

Y 2015 Earnings Call

Company Participants

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

Other Participants

- Lilyanna Yang, Analyst
- Miguel Rodrigues, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia's Fourth Quarter of 2015 Earnings Conference Call. Today with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia; and other officers of the company. This call is being broadcast simultaneously on the Internet at the Investor Relations website of CPFL Energia, www.cpf.com.br/ir, where you can also find the banner for download.

We would like to inform you that all participants will be in listen-only mode during the company's presentation. Afterwards there will be a question-and-answer session, when further instructions will be given. (Operator Instructions) I would like to remind you that this call is being recorded.

Before proceeding, we would like to 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's management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and the other operating factors, they will also affect the future results of CPFL Energia and may cause results to differ materially from those expressed in such forward-looking statements.

Now we will turn the conference over to Mr. Wilson Ferreira Junior. Mr. Ferreira, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Thank you very much. Good morning. Welcome everybody, investors, analysts that accompany us in this fourth quarter of 2015 earnings conference call. And also a few data about the whole year as well. I would like to start by page number three, when we make an introduction. Where, we are starting from this year. I understand that 2015 was a very positive year from the regulatory view point and 2016, regarding the rainfall perspective, we believe that the worst of the crisis of the electric factor in hydrologic prices is over.

So I would like to start on the hydrologic scenario. On page number four, already you see a demonstration of that, we have the data of last Friday. We got to about 155% of storage in our repository equivalent of NICS. The outlook is to get to close to 60% at the end of this month. And on the lower part, you have the very clear reasons why we have this good situation; if you take that last three summers. In the summers, we have always been below and '12 to '13, '13 to '14, 36 below the previous 110% of the wet period. The same model normal 32% below LTA from '14 to '15.

And this year, as you can see on the chart, we're already 6% above the LTA. So this is very satisfactory. This is fundamental for us to have a final solution to this thing related to dispatches. But here, we are talking about mainly South East and Central West. As you can see, we are in a very comfortable situation. As you can see, a 127% to January, 86% February, in NCCW, and again 100% in March, 2016.

This is a comfortable situation, so we can well imagine that by the end of April or the wet season, we will be very close to these curves of the last 20 years. Which give us a very comfortable outlook from the viewpoint of energy served to other utilities.

On page number five, we have the perspective for 2016.

We are considering 90% of the LTA, we are higher than that and 40% of thermal dispatch and in November 2016, the reservoir levels will be in line with 1997 to 2015. This is very important you can see that we can be -- we get close to 60% near April, if the same level of storage are maintained the ones that we have had in the last three months. So this way looking at the scenario of load which is practically stable, 0.9% higher in fact and the thermal dispatch 61% of the thermal situation.

In the work hypothesis, we would have a 50% dispatch and we would get to 31% and in the real condition estimated by the ONS that would be close to 49% so you can see that we will be turning the page on the problems that we have seen in the last three years. Now page number six, another fundamental thing was solved at the end of 2015 in our case and for most companies at the beginning of 2016 regarding the GSF, which was another big concern that was addressed on page number seven, you have been specific case of CPFL. We have 41 plants, seven HPPs and 34 SHPPs.

Exposure Level have 760 megawatts average, severed the millions, and in our case is not exposed to this kind of risk and of these 760, we had 65% regulated market and 35% free market. Of these 65%, 455 megawatts average that you can see below, they were

all renegotiated and the product that we chose was SPC which is the maximum protection to the GSF estimated by ANEEL in 2015 was BRL430.5, megawatt hour, the risk premium adopted by the choices we made was 9.5 megawatt hours.

So we are entitled to a reimbursement of BRL33.55 per megawatt hour with a positive effect in our adjusted EBITDA of 2015, of BRL134 million with full coverage to all contracts of CPFL, involved with this market. Another page that we turn on a problem that was relevant in the last couple of years to the sector and mainly to generators.

Now the 13 which was another concern in 2015, and we will show you the perspective regarding the pressure on discuss cash flows. We carried out many important actions in the past -- in last year mainly regarding the ETR and Tariff Flags and the Tariff Realism as we call it, but as Dicos has already started 2015 with cash imbalances and by the end of the year, the situation went, started to deteriorate and on page number nine, we already show you a very positive perspective for the next few months.

So the reference that I had made regarding the Tariff Realism actions that meant an increase of 53.3% on our tariff to discuss 39% of the PTR, ATRs, and ETRs besides the 14% of the Tariff Flags. You can see on the right that the third quarter of 2015 was the one where we had the peak of the use of cash by means of CBA. BRL1.9 billion of credits, vis-a-vis the system of customers and the situation improves in the last quarter already also due to the reduction of the tariff banners, 1.7 billion, and as you can see on the lower part of the chart with the lower Tariff established for Itaipu and lower CDA quota.

