

## Q3 2011 Earnings Call

### Company Participants

- Andrew Pacini, Unknown
- Unidentified Speaker, Unknown
- Wilson Ferreira, CEO

### Other Participants

- Felipe Leal, Analyst
- Marcelo Sa, Analyst
- Marcio Prado, Analyst
- Marcos Severine, Analyst
- Ricardo Mendoza, Analyst
- Sergio Parmachero, Analyst
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning. And thank you for waiting. Welcome to CPFL Energia Third Quarter of 2011 earnings results conference call. Today we have here with us the executives, Mr. Wilson Ferreira Jr., CEO of CPFL Energia. And other officers of the Company.

This call is being broadcast simultaneously over the internet in the web site of CPFL Energia at [www.cpfl.com.br/ir](http://www.cpfl.com.br/ir). At that address you can also find a banner through which the presentation will be available for download.

We inform that all participants will be on a listen-only mode during the conference call. After the presentation, there will be a Q&A session when more instructions will be given. (Operator Instructions) It's worthwhile mentioning that this teleconference is being recorded.

Before proceeding I may mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CPFL Energia management. And on information currently available to the Company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties. And assumptions because they relate to future events. And therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of CPFL Energia and could cause results to differ materially from those expressed in such forward-looking statements. Now, I would like to give the floor to Mr. Wilson Ferreira Jr. Mr. Wilson Jr., you may proceed.

## **Wilson Ferreira** {BIO 1528124 <GO>}

Good morning. Good morning, to all. I would like to thank you all for joining us in the Third Quarter '11 earnings results conference call. I would like to apologize for the delay. We had a technical problem which has been resolved.

I would like to start this conference with the highlights for the Third Quarter of '11. And we're going to give you more details. But we would like to highlight a growth of 4.2% in sales in the concession area of our distribution company, the main business of the Group.

I would like to report the acquisition of Santa Luzia SHPP by CPFL Renovaveis. CPFL Renovaveis was established in the end of August. And there we are with another acquisition.

The start-up of the two TPPs, co-generation units Bio Formosa in September and Bio Buri in October totaling 90 megawatts of installed capacity at CPFL Renovaveis. I would like to highlight the funding that we had enjoying a market law -- a market window provided by Law 4131 amounted to BRL1.435 million at an average cost of 100% of the CDI maturity between three and five years. Those operations were lead by our financial officer, Lorival Luz, who, by the way, is not with us today because a family member of his passed away. So again, the maturity was between three and five years.

We would like also to highlight an important upside aspect in our distribution companies referring to the incorporation of private networks. A presence which I have been mentioning to you that could bring us about BRL400 million on the remuneration base of our distribution company. This work continues at a very accelerated rate.

We highlight here the incorporation of more than 10,000 kilometers of private networks. Totalling an addition to our base of investment of BRL130 million. Still about our distribution company, it's important to mention that the CPFL Piratininga investment plan (inaudible) is our first distribution company to go through the third cycle of tariff review.

In the second cycle, it has committed about BRL663 million. And in this cycle, we completed BRL664 million, equivalent to slightly above 100%. And this means no adjustment in its (inaudible) recurring resulting from smaller investments.

Continuing on for the first time in this history, we have a business group winning, CPFL Paulista and RGE are winners of the National Quality Prize, PNQ. CPFL Energia was ranked the best company in the electricity utilities sector according to Valor 1000 list.

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Along this quarter we also had an appreciation of our shares of 13%, Bovespa was minus 15.8% and IEE index was positive, close to 6%.

These are the highlights on page four. We move through the results reported. And as we normally do, we talk about the recurring results for this quarter. Net revenue as you can see grew 6.2% compared to the same period, Third Quarter 2010, totaling BRL3.292 billion.

And then we see the EBITDA and the net income on the left, the reported amount. And on the right, the recurring amount. Let's talk about the reported amount. We are reporting a 24.6% increase in our EBITDA, reaching BRL956 million. And in the last line, an increase of 8.1% of the net income, reaching BRL379 million.

It is important to highlight that particularly because of the IFRS accounting process, referring particularly to regulatory assets and liabilities, we have during our conference calls -- we have always mentioned this disclaimer trying to show you the recurring results. So that our analysts' lives can become easier.

So we have the recurring result of BRL996 million for the EBITDA corresponding to 16.2% increase compared to BRL857 million recurring in the Third Quarter of 2010. And if we go to the bottom part of the slide, we give you from the recurring results to the reported results.

In this quarter, we see BRL40 million -- the EBITDA was BRL40 million less from the recurring to the reported one. And this is due to non-recurring events, BRL17 million adjustment accounting to the energy cost of EPASA in 2010. You will remember that in 2010 when they came in, that unit was quite delayed and it was a fine. And the agency gave a verdict, favorable to the Company and there was a re-accounting. So plus BRL17 million.

And also because of the -- it's a much more time consuming process regarding the tariff review, we adjusted our schedule for the fiscal inventory of assets. We have a long time to do that. I am going to show you our main distribution companies. They have only the thirty revision cycles along the year of 2013. So we had a provision to do the service. We are adjusting that provision this year. So plus BRL17 million. No, not impacting the timeline for delivery according to the requirements of the agency.

On the other hand, we see we had provisioned results in the Second Quarter of this year. And it was a small adjustment for people who could adhere to the retirement incentive program. We call it IRP; it's the retirement incentive program. We had approximately 450 employees join. And as of next year, this should bring some results in terms of personnel cost reductions of about BRL25 million annually.

Finally, the movement of regulatory assets and liabilities from the recurring to the reported value impacts negatively by BRL71 million. All of that could just as a difference between the recurring result, which would be BRL996 million down to BRL956 million, as reported. But it is important to highlight that we also had nonrecurring effects in the Third

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Quarter of last year which made this a variation from BRL857 million to what was BRL857 million to the BRL768 million reported back then.

Now two effects here, you will remember we had a labor contingency provision for CPFL Paulista, our largest redistribution company referring to a lawsuit by the engineers at the time of privatization when that was completed. And that amounted to BRL20 million plus BRL70 million for regulatory assets and liabilities for that same period, a variation at the time of BRL90 million EBITDA and the recurring result which would be BRL857 million to the reported, which was BRL768 million, a BRL90 million difference. That was for the Third Quarter.

And in the net income, which is the recurring net income -- it would be BRL401 million. We reported a BRL379 million in BRL22 million. And that is justified by the positive EBITDA, BRL40 million plus BRL7 million from the financial effect of regulatory assets and liabilities according to IFRS, plus an additional difference referring to income tax and social contribution.

Likewise, in 2010 we will have an EBITDA difference of BRL89 million, a positive variation of BRL14 million due to regulatory assets and liabilities. And finally, the adjustment effect for income tax and social contribution, BRL25 million. Our net income would be minus 50 - - would be BRL50 million minus reported back then. And BRL22 million less reported in this quarter so this is just to compare the recurring results and non-recurring events.

