not different. Some of the figures that we have seen since March of last year. But in March especially or in the first quarter, we have a higher figure 8.6% or a 63% first, that reflects the higher unbilled invoices, because here we had a leap year, that is an extra day and a

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load which is not reflected in the billing schedule and this is the main reason why we have that difference in the bill invoices and the drop in the load. So this should reflect in our billing schedule later on.

And also we had higher temperatures in this quarter that also impact these figures for the unbilled invoices. We expected that the slight increase shall we offset in the following quarters. So there is nothing structurally that is responsible for this increasing losses expect those two topics that I mentioned that are related to the billing schedule.

Now turning to page eight. We have the results for the first quarter. On the first line, we have the IFRS results, and on the second line, we call the adjusted base. So you can have a more perennial outlook of our company. We can see that both for net revenues the drop of 20% and 19% in the different bases. They are due to the integration of regulatory assets that is what explains that major drop that we had in our CVA. Obviously, that often is related to the market I'll take about that. In the distribution area, they are lower, and also we had the tariff plan [ph] that is changed. And the important news is that the EBITDA has an IFRS result of BRL25 million negative, and also we have 232 million in the net income that is positive. In the recurring base, we have 5.3% negative or BRL53 million, most of that refers to lands in the renewable areas, that is the last vent [ph] in this quarter.

And as I had said yesterday by the President of the company, that has been recovered in April. So this is an important -- significant effect now in the first quarter, but there is already a recovery of a half of that difference in April in our renewable activity, and because of that, in the adjusted base, we have an increase of 6.7% or 17 million reaching BRL267 million in the first quarter.

The amount that determine these variations are in the bottom part of the slide, the proportion, consolidation of generation, also Itaipu foreign currency variation that might affect revenue accounting, they go into the EBITDA and come out on the net income. So it's important to have a recurring comparison of this reconciliation. And also we have the non-recurring effect in the extraordinary events, last year, we had GSF and the Energy Purchase in a two generation operations, generation and renewable of the adjustment of PIS and COFINS tax credit. Also it has a specific adjustment that's now on, this year on.

And also typically, Renovaveis now adopted the hydrological agreements and that will -- won't have that impact anymore. So for a recurring effect comparison, we think it's important to separate it. Therefore, I believe we have an EBITDA that is this stable impacted as I had mentioned by two effect we're going to detail, and our net income is positive.

On page nine, we have that assessment of the company's EBITDA. So to the outside, we've the IFRS space and the inside area that we're going to go into details, we have a drop of 5.3%. Basically, we can see that there is a drop in the distribution area, renewable generation as well. In distribution, we have a drop of BRL37 million or 6.9% and it is related to the increase in manageable PMSO a lot lower than the IGP-M as a period. We held a legal and judicial expenses 28 million. The allowance for doubtful accounts of 26 million

and a drop in 6.4% in sales in the concession area, BRL24 million. This way, we had a negative effect in distribution. So we did have gains both in the reviews and tariff adjustment that added BRL66 million, and all company's offer distribution group. And also that specific treatment of PIS and COFINS that I had mentioned.

So in renewable generation there is a drop of 26 million or 23%, and basically half of that is explained by less winds in our wind farms and that corresponds to 13 million. Also we had a SHPP seasonality BRL10 million. We had that last year and this year as well. So we will recover that amount in the future structures, and we have a PMSO in 6 million and also the renegotiation premium.

On the other hand, we have a conventional generation with a gain of BRL9 million with EPASA's better performance at our thermal operation, and others 12 million, and expenses with GSF. And commercialization, services and holding is rather stable with a gain of BRL1 million. So the results are negatively driven because of the renewable impact especially wind, and now also a drop in volume in addition to the allowance for doubtful accounts and distribution.

Now on page 10, just to give you an idea for the future. Somehow we started working with the methodology of BRL320 million, we reached BRL369 million. We have the tariff showing it and obviously our future challenges related to the subject which is productivity here. The company is deploying two important project, one related using technology to increase productivity.

