

Q4 2013 Earnings Call

Company Participants

- Unidentified Speaker, Unknown
- Wilson Ferreira, CEO

Other Participants

- Felipe Leal, Analyst
- Lilyanna Yang, Analyst
- Pedro Manfredini, Analyst

Presentation

Operator

Good morning. And welcome to CPFL Energia 4Q 2013 earnings results conference call. Here today we have the executive, Mr. Wilson Ferreira, Jr., CEO of CPFL Energia. And also other officers of the Company. This call is being broadcasted simultaneously over the Web on our investor relations website at the address www.CPFL.com.BR/IR, where this presentation will be available for download. We would like to inform that all participants will be on listen-only mode during the Company's presentation. And after that we will initiate our Q&A session, when further instructions will be provided. (Operator Instructions) It is also important to mention that this conference call is being recorded.

Before proceeding, I would like to mention that any forward-looking statements that are being made based on the beliefs and assumptions of CPFL Energia management and on information currently available to the Company are just assumptions related to the future events of the Company. Future events and therefore are not guarantees of performance because they involve risks, uncertainties. And assumptions because they refer to future events and, as such, depend on circumstances that may or may not occur in the future. Investors should also understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of CPFL Energia and could then lead to results that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the call to Mr. Wilson Ferreira, Jr. You may proceed.

Wilson Ferreira {BIO 1528124 <GO>}

Good morning, all of you. Good morning, investors and analysts who are now with us in the presentation of the earnings results for the Fourth Quarter of 2013.

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I would like to go straight to slide number 3. And we will start the presentation even before the highlights just to give you an update on the energy status of the system. We've been constantly asked about this topic. And so I would like to share our position vis-a-vis our reservoir of NIPS [ph]. Currently 40.2%. And we expect to reach the end of the month next week with investments of 41% in the month of March.

In the chart below, we see that the ENA, meaning the natural inflow energy which refer to the volume of water that circulates in the rivers, we see the problem that we are currently facing and we will probably face throughout the year of 2014. The expected amount -- and there is a gap in terms of LT average and rainfall, or the water of volume in the rivers. In the Southeast and in Northern region, we have almost 70% of the entire capacity of energy production in Brazil.

The same thing also occurred in 2013, starting in December 2012, with an energy gap of natural inflow energy when compared to the long-term average. The fact in 2013 -- I think if you look at the chart in April, we had an above-average rainfall when compared to the long-term average. And the same behavior was consistent throughout the year. So that's why in 2013, despite the fact that we had a generation gap in the beginning of this summer, the average was above 100% of LTA -- to be more precise, 102% of LTA.

So then when we move on to page 4, you see the chart in more detail. As I said before, in the corresponding period going from January and even in March, we had 11% of last year - - 11% below LTA; and therefore, that was due to an increased rainfall or more water in the rivers. Therefore, in the dry season, we had 18% -- we were 18% above.

And as I said before, this by the year began in a lower level. We were able to start above average when you compare it to the annual base. So by looking at the chart, you see that early this year the situation was aggravated -- particularly in February, when we had a higher inflow of an ENA, the interconnected system, in March. And the volume was 37% below LTA. And this is a situation that should be looked after.

So in the most recent period, we see that the situation has been worse at one point. In the Southeast and Center West region, we had 70% of mix. But we are at 63%. In the South, we were fortunate because the situation is a bit more robust than compared to the year before. So in the South, we can storage to supply to the Southeast due to the transfers of large blocks of energy in the South. And they have 70% of LTA. And 176 will be for next month.

We also noticed, on the right-hand side, that there is an anomaly in terms of rainfall we see down below in the Southeast. And I would like to call your attention to the region that has bordered with the state of Minas, Sao Paulo, in addition to the state of Sao Paulo itself -- we can see through the orange color that this is certainly -- this certainly represents a lower rainfall in March. But the situation has been reverted, especially in the last few days. So the Southeast is now experiencing greater rainfall levels. And the chart shows that in the South, which is in blue, the South has allowed us to make transfers, as I said before.

The forecast of ONS [ph] for April for the two systems that I indicated of us is 83% for the Southeast region and 120% for the South region.

Another important piece of information on page six refers to means of generating inflow energy. And for that to happen, all of the basins have to have water. In this situation of a lot of heat and very little rain, not only we will experience the evaporation in the reservoirs -- but if the margins, they are very dry.

And despite the fact that now we are having some rain, this prevents more water throughout the cascade. This situation has to be monitored because of the two elements that I show in the chart that may be very clear when you look at the illustration. The available water in the soil, which is more superficial; then here, you can see that in February -- on February 28. And in this area that is being circled, we hear it's about 40%.

When you look at the following month on March 25, the measurement is much more favorable. So it will be approximately 70% to 80%, meaning that we already have surface water -- or water in the soil. And this comes hand-in-hand with the soil hydro capacity, which is a different measurement. So it means that now the waterbeds are becoming more watery. That means that all the rains that are about to come will be able to generate natural inflow energy because of the flow. Before the soil is humid, they will be more -- they will permeate in the soil. And this will happen at the end of February of this year and the end of March of the same year. So now, with the current rainfall, the rain will be immediately transformed into natural inflow energy to fill up the reservoirs and generate power.

So on page seven now, we are trying to show you ENA on the dry period. In the last 10 years, the dry period has been more favorable on the point of view of the long-term average when compared to other periods. The humid period has been less favorable. But in fact, when you look at what happened in the past 10 years in terms of natural inflow energy and the dry period in the months between May and November in the Southeast region, the average has been around 107%. There were some years with some peaks, like in 2009 with 135%. And the lowest percentage was 92% in that same period. So this certainly refers to the importance of the South -- the Southeast reservoir. As I said, 70% of the volume comes from the Southeast region.

When you look at the mix, we have 105% of LTA. And the lowest value was 89% and the highest was 136% of mix.

Well when you look at the chart and also taking into account the likelihood of reaching 41% of the integrated national system by the end of March to 41%, we have, like, three different circumstances for you to look at. Because I know that analysts and investors have tried to get this information from different sources. So we are just adding one more element to the chart, trying to incorporate a new view of what could happen during the dry period. So if we were to consider the best period of 136% of LTA, by the end of November we would have 61% of water storage, considerably higher than the current numbers at the current volume.

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Now if, on the other hand, we look at the average of LTA for the past 10 years, we would be at 40.5%, which has been exactly the reference level of the weather board at the end of the dry period. Then certainly if we experience the same situation we had in 2003, the reservoirs could be as low as 25.2%. So certainly, if we remain within the average of the past 10 years, heading into the dry period we would have approximately 40%, which would be a reference situation, as we could see on the first charts that I've showed you.

