

Q4 2009 Earnings Call

Company Participants

- Wilson Ferreira, Jr., CEO

Other Participants

- Marcelo Britto, Analyst
- Marcio Prado, Analyst
- Marco Sivini, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning. And thank you for standing by. We would like to welcome everyone to CPFL Energia Fourth Quarter and 2009 Earnings Results Conference Call. Today, we have with us Mr. Wilson Ferreira, Jr., CEO of CPFL Energia, Mr. Jose Antonio de Almeida Filippo, CFO and IRO, as well as other officers of the Company.

This call is being broadcast simultaneously over the internet at www.cpfl.com.br/ir. This is where you can also find the presentation for downloading purposes. We inform that all participants will be in listen-only mode during the call. After the presentation, we will start a Q&A session. At the time, further instructions will be given. (Operator Instructions) I would like to mention that this 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 beliefs and assumptions of CPFL Energia's management and on information currently available to the Company.

Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and they are forwardly-dependent 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 would like to turn the conference to Mr. Wilson Ferreira, Jr.. Mr. Ferreira, you have the floor.

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Wilson Ferreira {BIO 1528124 <GO>}

Thank you, very much. Good morning, to all of you. It is a great pleasure for us to share with you the results of CPFL during the Fourth Quarter of '09 and also the annual results.

So, you can see now on page two the highlights for the Company, starting by our economic results. Facilitating your life, on the left we have the comparison between the Fourth Quarter of '09 and '08 and on the right we have the annual results. So very quickly, I would like to show the growth in our net income -- net revenues for the Fourth Quarter of 2009, BRL2.840 billion growing by 12.8% vis-a-vis the same period in the previous year and we exceeded BRL10 billion. We reached BRL10.566 billion, 9.1% growth therefore.

On the operating side, let's see the EBITDA with a comparison of the Fourth Quarter, 6.7% growth, reaching BRL746 million and annually, BRL2.766 billion with a drop of 1.5%. On the last line, benefiting from our strategic -- our financial strategy -- 25% increase, BRL425 million of net income. And annually, 0.8% growth, BRL1.286 billion overall.

It is important to stress, now let's talk about the highlights that the result -- it is very much influenced by the growth in our total sales of energy. So, we are going to get into details later on, 4.9% growth in the Fourth Quarter and 4% for the year of 2009. So, this is the positive side. On the other hand, we have the final indices for the tariff review for distributors for the Group, which impacted our revenues on the distribution side by 12.5% negative.

I would like to remind you that the tariff reviews are temporary because of the methodology related to the benchmark company. So, the application of the methodology in full to all companies over the year of 2009 impact the average tariff for distribution by 12.5% negatively and some highlights over the year as well. I would like to stress the issue of BRL1 billion in debentures, 110% of the CDI average rate and also funding with the BNDES -- by the BNDES to make Baldaun feasible biomass plant and BRL228 million in debentures to EPASA, which is our thermal operation in December 2009.

It is also important to stress the distribution of BRL1.2 billion in dividends and dividend payout in 2009 with a dividend yield of 7.9% in the last 12 months. Another highlight is the success in the Reserve Energy Auction in December 2009. Wind energy -- we were able to sell all the energy of our farms BRL150 per megawatt hour average.

And of course, the result that will occur over the year stemming from acquisitions. For instance, EPASA TPP, Bio Formosa TPP. And the Santa Clara and Eurus Wind Farms will add to our generation portfolio 402 megawatts and start -- which corresponds to 23% of the installed power of the overall group today and some other important developments.

We got some awards. The most sustainable company in Latin America and the second in transparency in sustainability in capital markets. paulista awarded as the best energy distributor by ABRADIE. piratininga winning the National Quality Award. And RGE, a large distributor of the group as a finalist of the PNQ. And another important acknowledgement is that for the first time ever, our company is placed among the 10 best companies to

work for in Brazil according to the ranking promoted by Voce SA and Exame Magazine. So, these are some highlights for the year.

And now, we would like you to turn to page three where we evaluate our corporate structure, the free float of 30.5%. And the more recent events, CPFL bioformosa, an investment vehicle of biomass in bioformosa. And on the right in generation, the generation side, the wind farms of Santa Clara and Eurus and EPASA. So, already adding these investment vehicles to our corporate structure. So, this is the highlight for the quarter.

Now, on page four -- pages four and five, we have the energy sales for the free and the captive markets and also in the concession areas and important disclaimer here is related to the issue of the CAT Resolution 97 of the States of Sao Paulo Finance Secretariat that now obliges distributors to bill all free clients on the first day of each month. And of course, this impacts the amount of energy billed and this is the reason why we do a pro forma in order to facilitate the evaluation by analysts and investors as well. So, any pro forma result we -- have the result that we would have achieved if it were not for the Resolution 97.

And of course, this reduces the number of days of meter readings in December '09 about 15 days and from the economic viewpoint, it has no effect because there -- it is offset by means of our books as the not billed items. So, the zero effect is obtained. But the effect when we talk about the volumes of energy billed have to be adjusted by the effect that we have just mentioned. So on the left, you see the effectively billed amounts and then the pro forma, the procedure that we used so far.

So for a more adequate evaluation, I think we should evaluate the pro forma. In doing that, we would have our market built in the concession area, that is to say captive consumers growing in the Fourth Quarter by 2.2% and free consumers for the concession area of distributors growing by 6.7%. So, this is the real value which, overall, in the concession area gives us 3.2% growth.

This is important because it already shows the effective recovery of the economy, especially in the free market where we have most of our large industrial consumers. 6.7% is relevant in this evaluation, mainly when you talk about the profile of the economy and we will be giving you some other data in order to show you the strength of the Brazilian economy and therefore the good expectation we can have for 2010.

And now, looking at the lower part of the chart, you see the consumption behavior for the different consumer classes covered by the concessionary 5.7% growth in the residential income, 6% commercial, industrial incorporating both free and captive -- 2.9% here. And others dropped by 2.8%, especially because of the behavior of the rural class, namely because of the very low need for irrigation due to the very high rainfall that we had during the Fourth Quarter. And consumption as a whole, as I had already reported, grew by 3.2%.