In the distribution segment, we have a whole set of indicators developed by the company. The analysis of team's unavailability in management of our workforce. So today we have more tools to monitor and obviously to integrate technology and automation and to increase productivity. This is something with a great potential and in the near future we will be sharing with you what is -- what this work is like and we are also working with consulting services in a new stage for corporate companies. We started doing that now, and we believe that in the near future we'll be able to share with you and let you know what you're doing in these two areas. So this is something we have to do to add productivity to our group.

Now turning to page 11. We come to net income. In the recurring, reduction is almost 7%, and in the IFRS basis is 63%. Here as a negative aspect, we have a drop in EBITDA in 5%, we already mentioned it. We had an improvement of a negative net financial result. It is -- thanks to that adjustment of sectoral financial assets and liabilities, also variation of discos' concession financial assets, additions in late payment fines and installment debts. We also have here BRL30 million for that. And mark-to-market effect, the operations 4,131, that is - - these are non-cash operations. And also we have to PIS and COFINS over financial revenues. In fact, because of the new taxes and that is BRL21 million.

And also we had a reduction of 3.3% in depreciation and amortization with the driver coming from the reduction in the amortization of the concession's intangible assets. And here we have an increase in depreciation, amortization, also an increase in income tax related to financial operations of the company. So, I would say that here we have a

positive outlook, because we have our stable EBITDA and we are working in that environment that we mentioned.

Now turning to page 12, these are the tariff events. There were several ones in this quarter. Starting and what we call the tariff reviews of our five concessions that have been renewed. So we have reported here the increases in Parcel A and Parcel B. Look that in this review, they already integrated the increase in the net base, increase in the WACC, and the remuneration of the regulatory asset base, and also, the addition of special obligations remuneration. We have a Parcel D with in a positive variation that is the set of these gains are of around BRL15 million and we have a pass-through of 580 [ph].

We have also the annual tariff adjustment for Leste Paulista increasing in a little over 10% Parcel B, and the average effect for consumer is 7.55 lower than inflation, and we have the transfer of 951 of financial components. As we have that, we had an important drop of our CVA in the quarter of almost BRL1 billion. And now with this last adjustment for Paulista, then at the end of this semester, we will be very close to turning this spin out [ph] to the positive side for the concession. In terms of cash of the company that will fall definitely because of these adjustment, especially for Paulista.

Now on page 13, we have our indebtedness, and here we have adjusted net debt over adjusted EBITDA, and a BRL12 million, and 3.42. And remember that with a CVA coming in, we will be running at 3.22, and the adjusted by CVA cash and balance. And here, we will be able to have the benefit of the leverage in creating value for the company. This is a good news, and the bad news is the increase of the nominal cost of our debt amounting 13.7%, obviously that is driven by the increase of the CDI, 70% of the gross debt of the company is inducted by the CDI. So obviously we reached 13.7, and inflation is at 4% of real cost of that debt.

Turning to page 14. We have -- we can say that we are in a comfortable situation in terms of cash coverage over BRL4 billion, over two times to cover the short-term amortization. The debt have an average term of 3.5 years, and in the short term only 11% of it. So this is a comfortable situation in terms of management of our debt.

On page 15, another subject that concerns -- which is the over contracted position. And the good news here is that, with this PH 04, the exposure that we had -- that exposure was eliminated. We had 180 average megawatts before Ph 04 in six of our eight concessions, and the public hearing of ANEEL is covering 100% [ph] of the problems. We have some residual in one of the companies and here we are taking about very, very little figure, maybe less than 10% of those 180. So we are telling you that obviously PH04 mitigated 4%, and we have our distributors totally aligned for 2016. It is very important, because considering the macroeconomic scenario for the future we should do some reinforcements there. So here we have also the approval in April of PH012 that simplifies the process for postponement of new energy contract. Here is the potential of our variation which is 2.5% that has to be dealt with. There is some potential for mitigation, but I believe this is more important, especially for future perspective and we have to work on that.

