

Q4 2012 Earnings Call

Company Participants

- Unidentified Speaker, Unknown
- Wilson Ferreira Junior, CEO

Other Participants

- Marcio Prado, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. We would like to welcome everyone to CPFL Energia Fourth Quarter earnings results. We have with us Mr. Wilson Ferreira Junior, CEO. And other officers of the Company.

This call is being broadcast simultaneously via the internet on the website www.cpfl.com.br/ir. At that address, you can also find the manner to which the presentation will be available for download. All participants will be in a listen-only mode during the Company's presentation. After the presentation, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) It is important to mention that this teleconference is being recorded.

Before proceeding, let me mention that forward-looking statements that can be made during this conference regarding CPFL Energia management are based on the beliefs and assumptions of the Company and information currently available to the Company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties. And assumptions, because they relate to further 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 cause results to differ materially from those expressed in such forward-looking statements. Now, I would like to ask Mr. Wilson Ferreira Junior to take the floor. Mr. Ferreira, you may take the floor.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning. We have here our presentation of the Fourth Quarter and the close of 2012. I think that this presentation it is important to refer starting on page 3. I feel that,

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before we start the results, give you a quick review of the environment, a little overview, because I feel that sometimes investors and analysts might have some questions about the latest events of the sector. And, as we are the largest agent in this sector, I feel that we should clarify some doubts so that we can make more sound projections and provisions and have a better idea of prospects.

So, we will start by page three and, in a very transparent way, give you some of the news that somehow or other has been presented regarding this moment and recent events for the sector. Obviously, you know about the drop of the shares, generally speaking, of those companies which were affected by provisionary, or temporary measure 679 (sic). And companies like ours which were not. But, the behavior of the stock market is the same.

The circumstances, the context. And next generation after the temporary measure has influenced the drop of the shares of all the companies that had already expired concessions, already amortized and depreciated. And, like the exchange, sometimes you say, well, there's a floating of the exchange. The spot market also floats. And you have a repercussion. And, the state of the reservoirs and the consumption also has its impact.

So, the rallies of the stock market or spot price affects the investors and analysts. The rationing risk is something which has come up more recently -- the use of thermal plants and the dispatch and the payment of this, dispatch of energy. And the payment with dispatch method brings about.

So, in a very summarized way, I think it's fairly important to give you an overview of these three issues that are the essence of this. First of all, the renewal of the concessions, the impact on the companies and our Company, in particular. And unveiling, let's say, the losses with this temporary provision; the risks of rationing which sometimes is not being made very clear; and also our doubts regarding the liquidity and the distributors' working capital which certainly, when there are greater dispatches of energy, this has a great impact. And the Company has had to take steps. And also other associations like Enbraci.

On page 4, we have more specifically in the case of CPFL the results of this measure and the rules. On the 24th of January past, we had the application of this temporary measure. You know that 100% of the companies that held transmission concessions for renewal are geared to both the 11,000 megawatts of the generators. So, we had nine companies. 2,000-megawatts (inaudible) did not adhere to the proposal of this measure presented by the government. And, in specific cases of the distributors, no impact on Parcel B.

And, the simple application of the reduction proposals, including a reduction of generation tariffs, or the amount which would be renewed, a drop of about BRL95, to about BRL32, bringing and then a change of the tariffs. The adherence of 100% of the transmission system, that is to say, from that a reduction of transmission costs of all the Brazilian companies of about 60% and more specifically to the distributors.

Also, the important reduction of charges which we shared here throughout the consumption chain of industrial, residential segments (inaudible) the average tariff. Those

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reductions, which are shown here on this first chart -- 18% for Paulista; 18.4%, Piratininga; and 22%, RGE; 19.7% for Santa Cruz; 23% for Leste Paulista; 18% for Sul Paulista and Jaguari; and approximately 21% for Mococa. So, with us, the temporary measure eliminated and -- that was transferred all the effects to the consumer.

And. So, what impacts will we have now for the sector and the country? Here, we have an impact down below, or a view of what the prospects of this reduction will have permanently in real terms for the future. According to the consultancy firm that lent its services to us, we can see very clearly that there is a real prospect of increase in competitiveness -- I'll go into this further, later -- for the industry. And this has a positive repercussion regarding the competitiveness and also for the exports agenda. So, because of the tariff reduction, companies in Brazil have become more competitive and not only because of this measure. But others that I will talk about later, will be more competitive in the international market in increasing exports, at the same time as the imports for the same reason will be reduced.

So, there will be less need for imports. And we can also see in the 0.2%, 0.1%, for example in 2013, an increase of industrial activity. So, there will be an impact on industrial production and also the income of the (inaudible) now will have relevant, less expense with energy.

Bottom line -- tariff reduction for all consumers, an average of 20%; no impact on distribution companies, or Parcel B distribution companies; a reduction of course of expenses with generation and transmission; and greater competitiveness of the Brazilian industry.

Right. So, this temporary measure -- going now on to page five -- brings also because (inaudible) some opportunities. The main one, more than 2,000 megawatts did not adhere to this proposal or this price presented, for these concessions, obviously, will be put out to tender at the end of this period, which is 2016. So, there will be opportunities for operators, such as ourselves who are very efficient in our operations, to be able to seek the opportunity of rendering O&M for these concessions, reminding you that we are a very large operator of hydroelectric plants. We are also in those plants where we have a share in the control or we are operator of these plants and in all cases where we're rendering services at lower levels than those that were presented and the proposal to the current concession holders, some that accepted and part of those who did not accept.

I think this one is a very important point. There was not. And we don't (inaudible), opportunities for O&M of plants whose concession will expire in two years' time. On the other hand, it is also important to say that all of these measures have brought about, especially regarding prospects of the term of contracts of purchase and sale of electric power. And, this already happens with the large consumers of the group A, they were already not allowed to have a concession any term less than five years.

