

## Q4 2010 Earnings Call

### Company Participants

- Wilson Ferreira, CEO, Interim VP

### Other Participants

- Marcos Severine, Analyst
- Sergio Parmachero, Analyst
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning. And thank you for standing by. Welcome everyone to CPFL Energia Fourth Quarter of 2010 earnings result. We will have Mr. Wilson Pinto Ferreira Junior, CEO in CPFL Energia. And Mr. Lorival Luz, CFO and IRO and other officers of the Company. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements that might be made during this call regarding CPFL Energia's assumptions are -- beliefs and assumptions of CPFL Energia's management and information currently available to the Company and they are being made under safe harbor of the Securities and Litigation Reform Act of 1996. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions and depend on circumstances that may or may not occur.

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

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

Good morning, thank you very much investors, analysts that follow us in this conference call for 2010 results and the Fourth Quarter earnings result as well. I would like to start my presentation trying to talk to you about the year results. And in this evaluation I would like to put a result that we consider very good, which are the effect of the IFRS norms that change one way or another the results of the Company.

So, I prefer, first of all, to make this conciliation of the end year results, because this is the basis for us to evaluate the results for the Fourth Quarter. I would like to start by the evaluation of our sales. Over all the previous quarters, we saw that there was a hike in the

sale of energy and on the upper part you can see our concession areas of the eight distribution companies of the Group.

Energy consumption increasing by 7.2%, totaling 52,000 gigawatt hours sold in these areas, made up by sales to the captive market increasing by 3.8% a year. And in a process of recovery, given the year of 2009, the free market increasing by 19% in this period, reaching 12,794 and you can see on the right, the last consideration of the pro-forma of the CAT97 result a resolution of the state of Sao Paulo tax replacement, which mandated us to post sales on the first day of the month and this was in the last quarter of 2009.

The reason for which over the whole year of 2010, we carried out this conciliation. And it will no longer be necessary as of '11, although the results are quite similar as you can see. An important highlight in the sales of the concession areas is a 7.3% growth overall. Residential and commercial continue to be strong over the whole year of 2010, 5.2% residential. And 6% in commercial. And undoubtedly the major highlight for the industrial segment, which is in recovery now. And which led to an increase which was almost 10% on the right we will see the total sales of energy and I would like to remind you that total sales are the ones in which the Company sends a bill to consumers for the consumption of energy.

So, basically those in the captive market that we referred to a while ago, about 39,250 gigawatt hours in 2010, a 3.8% increase vis-a-vis '09, driven basically by the low and medium voltage segments and free market drop last year by 2% totaling 13,000 gigawatts hour. But here it is important to see that in 2009 we had a non-recurring effect, as we call it today, which was the important sale in the adjustment auction for distribution companies. And at the time, the commercialization companies were able to deliver to this market and the regulation was changed over time. And this event was not repeated in 2010. And even considering this fact, we have major sales here, which replaced or offset the effects of the adjustment option in the free market, as you can see, going up by 19%.

Overall, sales billed by our company and here we involve distribution companies and commercialized companies. We've reached 52,245 gigawatts hour, year-on-year 2.3% increase. On the lower part of the slide, we see the evolution in the concession area. And '09 becomes very clear here, because the results were maintained. And the strong growth that we saw in 2010, growing by 7.3%.

Now we are going to the next slide, slide number three. And we will make a comparison of the result based on the Brazilian GAAP and with the major adjustment promoted by the adoption of the IFRS rules. So, let us start with our net revenues, such as we always do, then we are going to talk about EBITDA. And then net income on an annual base. And afterwards we will get into the conventional presentation evaluating our results for the last quarter.

So, let us start with our net revenues and the previous standard, the Brazilian GAAP standard. We see a 3.7% growth in our sales, reaching BRL10,961 million and in '09 and '10 with the adoption of the IFRS standard, we can see some adjustments that were made stemming from the adoption of the different CPCs, over 60, 67 CPCs, which ultimately

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led us to the exchanges and I will highlight the three most important ones. And you will see that the impact of the other ones were irrelevant and you can see here in others.

So, I think it is important to stress three elements deriving from this adjustment. The first one is the adoption of consolidation of ownership in all our ownerships and generation, exception made to CERAN. We adopted according to the principles of the IFRS, the proportion of consolidation, the only asset of ours where we had full consolidation for CERAN where we have 65% ownership. And stemming from the shareholders agreement that we have at CERAN, we have the consolidation at 100%. So, we incorporated as revenues. And we will have to do this with our cost side as well. The result deriving from this higher share of 65% which will be an equity income on the last line of the balance sheet. But it is important to stress that in '09 and in '10, we had these 35% more in revenues, BRL73 million in '09 and BRL72 million in '10.

The second important element has to do with the posting of assets and liabilities, regulatory assets and liabilities because of 10 year agreements with CBA. We had our balance sheet preserved from these financial effects. There was no matching between the financial event and the economic event. CBA adjusted that, because this was the standard adopted in order to facilitate the analysis for those who follow the energy sector. The agency established that we should go beyond the IFRS with the regulatory accounting, where these events related to regulatory assets and liabilities, namely those incorporated by the CBA, will be mentioned, itemized. And this allows us to have a correct evaluation of these concessions based on the new standard.

We have to launch this immediately during the event. This is the reason why here on the revenue side, we have basically the components related to the low income subsidies, the supplementary revenue related to the subsidies. And in this case it is impacted by the BRL91 million in a positive manner. And BRL69 million negative in '10, the previous figure was for '09. So, you can see that this account is applied, fully applied during the year where it occurs, in which it occurs. And the third element that we call construction revenue, this was object of many discussions.