Besides the perspective the hydrological perspective, therefore lower thermal dispatch, our expectation is that by September this year, we will have these funds totally coming back to the distributed cash. So this was a big financial problem to most of the discourse and the situation will change by September this year at least as far as our Group is concerned.

Then we get to 2016. Real problems in 2016 starting on page number 10, regarding over contracted position. On page 11, we have a little bit of this moment and the perspectives for the solution to this thing that will occur to most Discos in Brazil. Given that in the last few years there was a reduction in consumption in the previous year plus practically maintaining stable. The outlook for this year, the perspective is flat. But the contracts that were signed in the past in order to cope with the perspective that we suffer consumption at the time, we'll determine this over contracted position higher than the regulatory limit of 105%, because of that ANEEL submitted to discussion two things.

The first about 10 days ago and that should be voted next week by the agency themselves and because of this provisional measure we have a methodology to recognize involuntary surplus coming from the contracts that of quotas from '12 to now -- 2012 to now, we had the situation and this provoked to most of it discussed together with a regular contracts and the auctions carried out; A-5, A-6, A-1 that they would have over contracting positions, we expected this to be voted tomorrow, however, it's not in the agenda.

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So due to the need or emergence of this decision we expect this to be voted by next week and this proposal alone is enough to solve the problem in the short run for CPFL. The reduction that comes from this APO04 is 4% and in the short run, this affects the whole sequence of contracting by Disco's within the short run there is a 4% reduction, placing all the CPFL Disco's within the range of 105% off.

So this is very important for all the companies and specifically for CPFL because it -- by itself solved the short-term problem. It is also true that we are dealing with something that is already underway with a big migration of customers, because of that there is another PH underway and the contributions end today.

And there is a postponement or suspension of contracts for new energy. There is a good potential of plans that are delayed, so a methodology is being created to reduce bureaucracy, so that this can be done quickly.

It's important to stress that there is a reasonable potential here to do this kind of job we know the large plants that are delayed, more than large number of plants that are delayed so with this action alone and together with this one on the right referring to migration of customers which has a higher volume today increasing this over contracted position because there is no regulation to deal with this migration of special customers and specifically so in 2013 there was PH 085. We discussed the rule to adjust disco's contracted position due to migration of special customers, so that we could have the proportion or restitution of contract.

As we have the exit of the special customers, this is being discussed with ANEEL and I believe that the three proposals taken together will make the theme of over contracted positions to be solved in a very transparent and fair manner. Because of the moment that we are living today it is true that we might have an important solution for the sector in the next few days regarding the conclusion of PH 004, and this is very important because of the needs of discos for future auctions.

And finally, the challenge that we will be facing is the macroeconomic scenario that everybody will be facing because of all these turbulence and volatility that the country has been living.

On page 13, we have the scenario that is used by CPFL as a reference for its forecast. For a long time we have been using IBGE and LCA, and you can see our main figures here. Figures that are being the basis for our future planning process. In the GDP theme, we had a drop of 3.8 and we believe there will be 3% drop this year.

Recovery only in 2017.

The results came from variation in industrial production, on the right, that dropped 8.3 last year and we expected to drop an additional 4.7 this year to rebound in 2017. Hence, total payroll that affects mainly residential dropped 5% last year. This year we expected to drop an additional 3.1% rebounding in 2017.

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I would like to remind you that we have an expectation because of the restatement of contracts, inflation was 10.7 last year. We believe it will be 7.2 this year. So higher than the limit and going back to the center of the target or higher than the center of target in 2017 with 5.3%. This means that we have to be very careful in terms of developing activities in the energy sector. Just to end this point, I would like to mention that I think it's important to have these themes of 2015 solved in. As you can see we are addressing all the possibilities for 2016.

On page 14, we have the highlights. The first one is negative. Sales dropped by 5.3% in the concession area. Residential, minus 2%, commercial minus 2.2%, industrial minus 9.6%, aggravating the scenario of industrial consumption. On the lower part, we have the results of 2015 the reduction of 4% and the sales in the concession area of distributors.

The same 2% residential, seems to have reached the bottom, commercial minus 1%, industrial minus 6.9%. In spite of all these reductions, we continued our investments. We invested almost BRL0.5 billion in the fourth quarter closing the year with 1.428 million, 30% higher than our investments in 2014. We've renegotiated the hydrological risk. As I said to 458.8 average. We had the issue of the company's rating S&P, AA-, which AA maintained this is recent, it was a week ago, there is a recognition on the part of rating agencies mainly regarding the liquidity of the Group contributing to the maintenance of the rating perspective, and the entry of CPFL Energia's shares in the IBRX-50 and becoming a components stock of the ICO2, Carbon Efficient Index, in January 2016. So this is very good news.