Let's go to page five. I would like to give you an update on our corporate structure because we created CPFL Renovaveis and that should simplify our corporate strength particularly. And our vehicles which will be all under CPFL Renovaveis. So we have CPFL Renovaveis at the moment of creation with 54.5%. I'd like to remind you that this business should increase to above 63% the moment that we complete the integration of SIIF, which is something that is going to be completed in the coming -- in this quarter.

And I would like to highlight services where we have CPFL Servicos, CPFL Atende, which is our customer service company. And Chumpitaz Servicos which is exactly our corporate services center which is a shared center in the city of Endayatupa. All of these changes just to give you an update regarding the five businesses where our company is present.

Like move to page six. Just to highlight energy sales in the Third Quarter of 2011. We have the concession area sales in the left upper hand corner in blue, more was billed by the distribution against captive services. And in green there is free customers served in the concession area, which pay a tariff to use the distribution system. It's what we call TUSD. But it's billed by other commercialization companies.

We see in this quarter a 3% variation in the captive market and a 7.7% increase in the free market totaling a growth in the concession area sales of all distributors up 4.2%. Down below, we see the breakdown of these sales for the main consumer classes, a favorable highlight because the residential and commercial segments, as you can see, residential close to 7%; commercial, 8%.

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For the other segment here, we have the rural segment, public sector 4%; 4.7% in industrial. With a deceleration, it continues to grow but at a somewhat lower pace, 1% -- 1.5%. On the right side of the slide, we have total energy sales. So adding sales billed by distribution companies in blue which we have talked about increasing 3%, more than 10,000 gigawatt hour of sales in this quarter.

And in orange, sales of commercialization and now generation given the fact that we have CPFL Renovaveis in the free market. We have plus 2.5% growth in the free activity in total sales -- total energy sales billed by companies of the Group with an increase of close to 3% in growth.

Down below, a comparison showing that we are growing practically as much as Brazil. Brazil is growing 4.22%, we are growing 4.21%. That's a good performance in the south, close to 8%. And a very good performance in the south east at close to 4%.

On page seven I would like to give you the expectations and the outlook -- I think it's interesting to look at these two graphs. This was a survey done by FIA. They do it every quarter. And they have been doing it since 1999. We reached the highest (inaudible) retail purchase intentions for the next quarter. In this case, the Fourth Quarter of '11 it has been the highest since 1999, when they started doing the survey.

Please observe which is the -- the purchase intention is relevant for out of every five intend to buy in the retail. And we see what consumers intend to buy; IT equipment, electric-electronic, film and photo, telecom equipment, furniture, white line appliances. So out of these six top purchase intentions of durable goods, five of them are -- have to be connected to an electric socket, like I always say. So we have an important perspective of -- to increase our sales in these segments.

For the residential and commercial segments, which are the two most relevant ones, they have served that location, in other words, billed at the highest tariff.

On page eight now, detailing the results for the Third Quarter of 2011, we see the recurring result and net of the recurring events and regulatory assets and liabilities. So it is a 24.6% increase from BRL768 million in EBITDA to BRL956 million in this quarter, the increase of the net revenues of BRL175 million or 6.2%. Here we have a non-recurring element. The non-recurring item is exactly -- the reversal of penalties related to the delays in the start-up of EPASA TPP.

The participation of CPFL in this same chart and down below and right over there on the footnote, the impact on cost and impact on EBITDA BRL17 million, because of the cost reversal for our distributors, BRL18 million. Those are the BRL17 million that I mentioned in the non-recurring events. So this is the first item; it is a nonrecurring one.

Let's go to the recurring effect, 3% increase in sales to the captive market and tariff readjustments particularly for distribution companies and generation companies because of the PPAs, amounting to BRL311 million, a positive effect. We had mentioned an increase

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in TUSD, the tariff for the use of the distribution system. So 64% increase in sales to TUSD, or BRL20 million.

Because of that, we have an increase in deductions of revenues. Taxes, I see a (inaudible) and finally an additional revenue. I am giving you details of the contribution coming from EPASA start-up, as well as the start-up of Foz do Chapeco and CPFL Renovaveis, BRL98 million, of which BRL30 million are part of the Group. So this is just to help you understand, we have revenues coming from generation, from coincidence of being the distribution, the Group itself and PPA. But for accounting, in fact we only account for the margin.

I am going to specifically explain the contribution of CPFL Geracao and Renovaveis in terms of explaining the EBITDA growth for the Group. We have a 1.8% decrease of energy costs and charges amounting to BRL30 million. And here you will remember, this is the result of the delay in EPASA and Foz do Chapeco. This was -- there was a non-recurring effect in the Third Quarter of 2010, (inaudible) BRL52 million costs on the (inaudible) increase of intra-Group energy purchases, offset in the consolidation, amounting to BRL50 million.

And inventory boosted the BRL90 million that I had mentioned before. And a negative effect 24.6% increase in charges, or BRL70 million. This increase in charges is concentrated mainly in the standard networking charges of the system services.

And finally, the last component of the increase in EBITDA is the increase in operating costs and expenses, a 4.4% increase, BRL16 million. It's important to highlight three non-recurring events. The first, as I had mentioned before, the provision for labor contingencies at CPFL Paulista in the Third Quarter of 2010, BRL20 million.

Secondly, the reversal of the provision of expenses related to the physical inventory of assets of the distribution companies. They will be realized along the next year. And finally, additional people joining the retirement incentive program. In addition, we had the start-up of Foz do Chapeco HPP, EPASA TPP. And some operations of CPFL Renovaveis along the Fourth Quarter of the year. So in comparison, the cost for those in the quarter are addition of operating costs, which are recurring and permanent, BRL28 million.

When we consider net of these recurring effects, we'll have a total expense of personnel, material services. And others adjusted by this concept, we increased 6.8% or BRL24 million in the recurring comparison and it compares to IGP-M of 7.5% in improving inflation index to adjust our tax. So the EBITDA grows because we have a 6.2% increase in the revenue which is not followed by a cost increase, there was actually a cost decrease of 1.8%, an increase in operating cost and expenses of 6.8%. So this is how we explain EBITDA margin of the Company because now we have a greater operating efficiency.

Moving on to slide nine just to explain the net income. On the right and on the left, we have been on recurring and regulatory and assets and liabilities. So we reported increase of 8.1%, the net income from BRL351 million to BRL379 million.

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(inaudible) there was EBITDA increase of close to 25% or BRL188 million. On the other hand, a decrease, a worsening of our financial result, simple to explain. We practically doubled our financial expenses BRL222 million. And then basically that decrease is due to a slightly worse macroeconomic outlook. You can see the 2.6% Selic rate to 3% comparing the Third Quarter of 2010 and 2011.

In operations we use CDI as an index. A good deal of our debt is CDI indexed. So there is the BRL35 million impact -- a negative impact there. But we also have the strength of a new plant and this -- we have the financial expenses due to the beginning of the start-up of these, amounting to BRL54 million of Foz do Chapeco, EPASA and CPFL Renovaveis.