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And also under discussion right now, the impact of what is called the customers migration to the free market, and this is a huge debate here between the agent and ANEEL. And let me remember you -- remind you that, what I have mentioned about the exposure of 180 average megawatts that residual varies amount is after that 1.8% going out. So it would be almost -- it would be 100% if did not have such an important migration of consumers. 1.8 is a high number -- high figure.

So now just to report some viewpoint there. The Mata Velha, 1.5 years before the contracted period, a very important part of CPFL Renovaveis. 13 average megawatts and the auction was at 16th in 2016, and the value was BRL155 per megawatt hour and we I mean draft a few months already have a fair and a few market viable and things have already been released.

On page 17, just to talk about plant and the free market. The Campos dos Ventos and Sao Benedito farms will commence this year, but also with this new regulation of the agency, we have allowed to have the commercial startup of certain generators. And so we have already had up to the state the entry of four wind turbines and we have 110 towers which will be added. So we have an important schedule for the coming into operations over the next few months of this farm and this is the first finance strategy for a free market approved by the BNDES and we have the prospect of adding revenue to EBITDA of CPFL Renovaveis which is very important. Two other projects, which are under construction. The Pedra Cheirosa 48.3 megawatts and the Boa Vista also under construction. And so what is really important is coming -- of the capacity at a very short term, both for the Mata Velha and for these new field -- wind farms in the northeast of Brazil.

And here CPFL Eficiencia, this is very important for us. CPFL Eficiencia coming in here in the solar distribution and generation through the subsidiary CPFL Eficiencia. Here we have the Algar plant in Campinas with all the solar panels which is involved the change of 15,000 volts using the LED efficiency, or bulbs technology, and also the air-conditioning has been changed in replacement of the fluids. And the construction of two solar power plants, in Campinas 200 kilowatts at the peak and another 400 in Uberlandia saving 27% with energy efficiency due to photovoltaic generation, and initial investment of 6 million and this is inaugurated in March.

So in Algar, we have a savings of 3,500 megawatts a year, and also postponement of the construction of a substation and also with this operation we can enter the free markets. And also CPFL Energia participate in gains with the solar generation for the next 10 years and we have a BOT agreement for assets remuneration in six years. And it is still the supply of free energy for the next 10 year. And in fact it's a win-win operation, which is very important, but the CPFL Eficiencia, it is very significant.

I am almost finishing that on page 19, we have the performance of shares. The share had a better performance in IEE or in BOVESPA appreciating almost 30% [ph] the same with ADR 47%. So the exchange rate effect and with the CPFL coming back in January, and the Carbon efficiency rate. This has had its effect on a volume of business. And on the left hand side here, the lower left hand side, we can see this, and this is very important for the future.

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I conclude on page 20 saying you some facts about succession. In April, we have announced this succession plan. It's part of a planned process. The company within the best governance practices. I have been here with the group for more than 18 years. So I will finish the second quarter and I will be replaced by Andre Dorf who is the President or CEO of CPFL Renovaveis, and he has been with us now for about three years in the company and has done outstanding work in the Renovaveis and will come with all his views to manage this new phase of CPFL, and we are delighted with this. And in this quarter, we have carried out an integration program with the team and Andre has taken part in many activities with us, so that he committed on the 1st of July playing to win.

So, ladies and gentlemen, this is what we have to say about our results. And my team and I are now at your disposal for questions. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions) Our first question comes from Kaique Vasconcellos from the Citigroup.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Good morning. I have two questions. First regarding demand. You said that you will have a more stable demand and have had a shrinkage. So up to May what are things being like and what are the prospects for the second quarter? And second question about amortization. So, you have cash to cover the short-term amortization. So what you going to do, wait for better debt situation in the market or CVI or any special spread that you are waiting for? Thank you.