This did not happen with the special concession which those in the last few years, especially last two years, had a migration to the free market, although at that time with

the freedom of once again having a concession in six months.

These consumers who are the future of the free market now will have rules which are similar to, what's called, the A4 special consumers. There will be other rules similar to the A4. They will also have to have long-term contracts. And at the time of making their decision of going to the free market they will not be able to go back in less than five years.

Therefore, this (inaudible) would bring to the commercialization companies the challenge of the more technical sale of the supply of a long-term energy and more competitive conditions (inaudible), certainly, which will be an advantage for the commercialization of companies of our group, first of all, because we are large. CPFL Commercialization Brasil is the largest operator of this industry at the moment. And it has as you well know a long-term position and we are also supplier of some PPAs.

And, we also know that the small commercialization operators will be consolidated. There was a boom in the last few years, a significant growth of the number of commercialization operations. And, we'll think what with these steps this market has become more professional. And this market demands operators with credibility, with financial capacity and technical capacity to format service options and consumer service in much more sophisticated conditions than hereto. And would bring advantages for the large companies and companies like CPFL Brasil.

So, I would like to conclude the first remarks about the 579 and our remarks about the CPFL. Regarding the (inaudible) spot market (inaudible), or the exclusion of 2,000 megawatts, which is very little, there is no other impact regarding this reduction on Parcel B or the revenue of our generators and commercialization companies.

On page 6, we now have the second issue, which is certainly a reason for concern of the market, which has to do exactly with the energy conditions. We have tried to put through these three charts, perhaps the most important charts for the clarification of the energy conditions of the system at the moment. So, on the upper left-hand corner, you have the reservoir levels of the national grid, the SIN.

This is the reservoir equivalent to the north, northeast, south, southeast. And central west. And, as we may see, we in fact finished the year with about 30% of the reservoirs full -- well, just above 30% at that time, sharing below of the (inaudible). And, at that time, there was this worry that we would find ourselves in different circumstances or more dangerous circumstances regarding supply.

I said to the press at that time that in fact the rainy season, the main rainy season, especially in the northeast, southwest. And mid-west, the rains were delayed but, as always, January, February. And March is always the rainy season. There was a real prospect that these reservoirs would fill up. All our information of our own reservoirs and the weather conditions.

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And, down below, we have the curve, the rationing curve. In 2001, we had a very atypical year at that time. And the curve for us, practically flat. Whilst we have some other curves above showing that in this period of January, February. And March, we always have a positive inclination regarding the reservoirs.

They do fill up. And the same curve inclination that we have been seeing since December. We can see that in January with more than 37%, 37.8%. Therefore, February 46%, already crossing the atypical line of the year 2001. And, our expectation here on 12 of March, yesterday, almost 48% of reservoirs, 48% full. And, we will close March at about 52%, 53%, according to our expectations. And, we are now 48% in two weeks.

And, on the right-hand side, we have a consultant to help us here, PSR. And in January due to that situation they have an index of rationing. That's at a 9%, very high. In February, it dropped. And, in March, at the beginning of March, it was already 0% rationing risk.

So, why do things happen like this? So, the answer is down below. In 2001, to face up to that curve which was practically flat, we had a thermal electric plant, about 3,600 megawatts at that time -- we had the Brazilian system almost 90 megawatts of load -- 4% of the power supply in several electric plants and, at that time, the thermal electric plants were very old and not very efficient.

This situation has changed significantly. We have increased four-fold that capacity. And we now have -- last year, we practically had more than 13,000 megawatts. This year alone, we will obtain about 3,000 megawatts when we close the year, with approximately 15,700 megawatts of thermal electric plants, all of them with much newer equipment and better equipment, gas. And better fuel oil. And, all of this, honestly, will give us much greater security.

And, besides of having a problem of storage of reservoirs of water, as you can see, the upper chart will show this that this is not the case. We have a much greater thermal electric capacity now, which allows us in a hydrothermal system to dispatch the energy. So we can have a greater safety possible.

So, the decision regarding dispatch under the conditions that this was made are totally rational, correct as we see it and will give us the most safe energy sector, which is the objective of all our plans. So, it was very important to make this disclaimer vis-a-vis these energy conditions.

And, besides that, we still have -- and, I'm now on page seven -- some steps that have been taken now. The first has been discussed. Auction A-O to bring part of the supply that did not adhere to the concession renewal, the auction of the contract of two years for 2,000 megawatts.

Besides that, the adoption of experimental (inaudible), the so-called tariff flags. This will allow us to have a greater number of consumers, especially the low voltage consumers, to be able to determine their consumption time at times where the tariffs will be lower. And they will be able to consume energy where the system has more expensive tariff

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price. But, we will have a very favorable three-quarter tariff flag which will be applied as from 2014. But, in 2013, we will already have this in most of the companies. This will already be on the light poles. And we will use the most real generation cost as we can in applying this to the consumers.

And, besides that, the discussion is going on about the regional energy auctions. All this to maximize the production capacity and rationalize the transmission costs in such a way that we can have sources which are closer to the load, minimizing the cost of transmission lines. Therefore, regional auctions are important.

And, finally, in fact, we have held discussions I think which are very important regarding the thermal plants and the hydroelectrics with plants also without reservoirs, which will allow us to have some of contracts according to the quality not only of availability but also of quantity. So that we may have thermal electric plants at the base of the systems working throughout the year in a different way from the thermal electric plants which we have, which are availability plants which are triggered off only when we have conditions that are less favorable.