Based on the CPC and the case of the electric sector, the electricity sector, the procedure has to do with no income from the construction activity. But as the standard requires incorporation of this revenue, you will see that we have posted the revenue from construction, which would be to a great extent a proxy for investments made in the network. And we are going to remove it at the exact amount.

So, there is no profitability coming from the construction activity. So, for '09 and '10 we have revenues from these investments, BRL616 million. And BRL1.44 billion respectively for '10 and '09. And you will see that they were fully discounted afterwards. And the other 60 procedures more or less are here under others. So, we have BRL16 million and BRL12 million respectively. And the effect of the adjustment in the net revenues for 2010 is incorporated in BRL1.63 billion. And you can see that over 95% refer exclusively to construction revenues. And the same effect happened in 2009, which establishes, based on the new standard, the new net revenues from our activities, which goes from BRL10.961 billion to BRL12.024 billion representing a 5.9% growth, vis-a-vis the adjusted revenues for 2009, which now are BRL11.358 billion.

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Very well. Now, let's see page number four, that shows the Company's EBITDA. According to the Brazilian GAAP, we would be reporting a 16.9% growth, which is very good. In our EBIT, reaching BRL3.232 billion. And as I said, the EBITDA is also affected by the new accounting procedures, which would be the variations. So that we could go from the Brazilian GAAP to the new standard of IFRS.

First of all, these stemming from the revenue increase that we have just talked about, BRL1.062 billion in 2010, BRL792 million in 2009. Into this, we are going to add the effects mainly of the three elements that we have just mentioned, the first one being consolidation of CERAN. If we consolidate revenues, of course we have to consolidate costs as well, deriving from this activity. So, the adjustment is of BRL14 million in 2009. And BRL12 million in 2010. That is to say the cost of the 35% that have already been accounted for as the CPFL stake in this asset. And these are the discussed here as additional costs.

And here we have the non-recognition of regulatory assets and liabilities no longer in the revenue subsidies. But in the energy costs and charges, what is clearly our graphic account, which is the CBA, you can see that in 2010, the effect is not relevant. We're talking about BRL91 million, added to our results. Our accounts receivable budget is important to stress that in '09 this becomes relevant. And you must remember that in 2008, because of the crisis, we had some effects of the crisis. And the first one was the variation or the appreciation in fact of the real -- of the dollar vis-a-vis the real when the crisis hit us. It got to 2.5 and it -- there was a relevant impact on the acquisition of energy, mainly what is indexed to the US dollar, mainly Itaipu.

This was not the only effect we had during the year, a higher dispatch from thermo-electric plants, which caused an additional cost which was not provided for and went to the CBA. And that was received as of 2009. And in '09, due to this recognition of the effect of the exchange rate and the additional dispatch, because of that we had the revenue already paid for, of these effects[ph], BRL524 million. And in '10 it's very light that is to say BRL91 million. But the fact is that our results in '09 were significantly impacted by this new accounting procedure for the year and their effects on the regulatory assets and liabilities posting.

And besides, I have already mentioned construction revenues and costs are transparent for EBITDA effects. So, we put revenues on the other item and we are posting the same amount as cost of construction. So that the result is zero, one offsets the other, EUR1.044 billion for 2009 and EUR616 million for '09. And the others are the effects that are not relevant for our balance sheet. And they refer to the other CPCs. And here we have BRL21 million in 2010 and BRL1 million 2009.

So, here we have the final results based on the IFRS standards, which is substantially impacted, not in 2010. We see a BRL118 million increase with the new EBITDA with BRL3,350 million and in 2009 stemming mainly for the non-recognition of the regulatory assets and liabilities referring for energy costs and charges. We started to report a BRL3,453 million EBITDA. And because of that we can see a 3% drop according to the IFRS standard in the Company's EBITDA from 2009 to '10.

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And finally, now, we are going to talk about our net income. In Brazilian GAAP, we would be reporting an increase in our net income of 20% reaching BRL1.444 billion. The adoption of the new standard here, as you can see in the middle, we can identify the effects that have already been considered, BRL118 million and the EBITDA in 2010 and EUR687 million in 2009. And besides, now we have the consolidation of the 35% of additional stake in CERAN. And with regards to appreciation, the financial result and the income tax and social contribution impact. So, we have BRL41 million negative in '10 and in '09, BRL39 million negative.

The second element is the non-recognition of regulatory assets and liabilities, the financial result and income tax and social contribution. As you can see, it was BRL91 million positive and the EBITDA, the financial effect is BRL3 million here in '10. But in '09 it is relevant, because we were talking about over BRL500 million. So BRL207 million is the financial result stemming from this item.

And now let's go to a new item which has to do with generation depreciation based on deemed cost. This does not affect -- no impact on dividend. But it occurs in '09 and '10 and it stems from the reevaluation of some assets, mainly our small hydro power plants, which date back to the beginning of last century, each one almost a 100 years old. And also the (inaudible) assets. So, this reevaluation leads to this additional depreciation. And as I said before, it does not have any impact on dividends. And because of that we reach our net income, which is being reported today for the year of 2010, BRL1.560 billion, a BRL16 million variation vis-a-vis the previous year. But a much higher variation of BRL402 million based on the IFRS, that would be BRL1.689 billion.

You can see that to a great extent the result is changed mainly because of the non-recognition of regulatory assets and liabilities, be it on the revenue side or the EBITDA side based on the real cost of charges and energy. And be it especially in the last line, because of the financial effect of the variation in this account over the years. So, we are being quite ecstatic as to the main drivers of the result.