There were maintained in the ISE index for the 11th consecutive year and CPFL was classified as a member of the sustainability Yearbook 2015, prepared by RobecoSAM responsible for the review of the DJSI. So these are the main highlights of the fourth quarter.

Now just to talk about sales in the fourth quarter and afterwards, we will tell you about the year. On page 15, we see a drop in the captive market of 4.1, as I have already mentioned in the green area. You see the free customers especially, industrial a drop of 8.5% and the total in the concession area is 5.3 minus, as I said and the negative highlight here is the industrial sector with a 9.6% drop, on a year-on-year comparison, reaching 5.3 negative.

The positive outlook occurs in our valuation of contracted demand, over the same month of 2014. Since June, we kept a contracted demand higher positives on a year-on-year comparison mainly in the off period and off-peak, end of peak, slight reduction of 0.8 June, 0.9 September.

In December the behavior was different, so peak going up and off-peak continued to grow at 1.6%. The participation of industrial that was once upon a time 40, and now it's 39%, you can see that this breakdown is more or less kept. You can see that in this specific area of the concession area or growth in the concession area, mainly in the south-east and south. The group had -- the performance that was lower than Brazil, Brazil dropped 3.3, and we dropped 5.3 in our concession areas. And volume in the southeast,

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4.3 and our disco's 4.9 and in the south we had a slightly better performance vis-a-vis the rest of Brazil. The south going down 8% and we going down 7.1%.

On the next page, sales in 2016 a drop of 4.3% [ph] 3.3%. In the captive market very close to what we had said to the market at the beginning of the year 3.3 and TUSD dropping by 5.8. We had already said that the biggest contribution was the drop of 6.9% in industrial. I had said 40% in industry for the whole year. But as you saw due to the drop in the -- at the end of the year, there was a loss of relative share to 39% and the figures in the comparison between the regions with CPFL, you can see 4% drop and here 2%, 3%. Last year, we had an increase of 0.1% in our generation installed capacity in renewables from 915 to 930. In -- you can see renewable and conventional.

Page 17, delinquency, which is a cause of concern to many analysts and investors. On the upper part of the slide we see the evolution of the number of total bills, where we have delinquency up to D90, up to non-verification of payment. The good news is that we had a reduction in December and we expect it to drop as we see the dropping down of tariff banners. And you can see that in terms of billing from 90 in the last 12 months is stable. 0.83, 0.84 and this figure is relatively stable and what we've been establishing, this is the accounts of this group beside the increase in the accounts and the decrease in salaries and increase in employment as you may remember last year we had the removal of some customers, the lower income customers that had incentives.

So in number of those, it's practically half in the B Group 116,000 and it has not stopped dropping in spite of the Index of D90 over the revenues is kept constant, practically.

It's important to highlight that all the action and we made many reports to you about that between 30% and 60% of cards and all the instruments available to the company, you can see this in the evolution of the provision for doubtful accounts, you can see 50% here on our tariff, 50% in allowance for doubtful accounts, as you can see on the slide. This reinforcement is important because if we look at the percentage of recoverable revenue over billings in the last 12 months, we had -- we expected 2.9 in the fourth quarter of '14 and 4.25% in the fourth quarter of '15 keeping the steam of allowance of doubtful accounts, 50% higher than we expected, around BRL30 million, BRL35 million.

Finally on page 18, we bring the results of the fourth quarter. The first line brings the reported results IFRS, the second line what we always have, incorporating the proportionate consolidation of our assets, that's different from the IFRS and our consideration as regard with sartorial financial assets and liabilities and non-recurring items.

Well, starting with IFRS. On the fourth quarter of 2015, we have a drop of 8.7% on net revenue reaching 4.507 billion and this is related to that consolidation of assets and liabilities verified on the last quarter of 2014. So looking at the recurring value which is approximately 0.3% reaching an increase of 15 million. So, this revenue increase so the fact, throughout out the year especially due to the tariff increases although on the fourth quarter, we had a non-recurring item from the last quarter of '14.

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EBITDA and IFRS further decrease of 35%, a drop of BRL237 million and the proportionate and recurrent values, we're talking about a decrease of 7.7%, 70 million reaching BRL844 million. The EBITDA is main guide in the last line of the net profit of net income with a drop of 22.8%, which is 363 million in the last quarter or decrease of 10.7% at BRL255 million.