Now, on page 8, we -- consequently, I think it's important to mention how this dispatch occurs and how it burdens the concessionaires. So, here we have the so-called CCEARs by availability, sort of the energy purchase contract by availability. How does this occur? In fact, the ANEEL at the annual anniversary of each company increases the tariff, the fixed cost of each of these plants. And, it also establishes expectation of what the price of settlement in the differences, or the spot price, which should occur during the year based on its forecasts or the (inaudible) which it has available in its system at that particular moment.

So, then, how does this dispatch work? Well, thinking about the spot price, theoretically, if over the year we have a spot price established by ANEEL, two things may happen. The spot price may be lower and this can be seen here. And, when it is lower, since we are charging consumers a lower spot price, that volume which was not dispatched starts building up a liability of the distributor towards consumers. That is, in the tariff also, it has resources that were taken from the consumer. But not all of the energy was dispatched, because the spot price is lower. So, in this case, in the CVA, in the checking account, will reduce what consumers have paid in excess.

On the other hand, what may happen. And happened in second half 2012, is that the spot price may be higher, higher than what was established by the regulator for most of the distributor companies. Obviously, sharing the erratic rainy patterns of last year. So, what happens? It's just like the exchange rate that fluctuates so much. When we have less rain, the spot price tends to go up and, in this case, we will have to dispatch more thermal energy. The thermal plants are dispatched by the generation cost, at the generation cost. And probably they will be dispatched by order of merit at a higher price that had been established by ANEEL.

In most cases, this excess value that was paid by the utility becomes a finance hit. So that in the next tariff was used this is charged from consumers. In this case, utilities anticipated

this demand on behalf of consumers and add to the tariff as if it will be paid with these funds.

It's important to understand this, because there are a number of availability agreements, as I said, where 13,700 follow this pattern. But, beyond that. And here we're talking about the Soft loans part here which are the furthest systems that this charges.

So, beyond the dispatch according to the order of merit, if the spot price is the reference for order of merit dispatch by that threshold, that's the CMP, the national council for energy policy, can order dispatches regardless of the order of merit. But will (inaudible) dispatches.

So, for instance, the spot price last week was around BRL370. So, we should have dispatched by order of merit all thermal plants at service levels of BRL370. However, our dispatch is higher for power plants that have a (inaudible) cost beyond BRL370. So, what this type is simply presented dispatch. But it creates additional costs.

Very well. Underneath, we can see what all of this meant in January in the case of the utility lenders to CPFL Energia. BRL164 million was exactly the cost of the distributor company regarding the regulated market contracts by availability.

This BRL38 million you can see here in green refers to anything that exceeded the order of merit. So, it was beyond the spot price and the only argument here is the presented dispatch, or (inaudible) of the system.

And then, in January, we had two other items which were not part of the distribution company lift this one in yellow and in red. In yellow, do you remember that what I said that 2,000 megawatt on average did not embrace the proposal for new electric concessions. And, it was volume was designed as quota for the distributors. Since the companies did not accept that, distributors were (technical difficulty) contracted.

So, there was this exposure, involuntarily exposure to the spot price. And, naturally, this is involuntary exposure, because the utility would have contracted 100% of quotas, if generators had offered 100% of quotas. Since those few did not get in, the quota for them fell short of the estimate. So, this is why we have this BRL27 million cost that is related to contractual performance. The low utility sales equivalent to the spot price amounted to BRL27 million. So, you know that beyond (inaudible) it is important what are made to generators.

Eliminated completely the hydrological risk. So, it was to plant all of what was generated, what it had to, what was estimated. This risk is passed on to consumers. This is the hydrological risk, the so-called hydrological risk. So, they expected 100 units of power. And only 97 units of power was produced. So, this (inaudible) is the hydrology risk. And those generators decided to run their plants at 32. We also do not have the risk anymore. So, this has been passed on to consumers now. See that this is BRL36 million.

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And, it's important to point out, out of these four items mentioned here, is exactly the result of the incorrections among the groups and the government and we ourselves and the association. It's important to say at the moment that, well, we'll have this involuntary exposure that has happened for the first time. But it will occur again for sure, or either the hydrology risk, which was not a breakdown item but has started to be as we converted that power volume into quotas, or the dispatch of thermal plants out of merit.

So, all these three items which are a result of decree 7,945 and, if we didn't have the decree, this would have been passed on to utilities. This will be totally absorbed by CBE, say, around 100 million of this volume, of the 208.60 million will be shouldered by CBE.

However, on the other side, we have in the regulated market contracts. It's estimated that part of these contracts will be shouldered by CBE, beyond the annual realignment for us to have a reduction in the amounts to be passed on to consumers. And, this (inaudible) will be at utility's criteria, because this exposure, it's not even. As you are more exposed, others are less exposed to ANEEL. When the time comes for the price realignment, it will consider that and may inject part of the funds straight into the companies to mitigate this transfer to consumers.

And, here, on the right-hand size, let's see this. Well, the structural change. There was a change in the threshold of overcontracting. We had 3%. And now we'll have 5%. And, this will reduce overcapacity for the industry and will make power conditions in Brazil even more robust. And this is an important achievement.

And, the bounty of the hand is the public pricing of regulated market contracts. If there was only kind of any random pricing, this spot price accounting method will be made more robust. (inaudible) transmission criteria that the spot price that will be incorporated by each utility will be as close to reality as possible. So, this more sophisticated methodology in the spot price method will be incorporated so that this amount will also fall over time.

So, I'm now on page 18 and, as a result, I'd like to show you three projects here. And our positive outlook regarding the assets that we operate and their performance. So, I will start here with Distribution. This is our main business segment. Our volumes have been growing over the past five years, at nearly 4% a year. But, the results of our operating profit, EBITDA, are growing at 8.8%. And, this also shows that our operations are more efficient. And we have shared this with the market for some time. We closed 2012 with the recurring EBITDA in IFRS of BRL2,678 million.

