

## Y 2020 Earnings Call

### Company Participants

- Carlos Victor Cyrino, Investor Relations Director
- Gustavo Estrella, Chief Executive Officer
- Unidentified Speaker
- Yuehui Pan, Chief Financial Executive Officer and Investors Relations Officer

### Other Participants

- Carolina Carneiro
- Flavia Sounis
- Giuliano Ajeje
- Marcelo Sa

### Presentation

#### Carlos Victor Cyrino {BIO 21090309 <GO>}

Good morning to everyone. Welcome to the presentation results of the Fourth Quarter 2020 CPFL Energy. I'm Carlos Cyrino, Investor Relations Director, and today I will be conducting all the dynamics of our event.

We have with us Gustavo Estrella, President; Mr. Pan, Director, Vice President Finances and Investor Relations, and the other executives of the company.

Due to the pandemic of COVID-19, all the executives are connected from home. So we apologize if there's any failure of connection, we reinforce that we will be works -- working soon to reestablish communication if there's any problem. The presentation will be carried out in Portuguese with interpretation for English. All you have to do is click on the button interpretation, which shows up on the lower bar of the tool of the platform. If you want to see the presentation in English, it is in the site of CPFL.

I would like to inform all the participants, the whole presentation, we'll start questions-and-answers. All the questions will be done live and to request this click on the button, raise your hands, which you will find at the -- in the bottom part of the platform and we will follow the order. This presentation is being recorded.

I'm now going to give the floor to Gustavo Estrella, our CEO, for us first to begin the presentation of the results.

## Gustavo Estrella {BIO 18109709 <GO>}

Okay, Cyrino. Thank you. Good morning, gentlemen. Thank you everyone for the participation in our call of results. I'm going to now talk of the main highlights of the year. One is the load in the concession area, we have a positive performance, 2.6% in the fourth quarter '20 and minus 1.7% in the year, which is a positive performance, and special with the uptake that we had after the second semester of 2020. We will be talking more in details about the performance of our market.

With this, our EBITDA is BRL1,921 million, a growth of 10.4% in relation to 2019 in the fourth quarter. And for the year, BRL6.8 billion, a growth of 6% if we compare this to 2019. The net profit BRL897 million, 15% in the fourth quarter if we compare to 2019, BRL3,703 million, 34.9% in relation to 2020.

Our leverage, we closed with a net debt of BRL15.7 billion, and leverage of 2.19x net debt to EBITDA. And here we use the criteria of finance numbers. We conclude the plan also, a very relevant plan. This is one of our commitments of our IPO 2019, the integration of CPFL Renewables to the CPFL group, we merge the CPFL Renewables, Renovaveis and we start already to observe a reduction of financial costs, operational costs and also the recognition of fiscal credits. We also had a positive impact for the whole sector for the GSF in the free market. We counted a BRL140 million at the end of the year, the impact on the EBITDA in 2020. We also have about BRL80 million to be accounted for in 2021.

In relation to the investments, this was also a long discussion about our CapEx plan. And we decided in 2020 to keep up and preserve our investment plan during the pandemic. We did this delivering investments of almost 25% in relation to 2019. It's the highest volume of investments in the company, BRL2.8 billion, BRL880 million just in the second quarter.

As for dividends, we're going to declare a payout of 50% BRL1,731 million, BRL1.50 per share. And what is important to make clear is our strategy is precisely the strategy of the group, already a long time balancing growth with dividend payment in -- and we have the expectation of some opportunities for investment during the next few months. So the strategy of the company is prudent, preventive and we declare the dividends of 50% of the profit in 2020. The idea is to evaluate the opportunities of growth eventually if this does not -- if this investment -- we will then declare the rest of the dividends during the year of 2021.

It's important to mention also the strategy of growth continues being determined on the financial discipline. So all metrics of return and the perception of value, all these -- the precondition to advance in the growth process, and this continues exactly in the same way. Therefore, we are looking at opportunities and we have a rationale of value we follow, and if we don't, we don't, as we didn't in the past. And then we procedure to -- we proceed to distribute the dividends during 2021.

Here, I think this is a mark for the company in two companies of the group. I'm going to talk a bit more about this. Within CPFL Santa Cruz we have the lowest index, in fact, that is

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back in the story of the company, special rates. We -- this is lower than the limits. Tariff readjustments positive in the year of 2020 with a very positive perspective for 2021. The impacts of the IGP-M and also the investments, I've just said, our record for investments in 2020 and this reflects with the tariffs of our distributors.