Therefore, to conclude this topic, I would like to say two things. First of all, concerning the issue of soil humidity -- or soil moisture -- we already -- well, because of that soil moisture, we can already accumulate natural inflow energy which has been facilitated by rainfall in the period which will lead us to a good flow of water which is capable of generating and also create energy.

And the second point is what I showed you on the previous slide. So just like in previous periods, maybe we'll be surprised because recent history indicates that winter rainfall can also contribute to the maintenance of the reservoir. Well certainly throughout that period, there will be an incentive by dispatch of similar electric generation to ensure that we'll continue to operate normally.

So also, for all of these considerations to take place, I'm just listing all of the positive and negative aspects just to say that by no means we can predict what will happen in the near future. So as to say that we will have this or that scenario. But first of all, because there is a very high degree of uncertainty in the weather forecast -- I mean, of course, we have, like, a good idea for a period of about a week. Anything beyond that will be merely speculation. And deal with all of that, considering also the fact that our system needs water. And there is a very typical behavior on the timeline that have been measuring that since 1941.

So certainly, we are referring to a phenomenon that most likely I would say -- I mean, it's impossible to predict with 100% certainty that there will be a negative event or a positive event in the near future. But if you look at the likelihood of the average and also by looking at previous charts, I can also say that the situation is certainly one that requires caution. And if we look with the average, we can just probably say that, throughout this period, we will be able to be in a comfortable position. But as I said, it is important that we monitor the situation and monitor the intense use of the thermal electrical power plant. I mean, I'm not being negative. But we have some things -- 25,000 installed megawatts of capacity in the thermoelectric power plants. One-fourth of them have availability and complex logistics status for fuel oil, diesel oil. And this is something that has to be monitored carefully. And the dispatch will take place in the long period of time.

So there may be some failures, like failure of some of the engines, in these plants that also should be -- should be included in our considerations when we talk about that track [ph]. I'm not saying that they will be materialized. But there is a possibility of failures because these thermoelectric power plants work with a large set of engines. There are 40 engines just for fuel oil. They are heavy machines. Therefore, we may think that 95% of these engines will be fully operational. And the remaining 5% will be in constant maintenance process.

I would also think that it's important that I mention the feasibility of the operation. And I'm only telling you what the press is reporting. And I do not believe that we would reach a chaotic situation, which is like 10% of capacity. I think we should certainly work towards preventing that situation from happening. It didn't even happen completely in 2001.

And just to add to that negative potential scenario, we have the start-up of a merger into the thermoelectrical power plants, which will take some time to start operations.

On the other hand, I would like to point out to the positive aspects. Of course, you have to look at the glass half empty. And I would like just to say that in our Company in the group, we tend to look at the glass half-full rather than half empty. And there are some negative aspects which are only related to the current situation. People were talking about the reservoirs of (inaudible) that are now being replenished.

And it's important to say that, with the rainfall in the South -- we've been having a lot of rain in the South. And in the Southeast region, we are beginning to see some rainfall in the Parana River. And that water goes to Itaipu.

Then also we have the plant at the Mabhida River. There are many machines installed. But the record water flow had a problem. This is something that we've seen for some time. The water flow situation should be normalized shortly -- momentarily because there's a lot of water in the Madeira River.

On the other hand, it's also important to say that if we work with a high GLD, especially when it comes to large consumers of energy, stock prices referring to the stock price, now we have some good prospects for higher profitability. And this happens naturally because electric power accounts for more than 50% of the cost. Then you have electric power being sold in the short-term market at amounts that are 6 or 8 times higher than the current purchase on them.

Therefore, the possibility of getting results through the sale of these contracts is something that is already happening regardless of anything else. And certainly the corporate activity looks for opportunities like that. And we certainly are working with the stock price as is generally at a high level. And this has allowed us -- I mean, you see that when we look at the behavior of volumes sold to the industrial market. The free market, which is a market that has that possibility, accounts for 30% of all of the energy volumes sold in Brazil in the recent years.

On the other hand, if we look at the risk of rationing, which has been widely announced by the press, we see the need for cutting 4% of the load. Certainly the volume of 4% also encloses some risk -- I've heard of 17%, 20%, 25%. So it's 4% could also be used as a measure for rationing. And as I said at that level, with probably the demobilization of some intensive plans that do that due to corporate decisions. So the current moment when we can have natural inflow energy is (inaudible) in the dry period has happened in other recent periods in the last 10 years.

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On average, we tend to have higher volumes when you look at LTE. This is something related to climate. As in the weather periods, they have been delayed or it may be slower. There is a whole set of positive and negative elements that were now mentioned so that we could have a reference in terms of our predictions or forecast. So the fact is that we have 70% of our capacity comes from hydroelectric power plants. And that requires a good volume of water.

And in terms of that water, it's very difficult to make any prediction at the moment; and certainly will be much more adequate for us to trust the long-term averages rather than jumping to conclusions. It's also important to mention that we are still in the last month of the wet period, which is April.

Then if you look at the first chart I show you, you will notice that in April, we usually have that curve of reservoirs feeling. So given the fact that we already have minimum conditions of inflow because of the quality of those slides [ph]. So it is very likely that we will see a better condition at the end of April.

So to conclude this topic on page 9. And also if you look at the two-year capacity -- well, certainly that there is some delay. If you look on the right side of the chart, this system has a demand of 67,000 average megawatts for capacity of 70,000 so that there is an oversupply of 2.9 -- something like 4% of our supply -- and that this supply, based on the growth that we see here of 7.6 for next year, against a demand of 3.4, it increases and it becomes stable with an oversupply of 6 gigawatts -- or 6.5 gigawatts, giving a supply of 75 [ph]. So we will have an oversupply of about 10% of the demand. So certainly we do have here a tightening due to some hydrological conditions. An example is the Madeira River. Given the prospect for increase in demand, we may have an oversupply, which can be even higher.

And so I would like to conclude on page 10 when we have a package for the electric sector. So first to share with you our comfortable position vis-a-vis the measures that have been announced with an increase of 4 billion, which started in generally this 1.2 million. And certainly, we will see to the end of the operation in February in a very good position. So funding to the rate by CCEE [ph] has the merit of allowing for a pictorial development that will be concluded smoothly.

So the factor -- I'm not saying that the cycle will be totally independent from the Treasury Department. But it will be bad if it were to stay permanently dependent on it. So this is an intelligent solution. But it has to evolve and it has to develop further. And if that is partially developed, it can be a very interesting instrument to be used in the future to avoid situations that we are encountering currently.

