

Q3 2013 Earnings Call

Company Participants

- Unidentified Speaker, Unknown
- Wilson Ferreira Junior, CEO

Other Participants

- Sergio Conti, Analyst
- Unidentified Participant, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Thank you for waiting. Welcome everyone to CPFL Energia's Third Quarter 2013 Earnings Results Conference Call. Today we have here Mr. Wilson Ferreira Junior, CEO of CPFL Energia. And other officers in the Company.

This call is being broadcast simultaneously through the internet in the website www.cpfl.com.br/ir. (Operator Instructions).

It's important to mention that this teleconference 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 beliefs and assumptions of CPFL Energia management and on information currently available to the Company. Forward-looking statements are not guaranties of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of CPFL Energia and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Wilson Ferreira Junior. Mr. Wilson, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you, very much. Good morning, everyone; investors, analysts, who are here with us in this call for the Third Quarter 2013. I immediately go to page three to talk about the highlights of the quarter starting with sales.

Outward energy sales were up by 4.7% and concessionary sales for our eight distributors had a strong performance in the residential market, 7.6%; nearly 5% commercial market; and industrial customers a rise of 2.5%; an important achievement by our distributors.

And to highlight as well a start-up of three projects for CPFL Renovaveis; reminding you that we had five projects to deliver; Coopcana, 50 megawatts; Campo de Ventos II and Alvorada started up between August and November last year. Tariff readjustment of Piratininga 7.42% in October and as a result we had a disbursement of BRL167 million; CapEx of distributors in the Company in the Third Quarter, BRL 330 million; payments of interim dividends amounted to BRL 363 million.

And a number of awards that the Company received; it was considered Company of the Year by Epoca Negocias and something very important to us as well, CPFL was recognized as one of the ten leading companies in transparency in emission of greenhouse gases; among the best utilities companies; one of the 20 more innovative companies in Brazil, the Best Innovator Award; and also the 2013 Electricity Award of Electricidade Moderna magazine; and Piratininga was elected the best domestic company and CPFL Jaguari in the category of small company. So it was a very important quarter in performance and recognition.

Page four we have something important for us to start to ponder on consumption that we've had over the past decade. So we have a number of charts showing why we've had such strong growth in residential and commercial areas.

First thing has been the effect of the past decade and the change in income classes. As we can see, classes A and B and C rising from 55% of Brazilian households to 75%. So a growth of nearly 50%; and at the same time as classes D and E, that 10 years ago accounted for 44% of Brazilian households, now they represent nearly 25.4%. Obviously this growth of the ABC classes gives us an important outlook in terms of consumption.

It is true that over the period there was an important growth of minimum wage from BRL390 to around BRL670 and at the same time as the unemployment rate dropped from 12.3% to 5.4%. So these two events converged together with credit to individuals that since 2007 has grown from 12% of GDP to 15.6% of GDP, have caused the commercial and especially the residential segments to be very dynamic and it is true and it's important to say that household consumption that experienced strong growth, 6.9% growth year upon year in 2009 into 2010 is losing impetus. So we're getting to 2.4%.

So although we feel important growth in the residential and commercial areas, it's important to say that in the light of this data, we should expect more moderate growth in the future.

However on page five, we can see what must be done to support the growth of Brazil in this new decade and what we can see is that despite the increase in our investment rate owing to the gross fixed capital formation and getting close to 20%; we are still behind Latin American countries' 21.7% and the world average 24.5% and even the BRICs average without China and China contaminates this data because its rate is nearly 50%; so excluding China we have 26.1%. So this for sure has to be the number-one priority in any candidate for the presidency for us to support growth in Brazil.

Obviously in this agenda we must consider that the global competitiveness index is very much below our potential. We rank 56th among 148 countries and here we can see something that is really very clear in the voices of businessmen. In the basic requirements we rank 79th in institutional environment, (inaudible) infrastructure 71st, macroeconomic environment 75th position; reminding you that we are among the six or seven top economies in the world.