We also have the entry of operation of the project of the wind complex of Gameleira from the second quarter of 2021. This is 2.5 years before the ANEEL's official deadline. It's also a victorious process, very well executed, not only because it comes before and it's also a reduction of our risk. As for the ESG, we're going to talk a bit more about this forward, but we have CPFE [ph] win some market rate. This is also an important moment for the company, some main rates for Ibovespa and some specific rates in our ESG agenda, the ISE, ICO2 and also the ESG portfolio of the Santander Bank.

We were also recognized by Credit Suisse in the Global ESG Report as one of the main preferred shares of the analysts. And this reflects our agenda in terms of ESG and we're going to highlight this further forward. We launched our sustainability plan 2020, 2024 and we entered the leadership with ImPacto Program with Global Impact, the SDG 3 [ph] to talk about health and well-being.

We also started a pilot project of electrification. Of the operational fleet, we start with our regional an Indaiatuba BRL23 million for vehicles, a 100% of fleet electrified. Of course, the expectation is that we are able to extend this project 4,500 for the group. And also linked to this theme of ESG, we're also part of the Supplier Engagement Leaderboard of the CDAP, this means we understand the commitment linked to ESG, not only our commitments but also the commitments of the chain. So we also embark all our supply chain and linked to this themes of the ESG.

Now let's move towards the next slide. Here we talk about the sales. In the fourth quarter, we can clearly see a signal of recovery in the consumption of energy in our concession areas. We close our load with a growth of 2.6%. We highlight the growth of the three clients, 11.5%. And we can see a large different sales in the consumption segment and our sales in this quarter were impacted by the 8.3% revolution, where it says that we now have to invoice our clients of the A group within the next month. So this was a change of the calendar and invoicing. So this is an impact in the sales. And it's important to highlight the impact does not bring impact on the results due to the compensation of the non-invoice. So there's no result in 2020 impacted by this change of the Resolution 823.

What we do is this adjustment and we can see that this hits 1 point percentage aligned with the concession load. We can see the growth per consumption class. We see that it's a consumption that's led by residential class with 5.5%, followed by industry here with 0.1%, if we adjust the impact of the Resolution 863 and migrations of the clients as a basic network. We can see that the industrial class was also very positive with a growth of almost 5% in relation to 2019. The commercial class also has an relevant impact with the Resolution 863, but even so we see that the commercial cloud has a huge challenge, decrease in consumption of over 5% but decrease in consumption if we compare to 2019.

Now let's go to the next slide. 2020, we closed this year with a drop in the concession area of 1.7%, when we remember the beginning of the pandemic in the second quarter, the estimates and the expectations of consumptions were much worse, I believe, we are closing the year much better than we expected. So a drop of 1.7% in our concession area. We can see here, we also have the impact of the Resolution 863, of course, much lower than the second quarter, but it's also percentages that should be removed so that we can analyze this market in a more precise manner.

We can see here the sales, there's a drop of 3.1%. We have to remove the 0.8% of the Resolution 863, another 0.8% of the effect of the migrations. So we can see here a drop of about 1.5% in the performance of the market, very positive and due to the challenges of the pandemic that we had last year. We have more or less the same design in the fourth quarter. The growth of the market led by the residential area is showing a certain recovery of the industry and the commercial class still suffering a lot due to the effect of the pandemic.

We made a slide here to show you the growth per class in 2020, adjusting the number due to the effects that I mentioned. The Resolution 863, the migrations, the generation, the calendar, invoicing. Here we can see the numbers demonstrating the real trend of performance of each one of the classes. What we can see here is that the residential class adjusted with all these effects an average growth of 3.7% in the year, negative growth here in the first quarter, but already recovering in the second quarter.

The industry, we can clearly see a huge impact concentrated in the second semester and in the third semester we see clearly a recovery closing here, the fourth semester weather the impact of high impact. The commercial class also has a recovery, but it maintains negative the whole year, closing with almost 5% drop. And the other here, basically the impact of the rural class that did not suffer a lot during the pandemic, and has a performance always positive during the whole year of 2020.

Next slide, please. In relation to delinquency and losses, we can see that we closed the fourth quarter with fall of BRL52 million, 0.69%. Here there are two important points, the growth in relation to the third quarter of 2020 and the growth in relation to the fourth quarter of 2019 have to be adjusted in this comparison. We had a series of renegotiations during these two prior quarters, which makes us have a large variation in relation to the fourth quarter.