And now I would like to talk about the results for the Fourth Quarter. So, we are on page number six, I am using the same rationale to report these results. So, on the left we have the real result of CPFL energy according to the Brazilian GAAP. On the right already according to the IFRS standard. And I have already highlighted the annual effect. And here we are reporting indirectly for the IFRS standard and increase in revenues, BRL3.179 billion, a 6% increase.

And on the other hand, we see a drop in our EBITDA by 14.3%, totaling BRL812 million. And you can see that it is practically the same amount that would be reported in Brazilian GAAP. And what is changed is the result of the previous year, contaminated of course by the effect of the incorporation of the regulatory assets and liabilities and there we would have a variation of about BRL200 million. So, we have an increase in the results of the previous years. And this is the reason why we have this drop in 2010 and this effect is extended to our net income.

So, we are reporting BRL362 million in this quarter, vis-a-vis BRL544 million in the same quarter the previous year. So, this means a 33.5% decrease. And it is important to stress that besides the effects of the IFRS. And as I said before, we highlight the years of regulatory assets and liabilities, we see a non-recurrent effect coming from the previous year, which is the use of the tax credit in 2009. We used about BRL70 million in tax credit. And in '10, we used about BRL19 million. So this variation of about BRL50 million is recognized here as well, very well.

So, now let's go to a quick demonstration of the highlight. First, growth in our sales and the concession area, they continue to be strong, about 3.5% in the concession area. And I had already talked about the 7.3% for '10. The results are affected by the tariff adjustments occurred over the year. And they are all reported here. A highlight in this quarter is the startup. We had already the further[ph] shopping cost startup. But at the end of the year we had the startup of the two TPPs, the Termonordeste and Termoparaiba, totaling about 340 megawatts, where CPFL has a stake of 51%. So adding 154.2 megawatts to the power generation of the Group.

We announced, because of the approval by our board at the end of last month, we announced -- we had already won an auction for the Campo dos Ventos farm. And because of the regulation issued by the Ministry of Mines and Energy, we were able to recognize the assured energy from the wind farms. And in principle this existed only for the reserve auction. And it was extended for the use of the source of energy. And which is very much sold in the market as a green energy, a renewable energy, to be used in the free market, namely consumers between 500 kilowatts and 3 megawatts, who have 50% discount of -- additional discount of the TUSD. And this together with biomass and the small power plants, hydro power plants. They supply the market and give more competitiveness to the companies and to those consumers who are situated in these areas and this power bracket.

So, in this wind farm, we have the five wind farms which are adjacent. And that will be built and will be delivered on the same date, which increases our commitment with wind energy by 150 megawatts. We also reported an investment in the quarter of BRL524 million, about BRL1.8 billion in '10, amounting to the whole CapEx that we had estimated for the period. And now we are placing a new series for the next five years amounting to BRL6.9 billion.

And we had funding approved by BNDS for biomass products, Bio Buriti, Bio Ipe, Bio Formosa and Bio Pedra, amounted to BRL970 million besides the wind farms of Santa Clara I to VI. And Euris VI, the projects where we are building in biomass or wind already count on the respective funding by the BNDS. And we propose the distribution of BRL1.260 billion in dividend in 2010. And in fact in this BRL1.260 billion, we have the proposal for distribution for the supplement of BRL486 million, referring to the second half of 2010.

And this would bring a dividend yield of 6.9% for the company of the past 12 months. We are announcing and we are going to talk about the reverse split and split of shares -- simultaneous reverse split and split of shares and ADRs. And this is an important action to give more liquidity to the CPSO stock because of appreciation in the last few years. And

we also saw an appreciation of 6.5% in the last quarter and 25.7% in '10 going beyond the Bovespa and the IEEB, which is the benchmark for the electric sector.

And it is a satisfaction to have CPFL as a member of the ISE, which is the Bovespa corporate sustainability index for the sixth consecutive year. And it is not mentioned on this slide. But as important as we have the appointment of Lorival Luz, Lorival Nogueira Luz, as Financial Vice President and IRO of CPFL, who is accompanying us during this conference call.

It's also important to show Lorival Luz's contribution. First, related to this high experience in the financial sector, 17 years, highly experienced with a solid career at Citibank. And then he also went through credit card as a professional from Citibank. And in addition he also had the chance to be involved in the GP Group, managing assets related to education in this group. As part of his previous career before joining CPFL, Lorival had a relevant position in the financial group, the financial area of Votorantim Group. Lorival, welcome. I'm confident you'll all be able to see how efficient he is and his great contribution to this moment in which the company is growing so well.

On page seven, now we have the same sales breakdown. Now, moving in the pro-forma 13.5% growth over the quarter, totaling 13,338 gigawatts hour growing by 15% in the concession area of free clients. And refer to this table for captive consumers reaching 8000 or 9,969. So, in this set of 3.5%, we highlight residential 3.8%, commercial 2.4%, industrial 2.5%, other segments 7.6%, totaling 3.5%. This is natural. The year was very much driven in the beginning in the recovery process.

However, I think you'll recall, we already came from the second half of 2009 following this trend. Recovery in Brazil, the upturn happened in the second half of the year. So, we are comparing days on volumes that were already high stemming from this recovery. On the right, you see our performance. The south in Brazil growing by 2.8%, our assets, RGE, growing by 4.3%. In the southeast, the behavior is similar, in other words, 5.1% in the southeast. Our assets, 5.6% and Brazil growing by 4.6%. And we growing by 5.4%. Obviously this value is related to the left hand bars that allow to make comparison, recurrent comparison with our markets.