At the bottom of the slide, we have the variation of the item either on the consolidation or sectorial financial assets and liabilities for that quarter. And our non-recurring items, sectorial financial assets and liabilities of the year of '14. In GSF and Energy purchase that is verified here both in '14 and last in '15 both for Geracao and Renovaveis. The effect of the renegotiation of the GSF, the risk of premium, the insurance reimbursement for the Jirau hydro plant.

As an addition in the fourth quarter and in terms of the two assets, an accounting procedure recommended by our auditor and the non-recurring effects of CPFL Renovaveis that occurred in the last or fourth quarter of 2014. So, due to these effects, when we addressed the EBITDA we have had 700 million -- 70 million in last quarter of '15 and the difference if you're considering the sectorial financial assets on the previous year there is an effect of 428.

So the recurring value of '14 is in the range of 428 from 1,005 of the fourth quarter of '15. Removing 161.

As we go through -- move on to page 19, adjusting the evaluation of the main item. So we are not discussing the comparison of the 25%, but the drop of 7.7% right now, as you can see on this chart, there is an important negative effect on distribution, first the currency variation and the dollar was very volatile last year and in the last quarter. The increase of 10.9 in the IPCA versus 10.5 of EGPM, it's an important variation, we'll talk about the results of our manageable cost in a minute, but in the last quarter we have a very close value to that of the inflation.

The drop of the market in the distribution area was 33 million. Decrease in the results, the adjustment of ETR and CDA highlighted in our release regarding a procedure obtained by Pirassununga and applied to all companies. The allowance for doubtful accounts of an additional 12 million and the cost of the collection actions that we implemented to maintain this allowance of doubtful accounts.

The sale of assets in the fourth quarter are small amounts legal and judicial inventories of BRL17 million, the positive results, the tax through of PIS/Cofins of 15 million is a procedure to avoid the volatility on the pass-through of PIS/Cofins another item amounting to 12 million. So this distribution is clearly what is responsible in the last quarter for the negative variation of our business.

Conventional generation reports 10.4% positive results, the seasonality strategy contributed with 9 million, the better performance of Epasa and 20 million since September of 2012 and other smaller amounts of 3 million while, renewable generation and important highlights of an increase of the growth of 57.7% or 64 million.

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On one side because of the lower energy purchase of SHPPs/biomass plants of 15 million, Lower fine in Bio Formosa II, asset write-off of 5 million and the commercial start-up of Morro dos Ventos II contributing with BRL33 million to these results.

CPFL Renovaveis for the first time is using an EBITDA as a company higher than BRL1 million as an important growth phase delivering the project that we will have this year. For commercialization, services and holding the result was 6.2% higher or BRL2 million, in the previous year we were working with a much higher throughout the CLA and the company had stretched results. We are very pleased with the results on commercialization we had in this last quarter -- So in the bottom line, the conventional and renewable generation activities were positive, commercialization also positive. Distribution was negative resulting mostly due to the volatility of the exchange rate and the type of markets that are the main elements to determine this variation.

On slide 20, we have the manageable expenses. Based on our costs or expense management program and I think this is the main results, if we look since the implementation in the current values, on the right side there is a decrease of 18%, equivalent to BRL326 million at this time, reaching 1,430 billion, we would have better one for that. Action, but it was an expressive result and significant results and I -- this reduction occurs both on the MSO, and the contracts and also in personnel in real term.

And on the year from '14 to '15, the actions throughout the crisis got a decrease in real terms of 6% when compared to the IGPM of the period. If we see the comparison of nominal values, last year we had an increase of 2.8% and inflation of around 10%, so 6% life as reported in the whole period we are maintaining the level of 1,350 billion, 1,400 billion over the last five years. The company has been growing and the nominal costs are being maintained stable and this is very important, especially at this period of crisis.

Now on slide 21, on the results considering the 10% decrease on this last quarter. Resulting from the reduction of 7.7% in EBITDA, with a better financial result, of 54.7% decrease in negative net financial results. Contribution of 150 million positive, the Variation of discos' concession financial asset 96 million the restatement of sartorial financial assets and liabilities and the resources that we have at CDA, CDA at 59 million. The Itaipu currency variation that was positive in this negative EBITDA of 50 million which is transparent in the effect of results. We have the arrears of interest and fines, installment payment, so that's the work that we've developed to manage delinquency, offset by these arrears and the net financial expenses negative in 59 million and as you can see the company's result from the fourth quarter, '14, the CDI on average was a 11.7 and in fourth quarter of '15, 14.4. PIS/Cofins over financial revenue and tax that we did not have in '14 and the others at 17 million.