Now, we can see that our Generation strategy is becoming (inaudible). We're growing more quickly. We have CAGR for EBITDA of 27.7% a year. We closed 2012 with BRL1,671 million in EBITDA. And, here, worth an important participation of the (inaudible) strategy adopted by the Company, invested in renewable energy which already accounted for one-third of the Generation total, or 50% in our Generation as a result of investing in renewable sources. Installed capacity has been growing steadily, as you can see, at 15% a year.

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Very well. On page 19, we have the same breakdown for Commercialization and Services. As I told you in the beginning, Commercialization at CPFL has come to a standard. And, we are now the greatest operation of the industry. And EBITDA has been growing -- BRL250 million, BRL280 million a year. The newest thing is the focus adopted by CPFL Brasil and CPFL Services, with the segregation of the management we did this last year, then (inaudible) is better focused in commercialization and on services. We have a number of activities here.

And, this has had led to (inaudible) of results, beyond BRL300 million. But it's important that we'll invest in Commercialization. You see the numbers of consumers has grown. And this already reflects the strategy in (inaudible) in the northeast and the south, too operations in the southeast. So, we've been growing our platform. And we understand that either owing to what we invest in terms of this customer base or either by the transformation that may happen in the industry. And the mood for responsible energy, we'll already be much better off.

As a result, the bottom chart summarizes the Company's growth. So, we have seen consolidated EBITDA grow at 7.5% a year. And we closed the year as the largest distribution company, market share of 13%. And now we are the commercialization leader, 10%. And we closed the year the second biggest private generator, with 2.3% of market share.

Very well. Now, I'll go on to page 20. Very briefly, let's talk about the Fourth Quarter highlights. It's important to say that sales grew in the concession area. The start-up of two plants -- a solar plant and another smaller hydro plant. Investments over BRL500 million, in the Fourth Quarter; 2.5% (sic) in 2012. Dividend payments close to BRL1,100 million. And, acquisition along with Equatorial of Grupo Rede's assets and, now, the (inaudible) that we expect to conclude by the end of the first half-year. Extraordinary tariff review, it was no impact on the remuneration of distributor companies. Increase in share's liquidity of 30% last year. And, a few awards, specifically as they regard sustainability, innovation and, in particular, the Company remained within the ISE and for the first time joined Dow Jones Sustainability Index Emerging Markets.

Very well. Let's move on to 21 and 22, talking about energy sales. So, in the Fourth Quarter of 2012, sales showed -- or gave us an idea of what 2013 will be. Very vibrant sales in the captive market, slightly above 3%. I'd call your attention to the TUSD, because this is such a large client -- 12.2%. And, in concessions, we grew 5.6%. This can be seen in the right-hand corner graph.

We also grew a lot in this southeast, double what the region grew. And a little less in the south figure which is impact of several car plants and each is connected to Argentina. But, we believe we'll see an improvement of that. But, (inaudible) posted a growth much higher than Brazil, particularly owing to our fragments in the southeast.

Total sales, grown at 12.1%. We've talked about distributor companies. 30% of commercialization, conventional sales. And, 117% in the operations of CPFL Renovaveis.

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Now, underneath, here we have 10% -- I've been in this industry a very long time. And the few times that I've seen this kind of growth in household segment -- and the recovery of the industry, of 1.6%.

On page 22, we have exactly the same approach, where for 2012. So, total sales grew by 3.8%. TUSD, the tariff for the distribution system, is here. 8.1%. 14% on top -- or, an extra 14% for commercialization and services in renewable energy. And, what happened in the year -- 7%. And the industry recovered in the Third Quarter. It grew 7.7%. And we continued showing growth higher than results.

Now, let me show you the three charts on page 23, talking about households. Here, the most important thing is the migration in Sao Paulo state. So, we see that people are moving away from the metropolitan regions, where we had very little growth, 0.98%. And, where are people going to? They're going to the hinterlands of Sao Paulo state, where we're talking about key regions, the lowlands of Santos and the contiguous region. We can see the population is growing, double the rate of the metropolitan region. And migration is 3% in the center regions. And this will now grow with the (inaudible) in the metropolitan region of (inaudible) largest cities in Sao Paulo state, growing at 9%.

And, the right side illustrates a perfect alignment. We see real income grow. And residential consumption is practically even. And, here, we talk about the housing credits. This is a challenge in Brazil of providing housing for the population (inaudible). But, you can see as a proportion of GDP, it's 4.8%. Countries such as China have 15%. The European Union and the US, around 50% to 70%. So, we have a lot to grow.

Now, on page 24, we have retail sales. So, we see -- from 2007, we see that it was grown 60% over this period, more than 10%. And indicators of retail activity grew 75%. It's in excess of 15% a year. So, we see underneath, opening of shopping malls. Practically 16% of the (inaudible) shopping malls are located in the cities of our concessionaries, in Sao Paulo and Rio Grande do Sul. And, the perfect alignment between retail sales and commercial consumption.

Finally, let's move on to page 25, where we have industrial production. Well, last year, we can see here in the top chart, (technical difficulty). Lower competitiveness is the name of that (inaudible) that plagued us -- rising costs; problems with infrastructure; overvalued exchange rates. I'm not going to dwell on this.

We've talked about it lately. But we have a number of stimulus proposals that the government came up -- new exchange rate, the reduction of the burden for companies. But, two important things. Monthly consultations and disbursements at BNDES grew by 50% from the second to the Third Quarter and from the third to the fourth, with third-party assessments.