On the right, we have the effect of the build volume. We have already talked about 9,871 gigawatt hours, growing by 2.2%. And we would like to stress the behavior of the free

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market with the growth of the company of 6.4% [ph] for the company overall, aligned to the recovery of the free market. So, we reached 2.17% [ph] gigawatt hour for the free market, 16% growth and of the build volume of the company, we have 4.9% growth as mentioned in the beginning of the presentation.

Now, moving to the next page, on page five, we have the same behavior in the annual base. Now, once again considering pro forma, 1.3% growth in the captive base and in the free base still a drop by 6.2%. As I said before, we are recovering the free market, particularly in the second half of last year, becoming more vigorous in the last quarter. Overall speaking, for concession and distributors, we have a drop in volume of minus 0.5%.

It's important to highlight it is directly affected by the industrial market. As you can see at the bottom of the slide, throughout last year with a crisis, our growth was 6% for residential, 5.2% in the commercial class. And a drop by 5.7% in the industrial segment. Other segments -- 0.5% growth, influenced, as I spoke previously, by the rural area.

On the right, we see the total sales of energy billed by the group. In concessionaries and distribution, 1.3% growth reaching 37,821 gigawatts hours billed and 15% growth in the free market, reaching 10,243 gigawatts hour during the year, 15% growth. And this means an overall growth for billed volume, 4%, reaching 48,064 gigawatts hour. And we usually evaluate the profile of the concession areas and as you can see per region, last year the group going down by 0.9% in the concession areas and Brazil dropping by 1%.

So, the behavior is better, strongly influenced by the southeast region. The recovery was rather important there. So, it dropped by 1%. But compared to 2.4% of the southeast region as a whole. And then Rio Grande do Sul where the economy is growing more slowly, especially in the industrialized areas which we cover, a drop by 0.7% in the RGE operations vis-a-vis 0.7% for the south as a whole. So, the Group continues to have a behavior which is better than the average for the Brazilian economy.

So now, some more details about the regions, why we see these results. Let us start with residential and commercial. This is a positive highlight in a comparison between Fourth Quarters and on an annual basis as well. So, these are important figures. They are very vigorous and they are directly impacted by the growth in payroll, general payroll, especially driven by Sao Paulo and the sale of furniture and home appliances, both with a very positive behavior. And retail sales as well.

Of course, there are elements that can be added to this positive behavior, which are the reduction in interest rates measured by SELIC itself and the increase in credit supply in Brazil. In the crisis years, we see a very important expansion from BRL26 billion to BRL30 billion in credit granted and we have added 2.2% customers to our platform -- over 140,000 new clients, which are served by our distributors.

As you can see on the lower right, we have the comparison between temperatures achieved in the Fourth Quarter. It is usually a warmer temperature which directly impacts

sales to the residential and commercial areas and it is warmer in all the regions covered by the Group. So, you can see that this is a major effect to be mentioned.

On the next pages, we show you the elements that are considered in our planning process for our market for energy sales for our distributors. So here, we give you details about seasonally adjusted payroll. You can see that the amounts are higher than we had before the crisis. So, we consider this on an ongoing basis.

And one evidence of this behavior is also the creation of formal jobs. At the beginning of the year, it was rather negative and you can see an extraordinary recovery and you already have the January data, creation of 175,000 new formal jobs, 995,000 new formal jobs created for the year, which is an extraordinary result for our country.

On page eight, we credit granted to individuals and if we remove those who are -- which are related to auto finance, real estate mortgages. And overdrafts, you can see that the curve is rather positive. So, we see a full recovery here and on the lower part of the slide, the behavior of sales in the retail area with a comparison between Brazil in green. You can see the state of Sao Paulo in blue and Rio Grande do Sul in red, all of them with an upward curve. And so, in all the areas that we operate, we have this kind of recovery.

On page number nine, we see industrial consumption and how it behaved. We can see the peak of the crisis was in the First Quarter of 2009 and then, a slight recovery during the Second Quarter. But still lower than the previous year comparatively. Then the Third Quarter, you can see a more vigorous recovery and the last quarter, we see industrial area -- the industrial sector, 2.9% positive growth vis-a-vis the previous year.

And on the lower part of the slide, we see the negative and positive areas. This is important for us to establish our future outlook. In a comparison between quarters, we can see that 78% of the segments between the Fourth Quarter of '09 and '08 already had positive variations. And they are detailed here -- food, chemicals, textiles, transportation equipment, non-metallic minerals, rubber, paper, paperboard. And in a comparison, on an annual comparison, only three segments were increased -- chemicals and non-metallic minerals, 18% of positive recovery or positive variation on a yearly basis.

And on the right, we see the segments that had a negative variation. It is important to see that 82% of these sectors have a lower consumption in 2009 comparing to 2008 and this is the evidence of recovery. You can see that in the Fourth Quarter, only two of these segments are still slightly lagging behind -- metallurgy and mechanical and which we track more closely because it has to do with the auto market. And it doesn't have anything to do with the external market; it has a direct connection to the volume for exporting purposes and in 2010, the behavior will be better.

And one evidence of this behavior can be found on page 10. If we consider industrial production in Brazil, seasonally adjusted that dropped by 20% with a recovery of 18% over 2009. But still having 6.2% less in terms of reduction overall. So, we are still on a recovery curve. But in order to go back to the amounts that we had in industrial production using 100 as the basis, at the beginning of September, we still have a drop by 6.2%.

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And when we consider the effect that I had talked about coming from export of goods, we have the justification for the fact that some sectors are not performing as well as they did before the crisis, a drop by 25% in exports of goods considered on a daily average in millions of dollars. And there is a recovery by 4.5% over 2009. But if we compare with the amounts before the crisis, we still have a drop which is higher than 21%.