And lastly, total sales virtually stable with slight drop, stemming from maintenance, sales in the Fourth Quarter of the captive market for distribution companies. And as we said before, for the free sector, the same maintenance drop in 1.4%, reaching 14% [ph] 15% on the captive markets. And 3000 approximately in the total and captive markets.

Now, here on page eight, just to give you a sense of our recovery, extraordinary macroeconomic performance in Brazil. One of the elements used for this assessment is for new job positions. We have a lower level of unemployment in the history of Brazil, in the recent history of Brazil. And here we have the effects of this positions, the total number of positions and also positions related to trading services.

As you can see, in our region, we see this growth over 2010. And we highlight a service area. Undoubtedly it has proved to be one of the drivers that generates more jobs. And

at the bottom of the slide, we see the highlights related to the energy sales. Obviously jobs equal investments that will require energy to manufacture goods and also services. When we consider these high figures that are behaved around 6% to 8%, as you can see at the top, the impact stemming from these jobs in some of the cities served by the group, here we can see some from Piratininga, noted for instance that Piratininga grew in the number of jobs about 6.7%, 6.8% for the commercial area increasing Itupeva 29%.

And the accrual increased 40% for energy consumption for industrial. And Sorocaba and Salto Itu around 15%. These values are really, really high for RGE. For commercial, here we have -- well, it's always very strong in malls, distribution centers, they're all related to logistics. So, growing by 12% in Vacaria and for industry Santo Angelo growing 38%, Horizontina 22%, Caxias do Sul 15%. So, that gives us an idea of the dynamics related to job generation for regions and municipalities as a whole.

Now, on slide nine, here we have a report of EBITDA and net income from our operation. This chart shows on the extreme right and left, the amount we would have considering the previous standard, Brazilian GAAP standard. Obviously, adjustments up to the middle would be reported EBITDA, in this case BRL947 million for the Fourth Quarter of 2009, out of which BRL201 million are specifically the essence of those changes that we made recently on an annual basis to the quarterly basis, effects are the same.

And next, we have the three drivers that start[ph] variation in results, from the Fourth Quarter of 2009 in EBITDA to the Fourth Quarter of 2010 in EBITDA as well. So, the first thing is an increase of 1% in net income, BRL240 million. The main driver for the results is exactly growth in TUSD, considering the huge growth around 19% in the free market. However, there is a drop in sales in the free market, a drop of 1.9%. And tariff adjustments with major financial components in 2009 related to the augmenting of costs, 2008, BRL180 million transfer of costs.

So, these are the main elements that lead to BRL40 million in that income net revenue. Now, we have 10% increase with energy cost and charges. Still, doing BRL150 million, as you can see coming from sales increase, 9.6% increase in cost of distribution companies. You can see fully all the charges and energy purchased. And there is an offset, BRL41 million, for energy purchased from EPASA and Foz do Chapeco. I don't know if you recall Foz do Chapeco from delayed license. We had a delay of 44 days. And more specifically for EPASA, ever since the beginning of the year, we purchased these plants, we knew -- we thought we would have it delivered in October. And it only happened in mid December.

So, we had an additional offset around BRL41 million for both projects. And they are fully up and running. Another increase, 7.2% and operating cost and expenses, BRL25 million. It's important to highlight that compared to IGPM growing 11.3%. And out of the 25%, we have -- we have some events stemming from expansion in our capacity. So, proportional cost, operating cost for Foz do Chapeco and Biomass Baldin, the expansion of CPFL Total operations and CPFL Servicos, we virtually doubled our capacity to collect CPFL Total.



In addition to the asset inventory required by the agency for the distribution companies, although the amount is non-recurring, it will be recovered in the annual tariff review. And there is a non-recurring event in the Fourth Quarter of '09, which is the liability for free flow, which was positive at BRL70 million at the time. So, there is a drop by 14.3% in IFRS, BRL812 million. Bear in mind that we would have a 9% increase if we were related to Brazilian GAAP.

Now on page 10, net income. For net income, here we are posting 33.5% drop in IFRS. And it stems naturally from the drop in EBITDA that we've just shown, 14.3%. A drop of 25% in the financial results. And here we have a series of actions related to liabilities and also the use of IFRS at BRL13 million. And charges and debt updating relating to indebtedness. Obviously, we have higher investments and we have additional charges coming from these major investments.

There is also an increase in depreciation and amortization, 14.9% or BRL25 million. For generation, there is depreciation for the concession term, also in effect of IFRS at BRL4 million. And for Foz do Chapeco, also BRL6 million. So, there're both effects stemming from the new format, our new accounting format. Now, we also have the result from the CESP Foundation, which is positive at BRL9 million. And also as a result an increase in income tax in social contribution at BRL8 million. And it's important to highlight that particularly coming from the lower use of tax credit, BRL59 million. And the variation between our status in 2009 and 2010. And more specifically over the last quarter of the year.

So, in other words, here we have BRL362 million over the last quarter of the year. Next, we have an additional event. We are proposing BRL486 million. And this is lower than the income for this semester. But it's directly affected by another adjustment coming from the adoption of IFRS standard. And that was an option by the way. We decided to try and protect the company's results over time, protecting interims or providing stability. We had the option to recognize the actual result from the start to have the right direction or that range, around which you don't affect any accounting figures coming from pension plans.

Or another option was to post results on an annual base. We decided to go for the first option. We recognized the result in late 2008, it was negative as a result of the financial downturn worldwide. So, here we had an adjustment in our net equity or shareholder's equity coming from the actuarial liability at the time. And we are not going to have any annual changes, because we created a new direction to provide more protection and have a balance sheet more related to our own activities rather than related to the foundations effect. With this new proposal of BRL486 million, we have BRL1.1 per share. And if we check 2010, adding BRL774 million to the BRL486 million, we have BRL1.3 billion in 2010 at BRL2.62 per share.