And, on the right-hand side, we see what our (inaudible) in the beginning. Why do we believe that industry will gain competitiveness? So, comparing 2012 and the forecast for 2013, for a number of elements that will be determined. The index for total cost in the industry. So, we'll see a drop in the unit labor cost. We see here electricity costs, a more

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or less 20% drop. And this reflects what happened in January. Stability in domestic inputs. A small growth in non-tradable domestic inputs. Imported inputs had some growth. But, you'll see that the total cost index was practically level. And the index for nominal exchange rate dropped by 18%, the index for total cost. And, this is why we believe that the industry will be more competitive on foreign markets in export.

Now, let's go on to page 26, to our Fourth Quarter results. Here, we have also the reported amount above, in IFRS. And IFRS particularly where risk greater dispatch which we'll have in the last quarter. Obviously, this page is on the expenses and does not recognize absence of regulatory basis, because of the decrease. This will be reduced, the assets and liabilities. But for the time being, this is what we have.

We have increased our revenue. This reflects the start-up of operations, tariff adjustments. We grew 27% in revenue. We dropped 16% in EBITDA and 42% in net income. This is IFRS.

When we build in the (inaudible) of regulatory assets and liabilities and a group of non-recurrent, particularly private pension fund, the result which would be managerial recurrent of the Company, there is a growth of 35% in EBITDA and 15% of net income.

What are the things which affected negatively the Company in this last quarter? Well, the main most important we're talking here are BRL310 million which can be seen here in the EBITDA of the Fourth Quarter this year. It was BRL30 million last year. It's BRL310 million this year. This leads us to a bottom line, more than BRL300 million, or less BRL300 million, in fact, which refer to these regulatory assets and liabilities which we will see the effects in the next 12 months.

And, then, we have regulatory assets and liabilities. And also the financial income of the distributors. This is exactly the new application and the positive results for the concessionaire, all of them accounting. There's no generation of cash.

And, here, I would like to mention that as this is not an economic result, financial result, I also think what's the more prudent procedure, we would not put out this in dividends. We have a reserve. Some analysts have reported in their results that this was a reduction of payout. But we have maintained the same payout, 95% of the distributable results and not the accounting results.

So, this report is important. And now we have here and also because of the Company being more conservative vis-a-vis the amount of lower legal and judicial expenses, we have reinforced our (inaudible) judicial expenses reserve. So, our loss LLPP has been strengthened. At the end of last year, we had a rate of delinquency particularly -- questionably it was the end of the (inaudible) mandate and administration. So, we reinforced our LLPP provisions. And we increased also our efficiency to (inaudible) the costs regarding dismissal of people from our (inaudible). And, you may see that from the point of view of EBITDA, this group of items, regulatory assets and liabilities among the current items, have impacted the result of EBITDA, at about BRL403 million (sic). And net income, BRL232 million, in this quarter.

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The notes explanation here on the page 27 reviews results of the Fourth Quarter. Summarized, you can see the two performances -- the recurring managerial and the reported IFRS. Here, I'll talk about the report of the IFRS, a drop of 16%. We have had 27% increase of income, of revenue. A growth of sales, a growth of the average tariffs, because of adjustments, 6%. TUSD (inaudible) and the (inaudible) because of the growth of the (inaudible) and Services and Generation. This has given us an increase of 27%.

And, then, we have a very much greater growth percentagewise of the energy costs. And, here, we have not only the cost of volt energy for resale. But especially what we will talk about in the beginning with the dispatch of thermal and BRL470.25 million out of the dispatch with the thermal, the so-called consumer ER. And, also, (inaudible) costs with the (inaudible) of BRL222 million. So, more than half of our increase in the cost of energy (inaudible) exclusively to the dispatch of thermal electric energy. So, (inaudible).

And, on the other hand, the increase of expenses (inaudible). And, here, we had several things. And, I will show you the recurring expenses are good. But, (inaudible) we also have the thermal electric and just in fuel oil, more than BRL100 million. And, the (inaudible) renewable, we started this operation in the second half of the year. And we have had also with a coming-on to operation (inaudible) efforts, an increase of personnel costs. The collective bargaining procedure dismissal, which was negative. Legal and judicial expenses and items that are referred to, the BRL432 million (sic). Transfer of discos' assets, BRL28 million. And, adjustments in bad debts, BRL22 million. And, exchanges differences, as well, in PLD, from BRL42 to BRL306.

And now, page 28, a graph of net income. And, here, obviously, this (inaudible) with the EBITDA drop, which was affected by the IFRS criteria. So, EBITDA dropped 16%, to BRL160 million. There was a reduction of the restatement of net income of 27% and, here, among the very effect which is exactly the financial update of the assets of the distributors, was BRL96 million. But, here, a reduction of the debt charge because of the better macroeconomic. (inaudible), a decrease of income from financial investments, BRL77 million. (inaudible). And, then, the consolidation with CPFL Renovaveis, BRL57 million. These are the most important items of this point.

And, then, depreciation and amortization, obviously, because they're coming into operation as assets in the renewables and in the geographies of balancing (inaudible) tax and also a credit of income tax, because of the difference in results.

On page 29, I will be brief. Just to show you the results of 2012. And they're much more for the analysts and investors can see the recurring base of the Company in IFRS -- a slight growth of 1.2% EBITDA; a drop of net income, 22%; and recurring results net of regulatory assets and liabilities (inaudible) which we have for next year, for 2013, because of (inaudible).

Most of the regulatory assets made up are the (inaudible), our largest distributor of the group, which has a prior adjustment now on April 8, in a month's time, less than a month. Much of this account of regulatory assets, much of this dispatch of thermals will be

incorporated both in (inaudible). But, it's important to highlight here a growth, an important growth, of EBITDA of 22.7% in the annual base, totaling BRL4.625 billion.

And, the same thing would have happened with the net income, growing to BRL1.676 billion. The details are similar to the ones that I have just given you.

Highlighting just here the regulatory assets and liabilities, BRL670 million, which would impact the net income, BRL439 million. And with the discounts of the (inaudible) balance sheet, we still have here a renewing value of BRL700 million.