And when we see historical medium, 2016, 2019, average delinquency of 0.6%, we can see that in the fourth quarter, we got closer to this historical medium. So that's the main indicator. There's a huge effort here of our team. We can see here in the chart below, with the -- we have the resolution where we could cut and we can see the billing and in the fourth quarter, we reached the highest levels of cut in the history of the company. So we cut 872,000 clients in the fourth quarter, so we were able to control and bring the delinquency to this historical. When we see the losses, it's also a huge challenge due to the pandemic. When you see the calendar, we have a loss aligned with the fourth quarter of 2019. This also is a reflex of a lot of hard work, fighting these losses, which in a complicated time, so we have lost but it's practically aligned with what went on in 2019.

Next slide, please. Here is the performance of the DEC and FEC. I think once more this is a mark for the history of the company. We reached here in Santa Cruz and the RGE, the lowest levels in our history. And the challenge in Santa Cruz is to reduce the level of DEC, FEC which is already very low. We can see here, we went from 5.56 to 4.89 and the FEC of 4.25 to 3.68. In the RGE case the challenge was huge, historically we had especially the DEC much higher, and the challenge became even larger when we acquired the Energia Sul, which also had higher levels of DEC.

And this made us design plan of reduction of the DEC and this plan started way back in 2017 with a series of actions, increase of investment, the complete redesign of our operation so that we were able to focus and reduce this. This is a mark in history with a drop of almost 4 hours to 10.83 from 2019 to 2020, really relevant. The challenge was huge. We were able to solve this in the FEC also a bit lower challenge with 6.25 to 5.27. Here the challenge once more is a reduction in the DEC that was already lower. We can see here the FEC, regulatory FEC in 8.15, so the DEC is much lower. So I believe this is a challenge, this is a mark for the company during 2020.

Next Slide, please. Well, let's talk about generation now. Here, we have -- in relation to the PLD, we have a growth of the PLD which reflects the increase of the prices that we had at the end of last year, the growth was 30%. But in the average of the year, due to the effect of the pandemic in the second semester, a drop in average of 21.7%. The GSF practically aligned with 2019, a drop of 1.9% and 3.7% in the quarter if you do an annual comparison.

Here you can see the flow of HPPs drop, remembering that in the majority, they are located in the south where we had drought during 2020. So this is an important drop of the flow of our UHF. In the SHPs, it's similar, less critical than the first case but also affected by the southern and southeast region, partially compensated by the area of Minas Gerais, where we had an increase of flow. And this made these effects a bit better. But the flow of 2020 was worse than 2019.

In the wind generation sector, we have here two movements, two impacts -- two main impacts, these are contrary movements. One of them is the wind in 2020, a bit worse than it was in 2019. And this is a negative reflex of our generation capacity and we had an increase in the availability of our machines here directly affected of the -- by the OEM services. And this broad growth and the availability in the average of the year of 94% to 96.7%, and we were able to have higher generation than 2019.

The next slide, please. Okay, so now I'm going to give the floor to my colleague for him to continue the presentation.

**Yuehui Pan** {BIO 20609514 <GO>}

Thank you, Gustavo. Good morning to everyone. This slide, the EBITDA in this semester was BRL1.9 billion, an increase of 10.4%. The distribution segment had a good results again, with an increase of 11%, confirm the finance act -- asset of the concession had a high of BRL187 million due to the higher PCA. The PMSO had a high of BRL42 million due to high and the legal fees. But it is important to mention that the operational expenses

continue dropping. In the pension plan, there was an increase of BRL15 million. The PDD was higher, BRL13 million, because last year we did some large deals with hospitals and other institutions, the current PDD level corresponds to our historical mean, as Gustavo has already shown.

The other variations add up to BRL6 million. In generation, we add here the conventional and the renewable segments. The EBITDA was of BRL768 million, a high of 8.5%. The main effect was the gain of the GSF in the free market with BRL140 million. I highlight that this amount is still preliminary. We have projects of CPFL Renovaveis where the gains have not yet been accounted for. Therefore, we can expect an additional value for the result in 2021.