So when we look at this ranking for Brazil it's really disappointing. And we see that there is a lot yet to be done. Here we see efficiency enhancers in higher education 72nd position, labor market efficiency 92nd position, financial market development 50th position and obviously what has attracted a number of companies to Brazil, the size of the domestic market 9th position of all the 148 countries.

In innovation and sophistications factors we do a little better. In business sophistication we rank 39th and innovation 55th.

When we look at the factors pointed out by businessmen we see a road path. Inadequate infrastructure is mentioned as one of the problems by 19.7%, tax regulations here is a clear problem to be tackled 16.8%, inefficiency in government red tape 15%, restrictive labor regulations 12% of answers, corruption this was the cause of street protest in June and inadequately educated workforce and others. In fact, as a conclusion for this slide, we see that we must really work hard on infrastructure.

I think we see a resumption and to date, we're having a transmission auction and we expect to have yet two energy auctions this year, in addition to infrastructure auctions. This is very important to perfect this regulation and industrial development and technological policy adjustments in fiscal policy, first to give more transparency and maintenance of social policies so that we can continue having an increase in population income and population satisfaction.

So after this initial analysis of the market outlook that really underpins our growth and the outlook that we expect to see for this decade, let's see energy sales on page six.

In the Third Quarter. So we can see that there was a growth in the concession area of the eight distributors of 4.3%. And those results, from a growth in the captive market of 4.1% and 7.4%; but 7.4% are large industrial. For consumers this is good news, because when we break this growth down among consumption classes, as I've told you before, residential growth 7.6%, commercial 4.9%, industrial 2.5% and the other classes 3.4%.

Please note that in the comparison among distributors in terms of consumption, in the Southeast where we have seven of our distributors we grew 3.6%; whereas the Southeast grew by 2.2%. So the (inaudible) of Sao Paulo has shown robust performance.

In the South we have RGE operations nearly 40% of the state, the most developed industrial area, growth of 7.8%; again the region's growth 5.8%. Obviously our operations are doing better than the Brazilian average.

Brazil grew 3.9% in consumption whereas CPFL in concessionaires grew 4.3%. It's also important say that adding concession areas, getting to 10,084 gigawatt hours in energy sales for end consumers, commercialization and conventional grew to 300 and 576 [ph]. And CPFL Renovaveis we grew 53.5%. So overall, operations, distribution, commercialization and conventional generation and energy sales we've had a 4.7% growth. So getting to 14,551 gigawatt hours.

So now on page seven we see the results IFRS as we always do. To simplify your reaction we do IFRS with a proportional consolidation, without regulatory assets and liabilities and on non-recurring items. So we've had a decline of 2% to BRL68 million in IFRS, BRL3.367 billion in the quarter and very soon I'm getting to justify that.

EBITDA growth 13.6% to BRL127 million and net income stable BRL1 million in the quarter; a drop of 0.4%; it's important to talk about the recurring results particularly because in this quarter all tariff reviews have already been done so we have a clean quarter. So all of the results by RGE and Paulista which are our largest operations, have been posted in addition to Piratininga's results; so we have a growth in net revenue in the managerial revenue to BRL3.588 million [ph], a drop of BRL163 million in EBITDA, slightly more than BRL1 billion, BRL1.12 billion in net income; a drop of 38.6%. So to BRL282 million on the last line.

So you can see that this determines the change from IFRS to what I call managerial recurring IFRS. So here we have the proportionate consolidate and the two effects in the Third Quarter of 2012 and Third Quarter 2013; the variation in regulatory assets and liabilities BRL85 million in the last quarter and BRL135 million negative this year.

And here we have a number of non-recurring events; delivery of energy with a delay BRL52 million, offset by the assets of distributors and an increase in productivity, rationalization of activities, etc. So we've had the sale of some property in this quarter and we will repeat that in the next quarter. So we have a reversal of ESS provision, conventional generation of CPFL Renovaveis BRL13 million. And then we have the adjustments in delinquency estimates that happened last year BRL54 million and other smaller adjustments this year.