And also, they are auctioned to take place in April. We'll be able to attract in giving the price situation to attract major and large investors. It's enough -- our (inaudible) has matured up 5.5 years and we will also see a good possibility with the thermal power plant which variable costs capped to BRL300 per megawatt hour. So there will be companies that will feel that this is a very attractive. Now down below we have here the non-contracted amount of 1.8 gig and then there is the short amount involving 3.2 average

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megawatts. And they refer to assets in power generation. And according to the conditions of the option pricewise that should also be shared 15 days prior to the option.

Therefore, April 10 is the date that we should have the numbers. And the government is pretty much focused on establishing conditions that would attract investors and generators. And therefore, I do believe that we will see an important and considerable reduction in that amount which did not happen in December.

So now we'll go to page 11. And now I will talk about the major highlights for the Fourth Quarter of 2013 for CPFL Energia. The main highlights is an increase of 3.3%, especially in the sale of the concession area.

Then we have the start-up in low pension [ph] in 6.7 per residential, (inaudible) area, 5% commercial and industrial. Even though it had a different behavior, it posted increases of 1.1%. The main highlight of last year in the Fourth Quarter is just an illustration of that, was the very efficient management of cost. Our adjusted PMSO posted an improvement of 13.3%, which was part of the Company's strategy to make adjustments, ZBD [ph], shared service centers, et cetera.

And all of that resulted in cost efficiency so as to neutralize partially or completely all of the effects of the tariff review. This (inaudible) program is another example of that. Of EBITDA was BRL52 million posted in 2013, referring to many activities that are yet to be completed throughout 2014. And that refers to tablets and mobile workforce and tele-measurements that will take place throughout this first half of the year. And this will also allow us to post more significant reductions in terms of operating costs. CPFL (inaudible), I have good news.

So we got the eight-five [ph] option. We just announced our joint venture with DESA. And we saw the start-up of some delayed operations. Then finally, this week we were able to conclude the start-up of Atlantica wind complex investment of BRL374 million and in the Fourth Quarter of 2013, amounting to BRL1.735 million and in 2013 and certainly here we see the delay of some operations of renewable energy, which did not allow us to reach BRL2 million, which was the original plan. So dividend payouts, BRL933 million related to 2013 being BRL568 million related to the second half of 2013.

So the maintenance of our AA plus rating for Fitch Ratings to CPFL Energia and subsidiaries. So for the ninth consecutive year, we are one of the very few companies which were able to maintain that important KPI of the Sao Paulo stock exchange called ISE, Corporate Sustainability Index. Also we were ranked as a member of the Sustainability Yearbook 2014 (inaudible). That's the same company that conducts the evaluation of the Dow Jones index for corporate sustainability.

So CPFL is one of the three Brazilian companies that are listed in that Yearbook. CPFL Piratininga and RGE were granted the 2013 IASC award as one of the best companies in the South -- Southeast and South regions. We were voted as the best distributor by consumers. We are constantly improving the quality of our services. And we are just making improvements in our management process.

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On the next page, we have energy sales for the Fourth Quarter. We saw a growth in the concession area of 1.8%. And this really reflects growth in the captive market of 1.5% and in the market of large consumers, which pay in tariff to use in for CSUD. That was 5%. So this -- the chart per market segment is well below. I would like to highlight commercial and residential segments.

Now when we also include sales of commercial lines in (inaudible) and (inaudible) -- so you'd see on the box here to the right down below, there was a growth of 71% of (technical difficulty) due to the ramp-up in delivery of projects. And there was a decrease of 9.2% when it comes to the commercialization and a free market. And that was mostly due to an exceptional trail in 2012 in that quarter. There was a short-term trail. So we would say in terms of the accumulated number, the situation is different. And also we have a 0.5% growth in distribution in that quarter.

And so next stage, page 13, I show you sales for 2013. There was a growth of 3.1% in the concession area of those visitors, 8% in large consumers. And 8.1% captive market. Then the highlight is still in the residential area was 5.9%, 3.6% for commercial. But you see that in terms of the industrial figure there was a growth of 2%.

Now when we go to total sales, as I just showed you on the previous slide, there was a growth of 4.8% -- 41% in -- 51%, 6.5% in commercial. And 1.1% in captive market in the Southeast region. Our seven operations in Sao Paulo are growing more than the average in the Southeast; approximately the same in the South. And Brazil grew to 3.5% and CPFL 3.1%. Because of the very strong growth in the North because of the integration of the systems this year.

Now we go to page 14. And probably just to justify our outlook and our positive outlook in terms of the future on the first chart, we see the Brazilian GDP growing since 2010. Then the green bar. And on the blue bar, we see the growth of the market when it comes to the concession area of CPFL Energia, which has been slightly above that of Brazil. So through 2011. And this shows the difference between GDP in CPFL and energy sales growth that we have household consumption and residential consumption. So -- and I'll (inaudible) in the charts down below, we will get the industrial GDP and industrial consumption.

Since 2011, we have experienced higher growth in energy volumes vis-a-vis industrial GDP. This is due to the expansion potential of consumption. GDP does not adequately capture this changing consumption pattern, especially when we take into account income levels and the last government programs which were focused on certain activities. And the demographic profile with a number of people living is growing as well. So we have also more people living per domicile. And also the Brazilian industry that we have a lot of sectors that are energy intensive and Brazil has some competitive advantages in this area.

So the impact of the crisis is not very high when compared to industrial GDP. In addition to the fact it was important to mention that there are some reductions due to certain stops. So everything has to be carefully planned, given the fact that the cost for machine set-up is high.

On page 15, we also show other highlights. As they insure or show to some extent the potential of the three segments. Now, our average is from 2003 to 2013, the last decade basically. They can see growth in addition of residential 3% per year.

Now, here's the new level. So to speak. Brazil installed something around 2% in the previous decade. Growth rate was from 2% to 2.5%. So we changed levels. And it is shown in the demographics. Now, there is no doubt that what is driving more specifically that increased consumption is the actual total income growing by 4.9% per year. And now we're also speaking of the last 10 years sales in commerce growing by 7% per year; furniture and home appliances, which take energy, 3.6% per year; and credit, which is about five years, with credit growing at 18.9% per year for the last five years.

Housing credit or loans, which set the high-end number of residential consumers, growing by 42% per year for the last five years.

So these are important drivers. On the right of the slide, we can see ownership of equipment. Significant increase, therefore, when it comes to TV sets, refrigerators -- by the way, you'll begin to see. And we have already seen earlier this year, higher consumption rates or rates higher compared to the levels we had the previous year.