And, as I have said, I think it's important to talk about these details. We have several things going on. But the commitment that we have with the analysts and investors, particularly. And to be very stringent with costs and very efficient in our operations. So, here, we just have a reconciliation of the results. And the result would be of personnel, material, third-party service. And others, we will have a nominal drop of 1.9%, or a real drop of 7.2% when we include the inflation growth for personnel, material, et cetera.

Here, on the personnel, we will just have some reconciliations because of the dismissals that we made the year before last and the growth of CPFL Renovaveis and CPFL Servicos. And, with this reconciliation, we have a growth of our personnel expenses -- 2.9% in nominal terms, or a drop of 2.7% in real terms -- on the left-hand chart.

And, we're adding material, third services. And others. We do the same. We make the same consideration. We reported MSO and the adjusted nominal, which dropped 5.4%. And the readjusted real, which dropped 10.6%.

So, this is included in the current bill for the Company, indexed to RGPM, BRL408 million. We had talked about BRL100 million. And, largely, we had this because of an (inaudible) -- this is the best match for the Company -- and also because of the implementation of the zero-base budget.

On page 31, I'm talking about the payout of the Company, in payouts of BRL406 million (sic) in dividends. And this has to do with a payout of 95% of the distributable results. The Company then, with this disbursement, has more than BRL10 billion in dividends distributed since the IPO.

On page 32, the prospect of future costs. We are planning investments of BRL8.7 billion throughout the next five years. And, we invested more than BRL2.5 billion last year and BRL2.3 billion this year. Just in Distribution, where we've had completion of deferred cycle and the maintenance regarding Generation and contextually we know the Generation.

And, on page 33, we have leverage. The Company with a net debt of BRL12.6 billion. A covenants rate which will -- they were all adjusted at the beginning of the second half of last year. So, there are no (inaudible) here. Considering the so-called regulatory balance, for our regulatory assets receivable for us, in a reported value by IFRS, 3.6 times. But in the amount used for the covenants, 2.89 times.

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What is important here regarding this breakdown, 60% of the Company's debt in CDI. I think it's important to highlight the importance of the financing from BMDF. Almost 40% -- 8% of the prefixed -- (inaudible) or is below real inflation. This obviously brings about a reduction of the nominal cost and the real costs of the debt. We are at the lowest levels, ever since we started measuring -- 9% of nominal costs, 3% of real costs.

So, this gives us with the amount of cash that the Company closed the year, around BRL2.5 billion. You may see this on page 34. The cash coverage of the short-term debt, 1.3 times. And, our average term is 4.5 years. And, we have a very balanced profile, about BRL2.5 billion a year. Short-term, 12.8%.

And, I highlight here this financial conservative attitude that the beginning of January we approved the issuance of a debenture for Piratininga to give us greater flexibility and also to face up to other commitments regarding the (inaudible) dispatch. So, a very good issue. Coordinated value, the Banco do Brasil for working capital. CDI plus 0.83%. And, maturity, eight years. This is the first issue (inaudible) the group have with this term. Maintaining our ratings by Standard & Poor's, or Fitch, of brAA+ because of the Company's flexibility and (inaudible) and generation, distribution efficiency. And, this reflects the good fundamentals of the Company.

So, with this cash now coming in February, we will have a cash position of BRL3.4 billion at the end of February, which is almost twice the short-term amortization. Average term, bring that to 4.6 years. And, short-term, we have 12% of our debt.

So, let's go here on page 37, just to report on the assets and (inaudible) of Renovaveis. For the first four, which will start operations at the end of this year or second semester. 582 megawatts. In the first half of the year, (inaudible), we will include more, another 330 megawatts, all of them contracted. And we will continue this work in the CPFL Renovaveis. By the end of the year, 1,500 megawatts of assets under operation and contracted.

Page 38, the performance of the shares, as we had said, we dropped together with the electric power rate in the Fourth Quarter and the year, which does not affect the good fundamentals of the Company and therefore the question of exchange. We dropped 20% and, well, the good news is increase in the average volume of trading.

And, on page 39, the maintenance of CPFL on the ISE. It was one of the two (sic) companies that has remained on the ISE, since December of 2005. And, we are delighted to enter the portfolio of the Dow Jones Sustainability Index Emerging Markets.

And. So, this is what I had to say and sorry we have gone over our time a little bit. But, I am at your disposal.

And, I would also like to say that we have been appointed -- or Gustavo Estrella has been appointed to be the CFO of the Company, taking Lorival Luz' place. He has now moved from the Company to go on to new challenges. It is great to be able to use our succession plan which is a very important practice of our group. And we will be making for another five years with an international consultant.

Gustavo comes from in-house. He has been with the CPFL Energia for more than 12 years, all in the financial area. He is well known to some of you and in IR. And, the last two years, he received a challenge of coming back to Planning and Controlling and to implement the zero-base budget. And, the improvements reflect here in his activities and his efforts. So, it is great to be able to share this with the market, the appointment of Gustavo Estrella to be CFO.

So, now, I am at your disposal for questions.

Questions And Answers

Operator

Ladies and gentlemen. we will now start our question-and-answer session. (Operator Instructions). Marcio Prado, Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

Good afternoon. Thank you, Mr. Ferreira, for your call. It's very detailed about the sector. And congratulations, Gustavo, for your appointment. I have two questions. One about the industry. And the other about CPFL. About the sector, you said Wilson about commercialization expectation of the consolidation of the sector.

As we see it, in the decree published last week we understand that the commercialization companies will have to pay part of the IFS and that there will be energy security in their plant where they will BRL4 per megawatt hour (inaudible). When we look at the CPFL reserve, we see that, even one of the largest of the sector, the margins are low. The net margin is about 5%.