On page 12, I just wanted to mention some topics related to the portfolio. We still maintain our leadership in distribution with excellent indexes for quality, the best in Brazil and delinquency rates are very good, 1.27% of our net revenues this segment last year was BRL2.2 billion for EBITDA. And as I said before, we remain leaders in this activity ahead of the second player. And we always consider the market share, vis-a-vis the total

sales volume coming from the state of the group and distribution companies compared similarly with other players in the sector.

The second element we've reached because of the startup of Foz do Chapeco and EPASA. Today, we are the third largest private generation company. By year end, we had 2396 megawatts installed capacity and the pipeline in construction made just close to 3000 megawatts. The Company ranks third. And obviously with these projects, certainly we'll soon become the second private generator in Brazil. The segment last year had BRL809 million in EBITDA. And naturally here we're not including positive effects from the startup of Foz do Chapeco or EPASA. And certainly this EBITDA, this year will be over BRL1 billion.

Lastly from commercialization, here we maintain our leadership. The stake is 16% in the total market in Brazil, ahead of the second player with 10%. This activity last year brought BRL308 million in EBITDA. And particularly by year end our growth was significant in our client, free client platform, 74% growth, 129 free clients from one year to the next. And for service, added value services, we also expanded our base at 45% over last year coming close to BRL300 million in this comparison. So, business are fine, we're very robust and leaders in our corresponding activities.

Now, we also wanted to show something important to improve our efficiency in our distribution companies. Here we had an investment, BRL30 million. We've been trying to focus on each one of our calls on these investments. Now, here we have alternation, measurement, 20,000 to be installed in all our clients from Group A within 24 months. And it's important to show that in addition to the ability of measuring by tele-measurement, here we also have protection of our revenue. We have a set of algorithms that is more accurate to measure any kind of fraud or to identify power outage. So we can act faster and mobilize our teams to repair purposes, not to mention that we can also have remote cutting and reconnections.

So, this is important investment and it's the beginning of the base to the so called Smart Grid. That's an investment to be implemented in all our A base customers over the next four years. Now, we have the wind farms. In green, we have the farms that won the first reserve auction, investments are ongoing to be delivered in the Third Quarter of 2011. In red, Campo dos Ventos II, it's the only of the six farm selected in the second auction of reserve in August last year, investment of BRL127 million. And now the decision and we develop five remaining farms.

As you can imagine, the decision is related to the synergy of the surrounding areas with the farms, including the use of the transmission grid to transport or to take energy to the market. So, we have additional BRL600 million investments totaling BRL1.5 billion considering the set of investments for wind energy and power in the Group.

Next on page 15, just EPASA, that's an overview of our plant up and running. Well, the fixed estimated revenue was BRL87 million per year, that's our forecast. Next, an assessment or a status of our investment in biomass, all in the schedule Bio Ipe, 40% already achieved. And in the last part of this semester, everything will be concluded. Now,

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also smaller investments, because the plant is ready. All we have to do is to connect it to the grid. Next, Bio Buriti, 50 megawatts of installed capacity, 57% will be ready or was ready in February. We also concluded the last part of this semester. And Bio Formosa, we already have 85% in February. And in the Third Quarter, probably we are going to start it earlier. It happened in Paraiba, revenue expected to be BRL24 million per year.

Bio Pedra, 12%, our first plant in construction, as you can see in the photo but startup is expected for the second half of next year. Investment, over BRL200 million. And revenue estimated at BRL33 million per year. And lastly, commercialization, last year was very important in terms of developing the market and recover after the crisis with important investment in this area. We improved our capacity to serve the total network. We expanded our positions to serve our call center and results. And you can see them growing more than 90% in the revenue for Total and more than 200% for call center.

Once again, assessing our CapEx, CapEx BRL6.9 billion for the next five years, expected for the year BRL2 billion. And here already including the effects of the decision to invest, particularly related to the wind farm, 150 megawatts, additional megawatts. And this part in blue, we have distribution companies in expansion and maintenance. We have a breakdown at the bottom. And in green for generation. And these investments. Well, if you consider the kind of project, they were built between 18 and 24 months. So, we foresee something that is strongly related over the next 12 years of BRL2 million.

On page 22, we have just our funding and debt rollover. In the Fourth Quarter, they were very significant. So, BRL2 billion approximately. As you can see, funding, where we have no rollover at EPASA, particularly funding for the wind farms, Santa Clara and also funding for TPPs, biomass, under the terms highlighted here. They're all very satisfactory and available according to the government plan. And then distribution company's CapEx, BRL1.128 billion. And here, we have the figures for these instruments. The term is three years at 109 maturity[ph].

So, lastly page 23, the debt profile, net debt increasing BRL1.2 billion year-on-year. And we also have additional investments in generation. So, here by year end, we have the debt EBITDA ratio, 2.4 fold[ph] obviously excluding EBITDA from Foz do Chapeco and EPASA that begin to occur month after month. So, if we work on the new EBITDA, we would be speaking of a slightly lower than two debt EBITDA ratio, the cost of the debt, naturally because we have better macroeconomic conditions. It goes down to 4.4% and our debt structure, 60% CDI, particularly when we have the swap that were converted to CDI. Long term interest rates, 33% and 7% IGP, particularly related to pension plans of the Company's staff.