And this is basically due to the sale of refrigerators. That's a piece of equipment, a device --for instance, if it's 18 degrees, the refrigerator has to maintain the temperature at 8 degrees. So it is working to go down 10 degrees. So there is stability in this kind of equipment. And when temperature is around 28 degrees, it has to lower 20 degrees rather than 10. So it will work twice as much. And it's size and consumption; we don't turn refrigerators off. They are on silently and consume more to remove this amount.

Over this quarter, temperatures were higher than 30 degrees and more than tripling consumption due to the number of times that we eventually open the refrigerator for ice water, for instance. So this does explain the higher number of home appliances purchased, leading to higher residential construction. Now, for the industrial production, there is a growth -- 2.4% per year. And now we have a more recent event, which is the effective actual exchange rate going down 28%. And naturally, it will bring more competitiveness to Brazilian imports.

In addition, we also have a set of incentives, tax relief. And labor. And just to give another example of a sector that has been greatly supported by government incentives is the vehicle area -- growing by 8% per year since 2003. Today, Brazil, therefore, is one of the largest manufacturers and consumers of vehicles worldwide. And we also have rainfall. We don't have less water; we end up having more irrigation. And we have record harvests -- 2013 was one of them. And it affects one of our concessions.

On page 16, we show RTE in Rio Grande (inaudible). The record harvest that is confirmed by IPGE in 2013 was 26 -- or additional 26 million candles, 16% vis-a-vis 2012. We highlight here a 13% additionally for corn and another 24% for soybeans. As you can see, this has affected outside America [ph]. The outside industrial production in (inaudible) does Suda grew by 6.9% last year.

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And some highlights now. Machinery and equipment growing by 9.4%. Weather and plastics 9.8%. Automotive vehicles or General Motors branch in the South was 17.2 [ph]. And notice that employment conditions Brazil has a low unemployment rate of 5.4 [ph] and just unlikely 3.5% unemployment rate. We have a lot of jobs that you can see and this is followed by an increase in income.

On the right-hand side of this slide, we continue we can see the total income improved (inaudible) vis-a-vis total metropolitan regions in Brazil. There is even a decoupling effect. What about a new code for machinery? On the right of the slide we could see growth last year alone of 19%. While it is a whole set of positive news for the streets. And naturally, this is captured in our conception in the area.

On page 17 we'd like to share the result stemming from sales. Results for the Third Quarter of 2013 and are also mentioned in the full-year. As you can see on our net revenue, we have the reported amount in IFR us. And in the second line we have the amount you understand to be the best comparison from the managerial standpoint or just the basis IFRS, plus proportional consolidation of our amounts. You know there is a new IFRS rule.

So just to give you a clearer view of our assets of the Company, that's why we do this inclusion. And also -- well, not captured by IFRS our regulatory assets are liability. So the recurring result is at the bottom of the slide. You can see net revenue going down in both measurements, both IFRS and adjusted. And certainly, this time affected by lower energy carriers right at the beginning of 2012 -- 2013 to be more specific.

Next, we have a growth of 25% of EBITDA in IFRS and a drop of 13.8%, which we consider to be the most proper. And this shows to a large extent the events of (inaudible) after April and RGE after June. Net income in the recorded IFRS page of 68% growth, reaching BRL323 million. However, in the recurrent base there was a drop of 14% from million BRL72 million down to BRL425 million. So as you can see, this is a current amount which is higher than the reported amount.

Now, we have a set of elements that leads to this variation between IFRS and the adjusted value. The first one, like I said before, you can see the effects of consolidation -- proportional consolidation of assets in our case, particularly for our generation assets. This is where we have the shared control, even though we have the majority stake in terms of percentage.

And the assets and liabilities regulatory with significant amounts in the Fourth Quarter, we are speaking of 102 [ph] with a proportion of consolidation and 75 [ph] of regulatory assets and liabilities. The impact has been followed up on a net income basis.

Now more highlights of non-recurring events, basically the purchase of energy to offset delays in some CPFL (inaudible) projects. These projects have already been concluded today. And the disposal assets, some properties from this goes that we showed over the full quarter of 2013. Remaining events are non-recurring. And they took place in the Fourth Quarter of last year, particularly with write-off of assets and reinforced provision -- loan-

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loss provision adjustment, et cetera. It does bring the BRL223 million as a big difference in the upper part from 912 to 135 and from net income 102 additionally. In the Fourth Quarter, BRL323 million vis-a-vis the reported amount of BRL425 million in the recurrent basis.

Now let me explain this amount now on page 18. Basically we're explaining on this slide the variation of 25% or 13% if we consider the adjusted base. But basically we are addressing a growth of 25% in the recorded base. First of all, it comes from reduced net revenue. BRL333 million -- the main contribution standing from distribution. And that's precisely the reduction of tariffs that took place in January 2013. This is the main driver in the captive market. It's almost BRL400 million with an addition up to USD of 48.

Commercialization -- I don't know if you remember what happened last year until we have a regulation of the new price for stock price, the market was put aside. So to speak. We had a reduction of BRL64 million compared to the previous year. And in addition of conventional generation, basically CPFL generation contracts and for (inaudible).

In addition to contracts, we also had the increase of new projects at BRL57 million. We highlight 8.9% reduction in charges and energy costs. If we follow tariff [ph] reduction and net charge reduction, 50%. And now a lower net income in acquired energy cost. And this is net of BRL107 million as CDE. So we had additional BRL105 million of acquired synergy.

Then we also had personnel, or PMSO, expenses of BRL313 million. So nonrecurring events net of assets -- like I said before, BRL25 million. Legal expenses from the Fourth Quarter of the previous year, BRL164 million; and write-off of assets, which also happened in the previous year at BRL42 million. For those years we highlight cost-reduction personnel expenses, BRL28 million this quarter. Third-party surface BRL23 million. So these are activities stemming from the implementation or consolidation of our euro-based budget. Equity income will have another BRL18 million. And minor events or other events negative at BRL6 million.

To some extent we highlight a reduction in PMSO. And later on we'll be breaking it down.

What about net income? Now on page 19. There was an increase earning base of 25.5% that we just explained. BRL727 million in the Fourth Quarter and 912 [ph] in the Fourth Quarter of 2013, growing BRL185 million. However, we also we also have an increase in the net financial results which is negative at BRL33 million. The basic explanation is on the right. CDI, the average of the Fourth Quarter of 2012 at 6.8% in the Fourth Quarter of 2013, it was 9.6%.