Another positive effect was the updating of the tariffs of the contracts, a total of BRL34 million. On the other side, we had some negative impacts in the period, a low of assets, BRL44 million. Changes in the depreciation, taxes of the assets of Epasa to adequate the end of the contract, so BRL25 million. High of the UBP due to a higher IGP-M, BRL21 million. The seasonality of the PCH contracts negative BRL14 million, among other effects. The segment of trading, services and others had a high of 31.3%, lower volumes in the trading have been compensated by higher prices in the segment of services, good performance of CPFL Servicos and CPFL Eficiencia.

Here in Slide 12, we show you the performance of the net profit which was BRL898 million, a high of 50 -- 15.5% in relation to the same period last year. Besides the variation of BRL181 million in the EBITDA, we had in the financial result a worsening of BRL10 million, the depreciation were BRL25 million and the taxes had a negative impact of BRL63 million.

In the financial results, we have to highlight some effects. The first one is the MTM after a gain of BRL250 million in the first quarter. We return the part of that result with the improvement of the spreads of risk -- risk spreads in the market. On the other hand, we had a gain of BRL71 million with interests and fines and delays of payments of energy bills due to the increase of the IGP-M. And then the expenses with the net debt had a reduction of BRL37 million, this is explained by the drop in SELIC and by liability management plan that reduce the average cost of the net debt. As of taxes, we had a better result when we compare to last year. And this explains the increase.

In the next slide, we're going to show you the results of the year. 2020 EBITDA grew 6% or BRL386 million. We highlight here distribution, which grew 6.5%, favored by the good performance of the market, the tariffs, highlighting the performance of the residential class and the financial asset of the concession. Still referring to distribution, I would like to highlight two points here, that even they have been lower variations, they deserve to be highlighted. The PDD, we had a reduction of 3.6%, BRL8 million. In spite of all the challenges of the pandemic, we were able to keep delinquency under control. PMSO, we had a reduction of BRL34 million in the distribution and this represents a reduction of 1.3% compared to an inflation of approximately 5% in 2020.

Another highlight is the generation with a high of 6.6% or BRL167 million. This is the result mainly of the gain with a solution of GSF for the free-market, BRL140 million. Besides this,

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we had contract readjustments. These gains were partially compensated by the weaker result of Epasa and larger payment of UBP due to the IGP-M. I would also like to highlight the cost reduction obtained, especially due to the integration of CPFL Renewables or Renovaveis to the group. There was a reduction of BRL22 million with employees, material and third-party services.

Now, the net profit or income improved 34.9% or BRL959 million. This result was very much favored by the lower CDI and the cost of the debt which generated a gain of BRL376 million, besides a positive effect of MTM with BRL117 million. The gains with fines and interest rates also added BRL112 million during the year. On the other hand, the updating of the regulatory assets dropped BRL71 million, and we did not have an extraordinary financial income generated by re-IPO resources last year as compared to what happened in 2019. We also had a positive effect on taxes due to the fiscal credits accounted for in 2020, adding up to BRL323 million.

The next slide, please. We have the indebtedness of the company. The first graphic shows that the net debt is BRL15.7 billion and EBITDA BRL7.2 billion. The leverage, which is measured by the net debt is 2.19x. I'd like to highlight here that we're proposing the payment of dividends relative to the results of 2020. With this macro scenario that we have nowadays, and considering that we are evaluating potential M&As, our proposal is to pay dividends worth BRL1.7 billion or BRL1.5 per share. This represents a payout of 50%. And if these projects are -- we're going to be evaluating them in the -- if this doesn't take place then we'll implement a new proposal to complement the payment of dividends. That means that we are assuring to you, our shareholders, the balance between the growth and the yield.

About the debt profile in the chart on the bottom part of the slide, we have the cost of the debt, whether real or nominal. The increase is due to the variation of the IPCA during the period, but the real cost is negative. It is helped by the SELIC rate with its historical minimum, and by the inflation over 4%. Now in the composition of the gross debt, we can see that the largest exposure is indexed to the CDI with 76%. The cash at the end of the semester was close to BRL4 billion with a coverage rate of 0.71x the amortizations short-term. The medium-term of the amortizations is 2.53 years. Thank you very much.

And now I give the floor back to Mr.Estrella. Thank you.