And we have more cash because we didn't include the SIIF operation or because we borrowed additional funds to deal with rollover of debt in the end of this year and the beginning of next year. So this additional balance is BRL97 million of debt charges and monetary and exchange variations. And also because of the IFRS accounting system, since we did not incorporate at the exchange variation in CVA, it is accounted for in financial result currency factor, the purchase of energy from Itaipu BRL32 million. BRL32 million is the currency effect.

But this worsening, on the other hand, is followed by an increase of almost 70% in our financial revenue, BRL90 million, due to revenue from financial investments, BRL95 million, an increase of 17% in depreciation and amortization because of the new IFRS accounting system and because of the commercial start-up of (inaudible) of power plants Foz do Chapeco, EPASA and CPFL Renovaveis totaling BRL29 million. So it is a positive result. An increase of EBITDA margin and an 8.1% increase in the net income.

And on page 10 we see the impact of the recurring EBITDA. It's important to have that clear in mind. As of the next quarter, I will give you details for CPFL Geracao and CPFL Renovaveis.

But in generation as a whole, we have a generation recurring EBITDA for the Third Quarter of BRL288 million for the Third Quarter alone and it is due to the commercial start-up of Foz do Chapeco HPP, BRL46 million in this quarter; EPASA TPP, BRL16 million in this quarter; CPFL Renovaveis, BRL7 million in this quarter alone, okay; and other events, particularly the additional energy sales because of more activity of our plants, BRL2 million. So a significant generation recurring EBITDA, 33% increase, vis-a-vis the Third Quarter of 2010.

On page 11 I tried giving you details on the methodology for the third tariff review cycle for distributors. I'll mention the main elements of the tariff review, which is quite substantial in a Group that has the basis for its operation and distribution companies.

Firstly, regarding ANEEL, considerations regarding the regulatory asset base; it's what we call RAB, regulatory asset base. In the proposal for the third PTR, periodic tariff review cycle. And giving details on three phases, the original proposal in September of last year. The second phase, the considerations that took place in April of 2011 and what we call the final phase -- these are the regulations approved by ANEEL last Tuesday and Wednesday.

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Those are the regulatory asset base. The base for the third cycle is the base of the second cycle, plus an incremental investment. In other words, what I mentioned about Piratininga where we mentioned that investment that we are going to be making along the second cycle, BRL664 million. So here there was no variation. Actually the --- whether the regulation approved corresponds to the base of the second cycle, plus the incremental investment.

Let's go to the second element on page 12. It's the WACC. The agency proposed 7.15%, a capital structure of 60%/40% debt/equity, because they excluded from the WACC the regulatory risk and the country risk calculated by the median in different period of the evaluation. And it proposed that then the capturing of fiscal incentives for companies in the north and north east in particular.

The second phase. In the second phase of the third PTR was -- there was an improvement WACC of 7.57%, a capital structure that changed to 50%/50%. And it proposed an adjustment of Beta from 0.65 to 0.66.

There is an evolution compared to the final proposal, which was 7.5%. And now propose an adjustment of leverage, better from 0.66 to 0.74. But they went back to a capital structure which is more leveraged, 55%/45%. I have mentioned to them my opinion on this. There is obviously a methodology involved. But as far as we are concerned, we are not happy particularly regarding considering calculations by the median.

Because except for some crisis point in 2008 where the Company has its capital structure that there was more, somewhat more stressed because of CVA. But you know we got to 7.5%; it is an improvement considering the original proposal in the first phase. But it was lower than the expectation of companies in particular considering the WACC calculation methodology which was done in the traditional way.

On page 13 you will show operating costs. The original proposal of the agency in the first phase last year proposed and it was maintained to change the reference into benchmark company terminology in order to have a more knowledgeable information set.

And in the same model, we propose productivity as an item. Originally the values were different by company. And we moved forward over this year when we interacted with the agency, considering maintenance over this year. However, we still need to enhance, we did it twice. And we also a single productivity index for everybody coming to 8.78. But we can clearly see in this case an incentive bridging towards efficiency, which is very positive.

Finally on page 14, we have covered all revenue. This is due to delinquency. The agency originally proposes it broken down by consumer class. Not only a direct value for the Company. But also specific by company. But this time, considering delinquency. Maximum delinquency by residential, commercial, industrial, different classes.

It maintained the same proposal. And therefore there is a reduction in delinquency limits by consumer class and as a result by company. And we also had a special consideration,



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particularly for companies that because of the contractual addendum that eliminated the so-called ability factor of the share B of these charges.

So for this element, they are considering the specific limit -- a limit specified by the agency. But further considerations will be given, considering the neutrality of these charges, considering limits set by the agency for delinquency purposes. These companies in the past were affected due to higher delinquency, compared to the regulatory one. So this is taken into account.

Now on page 15, X factor. So here we have some performance. It's important to acknowledge this. And also the inclusion of a new concept. Not only quality which is also positive by the way, considering the expression of the society. And also the trajectory for some companies that are outside the limits of the agency.

In this case, they have this path to lower costs, which will be taken over the cycle. Originally, the agency proposed productivity gains. At the central point of 3.3% ex-post, it was a very high value. Considering that X factor deducts from IGP-M, whenever they update their so-called B parcel, or the one that is managed by distribution companies. If we consider the goal of inflation going in Brazil was around 4.5%. In this case, the outlook is 25% adjustment, or even lower than that of the total adjustment.

So 4.5% would give you 1.2% adjustment on the annual base, which would be quite strong. In addition, when we consider the inclusion of quality of service or XQ factor. Which is -- has to do with duration, variation and frequency of interruptions on a comparative basis of companies and also by quartile.

And the change in quartile would produce better or worse results for the XQ factor. And lastly the trajectory XT which was applicable to operating costs defined in the second cycle, updated by productivity gains that were not contained in the operating interval. Considered efficient by the Company and defined by the benchmark method. So costs would be higher than the cap. And therefore, there would be an additional X factor.

So the Company by the end of the cycle would achieve the value proposed. Therefore, it would add a reductive agent, forcing the Company to come to the so-called efficient limits according to this methodology.

There has been some growth particularly -- or improvement particularly in the XPd factor, over April, 3.3% to 15%. And the ex-ante calculation. And finally the central point, 1.11% over the last week, also with the ex-ante calculation. Another important remark has to do with the XQ factor which evolved therefore, while addressing companies differently now. Companies with better performance would have higher benefit. And also higher penalties. And the opposite applies. Worse performing companies would also have the same effect when it comes to penalties.

And this is very asymmetric when it comes to the original proposal. But now it's different if you have different changes and quality indexes with minors or plus 5% XQ equal zero.

Companies very efficient would have a hard time. They would always be penalized even though they have higher quality. That's why they corrected this.

And if we understand that there are limitations and constraints to lower cost, particularly for those companies with higher costs, compared to the limit set by the agency XT is limited to about 2%.