So we have on the last line the fluctuations that we've just explained. So we've had a negative BRL53 million in the Third Quarter and BRL238 in the Third Quarter 2012. And they follow the same effect on net income in the Third Quarter of 2012 and 2013.

So now let's talk about the behavior of the EBITDA, page eight. So we've had this positive variation of 13.6%. We're talking about EBITDA reported in IFRS and please outside see

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the three movements that we've just highlighted in that table. So from last year to this year, we have the regulatory assets and liabilities BRL85 million, non-recurring events BRL55 million and proportionate consolidation of BRL98 million.

The same thing is going on, on the right-hand side BRL91 million proportionate consolidation. So very (inaudible) but non-recurring events BRL8 million and finally the regulatory assets and liabilities BRL135 million. So what we are explaining are the three bars; revenue growth and cost reduction and PMSO cost reduction.

So starting with revenue, we've had a 2% decrease in net revenue, basically here we have the effect of utilities tariff reviews. So the 75% will only happen now by 2018. So we have the total effect BRL141 million. It's not only the tariff review; there is also the RTE effect earlier this year when you compare with last year.

Right here we have captive market. We've had a drop of BRL166 million and on the free market, that paid with TUSD, here we have a hike of BRL25 million. No net we have a BRL141 million drop.

Here we have a slide compensation by conventional generation BRL3 million. CPFL Renovaveis is up by BRL31 million as a result of a startup of a number of assets, not these ones that were just mentioned.

And in the commercialization and services, we've had a growth of BRL41 million when we compared to last year.

So this justifies the slight drop in revenue; the negative effect of distribution practically totally offset by conventional generation, Renovaveis and commercialization.

On the other side, the good news; a decrease in energy cost and charges impacted by the decision to lower tariffs earlier this year; and naturally by the injection by CDE to lower tariffs and for dispatches. So we can see a 54% net decrease in sector charges, BRL206 million. And here reminding you that this is net of the BRL132 million from CDE which partially mitigated the tariff.

By the same token, we have a 6.2% net increase in energy cost, particularly thermal dispatches. So it was BRL106 million. But here we've had an injection of BRL225 million in terms of consumers. So CDE resources is the sum total of these two amounts that I've mentioned.

And finally talking about a decrease operating costs and expenses; PMSO; this has been a strong focus with CPFL. I'm going to talk about that later on. But just comparing quarter upon quarter, here we have sale of assets, particularly properties and vehicles; it's mostly property owing to the streamlining of activities and processes and automation of processes that I've mentioned. We have a smaller leased area now.

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Here we have again two events adjustments in delinquency estimates that I just mentioned. This happened last year so it becomes positive. But last year it was negative. We had a reinforcement debt provision and other non-recurring effects in Third Quarter; this was basically (inaudible) BRL15 million.

Now following on, we've had a reduction in PMSO CPFL Renovaveis BRL5 million, increase in services BRL12 million. And write-down of distributors assets was BRL16 million, equity method up BRL5 million. And private pension fund down by BRL2 million.

Now just reminding you that you can see an important increase in the PLD from 131 to 179 and the exchange rate fluctuation; it used to be 2.03, now it's 2.23.

So this largely explains the drop in 3.8% and the growth in our EBITDA to BRL1,065 million, plus 13.6%.

Now here on page nine we talk about manageable expenses and how we have reduced that to adjust to this new level of tariff. So you see that in nominal terms, the nine first months of this year if we compare to the same period 2012, since we've had been working harder with distributors to prepare them for this operation, we have here a reduction of BRL20 million.

And it's important to say that for personnel, materials and services we have a typical indicator index which is the RPTA [ph]. So on a real-terms basis, we're talking about a reduction of BRL137 million or 12% only in the comparison of the year to September 2013 year to September 2012. Remember that we talked about a potential of up to BRL150 million. So when we look at four quarters, we will come close to the values that I had mentioned.