So, certainly, not only this would corroborate with the idea of a consolidation. But it generates a concern about the sustainability of the commercialization companies, if they have to pay per volume transaction. So, I'd like to understand if you see it this way? And, do you see this with concern, just the side of the commercialization and the effect of the last week's decree? And, then, this non-recurring item regarding legal expenses of BRL150 million. Can you give us some more details regarding this (inaudible) and what issue it was?

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

Thank you, very much for the question, Marcio. Well, just as you said, we see the same way, the problem of -- well, Commercialization has in fact low margin. This is the future of the business and our bias is to the highest priority and perhaps owned a number of attributes of systems and competencies throughout perceived by the market.

There's also some concern among us, the plans of this charge by distributors. And, I have no doubt, because this is public. So, the association of commercialization companies and generators have challenged this transition process. We have required meetings with the government, with ministers, with ANEEL. I wouldn't say this topic is totally behind us. And,

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we're looking for two things to happen. Either they will recognize that payment of this charge doesn't make any sense at all, either to generators or distributors. Or, in the case of distributors, it will end up being built into the consumer price, because the margin is so small and you wouldn't be able to deal with this extra payment, (inaudible) all of that.

So, our commercialization operation at least in talking about distribution, they tend to incorporate the topic on scale. I mean, they tend to build scale to be competitive. I have no doubt that the free market -- this might even (inaudible) in the world. The free market will grow. And it will pressure as migration, as it will continue to be significant. And, they may (inaudible) double the free market over the coming years. But they must have more efficient agents. Understand, we are one of these agents, not because we're one of the largest but owing to the distinctive competencies that we have in this system of price and market forecast and government practices regarding lift and quality (inaudible).

Investors know or differentiate us that we're (inaudible) commercialization operation and, being very honest, I believe that this debate about the charge -- well, at CPFL, we're joining in to challenge this charge. Now, as regards the provisions that we spend, the legal provisions, we have detected -- well, there are two things. First of all, we provisioned all our key positions to recognize credits that were a result of incorporating new building systems. And we believe we had to reinforce this position, based on numbers from the second half-year.

So, we included BRL75 million in provisions and one-third of that in the last half-year. And, we believe that this is absolutely enough to face up to what we'll have to pay. So, we've included a provision criteria, because it's now a restrictive than we have in the past.

And, the other half, well, BRL75 million refers to LLP and BRL65 million refers to here, yes, the legal. BRL250 million is the reinforcement to our provisions. We estimated (inaudible) and all the similar companies. And we've detected that our success rate which is (inaudible) % of our operations, that it would be reasonable to do this, to enforce this position. And we did that with the auditing department.

So, we believe that this was an important initiative to strengthen our legal management ability and, obviously, there were profits from the manage of the new vice president, Ricardo Gitanumi, who had an experience in this area. And, as a result of our assessments and studies, we believe this has been important. We continue being the company with the lowest (inaudible) inflation by consumer index in the entire industry. And it shows how efficient the Company is that we believed we could improve this efficiency. So, this was basically what it is.

Operator

Maria Fernandez Loraingy, J.P. Morgan. Maria Fernandez, you can speak now. (Operator Instructions). Sergio Madone, Capital.

Q - Unidentified Participant

Good morning, Wilson. Thank you, very much for the information. Now, a quick question about the CBE. Your (inaudible) will be accounted for as debt? Or, income?

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

Sergio, thank you for the question. This has not been regulated yet, (inaudible) of the energy development account. (inaudible). And, we are working so that this is posted as income, rather than debt. And, this somehow will determine that the IFRS accounting will be (inaudible). Remember, as an asset, where the trend is not for it to be seen as a loan. But as revenue for the Company.

So, that will have a prevalent impact under the IFRS. So, it will mean, this recommendation, that discussions (inaudible) election for us to reinforce the balance sheet of the Company and, obviously, that the IFRS will be solely to recognize revenue for (inaudible) for market purposes. It shows that you have to (inaudible). Remember, (inaudible), you end up having a first impression of indebtedness. So, we had shown, when we did the study, we were not to have (inaudible). But also in the sense being a constant effort here for it to be recognized under the IFRS as revenue, rather than debt.

Operator

Maria Fernandez Loraingy, J.P. Morgan.

Q - Unidentified Participant

Thank you, very much. We were having some problems. I would like to ask two questions about the (inaudible). They are falling due. Which ones are preferred to be taken up for an auction? And, I'd like to know whether you have an estimate of EBITDA to (inaudible) these assets? And, I'd also like to know about the recurring assets. Will you keep certain assets? What will happen with the holding company?

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

Very well. As regards assets, obviously we have put together a group in the Company to look into which of these assets that should go to the tender. Obviously, owing to our models (inaudible) with assets with higher information, we cannot have any regional preference to assets. Any hydro generation asset can be operated by CPFL. But, obviously, we would prefer larger assets similar to the ones we have. Also, because our cost reference is already established for this kind of asset, I'd say that if we have to look at the estimate of our own (inaudible) cost of O&M that were (inaudible) in the generation rates at the moment, it's having on the size of the plant is between BRL10 and BRL15 per megawatt hour. CPFL's maintenance operation has always had lower amounts, between 26% lower. So, obviously, we are an operator what from (inaudible) our operation.

Now, as regards the (inaudible) group, the final operating structure has not been established yet. But, two things. First of all, I'd say that there is less than a week from the legal recovery (inaudible). And we have an operation that has the best of two groups as regard to each of the operations. And, the experience of Equatorial is proven in assets in the north of Brazil. And the advantage that CPFL has in operating assets in the southeast,

particularly in Sao Paulo, is also recognized. There is no -- no decision has been made as to what would be done after the conclusion of the process. But we will try to create synergies into the northern assets through Equatorial and in the southeast through CPFL.