Now, on page 24, we have our reverse split, BRL44 our ADR around \$80. And that naturally brings restrictions when it comes to minimum lot and liquidity. So, the company could maybe just think about the bonus, one to two. But the proposers like the difference, that we also allow to work for improvement. So, we also have the incorporation of other companies from the past. And we have our terms -- shareholders that have not been identified. And other shareholders with fractions. So, maybe we have sometimes work for assets with more than one standard lot, we have about 21,000.

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So, the process of reverse split and split has to go off making this cleaning process at the base. So, reverse split happens 10[ph] ON shares for one share. And immediately we have this reverse -- the splits coming from the reverse split. We clean the base. And those who have less than one share is outside the base. And from 1 ON to 20 shares. So, naturally we have the effect showing on the slide. So, virtually is it a bonus, one to two ON stock? If we check, there were yesterday BRL42 to BRL22. And the minimum stock is more palatable for any investment. And the change in the ratio in ADR that today is 3 ON to 1ADR will be 2 ONs to 1 ADR. And it will go back to similar standards to when they were issued, \$79 to something around \$26.

Just like to remind you that the Company five years ago, during the IPO, had ON at BRL17.25 and \$18. So, we've virtually established our original condition. And probably we have more liquidity for ON and ADR for access of individual investors and also the effect in the standard lot. Increase in the active shareholder space and optimization of management of our stockholding. So, this was approved at the board meeting in early February, already submitted to the meeting called for April 28, the beginning of the reverse split and split in June. And ADRs and in the same quotation in July. And payment of these fractions up to August this year.

On page 25, we can see stock performance. As we said before, performance was positive with the Bovespa over the year and also Dow Jones in New York in addition to our peers in each one of the sectors, increasing the average dated volume at 22%, maintaining in the main indexes of the stock exchange.

I conclude my presentation just showing on page 28. Our IASC award for consumer satisfaction, RGE awarded in the south. And CPFL published the award as the best Brazilian company with this index. In addition, we maintain our position as the model company for the Exame Sustainability Guide for another year, above the average 9.5% for transparency versus 5% other companies. And socioeconomic performance, 9.1% versus 6.2% which is the average of other companies.

And lastly, when it comes to the evaluation of our corporate risk management and internal controls. And also our security system and our data center. We were certified by ISO 9001 for corporate management and ISO 27001 as the first company to have this certification. I'm sorry I spoke so much. We had an hour to show our earnings. But naturally because of IFRS, it was important to make all those remarks. And my team and myself are here willing to take your questions.

## Questions And Answers

### Operator

Ladies and gentlemen, now we are going to start our Q&A session. (Operator Instructions) Our first question comes from Mr. Marcos Severine from Itau BBA.

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

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Good morning, Wilson. Good morning everybody. Wilson, I would like to focus on our talk about your generation, leaving aside the HPPs, let's focus on the renewables projects, where you have been quite successful, first with biomass plants and more recently with the wind farms. I saw that you have 268 megawatts part already sold and another part you're focusing on the free market. As far as I see, you have 43% load factor in these 150 megawatts. The load factor that you show here, is it P90, P50 or what?

And secondly, I would like to understand what we could expect in terms of real portfolio pipeline for wind generation from now on. Could we expect the same growth pace, maybe you could accelerate a little bit more, taking advantage of the site as you already have and installing these new wind plants. And also could you please, Wilson tell us about your CapEx? The market is very much divided. When we talk about wind energy, I see some people saying that the prices for turbines and the CapEx in general could be even lower than the one we saw in the auctions of last year.

Other companies say that their CapEx has already reached the minimum and they already see some pressure on the price of turbine prices in the international market for wind generation. And lastly could you update us about the supply and demand situation? There seems to be a surplus of synergy. But on the other hand, we see that the thermos that were auctioned in '08 show some delays in their startup. And there are doubts if they will ever startup, Santo Antonio in terms of construction of the transmission lines and delays. So, could you give us a big picture of your view of supply and demand and energy prices and what would be impact on renewable energies?

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

Okay, Severine, thank you very much for your question. Talking first of all about your first question, 50 or 90, 50 is more right, it is safer. This is why ours is 50. Regarding the source, if we consider the level that we are getting to on the capacity factor for these plants, this will be seen more and more, such as it already is in Europe. But in our specific case, fortunately we are talking about the second generation with high towers et cetera. So we are talking about a potential for the exploration of wind energy of the same magnitude. And the hydro energy. And there is an advantage, because it can be done in a shorter term. And this is a major Brazilian advantage, because most of our wind farm have a capacity factor higher than 40%.

This is not a reality that you see in the US or the -- or Europe when they're lower, where they're lower. Yes, I do see a major potential, it is a renewable energy, we are focusing on this source. We started this assessment a couple of years ago. And we are quite sure about our investments and the outcome of these investments. And now with the free market, because of the number of companies that are already focusing on the planet and global heating. And that are looking for alternative and renewable sources of energy due to the fact that this market is growing very steeply now. We are making this additional investment in the free market.

It is true that we had to talk quite extensively in terms of regulation. So that assured energy could have a regularization procedure. And this happened late last year in the procedure of measurement that is quite expedited in a couple of months or three

months. You have the result or the energy assured as soon as you have the wind farm ready to go, then you can use it with the free market. It is important to stress that this is not removed from the company, the possibility of qualifying this wind farm for the next auctions. And also getting into the auctions for reserve energy as well. So, I think the source is here to stay. It has already proven its advantages, vis-a-vis biomass and others, such as the small hydropower plants.

And regarding the last part of your question, about the outlook, I would say that we have reached a very low amount. And I was surprised by the last one. And to a major extent it is related to two elements. One, the improvement in the financing conditions from the first to the second auction. And of course it has an impact on the final price or energy from the sources. And also last year we saw the effect of the decrease in CapEx. And this occurred for a few reasons.