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

I'll ask Leandro to answer the first question and Gustavo the second.

A - Leandro Cappa {BIO 17871464 <GO>}

Hello, Kaique. The April market has not represented the recovery that we expected, because that has reserved. We've seen the -- a lot of improvement at the end of March and now in April. But this unbilled that Wilson mentioned has not yet come in billed, because of the dispatch that we have of reading days -- the meter reading. So April was a very hot month. So this impacted and helped with the recovery of residential inventory, but with the build market, we will only see this during the second quarter.

A - Gustavo Estrella {BIO 18109709 <GO>}

Well, Kaique, we are seeing that we do in fact have an expectation that this year we will be able to work with almost flat volume. Today we are working with the prospect that will not be flat, it will be between 1% more in terms of volume -- negative I'm sorry.

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Regarding liquidity and roll over, I think that the market has confirmed our expectations of credit restrictions allowed to the increase of costs. And I think this has been a market trend in general. What we have done was basically to bring forward our roll over. Basically last year, we have still need to rollover our debt today in the company was shown the cash of 4 billion. We have already covered everything that we need to for 2016 and '17. So our focus today to roll over will be only from 2018, which gives us a very much more comfortable situation then -- so that we will be able to fetch better situations of rollover what we needed, and we can work on the management of the debt.

We are already thinking ahead 2018, and we have plenty of time to find the best moment of the market. More important is that those discussions regarding infrastructure for the distribution sector. This discussion goes on both to the Ministry of Finance and the Ministry of Energy. We have here positive outlook to access the market for distribution and we can rollover lesser costs and greater terms -- longer terms. But we don't have anything now that obliges to look for money to rollover the short-term debt. We are in a comfortable position for the company at the moment.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Thank you very much.

Operator

Our next question comes from Mr. Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

I have two questions. One, I want to know if you could break down what was the loss with the over-contracting? And second, something which I did not understand, when you see slide nine regarding distribution, you show the gains through the pass through of Parcel A, I'd like to know why did this impact the results, because generally these movements of Parcel A are in the asset and liabilities, regulatory liabilities. Why did this come into the result? Thank you.

A - Leandro Cappa {BIO 17871464 <GO>}

Hello, Vinicius. This is Leandro. At the moment, when we have the tariff adjustment, we have some gains, because we have been very conservative during the year in our accounting. And when we do the adjustments as happened here with Paulista, we had a gain of -- with Parcel A at the time of the tariff adjustment of this amount to 66 million, about half of that is just simple, because of the mismatch and also because of the unbilled amount which is greater, it does not have an effect. So we have a temporary effect.

And during the second quarter, we will normalize it. So of this 66, half is temporary. So this will comeback during the year and half is because we were conservative during the year and we have some gain at the moment of the annual adjustment.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Now could you talk about the over-contracting please?

A - Leandro Cappa {BIO 17871464 <GO>}

This, we had zero impact in the first quarter and none at the distribution company.

Operator

Our next question comes from Miguel Rodrigues, Morgan Stanley.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Good morning. I have two questions. First, recently we had the regulation of ANEEL for the group of concessions. Could you talk a little bit about the possibly gains and risks of CPFL, if they managed to group together this five smaller concessions? And secondly, could you comment a little on the change of the methodology of the PLD -- calculation of the PLD and what about your risk aversion and is this the best way to adjust the model or do you think that the model should be reviewed more thoroughly? I'd like you to elaborate on that please.

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

So starting by the grouping of concessions, Miguel, at this moment, we are evaluating this alternative. We will bring to the board probably next month, we will bring this up to the board. The grouping has -- brings marginal gains to the company, but there is something that we don't know there are five reports of balance sheet against one balance sheet, so there will be a gain. There are five processes of adjustment and review against one. I have no doubt that some marginal gain will be possible.