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

Thank you. Thank you very much. Well, continuing our presentation here, we have our CapEx for the of 2020. So we can see here the distribution, BRL2.3 million, a growth of 13.9% if we compared to 2019. In general lines, the investment for expansion, modernization of the system, infrastructure and IT, a series of projects that are being carrying out last year. In generation, we've reached BRL283 million, basically the two projects are under construction that we have here today and win complex of Gameleira. Here we have in transmission, 184, the project 1 to 4, these consumed BRL134 million of investments.

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These are investments and especially are arm of services. Here we have the perspective, we go from this investment, we increase this investment even more in all the businesses of our group. We're going to reach BRL3.4 billion, and in the horizon these BRL15.4 billion of investments and the main is the distribution, BRL13.3 million. This investment, it presents an increase in relation to last year and especially led by the distribution. We have a series of new investments to fight default with long-term investments. So these are investments incorporated to our operational base.

Next slide, please. Here in relation to the (inaudible) Gameleira Wind Complex. Starting now and 2021, as I mentioned, we anticipated this, this would be January 24, the defined date by ANEEL. So this is semester 2021 with a contracted energy, the initial -- in the beginning of the PPI, the time of the bidding process and also the process contracted in a perspective -- in a perspective. The CapEx, 5% below, also the time frame, the cost and this execution was very well done in the Gameleira Wind Complex.

Next slide, please. Well, lastly, let's say, important to mention here, our Sustainability Plan for 2020-2024. We have a series of results reached here in 2020, especially a challenging year for us, but our three pillars of our plan, we were able to have important advances in all of them, smart solutions, sustainable energy, society, shared values. These are very important themes for 2020. Almost 10,000 units of transformers and intelligent solutions, 100% of Group A with more than 35,000 smart meters installed and operated over 52% of our total consumption is telemetered.

We increased the digital channels over BRL110 million attendant -- services. This was a reflex of the pandemic last year and an expressive growth in digital bills, over 2 million bills and now 3.47 million clients, a growth of 54%. And shared value, it's a program, CPFL in hospitals, we have accumulated values of BRL72 million in investments, it was BRL51 million in last year and 84 hospitals benefited and our expectation is to reach a BRL150 million and 314 hospitals benefited of the CPFL hospital program. This was a huge challenge last year, we advanced this.

And even in the communication way, this sustainability plan, we did a first event dedicated to this, to the market, and we spoke about our plan. We made all our challenges public. 15 goals linked to this sustainability plan. It's already now knowledge of the market, expectations of investments and the market currently can follow and monitor the execution of CPFL. So I think the -- this entry is an important mark in the ISE portfolio and Santander. The recognition by Credit Suisse, these are important topics and we have to demonstrate to all our investors and stakeholders, community, clients, everyone in general, everything that we've been doing and it is a lot. So all linked to the sustainability issue.

So these were the main messages that we had today. Once more, I thank you for your participation and we will now come into our question and answer part of the event.

**Carlos Victor Cyrino** {BIO 21090309 <GO>}

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Thank you, Gustavo. Thank you, Pan. Thank you for your presentation. So now let's go, as Gustavo said, to the session of questions-and-answers. Reminding you that the questions can be live. And to ask a question, click on your little button there, raise a hand, which is at the bottom part of the platform.

## Questions And Answers

**A - Carlos Victor Cyrino** {BIO 21090309 <GO>}

(Question And Answer)

**A - Unidentified Speaker**

And to ask a question, click on your little button there Raise Your Hand, which is at the bottom part of the platform. We have some questions here already, some people who have requested. So the first question is Carolina Carneiro from Credit Suisse. Thank you, Carolina for your participation and let's go to your question.

**Q - Carolina Carneiro**

Thank you, folks. Well, good morning, and thank you for the call. I have two questions. The first question is about the allocation of capital, the numbers. Here, we see that you have the leverage -- leverage has been dropping compared to four, five years ago. The leverage was about 3.5x and now after the IPO 2.5x and now we're talking about 2.2x leverage. So with an expectation of generating EBITDA cash after the readjustments due to the IGP, which accumulated should help a lot.

So it's more to understand why the definition now of 50% of payout is given that your leverage would allow an M&A -- large M&A vis-a-vis this expectation of cash flow to be generated in the future. So is there a need of cash flow? And is that why you took the decision of having a payout of only 50% given the situation?

The second question in relation to the bidding process that we would have, the Enel has recommended and some players like you recommended that in the past, perhaps the economics of this tender would be challenging due to the issues of the problem. So does this make sense for this bidding process to take place or is there anything that we know that would make this asset more attractive?