And of course, if you have a more clear outlook, vis-a-vis this source for the future, then the plans can be made according to these demands and you of course have the outlook for scale and also for the regular convenient auctions. And also due to the fact that the world crisis has placed excess supply because of the cancellation, either the cancellation or the less bullish expectation for the use of these turbines in Europe because of the financial crisis. So, we benefited from the crisis in fact.

And if we compare the Brazilian figures to the rest of the world, we can see that we have reached a very good situation already price wise. I do not believe that there will be a change in these figures, quite the opposite. I believe that they will be further corrected. So to say. And because of that, the source has major advantages, at least 10% advantage, vis-a-vis biomass or small power plants. As HPs, I believe that our energy mix will benefit from this source. And we see many manifestations from the ministry and the --regarding the ongoing use of this energy and more options for wind energy. I think everything makes us bullish about that.

And finally your last question has to do with the supply and demand situation. In our assessment, we still have a surplus left for 2011. We have about 0.3% surplus. And this goes up to 0.6% and this reaches 5% in 2014 or 2013 when Santo Antonio and Jirau will be operating. I would like to remind you that besides our own projects, very soon we will see Straytu[ph] coming onboard end of the Fourth Quarter. We already see a slowdown in the growth pace of two digits that we saw mainly in the industrial area. So, I will say that this is compatible. And we do not see any kind of risk regarding supply of energy for the foreseeable future. I think I have already answered all your questions.

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

One last question if you allow me. We see some companies with an interesting pipeline for wind energy. Is it part of your strategy to analyze a possibility for acquisitions? Some of these companies really need funding to go ahead with their projects.

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

Of course, the assessments of assets is always in our radar screen. And undoubtedly we pay keen attention to all this. However, it is also true that we develop our own wind farms ourselves. So we do have our partnerships with our suppliers. So that we may be very competitive in future wind farms. And in this case, due to the funding conditions the final price becomes more competitive than the assets already placed. But of course, opportunities are always analyzed by our company.

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

Thank you, Wilson.

## Operator

Our next question comes from Sergio Parmachero from Safra Bank.

**Q - Sergio Parmachero**

Good morning, Wilson. Still about generation, you talked about the Third Quarter and the EBITDA. You had energy purchases due to the delay of your projects for Foz do Chapeco and EPASA of BRL41 million. How much would the adjusted EBITDA be if you had these two company, these two plans started up? Because in the energy purchased, that wouldn't have existed. And also the impact on the sale of energy.

And the second question, still looking from the wind energy side, what is the rationale that you see in the free market if the buyer has some kind of incentive to buy energy? It really doesn't matter whether they are going to buy hydro energy or wind energy, because hydro is even cheaper. So, is there any advantage tax wise or -- so what would be your competitive advantage, because the other hydropower plants are selling at less than a BRL100.

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

Sergio, I cannot tell you the exact figures right now. And then Sergio, we will talk to you later and we'll give you details about that. And what I believe that is important to consider, especially in the case of Foz do Chapeco, about the normalized EBITDA or adjusted EBITDA, I don't usually do that. But I only say that the company on average works with an EBITDA margin for the project which is higher than 80% in the specific case of Foz do Chapeco and the information, the data are public regarding revenues we would have. And expected revenue for the project on our side, higher than BRL250 million with an EBITDA proportional to BRL200 million.

In the case of EPASA, the expected revenue, BRL87 million. And rental and EBITDA margin would be higher than 80%, would be on a lease basis. And because of that, I said that our EBITDA would be higher than BRL1 billion. And the effects of the purchase of energy from Foz do Chapeco of course is not in our business plan, because we had our project up -- to the beginning of the year, it was really in advance. But there was a difficulty because of the Burma strike mainly to obtain the license on a timely basis. And this is why we had about 40 days delay in our startup, as we had to acquire energy. And it advanced throughout October and it was recognized in the Third Quarter.

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In the case of EPASA it's different, because it was part of our business then already. And we were internally working with the outlook for October. But we knew that -- and we signed contracts since the inception, to supply our exposure -- to offset our exposure to the market. And additionally in November and December, we had an addition of acquisition to offset the difference. But Gustavo will be able to give you more details about that. But it is certain that as all of them have specific PPAs, the amount will be higher than that.

And about your second question, in what regards incentives to consumers, let me tell you something. Higher than 3 megawatts, consumers are potentially free. And these consumers only use one type of energy in the free market, which is the energy coming from large power plants. But there is another kind, the special consumers as we call them, who haven't installed power. The contracted demand between 500 kilowatts and 3 megawatts. And these are the ones that can become free provided they use for this purpose.

The so called special energy or alternative energy, that stems from a project of biomass and wind energy and SVPs. And what kind of incentives do they have? In terms of prices, none whatsoever. From the viewpoint of the use of the distribution grids, such as any other free consumer of high voltage, you know that the cost of maintenance is lower than the medium voltage because of the components that you have in the medium voltage.

So, for these consumers, it is like a discount depending on the source and the discount for these sources. It could get to up to 50%. So with this 50% discount and the use of the grid, the energy becomes competitive for this consumer to leave the platform of the distribution company and go to this one. So, there could be a small advantage, a small financial advantage I mean. And of course here we have a whole set of strategies related to the new economy and low carbon and so on and so forth. But this is the only incentive that they have, the source that you referred to, that is to say the HPPs, the large HPPs, I would like to remind you that they have a lower price for 70% of their production having to do with the captive market.