Our evaluation here is more of a rationalization because this inside the company also determines for every adjustment process the man-hours that you must account for. So there is a gain. It's not significant, but it does rationalize both our work team and particularly ourselves. We think the gain is more of process rationalization which makes more sense. But from the point of view of consumers, it might have the advantage of a larger area with the same tariff, it's very difficult for us to face different tariffs from one municipality to another. This occurred in the five distributors. We would try and avoid this. We understand that the regulation was established, it's good, and we in the next few months will propose this to the agency.

Regarding the PLD, the spot price, regarding the review of the pricing methodology, there are some points to highlights here. The concern of minimizing -- the model must reflect as well as possible the operation cost of the system.

Another important point is that in case of an alteration of the methodology of the pricing that this not be done in a wrong way because this will cause impact on the market negotiations in the pricing method of the agency. So you must have time to apply this change and it does not cause negative impact for the agents and a negative impression.

And if you have to change things, this is under study and the CPFL Group is still studying whether this is the best way to adjust the model to improve this outside the merit. There is no way to -- this is under study, we have not decided.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Thank you.

Operator

Our next question comes from Marcelo Sa [ph], UBS.

Q - Marcelo Sa {BIO 16454581 <GO>}

Hello. To continue, it seems that there's been an increase regarding the long-term price that the collective bargaining is discussing BRL120, BRL122, is this because of the change of PLD or was it for any other reason? Is the hydrological scenario would be more difficult next year and could you give us more data regarding the privatization of the Sul, do you have a new schedule or new price review? With the new government, will things change?

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

Regarding your first question. Naturally, the evaluation of the price curve involves many elements. The discussion regarding formatting of the price is one of them, but you have elements like the delay of the Bella Monte line which affects the price. Hydrology, well, there's no difference of expectation regarding the formal one and there are several elements reflected here. It's not a significant variation of the price. Just an adjustment of different variables, but nothing stands out regarding the price variation.

The second question, we do have not been officially informed regarding the (inaudible) process and we now have a new government and this should be an important to review as quickly as possible. Obviously the price, there is an error, just compare the comparables of multiples regarding the basis. And you will see that we have here a mistake.

The sector now has -- because of the company regulatory moment. We have made important progress regarding the rules of distribution and we see the different states and Eletrobras needing cash to the question of privatization which could be many benefits to those who hold the concessions and for the consumers as I see it personally should be stepped up considerably in the next few months.

Especially, if we don't want to increase taxes. So one way of capitalizing companies and governments to do this where everybody can gain. So two-thirds of the concessions are private. In all government, there has been a greater gain of tax because of the better efficiencies in operations, better quality, and obviously the use of that resource. So the rebalancing of contracted accounts as whoever is doing the selling. I believe that yes that all the analysts have said that, all those interested have already manifest their interests. And I would think within the next days or months, we will have the review of this amount.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you.

Operator

Our next question comes from Sergio Tamashiro from Haitong.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Thank you. And Wilson, I wish you all the best in your new activities and Alberto as well. Second, continuing regarding the new government now with the entry of Fernando Bezerra, we know that this future government has a quick need to attract new investment to try and reverse this trend towards economic shrinkage. So in your sector, what steps do you think might be taken? You mentioned the process of privatization in the distribution sector. But what other steps could be taken and do you think could be implemented, the greater flexibility in the -- what can you imagine?

The second question regarding the level of debt, you had said that there was no problem here. There was no short-term cash problem and quickly you are coming into a fast leverage situation. You'll have a lot of cash, and then you will be thinking, well, among these new projects and you're seeing capacity of generation and new projects for distribution, so what do you see? Will you be interested in these other projects, expansion to other countries? So what would be alternatives?

And finally, I would just like you to elaborate regarding the level of losses. It's a very simple thing. You have the numerator equal losses and then under that the low voltage and these two indicators seem even in leap year, they are equally intense. So I don't understand why only the numerator feels the effects of the leap year.