And here we have reductions in personnel 8% in personnel BRL37 million. And also material, services and other here bigger 16% or BRL100 million and this reflects important initiatives by the Company. But led by a very important project which is the Zero-Based Budget which the Company adopted in 2012.

Now moving on to page 10, we have the Third Quarter 2013 results. Net income; the same explanation holds here; so from the middle to the sides, we're talking about the recovery, managerial recovery; and here in the middle we have the net income BRL356 million and another BRL355 million that we're reporting now.

Four columns; first one is the growth of EBITDA 13.6% increase, that was just mentioned; BRL937 million to BRL1.065 billion.

In the second bullet we have an increase of BRL121 million in negative net financial results. This is a result of the update of distributors' financial assets, BRL86 million that math that we incorporated in the balance sheet last year; no impact on dividends.

However, we have a net increase in debt service charges owing to the increase of the primary basic rate, 7.9% to 8.6%. So we've had BRL28 million and now the BRL7 million.

So this is basically what gave us this-- was a negative result. We've had a small 3% decrease in depreciation and amortization of BRL8 million and here income tax owing to a higher taxable base owing to the growth of the EBITDA BRL15 million. So this by and large explains the variation from BRL156 million to BRL155 in net income.

Now on page 11 [ph] we talk about debt and control of financial covenants. We can see that there was a slight reduction from 12.6 to 12.2 and this enabled us to keep our ratio, moving from BRL3.42 billion to BRL3.53 billion and this was the result of the adjusted EBITDA with a group of non-recurring that we reported last quarter. Note that the nominal cost of the debt is still 8% and basically the increase is owing to the negative inflation variation from 1.2% to 2%. Inflation was around 6%, now it's slightly below 6%.

(technical difficulty)-long-term interest rate and 7% pre-fixed, the PSI programs are 2%; the contract (inaudible) foundation.

Page 12, let me just tell you about the financial health of the Company BRL5.4 billion we closed the quarter with BRL5.4 billion in cash. And the cash coverage is sufficient for 2.4 times the short-term amortization that we have in 12 months as you can see, BRL2.2 billion.

Our debt is slightly better in terms of the average tenor 4.08 years and short term also decreasing a little bit around 14.4% of the total debt for the Group. So it's a very comfortable situation, financially very healthy as well.

Slide number 13; we have the startup of three projects, two co-generators of bio-gas, Coopcana and Alvorada, practically constructed at the same time; and Campo dos Ventos which is a wind farm in (inaudible).

Coopcana and Campo dos Ventos in Q3, 50 megawatts of Coopcana and 30 of Campo dos Ventos and Alvorada started up in Q4 and in test until the end of this quarter, an additional 50 megawatts; so 130 additional megawatts in operation.

As you can see the annual estimated revenues from these projects; we are talking about BRL64 million overall in estimated annual revenues and I would like to remind you that in renewable operations, we have an EBITDA margin that is close to 80%. These are 20-year contracts and this is very important and the startup is very relevant for Renovaveis.

And on page 14 we have the challenge of delivering an addition two projects, the Atlantica and the Macacos wind farms. Yesterday the situation was detailed and it's important to say that Atlantica we already have 10 generators ready to operate and five that are being assembled for final assembly. So this is scaling up the 40 generators as of this month already and also going into the beginning of next year in Comple di Macacos [ph] or Macacos Wind Farms which is slightly smaller; 78 megawatts and 120 megawatts in

Atlantica BRL155 million megawatt hour and in the case of Macacos, we started the final installation and we have a deadline up April next year.

Campo dos Ventos and the Sao Benedito Wind Farms are linked to the free market and they depend on transmission lines and they are scheduled to start operations in 2016.

I would like to highlight one important thing here on this page. As you can see our cost strategy for the Company is based on three pillars. The ZBB Zero-Based Budget and the ZBB process; the biggest scope is our share-services center on one hand and this is our main strategy for the corporate area which is the shared-services center because the operations can be much more efficient when they are placed in one single site, one single system to be managed. So like a production of corporate activities.