Page 11. Some elements related to the performance of industrial activity, the level of use of installed capacity, which is higher -- which is close to the amount before the crisis and we see the demand for exports, which would be driving the indicator. On the previous page, we see demand going up. Exports not so much. But already reaching a level which is rather close to the one that we saw before the crisis.

I would say that the expectation, of course, the CNI -- the National Confederation of Industries -- is doing some research about that. But we can see the expectation -- growth expectation for the next six months illustrated here. So we are very close to this point already. And we believe that the outlook for the industrial sector for 2009 will be rather bullish with a vigorous recovery and aligned with all the expectations that have been shared by the financial system in the evolution of our GDP in Brazil.

Let's talk about our results in the Fourth Quarter. In detail on page 12, we have the EBITDA of the Company. 2008, BRL700 million; we are reporting in 2009 BRL746 million, 6.7% growth in our EBITDA, directly impacted by the increase by 12.8% in net revenues and net revenues impacted by the increase in total energy sales by 4.9%. They increased by 11.8% in the average selling price of the energy and the effect of the tariff is very much impacted in 2009 -- the transfer of two major volumes or the two major pass throughs.

The first has to do with the Itaipu exchange and the other one the dispatch that occurred of thermal power plants over 2008 with the exchange rate at the end of the year because of the effect of the crisis. And the pass through is in 2009 with a direct impact on energy prices. And I say this because, on the other hand, we will find on the cost line a very expressive increase in energy costs by 16.4% and 8.7% in the dollar rate for Itaipu plus the exchange rate effect of the ERP and the higher dispatch in thermal power plants.

And this adds up to over BRL200 million for the Group and they are responsible for this counterpart. So to say. And this is important to stress that the increase of 8.3% in costs and operating expenses, adds up to BRL27 million, the overall increase of 8.3% and in these BRL27 million, we have the additional costs for the 14 de Julho plant HPP. And in 2009, also the liability related to free energy losses, the ANEEL Resolution at the end of the year, which established an adjustment of free energy for distributors and generators.

So, if we net these effects, we can see a growth of our manageable cost of personnel, P/M/S/O of 2.7%. And it is important to stress that it is comparable to the IPCA of 4.3%, which is the major indicator, especially for the Company's payroll and for service suppliers as well. So, this shows a growth in our efficiency and productivity, an improvement which is rather important.

Going ahead, we see the net income on the next page, BRL425 million net income, where we stress 25% growth vis-a-vis the same period of the previous year, impacted by 6.7% growth in our EBITDA that we have just talked about and the improvement in the financial results. And I would like to stress a reduction by 26% in our financial revenues and the major indicator of our cash and cash equivalent is a CDI itself, which dropped this year. And here on the right, you can see this.

But of course, the impact and the drop of the SELIC on the base rate is even higher on our financial expenses because of our indexation strategy. 60% of our debt is indexed to the CDI and here, we see a reduction by 28% in our financial expenses, which meant BRL75 million within net between revenues and expenses of 31% improvement.

We have an increase in depreciation and amortization that also had a comparative effective vis-a-vis the previous years of the pension plan entity. Besides, we also have the reduction in our income tax, stemming from our fiscal credit by the holding company of BRL77 million, which was very important as an impact to the results obtained. So in 2009, we see a net income of BRL1.286 billion and in the last quarter, practically one-third of that, BRL425 million.

Now, let's go to page 14. Here, we have a comparative analysis of changes in the Company from the Fourth Quarter of '08 to '09. For distribution, we have tariff adjustment in the market and now we have importance again, adding to 66% of the Company's EBITDA. That's the end of the tariff review process. For generation, continuous growth. Now, we have 25% with the arrival of the entry of 14 de Julho.

This stake increases from the moment we have new projects for generation, more specifically being concluded over 2010. Obviously, for commercialization, came in from a more competitive market with more supply. We also have a drop in margins and services, down to -- our EBITDA is 9%. Now in the lower part, we have the recurring EBITDA margin for the Fourth Quarter, highlighting generation 80%, distribution 22%, CPFL Energia 28.3%. And the last line, net margin coming to 16.5%.

As I said before, we expect as a result of new projects in our Baldin biomass plant that starts up early April. EPASA in the second half of this year. Foz do Chapeco in July will start up, too. Biomass Baia Formosa and wind farms close to 18 months. And then, we'll have our profile, our breakdown, EBITDA breakdown made up of 58% of distribution, 34% generation. So, this generation that is coming is important and for commercialization, 8%.

So results, especially on page 15, in the last line we can see dividend profiles, BRL655 million as dividends -- declared dividends, related to the Second Quarter of 2009. And then, if we break that down, we have the average value per share over the same period - 7.9% as dividend yield on an annual basis, distribution of BRL1.2 billion in 2009 and BRL2.55 per share. And now, will be distributing by late April, BRL1.36 per share.

On the next slides, we'll have a brief report on our projects in progress. Now, we're reporting the investments made in Baldin -- BRL72 million and in December, 90% will be concluded. Now, we'll be starting up with this venture in March. What are the highlights?

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Financing already granted and now we have Finem and Finame. We have 4.5% in the pre-year. These projects were all financed by BNDES, making use of these two lines and the details in terms of duration are specified here. They do allow us to have 24% of capital structure, our own capital. And 76% third party capital.

As you can see on the next page, we have another venture that brings a lot of transformation in the Group. We have Foz do Chapeco startup. In December, we had almost 80% of the work already concluded and you can see here the dam. We are showing on the left the spillways. This is the second largest spillway in volume of water in Brazil. And on the right, you have the area that corresponds to the dam already with a stop lock and now, we are about to conclude this in April.

And then, we can come to the final -- or to the conclusion of this -- with this BRL1.3 billion in investment. And this is really a lot of transformation because it adds BRL290 million of revenue per year to the Group. Just to give an idea of our EBITDA margin, you can envision what it will represent.

On page 18, we also have data for EPASA -- 51% stake. Estimated investment amounts to BRL310 million for 174 megawatts of install power. Here, we also have a fixed annual revenue greater than BRL80 million. And the highlight for the quarter has to do with the first debenture issued, the bridge loan of BRL228 million at 112% CDI. Term is one year.