So we are moving forward when it comes to X factor. And finally, we highlight a big point of discussion when it comes to other revenues. The agency for the first time is proposing capital of 100% of other revenues. Please bear in mind, to a large extent, these revenues are related to consumer performance or when we exceed demand or power factor. And they have an impact on the cost of the utilities company. And they also generate higher costs and potential penalties and fines in the transmission system.

Not to mention higher power factors. In this case we also have costs related to capacitor base. Not to mention that whenever we penalize consumers, they always say well, they can appeal to justice. But the agents did not decide that this week. Chances are they will come to a decision on November 22 and obviously here this is very controversial. It would be very hard for you to come to a financial economic balance based on operating expenses and other non-operating expenses or non-recurring expenses.

Revenues coming from fines and penalties for instance. So the agency admits how challenging this is and we're joining forces in order to come to a new procedure to be submitted to the agency's agenda on November 22 this year.

So what about the whole process and what about its impact on our Group? On page 17 some remarks on that. Firstly, a breakdown of our recurring EBITDA, in the first nine months of the year, as you can see, 62% or BRL1.739 billion coming from distribution.

So that is the bulk of our EBITDA that will be impacted or affected due to the tariff review process. And what we show in the pie chart, in the upper part of the slide, we have our distribution company and their impact in the EBITDA. And at the bottom a schedule for these facts to happen. Obviously, for Piratininga's case, the process should have happened October 23. The tariff review process. And it will be about 150 days; that is the deadline to work with the agency. It would only happen early next year. And EBITDA of Piratininga is the second highest of the Group with 24%.

Next, we have the five smaller companies, four coming from our acquisition of CMS plus Santa Cruz, accounting for 6% of the Group's EBITDA as a whole. Distribution naturally. And they occur as of February next year. And then we will only have impact in our EBITDA. In April 2013 with a tariff review of Paulista which accounts for 48% of the Group. And we conclude this process of the third cycle in June 2013 with 22% additional of RGE. Naturally, this is very positive for the Group. And we gain time so we can actually be adjusted to this new outlook.

So the impact is not in a short-term basis. It is on a mid-term basis. And therefore the Company -- well I think you all know it -- the Company has really made an effort. And with

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a lot of resolve in order to be more efficient and adjusted at no cycle. On the other side of page 18, we see a breakdown of our generation works. First we had the acquisition of Santa Luzia SHP acquired. And this is very good, with 28.5 megawatts of installed capacity, assured energy of 18 megawatts, average megawatts. And 14 sold in auction in 2007 at BRL170 per megawatt per hour June's values.

And PPA with high consumers, December/39 of 4 average megawatts in the free market. That's an excellent tariff. This SHP as you can see, is on Chapeco River. We already have three SHPs of (inaudible) renewable in operation. And now we are in the conclusion phase of Salto Goes SHP. So we'll have five in total in the same river that will optimize our operation.

On page 19, here we have two core generators that started up in September and October. Bio Buriti, 50 megawatts of installed capacity, investment of BRL148 million. And Bio Formosa in Rio Grande do Norte State, 40 megawatts, 16 average megawatts with already 11 average megawatts sold in PPA and FCR and 5 megawatts in the free market. Investment of BRL132 million already financed by BNDES within 12 years. And the revenue is BRL24 million per year. That is for both plants.

Next, on page 20, just summarizing our investments underway. First, Salto Goes SHP investment, well half of the plant is already concluded. And start-up will be on the First Quarter of 2013. It has been analyzed by BNDES when it comes to financing. And it will be operating at a tariff of BRL147.50, 11 average megawatts.

On the next page, we are breaking down the four biomass generation companies, TPPs under construction, almost 200 megawatts of installed capacity and over BRL500 million of investment. Bio Ipe to be concluded in the Fourth Quarter, 93% already concluded followed by Bio Pedra in the state of Sao Paulo.

Virtually half of the construction work has been concluded and start-up will be in the Second Quarter of next year. And then the most recent projects, Alvorada and Coopcana, amounting to BRL300 million invested for both. They have already been submitted to BNDES for financial purposes. And the first two already have finance granted.

Now, page 22. As of page 22 we will be focusing on projects under construction at (inaudible) when it comes to wind farms. There are 21 wind farms under construction, 550 megawatts to be installed within the next two to three years, investing amounting to BRL2.5 billion. At the upper part of the chart, we are just showing the pace of our construction works at Santa Clara complex. Next year, 188 megawatts.

This operation is really, really huge. Our first big operations for wind farms. Investing BRL800 million already financed by BNDES. And please note, this complex, well the PPA, comes from the first auction of wind plants, updated BRL159 per megawatt per hour. So you can see once that -- where we're building the concrete base, paving base and 100 megawatts we will have here virtually 90 -- 94 bases like this supporting our air generators.

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Next on page 23, we have other farms under construction. These are more recent projects. Macacos complex, 8% concluded start-up for the Third Quarter of '13; Campo dos Ventos sold in 2010 in LER also starting up in the Third Quarter of 2013; and Campo dos Ventos will go to the free market to be concluded in the Second Quarter of 2014; and Sao Benedito complex, 116 megawatts installed capacity, also start-up for the Second Quarter of 2014. So we're speaking of renewable investment, amounting over BRL0.2 billion over the next two years.

Next on page 24, just to assess our debt profile 8 -- well net debt BRL8.76 billion, 2.4 times or 2.3 times if you consider under construction. And the Company reports cash available of BRL4.275 billion naturally. We have the non-completion of CIF and also BRL1.4 billion funding so we can refinance our commitment for next year. So we have additional -- significant important cash.

The debt profile is not changing dramatically, 60% (sic -- see slide 24) is CDI, 25% in long-term interest rate and prefixed. Or exactly those fixed BNDES programs. And IGP which is the debt with asset the foundation of 4%. Real cost of the debt is still going down. The lowest level is 3.9% on real terms. And capital structure remains 50%/50%.

I conclude with page 25, just highlighting the performance of our stock. As we said before, it was a positive quarter for stock. Be it in Brazil, beating IEE and IBOVESPA. And also in the US, out-performing Brazilian Titans 20 and Dow Jones. And an important result, an important outcome of the stock program, we increased the average number of trades. So the stock is more -- well liquidity rates are higher with a higher share 0.51% coming from 0.31%, IBOVESPA almost doubling the number of trades at the Company level.

And on behalf of the team, I would like to thank for the awards we had from institution investor, as the Best IR Team, the first in sell side, ranking third in sell (sic -- see slide 25) side. We were present in both segments. And also our Best IR Professional from the sell side, Gustavo.

And Gustavo, well thanks to our company, he is coming back to our controllership and planning sector, an area that is very important right now for the Company, particularly when it comes to the tariff review. And I would like to welcome Eduardo Takeiti who is starting today. He is joining us today. And he came from -- has large experience with large companies. He has just come from Minerva and is joining our Group right now, with a very good outlook.