And the tower which will give even more efficiency in our distribution or the smart grid we are implementing mobility operations as well. I mean that this is already occurring. This has already been implemented in RGE and Piratininga and starting in Paulista now.

I'm talking about an EBITDA up to September coming from this BRL24 million; this is just a reference for this kind of activity which is higher than BRL100 million of reduction for the overall operations when they are all streamlined be it due to the optimized logistics or the field teams and we can reestablish things automatically in second and of course, regarding the fleet of the Company which will be due reference and with GPS we can be bring emergency aid very quickly, optimizing displacements; and the use of tablets for communication in real time to allow for dynamic dispatch, automatic routing of teams and online update of field services progress.

And on the other hand, we have another important item which is a telemetering of group A, something like 25,000 customers accounted for about 50% of the Company's consumption, besides the possibility of measuring in real time and the load consumption by consumers. We can have real-time fraud detection. About 50% of everything that is sold by the Company can be identified very quickly here and thereby eliminating fraud due to the level of control that the Company will have.

As of the installation of this telemetering system, 9,000 installed up to October. And by the middle of next year, the whole client base of Group A. And this started to be implemented this year and already BRL24 million in three quarters being achieved, 40% of the operations and mobility and in telemetering; something like 30% of consumers. So we can expect quite a lot. We are already reaping the results and we are very much satisfied that our consumers will be very much satisfied as well because there will be a reduction in the EFC and with a higher control of the control of our system in real time.

In summarizing, these achievements in the quarter, I would like to mention what we said in Q1 on page 16. We were talking about new projects of CPFL Renovaveis. We talked about 328 megawatt hours to be added this half year and 130 have already been installed and the other 198 are on their way as we reported.

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Bloomberg Transcript

The second thing, we talked about the recovery in the industry 2.7%; it's just less rigorous than we would like to see. But it's not zero, it's not negative like some people estimated. We are talking about a growth of 2.5% in Q3.

And especially our commitment on the part of our management which is productivity gains, reduction in cost optimization with a whole set of strategy, GBB and the shared-services centers that have already brought about savings of BRL137 million in nine months alone. We are talking about something close to BRL18 million per month in savings.

Maturation of the Tauron Project, which has already brought BRL24 million in these nine months; and coming from this higher rationalization so it's enabling the possibility of selling idle assets, about BRL47 million. And on this page alone we have BRL200 million in savings in nine months.

On page 17 we have the stock performance. In the first nine months, Bovespa was not good in neither. And our Company is slightly better than it is. On the other hand, because it's a Company where the revenues are totally in reais, it is affected by the performance of the ADRs because of the devaluation of the Brazilian currency and the average volume dropped about 20% and trading grew 35%.

And we are very happy to show you that we have been included in the Dow Jones Sustainability Indices for emerging markets. So 800 largest companies of 20 emerging countries are evaluated and 80 achieved the requirements established and among the 17 Brazilians. And among Brazilians three belong to utilities and CPFL was one of them.

And on page 18 I would like to share with the recognition as the Company of the Year by Epoca Negocias, one of the 20 most innovative companies also an award from Epoca together with A.T. Kearney; and the Carbon Disclosure Project. I think this is very important, especially due to the commitment of CPFL with sustainability to be the best in the utility sector is a very good recognition of the endeavors made by the Company and there is a very big competition between Paulista and Piratininga here and Piratininga won the Best National Company award with a lower losses index and best operational performance; and also in smaller companies, Jaguari as the Best National Evolution, Lower Losses Indexes.

So this is what I would like to share with you, this quarter and together with the members of the executive committee, we will be answering your questions.

Questions And Answers

Operator

(Operator Instructions). Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Wilson. Good morning and thank you for the call. My question has to do with generation. This week the government defined the ceiling prices for the A-minus-1 auctions so there will be product for the next three years. And we see that next year they will have determination of contracts and the amount of energy is very relevant of contracts. And this is very relevant for CPFL.