We are already working in the take out of this operation. It's important to say that startup is also scheduled for the Third Quarter of this year. So we add EPASA with Foz do Chapeco and Baldin. We can very fast come to the growth of the generation activity and its important stake in the total earnings of the Group.

On the right, we have bioformosa. We started building this TPP, which is sugarcane-fired this month. Total investment of BRL127 million sic; see slides [ph]. Bear in mind that this plant sold part of the energy in the A-5 and we had a December base last year and 30% will be sold by CPFL Brazil in the free market and the plant will start up in July 2011.

Finally, on page 19, we have wind farms. We had announced in the Third Quarter of last year the purchase of these farms, seven farms in total. Here, we have a project to have 94 towers of the megawatts, having 188 megawatts sic; see slides [ph] of installed power. Investment -- total investment is BRL768 million. Sales price of the auction above the average -- BRL150 per megawatt per hour.

We'll be starting the construction of this project in the second half of this year, more specifically August and startup is scheduled up to July 2012. In this project, we have an estimated revenue of BRL100 million per year. As you can see, these data are very important and the project is also important. The entry of CPFL or more focus by CPFL with renewable energy.

On page 20, now this year, we've been celebrating 10 year of our generation operation. Please bear in mind that it started with a split, the spin-off of our small hydro plants of CPFL paulista for regulatory purposes and it has been growing ever since then, very big

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results, 38% per year. And this year only, it will grow 36% in install capacity with the startup of the plants that we've just mentioned. It's always worth mentioning that these projects are involved in very long concessions, close or higher than 2030 and all of them with contracted energy in the Group.

On page 21, the highlights are carbon credit commercialization, trying to give you more active picture of those that have already been recognized and now, we highlight 14 de Julho. Our potential is here on the slide for carbon credits and we have already built, as you can see, something close to EUR4 million and we have about EUR9 million already recognized to be built by 2012. And naturally, we are working with certification for credits, for biomass planned in another plant for Feden [ph] Castro Alves and also our wind platform. So, this activity is becoming more vigorous in recent years and also in the future.

On page 22, we are breaking down our services. On the left, we can see continuous growth in our performance to collect bills -- energy bills, telephone bills. And so on and so forth. So, these are receivables for several activities and also the stake of our Group in the bill. 6.8% of the bills of the Group are received here and this amounts to approximately 30% of the transactions we make in CPFL Total.

So this stake, as you can see, is relatively small by the Group, showing that Total's activity covers much more than energy bills. Now, if we focus on gross revenue for services, we can also see one-third related to the group, more than 66% from third parties and last year, we raised BRL15 million in this unit.

Now, another important highlight in this presentation has to do with the future. On page 23, we have CapEx approved for investment over 2010, reaching BRL1.7 billion or slightly higher than BRL1.7 billion, BRL1 billion or slightly higher in distribution, BRL670 million in generation with projects already contracted. And we are breaking down also distribution here related to expansion and maintenance, obviously related to the asset remuneration base, which is also important and in generation for each one of the projects, as you can see on the right, they are related up to now.

For generation, we'll be investing in a five-year period, BRL1.4 billion in this project and in distribution, BRL4.6 billion. So in five years, the group, with investments only of organic growth or generation already contracted will be investing BRL6 billion, expanding therefore its capacity to generate cash.

Moving to page 24, now we are analyzing the group's debt profile. Net debt adjusted is BRL6.370 billion in 2009. The rating of the group in June AA+ since last year. And now, we have a debt EBITDA ratio for this debt, just highlighting that some projects that have already been financed and are included in net debt. So far they don't generate EBITDA. Excluding financing related to this investment, we would have 1.9 vote. That's the ratio which is very healthy with a comfortable position.

Showing on the next page, a capital structure very close to perfect -- 44% of owned capital, 56% -- index is very good. 61% is CDI, 31% long-term interest rate. And the result of this quality of indexes and obviously focusing in the upper part of the chart as a result

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of this drop in CDI last year at 9.9%. We have our actual cost -- 4.9% is debt, nominal, 9.4%.

And as you can see, there is a drop in the percentage of CDI -- 107% in '08 to 95% of CDI this year. Obviously, in addition to this drop in CDI, it is important to consider the higher stake of long-term interest rate, BNDES financing. As I said before, in some plants, especially biomass and TPPs, we could fit them into financing related to Finame with a fixed rate of 4.5%. So, this financing will be important so we can continue decreasing our debt costs.

Page 26. This is the behavior -- an assessment of the behavior of our stock. On the left, we have accumulated in January '08 to December '09, just to give you a more accurate analysis, our share did not go down in 2008. It's one of the few that did not drop and, obviously, it did not rise so much in 2009. So, that's the comparison.

With Ibovespa, 22% against 7%, Ibovespa lower than what it actually is. But here we also have some acquisitions taken into account in the electric sector that appreciated these shares. And then, on the other side of the page, we have New York, 27% growth compared to a drop. Dow Jones, Brazil Titan, 4.2% and 21%.

Now, focusing on accumulated figures from year to date until February 27, we have some repercussion from the auction by late last year and performance is higher than Ibovespa, growing at 8.1%. The same behavior is seen in New York, growing at 12.7%, an increase in the average daily volume, as you can see at the bottom of the slide, coming close to BRL27 million with more than 1,000 trades per day.

Concluding our presentation, I would just like to mention again some acknowledgement related to management. It's important to be followed up and being publicly acknowledged. When it comes to distribution management, we are happy to see piratininga ranking second as a group in the Company to be awarded with a National Quality Award, becoming a world class company.

RGE, very close, becoming a finalist, which is also important acknowledgement and it is similar to ABRADÉE. Once again, paulista was the best national distributor. And then, we also mentioned indicators of Abriu Group and Exame Magazine among the top companies to work for. In terms of sustainability, we're also doing fine. For more than eight years, we are being considered in these rankings, our -- evolving and improving our position.