Concluding on page 26 we show important awards; PNQ for Paulista and Piratininga, Paulista for the third time in a row. And RGE for the first time. It had already been among -- in the finals. The Group as a whole has already been awarded a PNQ for 20 years. And we started in 2003. Transparency award given by Fipecafi and Serasa and Valor new. So these are important acknowledgements when it comes to our good governance and good management. So these were my remarks.

And my team and I will be happy to take your questions. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen we are now going to start the question-and-answer session.  
(Operator Instructions) Our first question comes from Mr. Felipe Leal from Merrill Lynch.

#### Q - Felipe Leal {BIO 2015017 <GO>}

Good morning, I have two questions. First regarding the tariff review. In the case of Piratininga what is the best scenario that you are working with in terms of implementation, date for the tariff review? It was delayed from October until the final definition of the rules. When do you think this will be implemented in the first three months of the year, or only in October of next year?

And in terms of wind, I would like to know if you see, first as an opportunity and what is the condition of the auctions? Do you see A-5 as an opportunity?

#### A - Wilson Ferreira {BIO 1528124 <GO>}

Thank you for the question. I will answer the second question first. We are looking at A-5; there are several projects underway. We see this as a possibility. This is definitely deserving attention.

As of A-5 Auction, our expectation is that we will participate in the Sao Manoel project. And the only large project. All the other ones are small and they kind of mix up with our actions at CPFL Renovaveis. But if you go to that auction, we will pursue the Sao Manoel.

In thermoelectric, we are doing important work as well. But we haven't got any project yet. We have (inaudible) regulation officer. And he had an important participation in meeting the agency regarding the third cycle. And he can answer your question regarding the prospect in terms of implementation date.

#### A - Unidentified Speaker

Good morning. ANEEL approved together with all of the procedures that guide our actions, summarized by Wilson. And they determined the tariff review process, which should take about 150 days. It was published in the Official Gazette. The resolutions that approve these procedures. And they also approve the timeline. It should take about 150 days.

Companies that should have been tariff-reviewed in 2011 will probably be pushed by ANEEL to implement it. I haven't got anything official. But this might happen along these 150 days in the first half of 2012. But it is very possible that they will match these reviews with the adjustments for 2012. It is very possible that the revisions will take place together with the 2012 adjustments. This has not been defined by ANEEL but it is a possibility.

#### A - Wilson Ferreira {BIO 1528124 <GO>}

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And Felipe, you asked about the prices. Obviously we expect the prices to be better. It's important to highlight that in Brazil, either because of BNDES financing conditions which are better or because there is greater competition between equipment -- or among equipment suppliers. This is also the result of the acquisition of equipment. And so there is a number of positive factors which are pushing forward.

So particularly in terms of equipment demand. We believe that the prices will pick up again. We see that the supply of equipment should not come at the prices that we had in the last auction. So as for wind, wind power, the prices might go up a little. We have a proxy of what was done here with Gida when the last auction and which were sold at BRL102. These are important factors to guide the prices for hydro power.

So I guess we are coming to a positive composition. Better financing conditions. And better cost for companies' equity in the prices for the captive market which will be slightly higher than in the past. Thank you.

## Operator

Our next question comes from Marcio Prado from Santander.

### Q - Marcio Prado {BIO 15398968 <GO>}

Good morning. My question is about consolidation. You mentioned in the press to some newspapers that the tariff review should shrink the margins. We saw that in your presentation. Could you elaborate on that? Could you please talk about the balance sheet of CPFL? There is a net debt over EBITDA ratio of about 2.3 times.

How strong do you see the balance sheet is, if there is any prospect of a consolidation? Could you talk about that. And could you elaborate specifically, if you think that ANEEL after the review, which everybody considered hard, do you think that ANEEL will leave it to the companies for the next cycle? A good part of these synergy gains because that would be important for companies to be able to maintain their profitability level. So one question.

Also about the thermal and gas power. Yesterday AES mentioned that they will not be participating in A-5. They are not reaching an agreement about the gas contract. So could you say a few words about that applying to CPFL? Thank you.

### A - Wilson Ferreira {BIO 1528124 <GO>}

As for a hard review, this is exactly what you said. It is a review that advanced a little in terms of the rationale of efficiency. I think that they continue with parameters to stimulate companies to be efficient.

But I believe that it is a little bit unreal, in the case of WACC, for example. The use of a median and not the average for the calculation is definitely something that should be looked into attentively. This is an important moment. We knew that the regulatory agency has an understanding of the relevance of investments for the future.

I think that this becomes very clear when they reconsidered the so-called X factor. Although most companies question whether we will be able to indeed reach so much higher investment levels BRL8 billion annually increasing to something close to BRL11 billion annually. Exactly because the WACC, weighted average cost of capital, has a remuneration of equity and debt. And they are both very aggressive.

It's not just the fact of looking at X factor as a limiting factor to your investment so that you can have an adequate remuneration. But it is also availability of your own capital and particularly of third parties' capital to expand the expansion to finance the expansion with the costs which are implicit to the regulatory WACC.

All of that leads to -- well, we know that our Groups, they consist of more than one operation, which is our case, which is the case of ANEEL Energia to make -- these are bigger platforms that tend to be more efficient and tend to be able to share a better quality of service.

The model is clearly directed to these companies with bigger platforms. They can have greater financial efficiency in borrowing money and greater efficiency in acquiring materials and services to make expression possible. And also in sharing good practices so that one can have lower technical losses and better indicators of quality of service.

There are a number of companies which are much lower, much smaller than these Groups that I mentioned. And that will find it very, very hard to operate with the standards that were defined now. Another thing, oh the consumer cannot pay for that. ANEEL is giving a clear signal that they want more efficiency. But these I worry have the signal, have the wish. And the wish will materialize as long as the economic conditions allow this kind of consolidation.

I have no doubt that smaller companies will find it very, very difficult. It will be almost impossible for them to operate at the levels set now. So consolidation, well there is some signaling in that direction of consolidation.

You talked about our balance sheet. We have 2.3 times the covenants of the Company are about 3.7. So obviously a company that has an EBITDA of BRL4 billion annually, that gives us an ability to have access to capital, to quite a lot of capital, in addition to cash and cash equivalents.

I think that the distributors, the distribution companies with this tariff review will have somewhat lower values if they are not efficient. Happily so, that will also play in our favor. The price of the inefficient ones, because of this new concept, will be lower. And some companies like us have the financial health are then cash or in terms of access to financing as a whole to the debt market. Or which is our case the follow-on of the Company could bring in funds.

So I don't think that the problem is liquidity or financial health to execute. But it is a process that will start unfolding now with companies receiving their reviews and having much greater challenges to operate in the criteria and parameters that were set. And

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then there is a natural path to consolidation. If it is hard on one hand, on the other hand, it puts the decision of consolidation at the table of most shareholders of these companies, on the buy side or on the sell side.