I would like to know your position regarding that because your contract is about to expire.

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

Thank you, Vinicius, for your question. We are still working on our basic strategy so that our contract with prudence [ph] may be extended and of course with conditions different from the moment this contract this was signed. We do not consider the participation of Serra de Mesa in the A-minus-1 auction so far. Thank you.

Operator

(Operator Instructions). Sergio Conti, Goldman Sachs

Q - Sergio Conti {BIO 3441214 <GO>}

Good morning, Wilson. Thank you for the call. My question is about the technical note by Enel for the public hearing for the fourth cycle of tariff review, a series of suggestions that were made by the market and based on what we talked about with inventories. We understand that these are very reasonable and constructive. But I believe that the major suggestion or proposal that was a little bit more controversial was the extinction of cycles from now on, that is to say having a more ongoing regulation than a discretionary one.

So what is your opinion about the proposal that was submitted by Enel for the fourth cycle? Do you see this as a positive development or a negative development? Do you expect any adjustments in that?

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

Sergio, I'm going to give the floor to Eduardo because he can answer your question better than I can.

A - Unidentified Speaker

Sergio, this is Eduardo. Good afternoon. I'm very much in contact with the regulators and I think this public hearing is very-- public consultation is very good because it's the opportunity that we have to have the agency listening to us and maybe having a better methodology from now on.

And one recurring question or a doubt on the part of the market is that we would be eliminating the cycles and this is not true. We are not going to have (inaudible). The intention of the agency is to have a methodology and once the methodology is defined, if you look ahead, we will be able to calculate in a more easier manner without any change

in the criteria regarding whether it has an environmental risk or not or what is the window to be defined in order to look at the country risk and these things.

So as far as we are concerned, this is a very positive opportunity and we are trying to give our best contribution to the process.

Q - Sergio Conti {BIO 3441214 <GO>}

Thank you, Eduardo.

Operator

(Operator Instructions). Carolina Mededos [ph], Canal Energia [ph]

Q - Unidentified Participant

Hello, Wilson. Good morning. When you talk about distribution, what about the renewal in spite of concessions, in spite of the fact that you're not going to participate right now; and in distribution do you have any involuntary exposure and how do you see this issue of the involuntary exposure and the minus-1 auction?

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

Starting by the last one, the A-minus-1 auction; well, the tariffs have been recently defined and we were very much concerned and we are no longer concerned because we believe that the government was sensitive and established prices that can attract generators for each one of the three products that they made available.

So we thought we could have involuntary exposures. But due to the fact that the prices are more adequate, now this exposure would certainly be extensively mitigated or even zeroed due to the price conditions that were presented. This is one point.

About the renewal of concessions, it's important to say that we do have high distribution companies, discos of the Company; four coming from the OTMS that we acquired from opportunity groups and accruals and they will all be the object of renewal of concessions.

And what is important to highlight and we always repeat this, is that the discos. And I would like to reiterate what Eduardo said when he answered Sergio's question; the process of tariff review has to be strengthened. Okay there were some progresses over time. But there were some things, for instance regarding a definition of the WACC that has to be-- the disco is an investor debt, invests every day. It's impossible for a disco not to make an investment or not to have expenses when a crisis hits when there is a variation of the (inaudible) rate or the exchange rate.

And all these financial conditions that are involved. So Enel today recognizes this and this is very important. It's important to provoke this kind of debate. But by strengthening the process and making it more clear, you make it more predictable for those who operate and those who evaluate the market, such as in your case, investors and analysts.

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And we believe that is the main objective of this interaction of the regulator with us. And as we've said before, differently from what occurred in the case of a generation company and (inaudible) that saw their concessions expired because over time, over 30 or 50 years, they were not able to amortize their investment and an investment that is made in one shot indicates a disco. This is not the way it works. It's a daily investment.

About half of the investment continues to be net at any time, to have 100 of investments and 50 is the net base that is being remunerated. So the renewal terms have to be different, differently from the others when you already amortize your investments.