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

Thank you, Sergio for your questions, and also thank you for your good wishes. One of the things besides being tied CPFL I will continue here reading -- the leading the -- be the Chairman of the Board of ABRADÉE. We have had a chance to talk to some other members who will be involved in this process. And -- with an overview, I can say that the government has already taken the first step with the -- talking about the partnership for investments. I feel that there is total clarity in that minds, the attraction action of an investment is the most important thing to build to reverse the (Technical Difficulty) infrastructure. And there are two point here, first of all (Technical Difficulty) any of the projects we have projects that (Technical Difficulty) bidding but have not been put into practice also for environmental project.

And on the other hand, we have an important agenda to show legal security and regulatory stability. I think the discussions will come along regarding improvements of the regulations for the agency, improvements of the auction conditions.

I want to be very frank with you regarding the electric sector. I think we have made great progress last year and this year, because most of the elections except the last one for

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distribution had participants and all the lots were filled. In a specific one last transmission auction, we had the entry of new agents, and we did not have the presence of some important private agents or even public that have always been part of this. And the main reason was because of the fact, the nonpayment of the RBS, those was harming these agents, something which we've done on a last day of the management of Eduardo Braga.

The electric power sector today will be -- selling prices have gone up, and because of competition, this is the right way to establish price and this implies in each one of these thing higher remuneration on your own capital and also as Gustavo has said the increase of financing costs. So the increase to this ceiling. So the environment and expropriation themes will be addressed by the next several months, it's very important that infrastructure is -- and it is useful to the country and we can build from 2% to 4% of the GDP investments very quickly. This must be followed by the recognition of this importance. It means that we will have people with us and entrepreneurs trying to make things easier with the government and not complicate it, everybody wins with this.

Things have become simplified, the workers delivered more quickly to the population and wealth is distributed more quickly. I think it's the explicit so the theme of investment in infrastructure is a priority is something very smart. And this committee that is going to manage this are doing right. They are going in the right way. And the electric sector has already done a lot of this improvement. But generally speaking, so the environment be generalized and not only with the electric power sector, many amendments, be it in the agencies or the laws that expropriation which comes from 1941 [ph] and/or the other periods of last -- the thing last, all have to be reviewed. And I am very positive about that. Now one last point I think was the losses, I'll call up on someone of my team. Hello, Luisa Marico [ph].

A - Unidentified Speaker

This is Luisa Marico from Market Planning. As you said the calculation is simple, what is the difference we are performing a loss in May with the average is 8.1 tariff. You have more load in the market at the moment, because you have the effects of temperature on the load. When you do the reading in the month, and it's a question of the days of the month. One is related at the beginning, one is related at the end. So this amount of energy which is not built from 15th of March, until the 31st of March had a strong temperature effects. And as you said, the load of the year has one day more, 366 days was the route for the reading is still 365 days, but more than 100 megawatts accumulated and I'm talking about the residential and commercial area as well.

Looking at this question of losses and as these indicators -- as this will affect other quarters, this will losses will probably drop. The temperature will give us back this effect in the calendar as well. In the middle of the year, we have 365 days and so both the effects on the calendar and the temperature will give us back the losses stabilizing this expectations.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Now going back to this question of new investments, Wilson, I think the government will be attracting new investments as a priority. Now, specifically the electric power, especially

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the great generators, there was a strong participation of the construction companies. Do you see any structural changes for the fact that these companies no longer here or and there is not a participation of Eletrobras and they are only private companies?

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

Yes Sergio. I think you have had that, for example, if you take in transmission the last auction, the largest loss was sold to a front of infrastructure investment.

So these agents that are coming in. And if they are skilled, there are many resources in the world looking for investment that have these prospects that we have in Brazil. I would say that this is -- show that we will have new agents here. But the CPFL -- well, in this specific case of public companies, just look at the balance sheet. It is a difficult situation and I think it's already difficult to incorporate what is in time.