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

Carol, thank you for your questions. I'm going to start with the capital allocation. I think it's important once more to register that the reduction measure of the payout is very much preventive. And I think it shows the idea that we don't know exactly what opportunities we'll have in the next few months. I think we have a series of opportunities of assets coming out of the market. I think the idea is to be preventive to evaluate all the opportunities that we have on the market and that we will have during the next months so that we can guarantee that it won't be due to a lack of capacity of investment that we're going to lose opportunities. I think that once more it's much more preventive and I would say even conservative. So what is our plan? The idea is to evaluate these opportunities,

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evaluate like we always have done. So there's no pressure for growth that will make us do differently. It will be the same as we've always done.

So evaluating the opportunities. If they're good, if they generate value to our shareholders, we will follow this new investment. If by any chance we're not able to make this feasible, it's very clear to us that this balance between growth and yield, it is an expectation of the market, I would say even of our controlling shareholders. So the expectation and strategy. The idea is that after this analysis and these -- evaluation of these assets, we will sit down, re-evaluate what we were able to implement and what we were not able to implement. If we can, we follow with the payment. So it's very clear in our minds. It's very simple and we are very careful. We evaluate these opportunities during the coming months and we will talk again about dividends further forward.

I believe that, basically, the strategy of the group has not changed. It's preventive and it's the opportunities of growth that we see coming in the next month.

Your second question of (inaudible). I think we've talked a lot about (inaudible). I believe that it is a -- it is challenging. We -- challenging asset. We don't have -- this is not closed yet. It does bring additional risk which has to be very well understood and the company has to advance in this project. It is being evaluated. So we don't have a close and formal position around this, but I would say that it is a challenge due to all the risks that we see in this asset.

### **Q - Carolina Carneiro**

Thank you, Gustavo. A follow-up. I think there are a lot of other people wanting to ask questions. Are you looking at other segments because there are -- is the segment of sanitation in your scope?

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

No, not right now. It isn't.

### **Q - Carolina Carneiro**

Okay. Thank you.

### **A - Unidentified Speaker**

Thank you, Carol for your question. Now let's go to the next question. The second question, I'm going to ask Marcelo Sa from Itau BBA Bank. Thank you for your participation. Proceed with your question.

### **Q - Marcelo Sa** {BIO 16454581 <GO>}

Good morning, folks. I have two questions. I think the first is about M&A. Following the first question, if there's any possibility or if it's being discussed to have a combination of CPFL with state grid transmission assets? That's the first question.

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And on the regulatory side, I know that there have been a lot of conversations with Enel and the market about the possibility of tariff deferment taking place this year. I would like to know how these discussions are panning out, what you've heard and about the fact that there's going to be a meeting at 2 o'clock in the afternoon of Enel to discuss measures that can be implemented due to the pandemic. So do you think there'll be any measure like the suspension of cuts like we saw in the first wave?

**A - Yuehui Pan {BIO 20609514 <GO>}**

(Inaudible). Thank you for the question. So to answer the first question (inaudible) kind of (inaudible) of the opportunity (inaudible) And of course, I would tell you that in the past two to three years, we had a lot of progress. And recently in the headquarter, we also, of course, the country shareholder has some kind of progress there at management team and this matter is on the top list and is under discussion. I would say, if there's anything that deserves a disclosure to the market, we will let you guys know in the first hand. Thank you.

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

For the regulatory topic, this subject is on the table. We also are very concerned with the tariffs. I think the numbers of last year, the default. This topic is very sensitive. I would say the scenario is still very uncertain for 2021. We have here an apparent confirmation of the initial with values lower than last year. We know that last year, this emergency help amount, the money that people received helped a lot. This year, now the market -- the scenario of the pandemic are worst moment, how -- we have to see how the economy reacts. So delinquency is yes, a real factor of concern today as you know, with all the readjustments in the case of CPFL, so removing Santa Cruz and the old contracts we have the IGP-M which was high in 2020, continues high this year.

But what we're doing now is to pass over the high IGP-M in our tariffs in this beginning of the year. So we are sensitive and discussing how we mitigate the effect of the tariffs and this is the precondition I would say very much aligned so that we don't lose any type of economical right. We're discussing this, putting on the table, deferring the impact -- the cash impact, but without economic losses for the company. So it is a sensitive topic and we are, yes, very concerned and we're discussing with Enel about the alternatives.