We had an increase of 2.2% in depreciation and amortization (inaudible) increase of income tax and social contribution also on 65 million. So we then refer to profits of BRL255 million. On page 22, as an overview of the comparison of 2014 and 2015, and we can see an increase in net revenue in IFRS of 17%.

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So reaching 19.159 [ph] million in the year, EBITDA stable with a decrease of BRL11 million amounting to 3,750 in net income from 1.3 million or BRL11 million amounting to 875 million. I believe that you analysts have a preference of looking at these results in the manageable view point.

And the company has an increase of 20% on revenue, tariff increases have an important effect in here since from March and April amounting to 18.915 billion. EBITDA with an increase of 1.2% amounting to BRL3.948 billion, 4 million.

And then also with the impact of the financial cost and the CDI, the net income amounted to 1.942 billion, for a decrease of 3.2%.

These differences between IFRS and the recurrent results were affected by the GSF in 2015, estimated GSF minus risk premium of 134 million and the expenses. On the previous year as you remember, we had the sectorial assets and liabilities of CDI amounted to BRL831 million and the expenses with GSF in the year of 2014 amounted to BRL333 million. So these are the main differences determining these variations.

But considering the crisis and the regulatory challenges, the drop in consumption if you look at the company's recurrent reserves, our result was slightly positive, considering the scenario, we can say it is significantly positive. So what do we do with these results on slide 23 as we did last year, recognizing the volatility as it results for the market, the recommendation is the constitution of statutory reserve, strengthening of working capital in the amount of BRL393 million and we also proposed, the reversal of this statutory reserve through this stock dividend and you can see at the bottom of this presentation, so the cost attributed to each of the bonus shares of BRL15.78 per share, and considering it as a whole the stock dividend is equivalent to BRL0.39 per share.

We should note that the subsequent proposals of 2.5075704448% in the ratio of 0.02507570448 new shares at the same type for each share.

The total number of shares that make up the company, the capital stock will go from 933,014,250 shares to 1,017,914,746 with the issuance of 24,900,531 shares to be distributed to shareholders under Article 169 of Law 6,404/76. Subscribed and paid capital stock will go from BRL5.348 billion to BRL5.741. On the right, we have the breakdown of these results. The net income of the fiscal year individually of 865 million results from previous years' 26 prescribed dividend another 6 with a net income base of 897 million.

Legal reserve of 5%, 43 million, statutory reserve of the concession financial assets as a results without cash to BRL255 million and statutory reserve from this proposal of strengthening of working capital of BRL393 million. We also recommend the payment of the minimum mandatory dividend of BRL205 million corresponding to 25% of net income of the fiscal year equivalent to BRL0.20 per share, 0.206868475 per share.

The moment of this results for the period of 2015, the company proposes the minimum payment of 205 million and the statutory reserve for working capital and dividends of another BRL393 million.

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Now we are on slide 24, another source of concern from analysts and investors the company reports the results where the net debt -- adjusted net debt over adjusted EBITDA is of 341 and as we had in the previous quarters, considering the relevance of the CDA as such we have a reconciliation, if we had -- if we did not have that disbursements of the CDA throughout the last year, we would then have our indexes slightly below 3, at 2.94. The chart at the bottom illustrates this movement with the amounts in '14 and the expansion in 2015 since the first quarter growing from 1.18 billion in the first quarter to the conclusion of the third quarter at 1.907 in the last quarter was 1.682.

In our understanding, considering the perspectives of the dicos for the next two or three months.

Tomorrow we have our small five distributors here, in April we'll have Paulista which is the largest, in June with RGE. We understand that these volumes will become positive for the company as of September.

On page 25, reporting the increase in the nominal parts of the debt. In this series we have the higher nominal cost and nominal in real with an important index, say on CDI and the other especially with PNGS 18 on the long-term interest rates 6% and on the Prefixed PSI and 3% on sanctioned plus funds.

It's a comfortable situation in terms of liquidity, so with a cash at the end of the year 5.400 million, it's an almost 2.4 times the amortization of the last 12 months. Average center of 3.5% in the short-term is only of 13.3% of the total, so it is a comfortable scenario considering the perspective. With that acquisition this regards the Group's perspective an increase.

On Page 26, with the future investment perspective, IFRS on the top, consolidating with the petitions recognized by IFRS, but I think it will be better to analyze it on the bottom with the pro forma investments of 1,200 million last year with an important challenge now.

With the regulatory remuneration for police and RGE over the next two years, increasing the distribution investments to approximately BRL1.2 million, BRL1.4 million for the next two years, and approve costs for Renovaveis on generation and the project for the consolidation in services.