In addition, there is an effect of restatement. The average was 12. And in the Fourth Quarter we can see the difference. So these two events altogether are on the first line. And we also have changes of BRL49 million and an increase of charges over debt of BRL32, million and the rest are minor amounts. Reduction of penalty of people who paid -- or who were more timely in their payments, BRL16 million; and then a set of others at BRL9 million [ph] which involved updating of financial assets, UBP. And other events. Judicial deposits are positive. And nonrecurring events in the Fourth Quarter of 2012 vis-a-

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vis the integration of asset write-off and incorporation of networks. A small reduction of BRL1 million in amortization and depreciation. And income tax of BRL22 million positive. This explains the growth of 67% in the reported net income this quarter.

Now, on page 20, just to briefly cover the results of 2013. In 2013, our net revenue growth likely with two things. One is the reduction of tariffs in January; and on the other hand there was a growth in revenues, particularly due to the addition of new projects at CPFL Renovaveis in addition to indexation of generation contracts in general. When we look at EBITDA in the reported base, growth of 3.2% reaching three -- BRL547 million. When we go to the adjusted base, which is the better base to assess, a drop of 8.3% -- BRL380 million [ph]. So from full BRL612 million to full BRL225 million.

The main negative event here is precisely the tariff review observed. Net income was a drop of BRL258 million in the reported base, reaching BRL949 million. Or in the adjusted or recurrent base, a drop of BRL280 million or one BRL368 million. To a large extent, variation from reported to adjusted at the same. The proportion on consolidation of generation and regulatory assets and liabilities accounted for an addition of BRL510 million or BRL680 million and in the EBITDA base and BRL409 million in recurring income for the Company. And actually nonrecurring events are those that are on the slides that basically these are the major events and the delay leading to purchase of energy property and adjustment of legal expenses and other contingencies. These are the main drivers behind this assessment.

Now on page 20, it's important to show this the only share with the markets our strategy to cut down on costs. We started back in 2012 when we had the third cycle of tariff review in some of our concession companies. At that time, we decided to have -- or to consider the Company's reaction simultaneous to each one of these properties. We already have here reduction [ph] of BRL236 million on the right. On the left, a nominal basis. Annual base of BRL53 million.

As you know, expenses to a large extent are tagged to inflation rates. So when we have the actual index base, there was a reduction of BRL236 million vis-a-vis 2011, or BRL107 million vis-a-vis 2012. And this is made up both of a reduction of 12% in personnel expenses between these two years and also a reduction of 17% in PMSO -- or MSO, better saying.

It's important to mention the leadership by the financial department of the Company when it comes to the implementation of the system. And this has allowed us to have a far more efficient management of our costs. And you can see the results. The company closes the year at BRL1353 of comparable expenses with growth in operations and also with improved quality of the services provided to consumers.

The result that we've just shared about the net income in the second half of the year will be broken down as dividends now. We can see on page 22, we will be paying BRL568 million, which corresponds to BRL0.59 per share, yield of 4.8% on a half-yearly basis. It's important to say that the Company has this significant distribution rate since the IPO in late 2004. We have already paid more than BRL11 billion as dividends.

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And it's a company that is constantly growing. On page 23, you can see our CapEx for the next four years. Please bear in mind that we are solid. And in blue we have our obligations for distribution of the A concessionaires. The expectation in five years is to invest BRL5 billion and BRL800 million sic; BRL5.8 billion, see slide 23 [ph]. In 2014, BRL875 million. And next year goes down the asset base of distributors, BRL1.3 billion, moving the level of investments.

In green we show investments in generation, remarkably renewable, with the projects that we already started up, because we want options or because PPAs are already granted. So obviously, the amount in green is lower in the future due to the little visibility. The company has been involved in auctions. And also in free-market projects; and this amount should also increase.

So we only add here in the budget once we close the project. But maybe this is one of the few companies with investments of BRL 7 billion, or BRL7.7 billion on a reported basis, or BRL7.2 billion related to our stake in these operations. So with this investment of almost BRL1.5 billion per year on this space.

Page 24, with indebtments. We closed the year with net debt of BRL12.2 billion, adjusted EBITDA of virtually three four hundred [ph] sic; see slide 24, BRL3.399 million [ph], ratio of 3.59 -- therefore, below our limit of 3.75. The highlight for the year is lower-growth debt cost of 2.4% real term at 8.4% on a nominal base. So in both cases the lower indicators ever since we started measuring.

And this naturally stems from the breakdown of the debt: 62% CDI, 28% long-term interest rates. And pre-fixed, 7%. IGP corresponds with debt for the SEF foundation.

Cash flow management is comfortable, on page 25. We closed in December with BRL4.2 billion cash, allowing us to cover 2.7 times short-term amortization. Remember, this is properly well distributed. Average term is four-year maturity. Short-term, we only have 11% of the total debt.

Just a highlight on page 26 of the integration we have built with the Dobreve Energia, or DESA. This operation was recently announced. It is one of the major companies in Brazil, with 330 mega of total capacity, contracted capacity.

As you can see, there is a lot of synchronicity with CPFL Renovaveis' assets. So the number of assets in the state of Juazeiro Do Norte, Minas Gerais, Mato Grosso, Santa Catarina. And small hydropower plants, windfarms, FAPs, or when we have a lot of windfarms. So we will have a lot of synergy for these assets. They are listed here.

The first four are already underway. And Morro dos Ventos is under construction and will start up in the first half of 2016, with 29 megawatts, Mata Velha in the Second Quarter of 2016. Of the 330, 280 under operation.

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And this association maintains CPFL in this partnership as a leader of renewable energy in Latin America, with approximately 1,719 operations and another 436 under construction totally. And therefore, 2,131.

Just breaking down these two parts of projects that we just concluded: Atlantica complex concluded over March. So four parks, Atlantica in Rio Grande do Sul. We have been starting this since November 2013. And delays are due to the complexity of installation of sites of large turbines. They are the largest - 43 [ph] megawatts of generation in Brazil, 120-meter towers.

So since November, we have been installing them. But we had a lot of gusts of wind. It's hard to work so early in the morning. And have just concluded the last park, which is Atlantica 4. This project has a PPA into 2033. BRL77 million is the estimated revenue.

So we have the close of Rosa dos Ventos that we announced in the IPO. And we are speaking of approximately 14 megawatts of installed capacity, with revenue close to BRL15 million on an annual basis.

On page 28, just to cover the events that are under construction, Macacos is the next part to be completed in April already. So we are in the Second Quarter. And we already have 14 towers. 20 are wind turbines. And in other projects like Campo dos Ventos, Sao Benedito. And Pedra Chelrosa complex that we recently won beneath deadlines, already under contract, signed and all paying 5 ENGS [ph].

On page 29 let us talk about our stock performance. Our stock and the electric sector, particularly, faced over 2013 a depreciation. It also happened to us. We went down 7%, Eco almost 9%, the government 15%. So the last two days, we also had significant improvement.