Operator

(Operator Instructions) Marcelo Frances, Brazil Curao.

Q - Unidentified Participant

Good afternoon. Could you talk a little bit about the settlement of energy contracts in January which are (inaudible)? And, what do you think should occur at the end of this? And, what about the strategy CPFL for this year? Would you place more energy the first month and less during the rainy seasonality?

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

Well, there's not much to say about this suspension. I think the suspension has a motive which Eletrobras companies, regardless of (inaudible) judgments. There was the permission for atypical rainy seasonality (inaudible). In other words, (inaudible) than the price we've already known. So, what does this mean? Just to justify the request made by Eletrobras. There are companies such as ours -- and since I answer your second question -- that are sold. There are generation companies which are sold to meet the needs of a certain amount of energy throughout the year.

How is this seasonality done? It's flat, except for those specific characteristics of regional capacity. We work (inaudible) about, let's say, a peer of 100, we work with variations not above 5%, above or below, when we do this re-seasonalization. This is a practice based on the operational capacity of these assets.

So, theoretically, we are not one of the companies that have done atypical seasonalization. We did a typical one. Because should there be an opportunity, quote-unquote, of atypical seasonalization to benefit from a higher spot price in the month of January, we also think that there's atypical exposure and placing the Company in the long position in January. You obviously would put the same company, the same assets in a short position throughout the year where there would be a very clear prospect of higher spot prices.

So, we would still be higher still than we have with methodology applied throughout the year. So, we did not operate the group's generation assets in a speculative way. We do this seasonalization in a very technical way to meet the needs of the load that we are contracted for (inaudible).

We are quite satisfied with the PPAs that we have. But, it's important to know that there are generation assets that don't even do that. They are obliged to do a flat seasonalization. And, in this case, when we have an atypical seasonalization calling for significant levels, there is more prospect that this aspect can be reimbursed. It was only atypical because it could be done really directly with a lower spot price. And we're

benefitted from this, the generators who did not have specifically from us contracts to be on throughout the year. This seasonalization then couldn't be determined (inaudible) without the risk of the short exposure during the year.

This is (inaudible). It's neither be seen by the regulator and since it does have impacts a real seasonalization may include some problems for operations (inaudible) carried out. I think that they will hear all the parties, first the decline which the (inaudible) rules, vis-a-vis this procedure in January. We did not do this atypical seasonalization. Therefore, we are neutral regarding this event.

Operator

Enrique Gallargas, UBS.

Q - Unidentified Participant

Good afternoon. A question about CapEx. You have a CapEx of BRL1 billion for 2013. BRL1.082 billion for CPFL Renovaveis. And, for (inaudible) Renovaveis, BRL1.006 billion. Why the difference? And, an increase of BRL480 million for distributors. What was the motive? Why a greater CapEx for Distribution?

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

Regarding the 2013 amount, we have in Generation, BRL1.072 billion. And 62% of the share of CPFL and (inaudible) 100% stake. And, then, (inaudible) of the pro rata of our stake.

And, regards the second question, regarding the commercial (inaudible). I couldn't hear you very well, regarding 2016. The sound is bad.

Q - Unidentified Participant

Your guidance was reduced BRL460 million and another figure for 2016. Why the difference?

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

So, we will have a higher CapEx.

A - Unidentified Speaker

(inaudible) Mr. Ferreira, I can't hear either.

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

Oh, Okay. So, what I have understood is that you are asking me why in 2015 and 2016 we are going to have an increase of CapEx of the distributors? Well, the main explanation here is because of the inclusion of the systems electronic measurement, (inaudible) measurement, a smart grid system. And, we imagine that the discussion that is being carried out, or will be carried out now, in 2013, with ANEEL. And the setting of standards,

et cetera, might have a greater impact on the Company as from 2015 and 2016, because of the closing of the revision cycles in the (inaudible) RGE, whose next tariff cycle will be 2017.

So, these are the two largest concessionaires from the point of view of residential and commercial consumers. So, this increase at a level also is because of the inclusion of the (inaudible) measurement on these consumers.

Q - Unidentified Participant

Thank you.

Operator

So, at this moment, we would like to close our Q&A session. And I would like to ask Mr. Ferreira Junior to proceed with his closing remarks.

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

Well, once again, I would like to thank you all very much for listening in. And, we state our positive outlook regarding the last six months' activities more than a caution uncertainty. I think that things have got important relative stability and a soundness of regulation. And also it's so important that the impact on concessionaires who have been very worried. I was just referring here with my colleagues, for example, to the theme of the concessions of CPFL generators before we expand 2032 and this is after 35.

So, this guarantees cash flow of these operations which will be sufficient to continue to grow strongly in this segment that we have today not only an important stake in Renovaveis but also to continue participating with (inaudible) in the last generation, large generation projects.

And, also, I'd like to mention the moment for the way we're experiencing and the impact that this can bring to the energy producers. And, the economic growth forecast is followed by an increase regarding energy sales prospects. And we are ready to meet those needs and activities. The Company is very active also in M&A (inaudible) a great potential for growth. Ambition regarding distribution and generation is well known. We can double our sales in five years. But, we're also well known for our capacity in commercialization and more recently in services.

For all of us. And also considering not only the level of efficiency but the results that I have presented and atypically were affected in the Fourth Quarter of last year. But, we understand that all these regulatory steps and laws have only strengthened the Company, reducing the (inaudible) activities on our accounts.

And, we believe that the future results of the Company will mirror these good prospects, recovery on past results. And therefore will decrease the future charges and assuring of a very efficient platform to generate, distribute. And sell commercialized energy. We will see this in the next quarters. Thank you, very much.

Operator

The CPFL Energia earnings conference for today is finished. Thank you, very much. And have a good day.

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