This year, then we will show invest closer to 2.1 million, and there is a decrease because of the closure of Renovaveis projects, once the new project are included this will increase but this is in the company's perspective for the five year investment plan, the pro forma of around BRL8.700 billion.

But this commitment should grow the company both on distribution and generation and generation of renewable is on 27th reporting the capital markets indicators, IBrX-50 is an important reference for investors one of the main stock indexes of local markets and most traders shares in terms of liquidity CPFL joined in January 2016 sensing with the BNDES with a carbon efficient index and same on IBrX-50 and we remain among the 35 companies in the market share of this index of approximately BRL1 trillion, market cap.

On page 28, the share performance with an increase of 2.1 compared to the decrease of 3.8 on the New York from this smaller job compared to Dow Jones and this is mostly related to the currency, there is also an average increase from trading volume, and the company is included in the main indexes over the last year.

These were my main remarks, with our Vice President and officers to answer your questions.

Questions And Answers

Operator

Ladies and gentlemen we'll start the questions-and-answer session. (Operator instructions) Our first question is from Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Hello. Wilson, good morning. I have two questions. The first one is just a confirmation of some data you've provided and the second one will be a question that I asked on the previous call about the contract, and now proposal that is being developed, you said that you would be able to reduce contracts in 4%, so the disco's the average level of this over contracted position is over 109%. And then if you have this decrease to be within the 100% and there will be no loss resulted from it?

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

Yes, the figures are below 109 and they will be below 105 especially within the next two years.

Q - Vinicius Canheu {BIO 6300903 <GO>}

So that gives you some room for the next years?

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

Yes.

Q - Vinicius Canheu {BIO 6300903 <GO>}

And my second question, we see an improvement in the environment with the CVA more control there and we're following on the call, so there is considerable amount of assets available in the market. And I've been asking you, if the time to take more risk has arrived or if it is the time to be more conservative considering the economic scenarios time to be more conservative and leave these opportunities for the future because of the risk of the business and risk of balances.

So has this changed or this proposal being of more conservative will still hold and there will be the positions throughout the year, or do you see a greater appetite now if that drives you to maybe take any initiative in terms of acquisitions for this year?

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

It's not a matter of being conservative. It's a matter of being disciplined. The group being disciplined I think we do have an improvement in the scenario. We are focused in the evaluation of opportunities and with the VP, but we're in a better position that we will not let go of being disciplined.

And even with the minimum dividend and that illustrates that the focus of the group is to have a capital structure that is more robust and healthier we are leveraged and that is strategy to create value because of the income tax advantages and so on. But we are a company that is focused on growth.

But I would say the time is now for -- favorable to the buyer because the price of assets shall decrease. Of course we will analyze opportunity if we verify an opportunity, we maintain an appetite but with what we maintain above all is discipline. I think it's important when we don't have a certainty of how the market will be, we understand that this is crucial.

We feel confident with the decision that we took with the dividend position or the last movement of the agency as regards Itaipu and determining this perspective of higher liquidity, of course we will use these results of our work with the M&A and Greenfields with the discipline required by the current times.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Excellent, thank you. That was very clear.

Operator

Miguel Rodrigues, Morgan Stanley.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Good morning, everyone. Wilson, could you talk about your debt rollover plans, 2.3 billion maturing in the short run so what would be the refinancing cost that you estimate and to which extent you could consider amortizing part of this debt and do you have an -- a higher visibility about debentures for infrastructure more specifically distribution which was a point under discussion as well?

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

I will ask Gustavo to answer your question because he is very much involved in both things.

A - Gustavo Estrella {BIO 18109709 <GO>}

Debt rollover. This is an important theme and we focus a lot of attention on that mainly at the beginning of last year, we already imagined having a very challenging year such as a lot of the cases really 2015, so we have brought this forward and we wrote over practically all the debt that we had maturing in the short run before the scenario materialized.

So our situation regarding liquidity is very comfortable. We're closing the year with over BRL5 billion, BRL4.5 billion so all our needs for refinancing by the end up to the end of 2017 are totally under control. We have no exposure whatsoever to the credit market in Brazil today.

You know that this market is much smaller in terms of volume and with much higher cost fee because of the CDI at the levels that they are or this spread that we have charged in the market. So today, we're monitoring the market looking for alternatives and for other solutions, thinking about 2018 maturing.

So as far as 2017, our debt is totally under control, so we're very comfortable. We can look around the market and if we see a good opportunity for funding then of course we will go after it. If we don't find one then we monitor things with our eyes turned on 2018.