We increased the number of businesses. We had a drop in the daily volume of trade, particularly in New York, stemming from the exchange rate issues in New York. Our ADRs due to the depreciation in reals, had a drop of 19% vis-a-vis 12.5% of Brazilian ADRs Dow Jones. Dow Jones went up 27%.

Like I said, we still are in the 9th edition of IASC in our portfolio. CPFL is one of the top companies out of the 40 companies listed in this index.

I would like to conclude showing acknowledgment by several areas. Quality of service is one of them by Enel. RGE, our southern concessionaire, was awarded the best electric energy distribution company in Latin America. As to security and safety, RGE, CPFL Generation, Santa Cruz, Paulista, are acknowledged when it comes to occupational safety and awarded the Eloy Chaves medal.

And sustainability, like I said before, we are part of the Sustainability Yearbook by RobecoSAM. CPFL was one of the top three companies of energy in Brazil.

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I apologize; we spoke too long. But I think it was necessary to provide this explanation. But my team and I are happy to take your questions now. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we are starting now the question-and-answer session. (Operator Instructions) Pedro Manfredini, Credit Suisse.

Q - Pedro Manfredini {BIO 21633245 <GO>}

I have a series of questions. But I will try to focus on two most important ones. The first is that we know that there is a contract, a short-term contract at Serra da Mesa. And I think that you have some consideration to do, especially in view of what the government has recently determined.

So what are you going to do in terms of pricing? I think that this is a very strategic issue. How are you going to price it when it comes to deciding whether you will allocate or not part of the entirety of Serra Negra's energy in a contract? Will you be more inclined of having a long-term contract, or maybe something with Furnas that you were thinking about at a lower price?

Or if Serra Negra's price is more adequate, maybe higher? We could think in terms of a spot price for the next five or six years. Would you take that into account? Or what I want to know is, what is your strategy to sell that energy?

And the second question is the following. I see all distributors are having a hard time to make reductions. And in that quarter, once again, you were able to report significant results. But my question is how far that OPEC's reduction could go on? Will there be a point when there is not much else to do? Or do you think that there is still work to be done. And whether -- between Ticketel [ph] and the subsidiaries, you can even get further discounts?

A - Unidentified Speaker

In terms of Serra da Mesa, our strategy for generation -- it's usually -- you know, we usually focus on long-term -- this is the strategy of choice of the Company. But we are in a comfortable situation when it comes to the binding alternative, as far as we do believe, first of all, that the government will set a price good enough to attract asset holders like us for the 5.5-year-long operation that it will offer. I think this is our expectation.

I mean, I cannot speculate about the government pricing. But we already told the government that we are interested in participating. Certainly, everything will depend on the price.

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I think that last year the government already signaled at an auction at minus 1 [ph], you signal with price improvement, reflecting some past averages. But I think that today the government has a very important responsibility to probably cover that involuntary exposure of assets that are currently in the market. And they are looking at the spot price. And as I said, the spot price will be high throughout the year; but just as I said, it should go down significantly next year.

Well first of all because of the introduction of a large volume of energy. Therefore, I think that the Company should not just look at the short-term price. But rather -- and I wanted to show you that oversupply curve for the next few years. So if we do not have an ideological problem, prices tends to be low.

Therefore, the choice of being in the auction at a reasonable price that feels higher than what we had last year in the -1 [ph] auction. So this would be the strategy of choice of the Company currently.

Certainly, we will evaluate the alternative of being more exposed. But this is not really part of our Company's logical strategy. Therefore, we try that with Furnas. But in view of the circumstances, considering that the contract will be considered next week on the 30th, the Company prefers to put 345 megawatts from average megawatts of Serra da Mesa in an auction of -- the auction that will take place next week. So this is our choice.

In terms of OpEx, you put it well, because there is a certain residue for further cost reductions that haven't yet been totally captured last year. As I said, TODAM [ph] program that involves automation of our field operations and tele-measurements from consumers -- the project is still underway. That's why I say that we still see some potential for reduction, once 100% of that technology is already consolidated through our eight distributors.

So after that, we will reach a point of extremely high efficiencies. Maybe looking at the current prices, maybe we should get close to BRL300 million. This something maybe for us to pursue. From then on, only with gains of scale in the operations and some important consolidation events -- because you know that there are some important events related to the renewal concession coming in 2015 involving smaller concessionaires. So that is why we think that we can continue to grow in this area with high efficiency levels.

With the depreciation of shares in companies, we see some good opportunities. So our Company is very comfortable in this moment. We have a very strong cash position. Our operating efficiency is also at high levels.

So in every activity that we are involved -- generation, renewable generation, distribution - - allow us to say that when it comes to OPEC, we are reaching a point of maximum efficiency. But I cannot -- to say that from then on we will just have natural gains of scale because of the growth of the operations; but I can't say that we will just have to go up a big step as we had to cover in the past few years.

In terms of yield, we have seen a growth of 3% to 4% in actual terms throughout the year. So maybe that's a figure that we can have in mind in the near future in terms of cost reduction, because this is mandatory for us. But in terms of more disruptive processes, the introduction of V2B, a foreign program in share centers -- we cannot envision such drastic reductions in the coming years as we just had before.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you very much for all your answers.

Operator

Our next question comes from Felipe Leal from Bank of America.

Q - Felipe Leal {BIO 2015017 <GO>}

Good afternoon. I have two questions. First, about the government package, do you believe that the loan to CTE is already guaranteed. And also, all of the guarantee is already insured? Do you see any risks to companies if tariffs do not meet the contracted amounts?

I think the RTE tariff in some instances did not cover the total. And some of the companies had to pay for that difference. But in your view, do you think that this issue has been solved?

And the second question is about the walk, the distribution/regulatory walk or WACP, whether you have any idea about Enel's decision related to the generators, that 716 of walk, whether you have any reading when it comes to the execution, in your view.

A - Unidentified Speaker

Felipe, thank you for your question. Well regarding that package, the government package, we like the package.

First of all, because you have got a better market solution rather than a solution which would be dependent on the government. Certainly, this is a process that requires caution, because the purpose of the package is to mitigate large tariff increases that will then be followed in the following year by reductions. So it has the merit of establishing, like, a liquidity cushion that would allow increases to be more gradual and escalated.

And the second point is that this will generate enough cash to cover for the water issues that we are experience. So it was ingenious enough to set up an infrastructure to allow us to face moments like that. It is feasible.

And do you think that we envision some problems? No. We do not see any problems ahead. Maybe what we have talked to the government about -- and the government is talking a lot to the companies. We have weekly meetings with the government.