This I think will happen for all companies, not only CPFL, the market in general. And I think it's a benefit for everyone, the client that doesn't receive a high readjustment right now, for the agency and for the companies as well. Does anyone want to add anything?

**A - Unidentified Speaker**

No, I think the deferring -- well, first of all, good morning to everyone. Good morning, Marcelo. I think you asked second question about the measures to suspend the cuts that Enel will decide in the meeting at 2 o'clock. The expectation Marcelo is that Enel has -- it has been publicizing and the suspension will be focused in social tariffs -- tariff consumers those 30 June. So it's much more limited than the measure of last year. And during the same period, we will be without having to do the compensation due to transgression to minute -- the limits of continuity. Not that we're not going to pay, the same thing that

happened last year, but it's due to the eventual flow of this suspension to the low class consumers. It's an expectation. This meeting is going to happen at 2 o'clock. So we'll have to wait for the formal deliberation and discussion that will take place in the collegiate directors at 2 o'clock, but it's very much focused and the debate is being carried out at the low class consumers.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Perfect. I'd like to follow up Pan's response to see if I understood. I understand this is a discussion point that you had in the past, but it evolved and the company during the last years and that if I understood, this is one of the most relevant points that is in the head of the controllers, that this could be a real possibility at some time, but this will be shared when a decision is taken to the market. Was that what you meant, Pan? Is that what I understood?

**A - Yuehui Pan** {BIO 20609514 <GO>}

Yes, you're absolutely right and there's some -- definitely this is always in the mind of the -- on the top list. This is a huge strategic topic and as you said, if there's any progress, disclosures are released to the market, maybe I'll let you know.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Thank you.

**A - Yuehui Pan** {BIO 20609514 <GO>}

Thank you.

**A - Unidentified Speaker**

Thank you, Marcelo for your questions. Now we're going to move to the third question, Flavia of Goldman Sachs. Thank you for your participation. Well, proceed with your question.

**Q - Flavia Sounis** {BIO 22080011 <GO>}

Hi, guys. Good morning. My question is more related to OpEx. We saw sequentially an increase in the costs of CPMS, besides the increase of the legal costs compared. So I'd like to better understand what happened sequentially, how recurrent this is or not? And also if you could detail a bit better what's included in these legal expenses -- this high increase of legal expenses which called our attention? Thank you.

**A - Unidentified Speaker**

Thank you, Flavia. So responding your question in relation to the PMSO, in this quarter specifically, we had an increase due to some legal expenses. Of course, when we look at the OpEx of the year, we see a reduction of OpEx and of course, a lot of this is influenced by the pandemic, especially with actions towards digitization, new payment methods, all the mobile that was implemented during this time, the service -- client services also in operations, I believe, that part of this PMSO perpetuates into 2021, especially related to

these topics. But in the fourth quarter, we did have, in fact, influence of the increase of legal expenses.

I think (Technical Difficulty) of these expenses were labor issues that take place during the year. Obviously, that during the pandemic, this was thrown to the end of the year. It's very much spread out. There's no huge event to mention. There was also a reversion last year in Piratininga, which adds to these values. We also had some other arbitration processes. So no relevant value, and I think that some regulatory fines that also happened in the sector and no expressive, of course, we're always paying attention to try to revert the situation in the future. So I think what I bring to you, Flavia, in relation to the legal expenses that there's no impact of any specific relevant factors, very much spread out.

And I'd like to reinforce another point of the PMSO. When we talk about inflation because if we get up PMSO reduction compared to the inflation that we saw in Brazil that was high, this brings us not only a saving, but it's -- if we compare this to the inflation, it was higher to the decrease in the (inaudible). Thank you very much.

I would like to follow up and try to understand, particularly thinking about third-party services, employees. I can see considerable growth what can be considered recurrent in the third quarter or is this difference, it's about 20% difference here in our numbers. So if we get the second quarter and the third as a base, we were at a time of -- more critical time in terms of learning and making some changes. Looking at this increase of expenses -- the legal expenses, I don't think it's a good indicator, so what do we have here that can perpetuate to next year, we can think about the gains of digitization, new technologies, especially digital side of services of clients, new means of payments. This brought some interesting gains, for example, payment means in terms of tariffs.