I reckon that we have the ability -- we're going to have assets of the revision starts now, there's a timing for it. You can't expect it for tomorrow. But that is the signaling. Finally, regarding thermal and gas. As you know, we had a good experience with our TPP. We have some partnerships to develop some projects. We are submitting requests for environmental licenses. But we did not get a contract with Petrobras.

Obviously, Petrobras is the largest supplier. But they are not the only one. So the Company is working in strategic terms to prospect alternatives to the gas supply. We haven't got an answer yet. But we see the expansion of gas as something important in the Brazilian energy matrix, for the coming 10 years. This has been considered in our 10-year plan, as well as in the interaction of the main players.

The Company has reached a very strong arm in renewables. We shared CPFL Renovaveis with you a very good prospect of investments for the next two years. And it's not going to stop operating in generation. We completed projects last year Foz do Chapeco and EPASA and we have the financial health. We have the ambition to continue to grow in that area as well.

And TTPs went up for the first time, seen as one way of providing growth so we are considering it. We won't be in this one for the reasons that I observed, the environmental license or the gas contract. But we are working in both fronts in terms of alternatives.

## Operator

Our next question comes from Marcos Severine from Itau BBA.

### Q - Marcos Severine {BIO 3322666 <GO>}

Hello, Wilson. Good afternoon. Two questions. One still related to consolidation that was mentioned previously by Marcio. So you think about consolidation. When you think about consolidation, do you think about opportunities in the north and northeast of the country? Obviously we all believe the third cycle was really tough. And efficiency and quality of service will be very challenging for companies returns.

And many companies are being faced by strong challenges, not only of those, like related to Eletrobras but also important groups. Looking back to the past, some of the companies -- some were more challenged. And supported by BNDES or Eletrobras. Do you believe this possibility is still for real? Do you think that these companies will have to increasingly pursue alternatives in the private sector, for instance, be it by selling part of their stake?

And the second question has to do with CPFL Renovaveis, Wilson. What is the speed of growth, the pace you estimate in this segment? Do you believe that CPFL Renovaveis will grow at 200 or 300 megawatts per year? In addition, what is the role, or how do you see

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the role of CPFL Brasil in this expansion in the renewable energy sector, focusing on special free consumers?

## A - Wilson Ferreira {BIO 1528124 <GO>}

Thank you, Severine. When it comes to consolidation, we can clearly see a difference now among different regions. And when it comes to efficiency or scale, or acquisition of materials, or sharing best practices, I would say the region was more important in the past when it comes to synergy.

What I am trying to say is that obviously based on this new methodology, that involves quality, you can have benefits stemming from quality. And that opens a better path, even greater path opportunity wise. We believe the segment will be private. And that is where we find the best results be it vis-a-vis performance of our financial economic efficiency. Now, when it comes to quality of service, I believe that is the right way to go. And as you mentioned, there are several companies, large and small companies, challenged in the previous cycle. And it will be even more challenged once they get into the new cycle.

There has been support be it in terms of funds provided of these companies. However, it is very hard to add more funds if you don't have an improved efficiency proposal. This improved efficiency takes people, systems, processes. And these companies don't have them. So I believe the rescission goes as follows. From the moment we use and apply the review, this scenario changes to move fast.

And I don't believe in support, as we had in the past, to these companies or groups. Once again, I think that's a sign for big players to manage to consolidate. And there are no limits to consolidation. But it is possible to build large groups, groups that may share the view of efficiency. And that is very good for consumers. From the moment you have level of efficiency you have lower tariffs. And on the other hand, quality levels will obviously be higher.

That is what we expect to find in this new cycle, or as of new cycle, including important changes that will have to be made to the topology of networks. Take for instance, the smart grid or electronic measurement. All these systems that will provide support to the operation of these teams by satellite for instance.

So there are hundreds of technological breakthroughs that will prove to be very important as of now. So we can have efficiency and quality. I believe groups that are well positioned, like our Group, undoubtedly have a favorable sign towards consolidation.

Now, when it comes to CPFL Renovaveis growth rate, as soon as we started the company, we -- our expectation was to grow 35% per year. That's the Company's ambition and the business plan, at least in the first four years until 2015. Now looking for the next two years, we have something around 700 megawatts in operation. And around 500 megawatts under construction. So growing at this pace of 200 to 300 megawatts per year is absolutely comparable with a growth rate and a result of 35% per year.

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In addition, there is a set of projects underway and probably it will allow the Company to come close to or very fast to 1,500 megawatts. So we have projects for wind farms, SHP and biomass exceeding 2,500 megawatts, not to mention any potential acquisition of assets just as we had this month. So I am positive that that is a very strong area.

Certainly it stands out when it comes to growth in the energy sector particularly in our Group. And it is supportive -- or it applies not only to opportunities with PPA coming from auctions. And I have no doubt whatsoever that it also applies to the activity of free market and commercialization, particularly with CPFL Brasil.

The truth is that the so-called special consumer segment, between 500 kilowatts and three megawatts stood for high voltage -- mid voltage. The supply level so they can be converted into free customers is lower compared to the demand. I would say today around one-fourth or one-third of these consumers are already being served in the free market. In other words, two-thirds, two-fourths are not being served.

So the role of commercialization companies supporting the Company. And already acknowledged by BNDES, in the last auction, they created conditions for PPA to be acknowledged or recognized as finance team. There is this whole procedure via the ministries of energy and mines. And also by ANEEL to legitimate the operations in the free market, particularly for wind energy. So this is strongly supported.

So we are speaking of an activity that started up very much focused on (inaudible) PPA and on auctions of reserved energy. And by using the same mechanisms and also A-5, it can go on. But also with a vibrant optional demand in market of special customers. And because we are the strongest player in the free market, in this quarter for instance, I forgot to mention this. But compared to the previous one, we closed at 153 free customers and the majority coming from 80 last year.

And part of them are special customers. They are having the opportunity, stemming from the higher supply and also value proposition of CPFL Renovaveis, which in addition to being very efficient financial wise, it adds a stamp or seal to consumers of renewable energy favorable to the environment when it comes to carbon emissions.

So this is very appealing. And we know there are varied groups pursuing this kind of green seal. This is -- you know we have great prospects here.

**Q - Marcos Severine** {BIO 3322666 <GO>}

Thank you, Wilson.

**A - Wilson Ferreira** {BIO 1528124 <GO>}

Thank you, Severine.

**Operator**

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Our next question comes from Marcelo Sa from Bradesco.

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

Good afternoon, everybody. I have two questions. One, has to do with the tariff review process. Distribution companies that have the tariff frozen. We know that the ended by having an additional tariff compared to what they should. And they will have to give it back to consumers. My question is, if this return will be within 12 months, or maybe something specific in a lump sum previously defined.

The second question has to do with the thermal projects. What about A minus 5. It's not clear if it Eletrobras or Petrobras will come with their own TPP. So my question is, is there any sign that it might have gas counted for A minus 3 next year? And do you believe any other player might submit another gas contract with A minus 3?