That is to say whatever is acquired by distribution companies, that will get into a mix with more expensive things such as -- such as Itaipu generation plus sources that were sold before. So it's going to get into a mix with pro info[ph] and the captive consumer has the advantage of the new sources. And also the disadvantage of investments that were made before. And that have higher costs.

So, if you take the average amount that distribution companies have in energy purchased, it is around 125 megawatts to 130 megawatts -- BRL125 to BRL130 megawatt hour. So, in some cases, you have the proxy of the so called free energy of the large project. You referred to (inaudible), which was BRL58 million. And that the amount that they will have for the free market, Belo Monte, Santo Antonio and Jirau will be higher than the price for the captive market. And how much higher, it has to be close to the average value that you have at the distribution end in order to deliver it to the whole market.



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I would say quite surely that this is why there is an expectation for amounts for Santo Antonio and Jirau around a BRL120, BRL130 and even BRL140, because this is the figure depending on the concessionaries that they have in their captive market accounts that would be fully transferred to consumers if they were participating in the captive platforms. So, large consumers, higher than 3 megawatts, they do not have any grid discount, they are going to pay the cost that is being incurred by the distribution company. And on the other hand they will have the advantage for the energy commodity. And that will have to be comparable to these immediate amounts, that is BRL120, BRL130. And the outlook for future figures in the five year horizon indicates that the so called special consumers. They will have -- they might have an advantage on the commodity side, because of the prices that I mentioned, plus the additional 50% discount in the TUSD.

### **Q - Sergio Parmachero**

In the wind farms in Rio Grande do Norte, I believe you will be selling to the southeast region. Do you run any market risk?

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

Well, that's not the idea. There are many consumers who are average size consumers. And the volume of demand is much higher in all regions, the northeast included. You have large groups -- I'm going to give you one example. Supermarket chains that use it and that have large facilities and also shopping centers, shopping malls in the northeast, the idea is not to take a market risk at all.

### **Operator**

Our next question, Mr. Vinicius Canheu from Credit Suisse.

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

Wilson. Good morning, thank you for the call. In your guidance for CapEx for the next two years, we see a considerable increase, vis-a-vis the figures for the Third Quarter of 2010 that you submitted as guidance. In generation, the new wind farms, if adjusting for that, there is a considerable increase, not only in generation. But in distribution as well. So, we would like to understand why you have this increase. Is it because of an acquisition of grid or what? Why do you have this hike in your CapEx?

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

Vinicius is the main reason, being generation or the new wind farms, BRL600 million compared to the previous one, besides the BRL127 million, which is the investment in the wind farm, that we want the auction, besides we have investments in biomass. And you can see a variation of BRL130 million vis-a-vis last year in distribution as well. And part is because of the price convention from 2008 to 2010 December.

And the second reason has to do with the increase in the number of consumers added. This is not so important. But also to the merger with private grids. And we had a project approved by the agency to include all private networks of consumers to a area. And also, as I showed you last quarter and today, about the automation of the grids, these are

important in order to increase productivity to be considered for the next tariff review cycle. So, the BRL130 million, BRL140 million have to do with the increase in consumers price correction or restatement and grid automation. And in the inclusion of other networks, you will see some details in the presentation about the impact of these costs.

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

I remember that in the last presentation this was broken down. But I would like to know if there is an additional merger or inclusion of other networks in the guidance. We didn't have this inclusion. And in this guidance we do have this inclusion of private -- small, private networks, okay?

## **Operator**

Now, we would like to close our Q&A session. I would like to give the floor back to Mr. Wilson Ferreira for his final remarks.

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

Very well. Now, we have a challenge ahead of us, the challenge to follow the results based on the new IFRS standards. And of all measures that we took, one that concerns us in the good sense, that is, is to have the evaluation of the recurrent event. And more specifically the effect that will be added to our results, stemming from the so called regulatory assets and liabilities at the date or on the day they occurred.

This is the major challenge for us, to have the recurring value for the concessions and the future impact. And on the other hand, I would like to stress our very positive view, be it regarding the market, be it the market growth on a consistent and sustainable basis. And of course the positive impact that it will have on the distribution platform of the Group. And namely in the concession areas where we operate. We have benefited from this growth. And our figures are evidence of that.

And in the distribution assets, the more recent manifestations from the agency, vis-a-vis the contributions that were sent by the agents and by society, it will regard the third cycle of tariff reviews. I understand that obtaining time for a more in-depth evaluation, this really shows the capacity and the interest of the regulator in this theme that is so relevant for this sector and very important for the consolidation situation. And on generation, on the generation side, I would like to say that we are very much pleased to be able to increase our renewable energy platform with investments in wind energy and a pipeline that we are evaluating for both biomass and SPPs.

We have been focusing on that. And the installed capacity does not replace our ambition, vis-a-vis large project. But in additional value and created value it does bring about important possibilities. And also, I would like to refer to the moment of the Brazilian market, mainly the free market. And due to the magnitude and to the recovery of the Brazilian economy, these services are very much used. And we see that in the number of free consumers and also their demand for added value services.

And because of all that, we are very bullish. Of course there is a challenge on a quarterly basis. We must have the adequate practice based on the new accounting model. We have to report based on the IFRS standard. But I think it is overall very bullish. And it will become easier to compare companies. And we are a company listed abroad. And this facilitates our work. And I would like to close by my remarks saying that it was a great pleasure to have you participating in this conference call and we expect to count on your presence in our (inaudible) in Sao Paulo and Rio and others. Thank you, very much for your attention.

## Operator

The CPFL Energy conference call is closed. We thank you very much for your participation. And wish you all a very good afternoon, thank you.

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