And finally, we have management and excellence. We rank first among the 50 top companies for sustainable purposes in Latin America and this topic is becoming increasingly more important. The Company has unique practices and is the second in the rank of transparency and sustainability according to Ibovespa companies.

So, these were our remarks and with my team here, we'll be happy to take your questions. Thank you.

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Questions And Answers

Operator

Ladies and gentlemen, we will now begin our Q&A session. (Operator Instructions)

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

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning, Wilson. Thank you for the presentation. I have two questions. In relation to the commercialization company, the margin dropped during the last quarter and you said that recurrent is higher. I would like to understand the reason for this drop. Every day, we read in the newspapers the issue of consolidation of CPFL that the government would be willing to help. So, maybe you could say a few words about that.

And also about the participation of Comargo Correa. Based on your shareholders agreement, what about the relationship between Comargo Correa and CPFL? Could Comargo Correa do something directly or do you need to have CPFL as the contracting party in the electric sector?

A - Wilson Ferreira {BIO 1528124 <GO>}

Regarding the Comargo Correa company in terms of volume, there was a reduction in our margin, however it's not very important. The result for the commercialization company in the last quarter from the margin viewpoint is more related to a set of material acquisitions, material that is used in the delivery of services.

And there is a major recovery in our service portfolio. Around the end of the year, we incorporated a whole set of materials to this space and it gave the wrong impression that it was an even deeper reduction in our margin and the behavior is rather different over the year, as you can see in the delivery of these services.

The growth expectation is up 5% for this quarter alone. Talking about consolidation, again, these are just speculations. I mean, we're not carrying out any operation whatsoever and you can read about that in the newspapers today. And of course, the consolidation movement, as I always say, is expected, especially due to the regulation of the distribution activity and with the end of tariff reviews more recently with the proposal for an addition, it reduces the margins for these operations. And of course, the counterpart so that we could evolve is related to scale, the other side of the coin.

So, I would like to say that looking for scale is very important today so that you may come out as a winner in this segment. On the other hand, we cannot deny that the crisis, based on our figures, has already gone through Brazil and it is already exiting Brazil.

If we consider exports, you will see that the crisis will have really left Brazil. But the financial system and institutions, infrastructure, everything in Brazil shows that we are all trying to

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make this growth process feasible and sustainable, which is very good. And I believe that all the results will show that this will be a reality which is not the case in the rest of the world. There are some hiccups, especially in Europe.

So, I believe that there is speculation, of course, about that, which is only natural. And the Company is interested in achieving this growth and will do this as the opportunities arise where we can share with the market what we have always done when we have made other acquisitions in the past.

So, we expect to create value. We expect to increase our competitiveness and our efficiency, of course and we are always paying attention to opportunities. However, there are no operations underway right now. There is another thing that you mentioned, Comargo Correa and of course, the shareholder is the shareholder of the CPFL. But also has been working in order to demobilize.

So, nothing could prevent the partner from making an acquisition. I do not have power of attorney of Comargo. But I can say that Comargo has been saying in public that the investment vehicle of Comargo in this sector is CPFL itself. These are words of Comargo Correa. And so, it seems to me that this is just speculation, what you were talking about and not a real situation.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Thank you, very much.

Operator

Our next question comes from Mr. Marco Sivini [ph] from Itau.

Q - Marco Sivini

Good morning, Wilson. And thank you for the presentation. Two brief questions. The first one has to do with concession contracts. I think you accepted the terms proposed by NL in this additive term. I would like to have a better understanding if there was a counterpart on behalf of NL. Did it really give signs to replace losses still related to the rationing in 2001 or if it just accepted that without any other counterpart?

The second question has to do with a consolidation process in the sector. Could you explain if there's consolidation in case of CPFL goes only through assets in Brazil or could we expect some kind of international approach by the Company via acquisition of assets in Latin America for generation distribution and maybe something slightly outside the core business in terms of expense distribution?

A - Wilson Ferreira {BIO 1528124 <GO>}

Thank you for your question. When it comes to the additive term, what we claim to be more positive is first the limitation of scope. It is the fact that could be the object of some

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controversy, clearly due to an addition in terms of public policies, governmental policies in growth in charges.

From the moment we acquire concessions, they were around 3% and now they are 13%. Obviously, this fact holds a cushion in terms of the negotiation without preserving the nature of the contract when it comes to algebra [ph] and if you consider the additive term originally proposed the formula was not there. We no longer had the parcel B to the revenue check, which was also essential, in our opinion.

What I'm trying to say, it was the object of a process involving the interaction of the companies with the agency and also with a presence of ABRADÉE. We understand that in order to have a positive agenda for topics that are deemed to be important to be discussed, it was essential to settle the problem. When we address properly the scope of the controversy, there's not the whole parcel. But just part of it, something around 13%. The parcel related to sectorial charges, fixed charges.

And the outlook is an agenda that allowed us to build objectively some regulation that is more transparent with a higher capacity to be reproduced, incorporating topics that have still to be assessed. But were not taking place from the moment you have a conflict of this sort. And also, some problems here. But we deem to be more important to have the right instrument, which is the additive term, preserving all the acts up to that date and setting for a new relationship, a better relationship between companies and the agency. It was not the object of a counterpart process.

But we still expect, naturally, that this agenda that was interrupted due to the magnitude of manifestations, especially the press, we expected to come back and undoubtedly it will bring better conditions to develop the sector. I'd also like to highlight that the facts stemming out of this negotiation -- it's 4%, actually, of the so-called regulatory EBITDA by companies on average.

Considering our companies, the behavior should be similar. It is lower in the beginning and higher at the end of the cycle. So, maybe we can have a better look in our companies in February with values close to 1%. So obviously, it is not big in the beginning and it is a regulatory EBITDA, the amount that I mentioned before.

On the other hand, when it comes to consolidation, your question has to do with that. If you're interested in Brazil, in the geography or on an international basis, objectively speaking we understand there is room for a consolidation in Brazil, especially for distribution. And only consolidation will allow us, on a long-term basis, to create more efficient companies, companies that are able to produce and distribute higher quality energy to consumers.