### **A - Wilson Ferreira** {BIO 1528124 <GO>}

Marcelo, let me start by answering the second question. Petrobras did not give any signs. We are not the only ones who were challenged. I would say that right now we already have bidding process with MPX and other groups. And competition in this market is key. Now, when we begin to be more determined and getting our team involved, you can see there will be a lot of has in Brazil.

It's unbelievable what the gas supply will be. And if you have efficient thermal generation, well our positioning is heading for the future. We think about Petrobras right now. It stems from the fact that supply is relatively balanced right now. It won't be in the future. We will need further agreements. And not all projects will be for thermal energy generation. It makes no sense.

So be it with Petrobras or OGX or any other players that are coming to Brazil, beginning to work on additions. We will have has supply. So we work in all fronts. We need a partner. And a winner on the projects, be it A minus 5 or A minus 3. The winner will be the one that is gas competitive. That is for sure. And obviously a proposal for a good operation of these plans under construction.

We had this experience before, as I said in the northeast. I would say that this scenario, the current scenario is -- will probably change due to competition that will be related to a higher gas supply. And then it will be easier to the business with everyone.

Now when it comes to tariff review, I will give the floor to Timid and he will better explain or give you an answer. Thank you.

### **A - Unidentified Speaker**

Marcelo, as I said before, ANEEL approved, together with a methodology there is rights. If they consider this right, or there is compliance with the right within 150 days, there will be plenty of conditions to work on the tariff review. Now, one highlight is that these reviews

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will also be retroactive. Considering the dates or the anniversary dates of the tariff review, Piratininga is October 23rd, 2011.

So their effects will be related to the anniversary date of the review. If they decide to have over the course, what was established by the right to prove this week, the fact, which is addressed as a financial component will be included in the tariff. And consumers will notice this in the period that goes from that date until the next adjustment by the Company, which will happen on October, 2012. Otherwise, if they decide to combine and only use that effect, always retroactive to October 2011, in the adjustment to be made on October 2012, those will be noticed in the 12-months after the adjustment.

So the decision is not made by ANEEL yet. At least not a formal decision to say when this will happen. They have already decided for the right. The right or the terms, sets, in order to have the tariff review process.

This exception term of these companies that should have been submitted to the review in 2011. So they extended exception in these six review, then tariffs are postponed for that time. So far a decision has not been made. Chances are, they will be doing that with the adjustment of each corresponding company.

So it depends on the decision. If they decide to adjust Piratininga by April or March or the remaining period, it would be up to October. And that is when consumers will notice this financial component in the tariff.

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

Thank you.

**Operator**

Our next question comes from Vinicius Canheu from Credit Suisse.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Good afternoon, to all. I have two questions. The first coming back to thermal power plants. As sort of the current scenario with a greater difficulty in getting gas contracts and the possibility of having gas in the auctions.

How is this going to work? Are you going to work as a consultant to the plan? Or are they going to get in -- Petrobras going to get involved as a consultant, or a supplier? How is this going to work in terms of having a competitive edge for the development of the plants?

My second question has to do with the restructuring of the Group. Not in the restructuring. But the negotiation of CPFL controlling shareholders communicated in the beginning of the year that they would join with (inaudible) or that there was something about the controlling shareholders. Could you tell us what happened. And was it a great expectation

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that something would happen until the end of the year. And apparently we haven't read much about it in the press.

#### **A - Wilson Ferreira** {BIO 1528124 <GO>}

Vinicius, I am going to give it to Creca answer this time.

#### **A - Unidentified Speaker**

As far as the thermal, the answer is whether we are going to get involved in the gas chain, no. We are going to be operators of plants, building fund as we have always done. And I think it makes sense because we have a great supplier. And another one coming up. But they are going to be a lot more. And there will be a lot of gas supply. So this is an activity for the experts in gas. And what we will benefit from the competition amongst them. This is what we mention will fit our business because we linked it to electricity.

As for the restructuring question, I know about the restructuring basically based on what I have read in the press. If there is any operation happening among the controlling shareholders, I have been inquired, even by CDM because of these rumors and in the last time I was asked that question, I said that I got some information from the shareholders.

But yes, they were talking. But there was nothing really binding. And I haven't heard from them since then. So if something happens, if something that there is still discussing, the controlling shareholders are still discussing, we haven't got any participation in that in terms of the executive committee.

#### **Q - Vinicius Canheu** {BIO 6300903 <GO>}

Thank you, very much.

#### **Operator**

Our next question comes from Ricardo Mendoza from TE Participaços SA.

#### **Q - Ricardo Mendoza** {BIO 4787170 <GO>}

Good afternoon. I have two questions, focused on renewables. CPFL Renovaveis, with this cheaper funding, incentive for this kind of energy, to have financed the measure of what will be the debt cost for CPFL Renovaveis? And what would be the capital structure that you would look for? We saw some projects way ahead 80% BNDES debt? What would the capital structure for CPFL Renovaveis?

And my second question has to do with the tax rate. We know that there is the advantage of presume to profit for companies that make below BRL48 million. And can CPFL Renovaveis benefit from that? The fact that they can break down each project and have reduced their tax rate to be paid.

#### **A - Wilson Ferreira** {BIO 1528124 <GO>}

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Thank you for the questions, Ricardo. As for the capital structure. It is something between 20% and 30% equity, 70%, 80% debt. Most of the investments in renewable energy loans -- long-term loans by BNDES or BNB, we also have BNB. And between 20%, 30% equity. And the remaining debt. So this is a more leveraged operations with longer maturities as well.

This is what has happened in the past auctions with this kind of capital structure. Now the cost is the TJ plus depending on the quality of the Group, something between 1.5% and 2.5% for the Groups that are participating. These are very long-term deals. And this is the situation. It's a good prospect for sure. And this kind of investment. And also appeal for the fact that it is renewable energy, low carbon emissions, carbon credit for most of these projects.

So in terms of the tax rate, no doubt about it. If you look at a consideration of the wind farms, they are such a megawatt farm. And they are prepared to enjoy this lower tax rate with presume to profit. Because we don't have an exact equity guarantee of how much energy will be produced by these farms because it relies on wind.

And every three to four years we adapt the production. And this is exactly for that reason is a benefit from these fiscal benefits. Thank you, very much.

## Operator

Our next question comes from Sergio Parmachero from Safra Bank.

### Q - Sergio Parmachero

Good afternoon. I have two questions and I would like a clarification. My question -- my first question is about consolidation. Now that we are getting closer to a resolution about the renewal of concessions, I would like to know what is your interest regarding Cesp, remember, you were interested in (inaudible). Will you be giving preference to a possible Cesp privatization? Or will you be focusing on Greenfield?

And do you believe that there will be a renewal, or a rebidding of the assets? And still on consolidation, about EDP -- (inaudible) about consolidation (inaudible) Piratininga would you be interested in acquiring a stake or to participate in the Portuguese auction to have some kind of advantage in the (inaudible) deal?