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So therefore, I say that we have to keep a very tight record of all of these interests, especially at the level of distributors, because of IFRS. So when it comes to accounting for all of these regulatory aspects, you have to be very attentive. And this attention has to come from regulating agencies and also all of the other stakeholders. So that we can keep a better control with our assets. And we have to be careful and avoid what would happen back in 2001.

The cost, whatever that is -- and it could decrease now with the success of the zero auction -- the cost belongs to the consumer. It's not in the hands of the distributors if they contract within adequate levels. So the possibility is between 100% to 105%.

So the concessionaires have no problems today when it comes to their level of contracting -- none of them. So what we need is to be very accurate when we compute the regulatory assets. And after that, intermediated by the distributors. But it's all in the hands of the consumer. The bill will be handed to the consumer.

So in terms of the regulating framework -- and we have been talking to you about that for quite some time -- and I think that we are right at a point, because the regulating assets were no longer capable of attracting rational investment.

You say that that exchange rate fluctuates. Watt follows a methodology that has consolidated throughout the world. And we saw that in the last tariff review.

But I think it disregarded some components that should have been looked at. So I think that the 7/16 event, which was an increase when compared to the recent past, has a power of once again making the capital more attractive, allowing higher rates of return at the equity level.

And I think that the same thing will happen to distributors. So the amounts that are being considered here and the parcels are increasing more due to the increase of paying more, of higher remuneration on their own equity capital, whether they are in third-party.

And I think it's now time for us to become more attractive and to make the sector more attractive to investors. This is not something that only occurred in this energy sector. I think it was initiated by this sector, by introducing more attractive watts in the highway sector and other infrastructure industries.

This is something that is out here to stay. And from now on we are able to be more attractive. And to attract more people to the entire infrastructure sector; and, more particularly, to the energy sector. The message that we had from auctions with no participants was something important that made people more alert. And now what we see is just the acknowledgment for something that we've done. Thank you.

Operator

(Operator Instructions) Pedro Manfredini from Credit Suisse.

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Q - Pedro Manfredini {BIO 21633245 <GO>}

Going back to my list of questions here, I just want to revisit the topic of walk. Investors were invited to go to Brasilia to talk to Enel. I think the main topic was about the fourth cycle. When do you think companies should expect a conclusion about that cycle?

A - Unidentified Speaker

I think that we are close to a deadline or maybe a conclusion. So that we can expect vis-a-vis the third cycle, because that should have some confusion on the part of the Company, because there were high tariffs.

Q - Pedro Manfredini {BIO 21633245 <GO>}

When do you think that we should expect -- or when do you expect to get more information from Enel. And a more clear idea of what will happen in the flood cycle? And you also talked about M&A and consolidation. And CPFL is always involved in issues related to consolidation; you are one of the largest players in this industry. So can you tell me the current situation now when compared to the Third Quarter -- whether there are changes in that landscape? And also, in terms of generation, whether we are looking at something else in addition to the renewable energy?

A - Unidentified Speaker

I think it's easier to answer your first question related to walk. I think that there are two important things to mention. For the first time, this process of developing parameters resulted in a public hearing from Enel. And this will take place throughout the year of 2014.

We are not expecting to have all of the definitions immediately or in a short term. This questions not only the scope of what will be evaluated or reevaluated throughout the year -- so this public hearing has the power of lifting all of the scope of the project.

The fact that you were called to proctor them -- it's important that we establish closer relationships with the agents from the market. And also investors. And also agents -- or, better yet, the operators of the concessions.

Pedro, this is not a problem to us as long as, throughout this year and the process will be initiated next year, there is enough time to discuss this. And it's important that we discuss this with time, taking our time.

So then to make it more relevant, I think that the country is interested in attracting investors so that the investment will indeed occur. Certainly, all of the conditions of returns on the investment and capture, I think, re-exaggerated in the last cycle. And I think they should be revisited to ensure the investment, to make the investment materialize.

Sometimes it seems to be cheap. But then things do not happen. It doesn't happen in terms of the quality of the investment or the financial health of the operators. That's why we are now experiencing an important moment. This is a turning point in our discussion. That's why I think that we have to discuss it at length to be able to make improvements in

that negotiation. Our industry is, like, the basis of the entire development. And I think that we can -- whatever we decide can be pulled over to other investors.

Pedro, about your second question, the landscape in the last few months is a landscape that made people retract a little bit but did not prevent us from announce the transaction with DESA in the case of Renovaveis. And in this case we will use -- they will share the CPFL as a way to do it in terms of Renovaveis, there is a certain level of scattering of the assets.

If we consider that de novo energy will assume a relevant role, or it will almost triple in terms of its stake, if we look at what is happening, there's real demand from companies to be much more competitive in the auction process. And they should also develop instruments for the free market.

And it is just impossible to imagine that there would be very small players. I don't think this will happen. And in view of that scenario, given the need of investors to have more liquidity, then we believe that what we will see is the continuation of the consolidation process.

And certainly we are -- we see a possibility of continued growth to add more value to shareholders. Our purpose is not to grow market share. What we want is to grow. But at the same time, adding more value. We want to speak to our platform. But at same time, we want to grow with profitable margins and also share with the market how much value is being created with the transactions.

This is possible, because back then all of the investors -- they came in with different conditions. But now, if they want to, they can exit with a good position. So we are making our positions with adequate returns. That's how I see generation. I do not see consolidation in large generation activities, even because there are very few private players involved.

Now, as regards to distributors, the events are the same. We do not have an outline of what will happen with electrical distributors. It's not very clear what will happen, or whether more distributors will be interested in renewing their concessions.

I think that in the next six months or even less, I think that we should see changes in that landscape. But after that, we will experience a new consolidation cycle, which is, again, very important for the country.

A distribution concession that already operates at a very large efficiency level -- CPFL is putting a lot of efforts to recover for the EBITDA losses that it had in that tariff process. But we have a big enough scale; we have large investments in technology and innovation that allow us to do that; but certainly a small or midsized company is not so robust.

Well SAP, R3, version 6 -- if it's not CPFL to operate these small distributors, they have no breadth to deploy the sophisticated technology, because they can't afford it. The only

ones who could do it are those who operate in large-scale and can operate. We are going to operate 30 platforms, not only distributors.

And I will say that, given the fact that there are 30 out of the 40 concessions -- some are small -- there will be some movement. And after that period, we will see what will happen in the fourth cycle. Then we will see that the large agents will come up with new definitions.

Therefore, I believe that there will be further consolidation in the second half of the year, based on the set parameters; and also, after we know what will happen to the smaller ones. So once again, that is part of our strategy: on the one hand, innovation and processes capable of generating the levels of efficiencies that I just showed you; and on the other hand, we have that ambition to grow more. I would probably put more focus on using the shares to come through the operation this year.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Fine, thank you very much.