And one of the challenges that we have in this market is regarding new funding sources already going to your second question undoubtedly the Company is very much involved in this team of infrastructure debentures. We have already held meetings with (inaudible) Ministry of Mines and Energy and with ANEEL itself. In order to find a way to extend the benefit to the distribution sector. There is no definition yet coming from the Ministry, but I would say the outlook is positive and the Ministry understands that the challenge that we face today regarding financing, very long-term investments like 20, 30 year investments.

Most of the companies today finance their CapEx with short-term capital, so I think the government is hearing this with favorable ears because it has to do with the sustainability of investment and the long-term investment facilities have to be created and of course this has to do with the infrastructure debentures.

So we're bullish about getting the source of funding for the distribution sector, but so far there is no definition from the government as yet. Thank you very much.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

One second question maybe to Wilson. There was something about the valuation of SalesKey that these adjusted price seems to be expensive that would reduce the attractiveness of the auction, so some concessions are not reaching the targets of financial quality required by ANEEL. So how do expect this consolidation process in distribution to happen?

Do you believe that the players that are not reaching their targets will be looking around for prospective buyers already by the beginning of this year before they face problems because they are not reaching the targets imposed by ANEEL?

So I would like to hear from you how do you think consolidation will happen in distribution?

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

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I think consolidation is necessary and it will occur, so I don't have much doubt about that the fourth cycle and the situation of renewal of concession albeit the financial situation of some concessions that are not performing, this is desirable, so 63 distributors would not make a lot of sense, so of course this will probably undergo a grouping process until you can rationalize the number.

You know the amount of pages or number of pages that you need to report a very small concession and now you analysts are going to watch you analyst go, when you talked about a SalesKey, which was a company that has a very positive market it's a company that is located in the market at it is a growing company that has operating performance that is lower than other such as ours.

And one of the references that you use in order to evaluate the company is the implicit value in the multiplication of the regulatory asset base. So a company that is more efficient has a value that already implicit, multiple with higher than the markets, but in the specificities of cell gate, this figure is almost 30% higher so when we talk about the price or attributed price, you would evaluate the company that will be participating and you will see whether the acquisition is possible it is only possible if you can place your technology or process fees of systems and bring the company from an X per CSV performance to a Y performance higher than X.

And we don't know why but the analytic team do not know that yet, why this price was established so we have to have a deeper understanding of the price until we can imagine the processes to happen in the other companies and the cases of the ones linked to a lesser price.

I think this was a good thing in the process that was placed for renewal that is to say the duration because even the operators that face problems be it regarding quality or financial they have time and being private they are not going to wait to have a problem with the agency because the example regarding this were not good for those who owned the company so when you have this time and if you have the adequate time and if you are seeing this aggregate time that you will not be able to perform accordingly, the most adequate and more and in order to preserve the residual value of the companies the best thing is to divest, to sell and then things become easier be it because of geographic extremity or facility in terms of systems, so I think we will see this kind of movements yes.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Thank you very much Wilson and Gustavo.

Operator

Lilyanna Yang, UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for the question. I have one question regarding M&A. Do you think that a few and others selling assets in 2016 at a broader question? Would you be interested in

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participating in transmission because regulatory returns are better than distribution even more so when the traditional players in transmission are facing financial difficulties? Okay, my two questions.

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

Thank you for the question. Yes, we believe that stake such as Rio Grande do Sul -- today is an important day for them today and tomorrow when they will be holding meetings to refinance with the government but another alternative and even in order to be able to do something in the stake would be to sell off, or privatize some of the concessions and I think this will be considered more seriously now, these are assets that are facing a good moment vis-a-vis prices, the concessions have just been renewed.

I'm talking about the stake concessions so I have no doubt that this kind of move has a potential in the specific case, I assume, as you mentioned, the last move that they made regarding separating or spinning off Brazilian and based on some a few things that the executives has been mentioning going into the direction that you have just referred to and this company is well placed and we're going to Do Sul, they have a concession and they are the most efficient concession there.

So of course if these things occur we will be assessing the perspectives and of course they are assets that would make a lot of fence in our growth process provided financial discipline is maintained, okay?

Q - Lilyanna Yang {BIO 14003234 <GO>}

And what about transmission?

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

Maybe you have not noticed that we have been getting into this segment, which shows us criteria to participate especially to make feasible facilities that are -- where we may have an increase in terms of usage.

The first one is the Paulista Lajeado substation, it was an important substation for the need of the CPFL, Companhia Paulista de Força e Luz and we saw that the players -- it was an excellent investment that we made it we was a major investment by the end of last year, we had the second asset, we participated in the auction and we were the winners of Morro Agudo.

And I agree with you that the outlook for investments in transmission have improved quite a dramatically, so the prices established to attract more players, though they have already reached quite good level and we are paying a lot of attention to this and as always thinking about financial discipline, you have a maturation that is of one or two years and you have financing from the BNDES and you have -- you can issue infrastructure debentures. So we have been analyzing these opportunities very thoroughly.