So you need financial discipline to manage these companies and we participate in these investments with the improvement of the economic and regulatory environment, and the legal environment, and the business environment that this new government is bringing in, we will certainly be capable of attracting investments from other places in the world which here because of the demand that you will be offering each one of them. This is the only reason -- the only good point of not having invested very much in the last few years is that there is a lot of refresh demands that can't be met.

And in fact as I had said at the beginning of the year, we overcame this acute moment of the crisis. And CPFL just looked at the indicators of solvency of liquidity and of indebtedness that company situation allowed it, and I think that this is the main point of this new phase will come in to a new cycle of growth. The company has a very good structure to evaluate these alternatives, and fortuitously we have here, if you take the breakdown of the company's EBITDA, it has a 45% of distribution, 45% of generation and 10% in commercialization and services, and it's fairly well balanced. If we could keep this, then certainly we will do so because I think this balance is very good.

The opportunities appear and we are looking at most of them, according to our strategy, which is to follow in the three businesses that we have said, very focused on the electric power session, distribution and expansion, also M&A or Greenfield and generation, we have experience in both, and in the strengthening of the factor that your services which has been an important term for the company to make consumers more loyal or to capture new clients. So this structure is possible. So -- but you can't choose if it's a consolidation in this big steps to us to create value. This is very important. We don't want market share. We want prospects of -- to increase our value and improve our corporate structure. So this is what we want.

The company is very aware of this and the group of opportunities there. We are evaluating them and we will present the best option which will bring about a better value creation for our shareholders. This is our value, to create this and share with the others.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

If you'll allow me a quick follow-up, although you have a positive entry of -- on the pathway [ph] and also we see other companies came in, in the electric energy sector. And I don't know, maybe my point of view that could be somewhat risky. We have seen in other auctions of energy generation that the new players later on had difficulties in going forward Gen Power Bolognesi. I'm not talking about Bengo, but you see that futurely these assets being developed by them so that they would come in the secondary market. What is your point of view?

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

Yes, you are right on your comment. I believe that in the development of the regulation in the auction process that will have two things. First, a more correct evaluation of -- in the financial services by the bidders -- of the bidders actually. So some of them would not be - - maybe will not be approved by the bank. So there was an improvement in the bidder's qualification. And on the other side, we have a faster pace in the assessment of the delay. There are projects that they are at the base, also with the distributors, and we already know that those will not happen.

So, here, we surely have a faster pace to make the decision and say cancel the project that will generate the needed demand for the future because so far when the project is seeing a potential to be connected, in addition to the delay, it might cause -- and sometimes this is a serious delay, and that could cause the situation in the market price. You then wanted the investment that would be needed.

So here we do have adjustment and improvement to be made until the process, and I believe that in the system of partnership and investment, that has been announced yesterday, probably will address the issue. But yes, we do have homework to do both in qualification, as well as, in following up the process and in a possible cancellation of that participation considering all the consequences that could be attributed to the bidders.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Thank you very much.

Operator

Our next question is from Ms. Carolina Carneiro, Santander.

Q - Carolina Carneiro

Good afternoon everyone. My question is about the next reserve energy auction. The company has any projects that would be interested to participate on that? And a second question, in the second -- in the prior call, you talked about a flat demand this year, and you see a small growth. And I would like to know if the economic data and billing data that you have seen in the first quarter, if that estimate is still there? Thank you.

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

Carolina, starting on your second question, I mentioned in the call, yes, with the results of this first quarter we reviewed our projections and we estimate that it's not going to be flat, zero. It's going to be slightly negative, maybe one, we could be reaching two. About the reserve energy auction, especially in a renewable that has been said yesterday, yes, we do have a set of assets and we'll assess timely our interest in taking part on it, but yes, we do have potential assets to take part in this bid or on this auction actually. And we'll have a saying on that briefly.

Operator

The conference call of CPFL Energia is concluded. We thank you all for your participation. Have a nice day. Thank you.

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