Operator

(Operator Instructions) Lilyanna Yang, UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

My question is related to investments. I don't know if you have had any comments already. But investment in the Fourth Quarter was below the expectation. And I also can see a drop in investments for future years in distribution. Could you explain if this is related to any potential, less heated economy or any other driver?

And I wonder if we -- considering your presentation on the levels of reservoirs and hydrology that is very volatile -- I wonder if in Brazil we should consider not rationing. But in some case, a preventive lower consumption. And particularly in the residual market? Thank you.

A - Unidentified Speaker

Let us start talking about investments. What is actually happening here is that, certainly last year -- by the way, I think you could still have BRL850 million in distribution. And this has been expanding this year, too.

In 2015 we will begin. So to speak, to close the base substations and other investments that will be concluded in the first half of the year. That's the addition to close Piratininga base, which is our Company, that will be subject to review by 2015.

Then we also have these values maintained to close the base for Paulista and RGE, which are our major companies. So we are changing levels. However, this level is taking into account this case, basically closing off Piratininga base in the first half of 2015. And then

our efforts to close the base for Paulista and RGE, which are five-year and not four-year bases. So it gives us the chance to close at a longer time frame.

Naturally, we have also been managing this, because the Company grew less. You are right. And eventually we have lower needs for some investments. However, this is not significant to the extent that we might justify a change in behavior due to economic factors.

We grew more than we first imagined. If we consider customer connection, because we connected more customers last year. But when it comes to substation reinforcements, we even had a slight adjustment in the startup of the substations, because we felt the system had a slight relief, therefore allowing us to have a proper schedule to the Company in terms of its financial status.

But I wouldn't say that there is a change in strategy. The strategy is to invest more than the regulatory depreciation and invest in technology. So we can also gain higher efficiency and operating cost reductions.

Now, when I look at the green area, which is renewable and generation. We are only focusing on projects that we have decided to invest already. If we look at this chart, you can see five-year of full distribution and only two years of full generation. If we had to maintain the same level of investment in Renovaveis and generation, we would be speaking of virtually another BRL2 billion invested or almost BRL10 billion invested this period. So that's the scenario right now.

As for the topic that you mentioned, I don't know if I got your question correctly. But you wonder if it wouldn't be proper under the current circumstances to do some rationing in the residential segment. Right? My answer is no.

Let me tell you why. There are two reasons. Firstly, our consumption level is atypical in the first two or three months of the year, precisely due to temperatures starting in April. Once we start autumn or fall, naturally there will be a reduction in consumption levels, which were high in some concessionaires and also here.

And I tried to explain that, basically, due to temperatures, that, first, equipment that uses energy in your home or the refrigerator consumes sometimes twice with three times more without allowing you to manage the piece of equipment. So this is proper consumption. Refrigerators today are very energy efficient. And they only have trigger consumption due to the temperature effects. And now we are going to have mild temperature. And certainly there will be a better standard behavior.

Now, second point. If we look at the number of devices companies have today compared to 2001, when we had an effective rationing, we will find more devices and appliances that are far more efficient compared to the past. So rationing. So to speak, is it mandatory? Well the Ministry has said we do need to try and be moderate with our energy consumption, trying to prevent waste.

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But I don't think we should reduce lower than the waste level that we should avoid. Our consumption, well, we are using energy at a time in which the cost of energy is high. Naturally, everything that you manage not to use rationally by eliminating waste only -- that's something that will be positive even to our pockets.

On the other hand, it's always important to consider that we we'll be generating, going forward, a stronger energy base, thermal energy base for elusion [ph] eventually. And unconsciously generate higher GSF, which is not proper. So if we were to come to a decision, I would go for rational, efficient use.

As a consumer and also as an operator, we know that the cost that we are charging today is lower compared to what will be charged or considered due to involuntary exposure or TPT generation. Obviously, involuntary rationing might increase GSF for generation companies, which would not be appropriate right now.

Operator

This concludes our Q&A session. I would now like to give the floor back to Mr. Wilson Ferreira, Jr., for the closing remarks.

A - Wilson Ferreira {BIO 1528124 <GO>}

Once again, I would like to thank you for joining our earnings conference call and highlight on our behalf the importance of the results that we have reported today. We have concluded another important investment phase at CPFL Renovaveis. And this sets the new level of (technical difficulty) to the Company from now on.

And obviously, as controller parties, there is an impact on CPFL Energia. On the other hand, our sharing communicates a very consistent and permanent effort by the Company when it comes to cost efficiency. So the ability to share this input is something important to us. We are strongly focused on efficiencies.

And the important news is that we haven't concluded yet all our efforts. And particularly when it comes to operations, we have more tasks to be concluded by year end.

I understand that the topic of the Company's growth remains important. The Company is to make an effort in strong moves -- Renovaveis and distribution. We will eventually come to consolidation. We strongly believe our regulatory party, thanks to our interactions -- be it for financial health purposes, or the involuntary exposure of TPTs, or related to the construction or building of a new annual carrier review cycle.

And naturally, the most controversial topic in recent years -- we would just like to let you know that we may close the year very well. And we may also finish the year not doing so well. Once again, the decision is not under our control, not even ourselves nor investors.

I always try to back on whatever we can do in order to improve the picture, improve the scenario for the sector, to our companies, consumers. And investors. If I were to cheer for

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something, well, let's try to have more rainfall. Because rainfall will manage to make this scenario variable and better to all of us.

We always prefer to consider that the glass is half-full. I think we have come to a solution with the government for the financial health of the Company. It is something important. The sector is involved with a lot of funds, more than BRL1 billion per year. And that is why it was important not to have any liquidity risk, particularly at discounts that are the guarantors for PPAs, for the electric sector, for initial purchase agreements.

So they serve consumers. So the fiscal segment should not be impaired. So we are very happy to see that the solution was generated fast. And once again can be along different sectors and used whenever necessary.

I think there are lessons to be learned. Maybe we should have more thermal energy in our system. Some PTPs haven't even started yet. So there has only been signs that we need an optimum level of our hydrothermal complex.

And we have to learn from other stakeholders. And also, consider auctions and close by investors and projects to make an even more robust system. On our part, we understand these lessons are being addressed and are being considered by all those who have conditions to develop the sector even further. We see a significant outlook in terms of energy sales.

We still see as opportunities future auctions. Like I said, our main asset is expected to be in this auction on the 25th next month. So we close this quarter very bullish vis-a-vis the future outlook. And thank you very much for being with us this call. Thank you.

Operator

CPFL Energia conference call has concluded now. Thank you, all for joining us. Have a good afternoon.

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