My second question has to do with the releasing the right of way for the gas pipelines. You talked about a secondary market so that you could develop the thermal power market. And it is used by the industry. Are you still talking about that? So that Petrobras would have to give you the right of way so that you could buy from British Gas or any other, for that matter, using the gas pipelines of Petrobras?

And my clarification is regarding the tariff review. In other words, if a tariff review comes in April, won't it be possible to have the readjustment in October? Because according to the law, there is a minimum period of 12 months. So (inaudible)?

## A - Wilson Ferreira {BIO 1528124 <GO>}

Thank you. You fooled us. You said you were going to ask two questions. And one clarification. You asked three questions, plus a clarification. I am joking. Never mind.

Okay so let me start talking about consolidation. For the question about -- and if I believe in renewal or rebidding. All public signals point towards an interest of the government, which has the majority in congress, a preference for renewal. I believe that that is where renewal or for rebidding, even if it were to go through the national congress. And I think that the government would go for the renewal option. I believe that is the path that they are going to take.

But that renewal, because of all public and private manifestations of organizations that have a direct interest or not, I believe that there will be in this renewal a price gap to push low more reasonable tariffs. The low tariff that we had in the past 12 years is the result almost exclusively of equity efficiency of distributing companies.

And the distribution companies when privatized accounted for something around 45% or 50% of an electricity bill. And after the tariff review it will be close to 20%, the stake. So the distribution companies somehow had brought about 60% reduction in their average price. It is unfortunate that reduction was made. But that there are new charges, the charges practically increased four-fold in that period.

The transition cost also increased. But this is because of the fact that Brazil increased or extended its transmission network almost to three-fold in terms of capacity. But this is part of just the systems are more robust.

In terms of integration of the whole territory of Brazil, this is really good. And just you know that just 70% of our generation comes from water, hydraulic power. So this helps us work with a good level of energy reliability. And there are limited risks of blackout our rationing.

And in generational too important event. The auctions themselves, which aren't really producing results just yet because the Santa Antonio Geracao plants will start generating energy as of next year. But they're all low tariffs for the captive market, because of these auctions. And this is relevant. And here is something important to mention.

These last four projects, Santa Antonia, Geracao, Belo Monte. And Terence Pieres they are new projects. The same bring a value reference which I think will be difficult for the government not to consider when they set their price gaps. When the renewal times comes, which means that energy, which is amortized and depreciated. Well, they have to cost as much as or lower than the energy generated by these new plants.

Perhaps the privatizations you are referring to -- well they will continue to be attractive, because these are good assets. But their price point will be lower. It will definitely be lower. And it is only natural. Because if you can't charge higher tariffs, the VPL, the future

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flows will be low. Lower. And if there is a prospect of privatization, everything will be dictated by operating efficiency, which in a case of generation is a small element.

When you operate in a group with cost of OEM to operate the plants, of about a BRL3 to BRL4 megawatt hour, it is a fraction. The average price is something like BRL17. And we are talking about 5% of that, or perhaps even worse than 5%, future for reals. So that is one advantage. And the second advantage is the financial capacity, how you can finance the project. There might be some variation between the Groups. But that is not very relevant.

And the truth is that the asset decreased in value in generation, given that cap. And that's obvious, are interested in tariff, there are good assets here in the state of Sao Paulo. We need to see what the values will be. Last time since there were no fixation of values, there was the risk of a concession renewal. And it was set for a period of 30 years.

So I guess the values won't change when they decide to renew with the cap to foster lower tariffs that coming from the old generation. And not just the new generation.

Our investment decisions, as you -- well you will know, we are interested in (inaudible) participated in the process back then. And we were quite successful in our Greenfield Now, choosing either all will depend on the ability to create value.

We are always paying attention to all operations and opportunities in which is those that will add more value to our shareholders. As for IDP, when -- we will join that. We didn't. We are not a financial investor. All of our -- in all of our assets, we are the operators and we're doing efficiency to the operation. We create value with our operation. So we are not interested in participating in the auction because of that. But if there are four the qualifier IDP if the Company -- that it is quite leveraged they are in the euro zone, they are finding challenges in terms of refinancing.

If that generates a restructuring. And if it is interesting to sell these assets or exchange them, we will definitely -- would be interested in (inaudible) a company that we will share our (inaudible) privatized. And if we're the right of way forecast pipelines, I must admit to you, I can't answer that question right now.

I will consult with my team and later I will send you the answer directly. Because I haven't got personal knowledge to give you any explanation about that. And as for the tariff review, I will give the floor to Andrew Pacini.

#### **A - Andrew Pacini** {BIO 19092683 <GO>}

This is another concerning issue. ANEEL has referred a consultation to the Ministry of Finance. According to the information that we got, they will answer when the fact materializes. And so that is a question to be addressed. That might be -- they might make a decision to apply that review and match it to the readjustment processes.



That is something that deserves attention. They are looking into it. And we actually made a consultation to the Ministry of Finance to see if there is anything that would prevent a tariff adjustment in intervals lower than 12 months.

They don't think that this will be considered in increasing tariffs. This would not fit that real law of veto. But it is something that they are still assessing. They are considering it. And they haven't given us a final response.

## Operator

We're closing now this Q&A session, would like to return the conference back to Mr. Wilson Ferreira Jr. for the final remarks. You may proceed.

## A - Wilson Ferreira {BIO 1528124 <GO>}

Once again, I would like to thank you all for joining us in this conference call. We shared positive results. And we also share positive outlook. When it comes to generation, the highlight is our action to grow in renewable energy. Several projects, significant investments. So CPFL did manage to reinvent its outlook for growth in the sector. And very successfully. It is putting together different kind of skills, operators, project developers.

And more than that, make and use of its financial capacity and putting it all together, not only with a captive market. But also with its skills in a free market. On the other hand, the tariff review is the topic right now. And by the way, I thank the agency for that. I think the agency was very sensitive, trying to give more time to a discussion that is significant.

We struggled with determination and we can see improvement in the process. And we are responsible for the contributions we had. And the process has been concluded. And once it is concluded it is up to the Company now to respond to the process. The organizational restructuring that we have vowed to have this year naturally will be addressing by the way. We believe we still have time for that. But we're still working actively so we can be at the highest efficiency level.

Restructuring is a means for us to keep on being. And those efficient distribution Group not only economically. But also efficiency when it comes to quality. If you have losses in which it is a win/win solution for everyone. And you will be able to witness over the next quarters good evidence of this process by our company.

It all started with the retirement incentive plan. The new reorganization at the Company level. The organization chart of the Company is now more focused with the CEO and also higher efficiency in our operations. Somebody who can give stronger focus, open to innovation, technology, productivity, quality. And more processes will be underway.

So obviously, we'll be sharing with you each and every move towards becoming an increasingly more efficient Group. That is our commitment to you, each and every one of

you. So thank you very much for your attention. Thank you for joining us. This call. Thank you, very much. Good afternoon.

## Operator

CPFL Energia conference call has just been concluded. We thank you all for joining us. Good afternoon. Thank you.

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