That's something that we've been watching very carefully in recent years, especially companies that can share because they are efficient and bring more efficient -- reasonable tariffs to consumers. And if you consider the level of consolidation in Brazil, the three top groups hold something around 35% of the sector and worldwide, on a consolidated basis, these values are over 60%.

Naturally, there is room for growth, consolidation. And if we follow carefully and if we have the government agencies involved, I am not authorized to speak on behalf of the government. But the signs given by the government, particularly in other sectors of the economy -- paper, for instance -- mining is another one or the meat industry.

There are several examples showing support to big companies and I believe that in such a key sector such as energy and distribution, we could expect some similar support. Obviously, in that context, CPFL is well positioned. We have just assessed the capital structure, the major items of efficiency, geographical location. So I do believe we are naturally a consolidator or a major consolidator for future years that could naturally, in addition to efficiency, could add quality of service, which is something that the company is acknowledged for.

For consolidation, obviously, if we have opportunities in Brazil, that will be priority. We made some studies on international scenarios and in the electric sector, this is still very small in Latin America. In the future, we have partnerships for generation. But considering some kind of acquisition, in order to be feasible and in order to move forward in some kind of international activity, well, that might be considered. But nothing outside the core business of the company.

We've been trying to make that clear to the market. We are an integrated company with a relevant efficient stake in distribution. But very well positioned in the free market segment and then we can be very competitive. This DNA for competition is dear and important to us to be developed with the officers of the company and obviously, we also need growth in generation. The signs given by the company in that direction are very clear.

And I'd like also to make it clear that for Bellemonte [ph], we are still negotiating with the Comargo or the Bre [ph] consortium to be involved because we understand that this venture is relevant in the history of growth for generation at CPFL. Today we have contract around 2.6 million megawatts, which will allow us in the next two years, at this year to exceed Duke, which is the third private player.

And naturally, we also have other projects, especially for wind power and it will allow us to rank second. There was some exaggeration with a reporter when she talked about Tractebel. Obviously, we respect this big player. But we'll keep on growing. If they don't grow enough, obviously, we can also exceed them.

But we are taking a step-by-step approach. Right now we want to consolidate generation with more diversification with renewable sources such as biomass, wind power, specifically, small hydro plants. We've been watching that carefully. Keep on growing so we can also have a relevant stake in an integrated group such as ours. Overall speaking, we hold 60% in distribution, 30% in generation. And 10% in commercialization.

Q - Marco Sivini

That's it. Thank you.

A - Wilson Ferreira {BIO 1528124 <GO>}

In gas, we will focus now. We'll be sticking to distribution, generation. And commercialization. These are our competencies that have to be deeper. So if we really want to go for growth. But if we need an international presence in Latin America, obviously, that can be considered. That's not the target. But sometimes we have that as room for growth.

Q - Marco Sivini

Thank you, very much, Wilson.

Operator

Our next question comes from Mr. Marcio Prado from Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

Good afternoon. Good afternoon, Wilson. I have two questions. One has to do with generation and the other one distribution. In generation, a more specific question about project and away. Right now, Bougini Pass [ph], Buford Mossa [ph]. First, about commercialization of energy. Did both for megawatt -- average megawatts are already sold in 25 of Buford Mossa for 2011. So, you already have a negotiation via CPFL commercialization company for negotiation of this energy. This is the question. What about the free market, price-wise?

And two quick updates about Bougini Pass. I believe the operation is slightly delayed. Is that correct? And what about the energy A-3? How are you going to buy the energy? In terms of wind energy, do you intend to expand your wind farms based on the project that you have already sold at the first wind energy auction in Brazil? So, these are my questions.

And in distribution, a short remark as President of ABRADÉE about the very strong volumes that we have been seeing. And on the newspapers we see a lot being said about the quality of the distribution system. Not CPFL, specifically. But in general. So, could you talk about the quality of the system -- distribution system and is there a need for higher investment in the short run because of the major volumes that we have been seeing? And could you make a general remark about that? Thank you, very much.

A - Wilson Ferreira {BIO 1528124 <GO>}

The really inflated questions. You said two. But you asked four questions. Anyway, the questions are very good. So I will try to answer the four of them. The first one has to do with generation, right? So, you asked me if the project about Bougini Pass and other projects, if they have BPA. You asked about the free markets, especially biomass, about Buford Mossa. We are about to announce a third one.

All of them have see preview [ph] as a model, a business model. It gives a PPA for this operation and I think, Marcio, it would be convenient now to establish a difference

between the free market. If you talk about the free market, you can have two markets there. One market based on volume, especially for A-1, A-2 consumers and A-3 where you have a higher supply. Although you don't have a lot of ballots and the spread on the POD are very high.

So, those who have long operations have higher prices and the opposite as well. And there is a theme related to the growth in the free market, which expands especially to the A-4 subgroup, the medium-sized consumers between 500 kilowatts and three megawatts, that could go to the free market, provided they are catered to by a renewable source such as biomass or an SHB.

So, the operations that we are developing in biomass and small SHBs have a PPA by CPFL Brazil and CPFL Brazil, of course, gives the PPA at volume where the volume of energy can be placed in the A-4 subgroup. Why is this important? Because there are many consumers there and we have just a handful of sources that are able to meet their needs.

So there is a tariff incentive that is a reduction of the TUSD in order to come on board in this market. So this market is growing and this is where we have a very important share because of the sources that we already have in operation and the ones that we are setting up. So this segment has very special characteristics, especially right now, due to the fact that there are just a handful of suppliers that are able to meet their needs.

And now about Depassa [ph]. Okay. So there is a slight delay. It should have been started up in January and it will happen in the second half of the year while we are making our best endeavors in order to bring this forward. And originally, this is scheduled to start up in October. And we might be able to do this before. But as part of the investment associated to that, we took a hedge.

So, the position is fully covered by purchase of energy according to the regulation that we have in force. So, there is no effect to be considered besides that. And we are making our best endeavors to start it up before October and we have a full hedge for this exposure.