Q - Lilyanna Yang {BIO 14003234 <GO>}

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If you allow me another question about the distribution segment, the EBITDA was weaker than we expected, we find this quarter that the delinquency increased slightly. So what would be guidance or current level of EBITDA acceptable? And would this be possible to reached this year, where the GDP is expected to decrease?

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

I'll ask Gustavo to give you an answer.

A - Gustavo Estrella {BIO 18109709 <GO>}

I think some of the topics here are important to mention, first is that in this quarter, unlike the year results, we have an important impact of the currency exchange variation and that affects negatively our EBITDA, but it returns and this shall be adjusted first to be able to analyze the distribution EBITDA more in a recurring fashion.

Another thing as you mentioned about once we show the data and I think we do have a nominal increase in delinquency in absolute term considering the moment.

But on the other hands, there is some stability in the percentage level vis-a-vis our revenue. And when we consider our delinquency, it is increase up to this point has been offset by the increase in revenue from clients and interest that we have.

There has been a slightly positive effect even when we also considered the increase on expenses that we have with the greater control of delinquency, now talking about the amounts of cuts and I think we have to be a little bit careful with the EBITDA of the discos because there is a non-recurring effect as well of the currency variation and the other effect has come -- it's just offsetting the other line of the results and therefore it doesn't affect our net income line.

So when we consider it -- the perspective of course there is an impact of the market, especially in the whole market and the residential market. On the industrial market, we still have the preserved margin with the demand contract but of course we suffered from a decrease in the residential consumption.

Analyzing 2016, the scenario is slightly different, we already see the perspective of increase in Energy consumption from residences when compared to 2015.

We have a growth of two -- between 2% and 2.5% for the perspective of market increase for 2016 and with the tariff on the opposite side from last year.

But last year we had an almost 60% increase on tariff for this year the perspective is very different there because of the decrease of the Tariff Flag we already are on yellow and we will evolve to the green flag, there is also an expectation of a decrease in the tariff values which is throughout the year.

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Considering our Discos, especially RGE in June, and Piratininga in October we see an expectation of a tariff decrease.

In Piratininga's case, that would amount more than 25% of tariff decrease not including the Tariff Flag. So that should also bring a more positive perspective in terms of our consumption in our concession areas. So the main messages are, first, reading the results carefully when considering distributional fourth quarter of 2015 because it is different from what is expected for 2016.

We now have a more positive outlook for distribution as of this year either because of a rebound, this is -- sort of a timid as a small rebound of the market. With the expectation of this tariff reduction throughout the year, and the impact of the tariff division reduced, Piratininga had a tariff review at the end of last year and this will be consolidating the entire results as of 2016.

The small distribution companies now are also undergoing the tariff review process in March, with the prospectus of regaining larger or higher margins. And this is the scenario that we have for distribution.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you.

Operator

We'll now close the questions-and-answers session. I would like to turn the floor to Mr. Wilson Ferreira Junior for his final remark.

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

I think with this last question, what Gustavo said is very important. As I said, I think the year of 2015 was without a doubt the worse during this crisis. 2016 tends to be better due to a number of variables. The decrease that we verified in consumption and that we detailed to you our expectation and what we have verified already especially in February, it's more about the flat growth and the legislative consumption.

So, the negative effects of delinquency we believe are either with the change on Tariff Flag or with the reduction resulting from CVA and Itaipu will benefit consumers. So we understand that this is a positive perspective.

As regards generation, the main problem were definitely sorted and the financial aspect that disciplined growth as ours always is concerned with, now has a real possibility for resolution. So the -- what has been established for 2016 clearly better for the Group than the conditions we had in 2015, and I think that now we -- the inspiration of our covenants, our shareholders and our business culture.

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Yes, there will be a series of opportunities, they will be analyzed with our discipline and on the other hand, we have the internal opportunities of businesses that we have already formed for example CPFL, if you think was a remarkable site of opportunities for profit and materialized in this three market area, you've seen an important migration and moment of excess or surplus. The company has this competence and this ability to make its position and of course all processes of rationalizing costs and the productivity processes implemented in the company.

So, I understand that the year of 2016 is a challenge for all Brazilians and for the whole country and it will be for us as well, but as we always say, it is also a year of great opportunity for those who have prepared for this moment and CPFL has prepared. So we are confident in the performance of our operations due to the preparation with under government the last two years, we thank you for your attention to our conference call.

Operator

CPFL Energia's conference call is now closed. We thank you all for your participation. Have a good day.

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