And when we increase the digital payment means, we reduce the tariff one-third when we compare to the physical channels. So, of course, in this route, we have a certain reduction and this should continue. It's difficult to give you a specific number, because we're still in the pandemic. We don't know how this is going to pan out in the future. So if we talk about the third quarter, perhaps it will make sense when we analyze the next month's, but it's still difficult to tell you for the next -- for the rest of the year. It will depend how -- on the recovery in terms of the pandemic and other issues.

**Q - Flavia Sounis** {BIO 22080011 <GO>}

Thank you very much.

**A - Unidentified Speaker**

Thank you. Good morning. Well now going to the next question. The question of Giu of UBS. Thank you for your participation in our event. Please ask your question.

**Q - Giuliano Ajeje** {BIO 21739549 <GO>}

Well, hi, guys. I have two question. I would like to be more -- I would like to talk about the CTR[ph]. We understand it's a challenge. I would like to know what do you see the challenges of the ICMS, how you're working on the modeling of this of the C3E and can

you merge the assets with the ACCS3[ph]? The different indexes, the IGP-M and if you have the authorization of Enel to merge these assets?

And a second question that I have also related to the IGP-M. If it makes sense for you to change the IGP-M indexes for the ICP to extend the concession? Have you analyzed this possibility? You could actually alleviate the tariff pressure doing this within compensation. You would reduce the risk average in long term. So it's these two questions.

### **A - Unidentified Speaker**

Okay. As we mentioned, I think it's highly complex asset. I don't know exactly what you're saying. I would say it's an operational challenge as well, not only the balance sheet or the financial statement. So it's a challenge to turnaround a company and it's, of course, the challenge with the accounts. So here you have discussions in relation to the pension plan, to the payment of the ICMS, which is pending, goes up daily until the tender date. So you have financial questioning, which is also important. So all these challenges together that we insert in the model to see if, in fact, we can close the accounts.

About the concession, as you said, issue of merging which is different than we have in the RGE, first is the difference of contracts. One, it is a new contract and we are still in the old contracts of RGE. So you have additional complexity here and you also have the fiscal credit which also has to have a price. We didn't have this discussion with RGE. So we have it here. So I would say that the complexity is bigger when we talk about an eventual merge of the assets with different than what we did with RGE South.

About the change of indexes, I think this is a discussion, which is very complex and almost impossible to forecast how the IGP-M and the IPCA in the future is going to -- how do you put a price on this. So this is the challenge, and the second point is the concession extension. This is a different discussion than the generation case. Scenario here is of renewing the concession. We're in the first session and we work with basic scenario with an automatic extension, of course checking all the quality indicators. We are going to renew this to a new contract model, it's a given and there we will evaluate the IGP-M, IPCA automatically. But if we talk about concession extension in a scenario where we consider it given that we're going to have the right to the second concession, I think it's the same as what we discovered -- we discussed in the case of the GCE[ph].

**Q - Giuliano Ajeje** {BIO 21739549 <GO>}

Thank you very much.

### **A - Unidentified Speaker**

Thank you. Well, guys, we don't have any more questions. So we will now close the session of questions and answers. And if there's any question, please talk to Sonia[ph] our Investor Relations. She's always available to clarify anything that has not been clarified. And I'm now going to give the floor back to Gustavo Estrella for his final considerations.

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

FINAL

Well, first of all, I'd like to thank you all for your participation. We're now going to end the year of 2020. It was a very challenging year for the company. It was a year of a lot of uncertainty. We had to focus on the health and the safety of all our collaborators and I think we had a very positive result. I think we were able to retake -- an uptake of consumption, an uptake of our results after the second quarter, which was negative for the whole market and I think we are beginning to have good results from the third quarter preserving the main projects of the company, the tech and our investment program. I think these are examples that life has not stopped with the pandemic and we struggle a lot to keep up our short-term operations, also maintaining the focus and the vision long term.

We are in the infrastructure sector. We need investments long term and I think we were able to do this balancing all the short-term challenges, but knowing that we're going to continue to have a long-term perspective and building this future to CPFL. I think we were able to do this. We have here a year, which is going to bring us a lot of challenges. It depends a lot in the how quickly the economy is going to recover and how the vaccination program moves along. And we see that we're much more prepared to -- for these challenges and for the opportunity.

I thank you very much for your partnership during last year. Thank you very much, and see you next time.

## A - Unidentified Speaker

We're now going to end our conference of the results of CPFL Energia. We thank you very much for your participation, and we wish you an excellent afternoon, a wonderful weekend. Take care. Bye-bye.

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