Regarding wind energy, if we are interested in expanding, yes. The answer is yes. We -- wind energy, after the auction, has become strategic and it is a relevant energy source to be developed, especially in the northeast of the country. And is a scale advantage there because we will have seven farms simultaneously in order to take advantage of these benefits, especially in terms of the negotiation capacity that we will have. And also it has a relatively high capacity in our case. We declared 42%. But there are some elements that allow us to reach 44% of capacity factor. So yes, we are paying attention to that.

We have some projects, of course. And there is a real perspective for us to have, in 2010, differently from what we had before, a new reserve auction in the Second Quarter of this year where we will see a comparison in this reserve auction between wind biomass and SHPs and a perspective of 500 average megawatts -- between 500 and -- 450 and 550.

And if you get the alternative sources, we had, in the past, we had ended 86 and the previous one, 548 average megawatts. So, we see a real possibility here to have an

auction with a competition between -- or among three sources with prices similar to the ones that we saw in the previous wind energy auction. And we are, of course, paying a lot of attention to that and this will be considered in our growth strategy.

And finally, you asked about distribution and the quality of the distribution system and the need for investments overall. I'm going to be very candid about that and I will probably publish an article in the newspapers about that in the near future. Over 10 years, in the last 10 years, we had an evolution in the quality of distribution when you use, as an indicator, the duration and the frequency.

And in general, in Brazil and undoubtedly, for the companies that are privatized and mainly because of the higher access of third party capitals and we see investments that were more robust over the years and higher than state-owned companies. And this allowed us to have a better reduction in the reduction and the frequency of interruptions which are the ELC and the EFC.

And some characteristics should not be neglected by us. The Brazilian power system and distribution of electricity is rather simple. It is very characteristic of very big countries. It is an airborne system. And when you talk about an air system, you shouldn't say, well, in Japan things are not like that or the United States, oh, this typical -- of countries such as the United States and Japan with some degree of sophistication.

But once I went to California and I was passing in front of Bill Gates' house and they have wood poles and they have air cables. So you can see that we have a situation this is even simplified here in Brazil. So our poles are 11 meters high and in Japan they are 17 meters high. The Brazilian system has a lot of wood because it makes the system even stronger and the level of insulation is higher than the concrete ones.

And -- but the theme has to be addressed, of course. And the fact remains that this air cable system needs -- there are some measures to be taken so that we can operate the system with the highest possible efficiency. One of them is what interrupts the system is vegetation, of course. Companies such as CPFL more preventively in this area. We developed a manual for tree planting and we donate all the seedlings to the city administrations and the trees that grow underneath the system, they only grow up to a certain height.

So, this does not bring about interruptions. And maybe we are not as careful as we should be. But vegetation has to be addressed. And the alternative to the trees that are already planted is the insulation of the system. And this is something that the companies are trying to do and, of course, investments have to be made there and they are prudent investments.

We are living, I would say, the second generation of distribution networks. The more compact ones, the more isolated, insulated ones and those that will bring more reliability, of course. And they are better where you have a higher investment capacity. And it is very important for us to recognize this. This system has to have scale. In order to make a change in the pattern feasible, you need higher investments.

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So, more capital is needed. And I would say that we are seeing this moment of compact networks, insulated networks, which brings about the need of higher annual investments by distribution companies and concessionaries have been doing this in order to address, especially, the large urban centers where you see a higher need to implement this kind of network.

And on the other hand, we would have the third generation of the system, which is what we call the smart grid. And right now we are talking with the agency itself and at ABRADDEE and this will establish some advantages for consumers as well -- the use of early seasonal tariffs, for instance. And we will see this more clearly over this decade, around the middle of this decade. And the compact and the insulated network, we already see it. And we do have some isolated problems. But I see no relevant investment deficit that might be responsible for what we lack of quality.

On one hand, we have to recognize that we have never had so much rain as we had this summer in most of the country. And of course, with winds at speeds that have only rarely been seen and sometimes the construction itself impacts the network. And as we are doing permanent of soils, it may enlarge urban centers. It makes it very difficult for us to move around. So to say, in order to get to the place or the site or where the interruption was verified.

So, companies are having a higher degree of automation and we have our most important network which is automated by contingency. So, we operate this through a computer base and some of you have already seen this. You have visited CPFL. And this is an evolution of the distribution system and we will be implementing this over time and some companies that are more developed have done this first as pioneers and the others are following on.

And in our group, most of the companies have six hours interruption per year, 8,720 hours as a comparison of availability. So, we have 99.999% efficiency or reliability. So, this is very high vis-a-vis the standard that is used. Of course, we have to further evolve. But we have already reached a very good level and it further improves with the insulation of the network.

So, apologize for the long answer. But I think it's very important to stress this. And when I talked about the positive agenda with the agency, this agenda will allow us to have all these technological changes and investments in automation, investments in insulation of the grade. And investments in capacity reserve, in substations investment, in smart grids as well. Everything has to be very detailed and made feasible by the agency so that we can implement it.

Q - Marcio Prado {BIO 15398968 <GO>}

Thank you, very much. And I apologize. I talked about two things. But you're right. I asked four questions instead of two.

A - Wilson Ferreira {BIO 1528124 <GO>}

I was just kidding.

Operator

Our next question comes from Mr. Marcelo Britto from Citigroup.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good afternoon, Wilson. Good afternoon, to all. My question has to do with CPFL Bellemonte -- you are effectively interested in being part of this venture. Wilson, could you tell us how you consider the budget delivered by it, plus the environmental areas still to be added and what is the impact in the final price of the project? Could you elaborate if you can build a plan this size between 1,500 to 2,000 kilowatts per hour based on your experience?

A - Wilson Ferreira {BIO 1528124 <GO>}

Great question, Marcelo. I think it's very hard to embark on such a venture for this price. I honestly believe that to make that feasible, we need something around that amount. We are not a construction company. But look, if you consider the price that has been declared for Bellemonte, for Central Antonio Girau [ph], they are all around BRL10 billion, BRL11 billion to 3,000 megawatts. I honestly believe -- well, I've never seen anything like that. No construction work in our company has similar prices.