In this case you have a daily investment that the investment continues to be made every single day; to be amortized in the future. So having this situation as I described, we were not surprised by the fact that there was no specific rule established at the moment of renewal and that this periodical review made the base for the renewal of concessions in 2015.

A lot is being said about the quality of services delivered and one of our discos will be the object of the renewal and it is one the ones that won an award and we are very comfortable because be it from the viewpoint of quality of service or EFC and ELC; we are a benchmark from the financial side which is something that will have to be considered, given the investments that we made in the concessions to automate them and also to incorporate smart grid and telemetering so that we may provide higher or better services to our consumers.

This will have to be considered by the agency when the moment for the renewals come and we are very comfortable regarding our performance and the perspective for renewals.

Operator

(Operator Instructions). Now we would like to close our question-and-answer session 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>}

Once again, I would like to thank you all very much for your attention and for participating in our earnings conference call and I would like to reiterate as started by talking about this. But of course companies in the power sector and distribution, they have tariff cycles and these tariff cycles in one way or another are developed so that there may be an adaptation to the new market conditions.

More specifically the financial market and the return on equity, return on-- and also to share efficiency gains with consumers.

I always say that this process is very sensitive. It's a sensitive issue. We have been evolving in this process. But evolution has to be consistent and ongoing. So it's important to stress that the debate between the agents with the agency or the players, the regulators, is

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fundamental for us to guaranty sustainability to the segment which is the most important in terms of meeting the demand of final customers and we have already left the third cycle behind, applied in our largest concessionaries. And there was a reduction in tariffs which is something that has to do with the decision by the government in terms of reducing them beyond the tariff review.

And so I would say that this is a new beginning. This is the beginning of the fourth cycle and in the fourth cycle, due to the market conditions, we are expecting a major growth in our concession area and Q3 maybe is a little bit of what we will be seeing in the next two quarters and years.

We are sure that we will be having important growth and this is good for discos and we trust that due to these interactions, we will be able to work with a higher level of efficiency than the one that we had been working with and we were able to share some of the actions that we carried out beforehand in order to be able to implement as soon as we had the conclusion of the cycle which is the most adequate way to do it.

So be it in terms of the ZBB or the results from the ZBB and/or the share-services centers and its results, or be it regarding the implementation of smart grid and its results; all these are instruments that the Group developed to mitigate the sharing of the tariff reduction with consumers.

So we always want to remunerate the capital invested and so these actions for cost reductions keep us in this perspective or focused on remunerating the capital invested by everybody.

And it is important to highlight the performance that we have been achieving at CPFL Renovaveis. We had an important year and the Company carried out its IPO and concluding five projects, three of which are already in operation and the last two are at the final implementation stage and one is already in the test phase.

So we believe it's important to share this perspective because both in terms of distribution where we are the biggest players and renewable energies, we are also the biggest players, the highest volume of contracted energy and this year we will have 1500.

I think it's important to see the ramp up of the Company in two years. It was really very major and now we will start to see the consequences or the fruit of this work and the 1500 megawatts are 100% contracted in the case of Renovaveis and also indexed; so this is another important information.

And due to the dynamics of the Brazilian economy, the team of commercialization and services that had a non-typical year in 2013, be it in the first half because of the unfavorable situation in terms of prices. But also stemming from the regulatory changes; so that we could have a more real TLD to be an important signal to all consumers.

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The market was very much reduced vis-a-vis what we estimated. But we are a major player and we don't stop working and we did a lot of work in terms of going to the market and conquering clients and we have over 200 clients and we are very bullish about these activities; energy commercialization and services in such a way that the bulk of the operations of the Group--we are very pleased with the perspectives.

We have low operating costs and they are on a downward trend and our outlook is for an increase in our revenues, in generation and commercialization. And a very bullish view for the future and together we will be able to see this in the next quarter. Thank you, very much for your attention, again.

Operator

CPFL's conference call is closed. We would like to thank you for your participation and wish you a very good afternoon.

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