So, if we consider the scale required, I don't believe it will be possible to have these prices. I like to make comparisons and part of this venture has to do with machines and machines related to copper, aluminum, steel, international commodities. And this is sold by weight. And this relationship, well, usually you need \$400 to \$500 per megawatt with machine only. Not to mention -- think about a dam that has extraordinary challenges, more than two sites, just to build a dam and a powerhouse.

We have dams with two kinds of machines -- big machines, small machines -- to make the venture feasible. Not to mention you need a channel. There is a channel there and this venture is really, really complex. 11,000 megawatts, if you compare and if you take wood as a whole, Central Antonio Girau. Madedá [ph], for instance, 6,000 megawatts under extraordinary conditions because the capacity factor -- one is 60%. The other is 70%. So 75% on average, considering these plants' capacities are similar around 3,000 or 6,300 megawatts for both projects. And this is more than 20 billion without the channel.

And then, you have 65% of production capacity for that energy. So, it would be reasonable to assume -- and I know Bellemonte might cost at least that price -- at least. That's the minimum price. Added to the challenge to build 33 kilometers, which is close to Panama. And another consideration is the tariff price.

If we considered that unlike Central Antonio Girau and Madedá, when we have 65% of capacity, in this project you will have less than 45% and that gives production difference in terms of megawatts installed closed to 50%. Think of a machine in Madedá that will produce 50% additional or more energy than a machine in Bellemonte. So, we shouldn't

ignore that. After all, tariff is megawatt per hour for every until produced and we shouldn't forget that.

I would say there will probably be a debate in that direction to assess the real challenges as far as investment goes. So that later we can consider the topics I mentioned before. If you think about different capacity factors, that's one point. And there is another point. If you consider Madedá with the successful system to sell energy, 70% of energy is in the captive market and 30% in the free market.

But please bear in mind that the free market of that plant is connected in the south through that transmission line. The market is very liquid, very huge. And there we won't have 70%. Theoretically speaking, we have 90% in the captive market.

If we consider high producers close to captive price, it will be around 90% and only 10% in the free market. But in the north, not in the southeast. So less value, less liquidity. And if you work on that comparison, this calculation and your analysis, the price of free markets in Madedá drove the captive price down. The plant has a single price. But it will sell two products, one in the free market with the figures that you have disclosed at BRL130, BRL140.

And the captive market, something around BRL72 and BRL79 or today BRL75. So, that's the average of 70% with 75%, 30 and 130 that allow the plant to be built. That's the average price. Now, when you have less free for a higher price, obviously the price of the captive market goes up, too. It will go up because construction is more expensive, capacity factor is lower. And you also increase because there will be less high value free markets.

As a counterpart of the captive markets. So I think this is the serious challenge that is being taken by the ministry in order to make the construction feasible. Right now we need to make it feasible. It will be top quality and the tariff price will be competitive with the sources currently available today. There is no doubt about it.

If you compare to BRL150 of wind power -- and I also mentioned other projects with more hydro plants, biomass, they all have higher values. And Bellemonte certainly will have a lower price. And what really matters, the bottom line, as I mentioned in an interview yesterday, the bottom line is not the ceiling price.

What really matters. And I think the government was really efficient, is to develop competition. If you have two competitors, big competitors on both sides, competition will be relevant. Once again, as I said yesterday, remember that the ceiling price of Central Antonio was BRL102 or do you think that the final price was BRL78? What really matters? The ceiling price for consumers? No. What really matters is BRL78 -- consumers, society, the government, for all stakeholders.

So I believe we evolved a lot in terms of Bellemonte, for the project, environmental concerns and also financing. Just as everything that takes place infrastructure supported by BNDES, which was very relevant. And competition, the market value, is necessary so

we can we have the lowest price possible for the project considering the risk by those who are under control. So that's how I assess this project, Marcelo.

Q - Marcelo Britto {BIO 15393330 <GO>}

Based on your comments, would you say that this project is key for producers in the north?

A - Wilson Ferreira {BIO 1528124 <GO>}

I would say it is important. The bulk of producers already identify they all have operations in the north. Undoubtedly, it is important.

Q - Marcelo Britto {BIO 15393330 <GO>}

Thank you.

Operator

We would like to close the Q&A session and Mr. Wilson Ferreira, Jr. has the floor for his final remarks.

A - Wilson Ferreira {BIO 1528124 <GO>}

Once again, thank you very much for your presence and we understand that last year's results and also the Fourth Quarter results make it evident that we are following the right strategy of the Group. And we have already had the tariff review. We have already a discussion about parcel A. So we have already proven -- approved these addendums by our board. So we already have a positive agenda, a value creation agenda that deals with some themes that were raised by you in terms of efficiency and quality and which reinforces the need for investments and we are very well positioned.

We are willing to create value and share the management technology with other companies and we are presenting to you a very important generation growth agenda. We talked about that last year when we developed this agenda and I told you that we were going to wind energy. We have come out as winners. We got into a venture which is about to be completed. We have a winning model.

In the next few days we will be announcing a third project, a major one. And I would say that the agenda that we have for the country for 2010 with the 6% outlook for GDP growth and the agenda for infrastructure with a very important partner, which is BNDES, be it in financing this growth in infrastructure where very clearly the Bellemonte will be a highlight.

But not only Bellemonte because there are other projects being developed in all areas -- biomass, wind, HPs and others. And on the other hand, we have the issue of consolidation. Consolidation is really an element in distribution, which is very important for us to make it feasible to grow with quality, to grow with efficiency and with moderate tariffs as well.

So, in all these things, at a moment when sustainability is the key word, CPFL is very well positioned. So of course, our expectation, our outlook for the year is very bullish and it couldn't be different from that. And in our next calls with you, we expect to be able to share not only our optimism. But already results. And I thank you and I thank my team as well. Thank you, very much.

Operator

The CPFL Energia Conference Call is closed. We thank you very much for your participation and wish you all a very good afternoon. Thank you.

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