

Q3 2015 Earnings Call

Company Participants

- Unidentified Speaker
- Wilson Ferreira Junior, Chief Executive Officer

Other Participants

- Carolina Carneiro, Analyst
- Kaique Vasconcellos, Analyst
- Marcos Severine, Analyst
- Miguel Rodrigues, Analyst
- Pedro Manfredini, Analyst
- Unidentified Participant
- Vinicius Canheu, Analyst

Presentation

Operator

Welcome to CPFL Energia's Third Quarter 2015 Earnings Results Conference Call. Today we have here with us the Executive Mr. Wilson Ferreira Junior; CEO of CPFL Energia and other officers of the company. This call is being broadcasted simultaneously through the Internet in the website www.cpfl.com.br/ir, where this presentation can be available for download. I would like to inform you that all participants are in listen-only mode during the company's presentation. After the presentation there will be a Q&A session, when further instructions will be provided. (Operator Instructions).

I would like to remind you that this conference call is being recorded. Before proceeding we would like to mention that any forward-looking statements that are made during this conference call related to CPFL Energia's assumptions, management and information currently available on the company or assumptions of the company as well as information currently available.

Forward looking statements are not guarantee of performance because they involve risks, uncertainties and assumptions because they relate to future events and therefore they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CPFL Energia and therefore it could lead to results that different materially from those expressed on such forward-looking statements.

Now I'd like to turn the floor over to Mr. Wilson Ferreira Junior. You may proceed sir.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, everyone. Good morning, investors and analysts. I would like to thank you very much for participating on our conference call for the third quarter results.

I would like to start on slide number three. And I will elaborate further in other slides. We had a sales drop in the concession area of discussing all segments. Mostly aggravated by the Industrial segment with 7.4% and then I will refer to the investments, this quarter we invested BRL219 million, totaling almost BRL1 billion year-to-date in the first nine months.

One important highlight is the conclusion of CPFL production in the tariff revision in October 2015. And for the first time since we started promoting tariff revisions there was an increase of 5.3% on parcel B. We will also elaborate on this subject and this. Not only reinstate the improvement on the 4th cycle recognized by indicators that remunerate investments but also in terms of investment that has been acknowledge biannual [ph].

It is also very important to refer to the maintenance of our actions and important portfolios like the Dow Jones Sustainability Emerging Markets Index for the fourth consecutive year also the MSCI Global Sustainability Index Series also for the second consecutive year and there is also some other important highlights of the company because for the 10th consecutive year the company has been ranked among one of the 150 best companies to work for according to Exame Guide 2015.

And even more importantly and also aligned to this new momentum CPFL is among the 20 more innovative companies of Brazil. According to the Best Innovator Award of 2015 and CPFL Energia was selected as the best practice of water risks management in the 2015 edition of the CDP in Latin America. So we are aligned to this new era and CPFL is well acknowledged in the market.

Now I'll go to page four, so we give you some highlights about our sales. We mentioned a drop of 5.6, which is on the top corner of the slide, and we have our revenue in captive market, there was a drop of 5% in the volumes sold. In the free market which is build according to use distribution system that was a drop of 5.9%, but now looking at sales by consumption segment we have a drop of 5.1% in the residential segment, this is the first time that we report such a drop in residential 5.9, industrial 4.3, and it's interesting to mention that this is certainly an important factor that reflects the increase in tariffs.

And this has been incorporated by the actual increase that started as of March of this year and this was an extraordinary carrier review which was aggravated by all other tariff. The market price did not change in the third quarter. Therefore, we still have for the industrial segment, this segment is leading our sales followed by the residential segment, and there was 16% coming from the commercial segment.

Another important aspect relates to contracted demand and when we compare this quarter with the same period of 2014 what we see is a more rational utilization of power by clients. So, the peak was reduced but again we are also -- the results of a reduction off

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peak. And this is very crucial one, we consider the use of energy and the tariffs that have higher incidence, higher amounts in the peak volume.

As a result of sales and unlike the usual run of the mill operation and also considering significant suspension of the industrial side which is dropping more significantly. We have (inaudible) area, which was more affected when compared to the other regions. Therefore, we see a more significant drop coming from concessionaires by region and throughout the country.

In terms of the generation installed capacity, we have -- in the renewable side an increase of 5.7% reaching BRL3,129, so all in all we grew 1.2% this quarter.

On page five, I would like to highlight what happened in the industrial segment, in terms of production and consumption. Industrial production, our accumulated growth rate in the last 12 months, I mean consumption in terms of Brazilian industrial production, there was a very strong correlation of these two events. Industrial consumption, industrial production, there has been a consistent drop since 2013 now reaching 5.3% decrease in industrial consumption whereas in industrial production there was a drop of minus 6.5.

But if we look at the other chart on the right, there was a light reaction in October reaching our lowest position in the past few years, slightly below now it's 70%, it was 76.7% and the average between 2008 [ph] and 2015 is 83.2%. The industrial confidence rate had a slight improvement reaching 67.5%. Looking at the average for the past seven years is 102 and this is somehow reflects all of the other indicators.

On the right side chart, we see all the excessive inventories in the transformation industry. So capital goods as a matter of concern with 56% especially related to infrastructure. Infrastructure was heavily impacted this year, but when you look at the other lines, consumer goods and intermediary goods, we also see the same behavior meaning that our inventory levels are higher than expected.

So there are three instates, all of the other elements that are linked to the drop in industrial consumption, which is lower than industrial production itself. So as we always do, when we look at the full side of the glass, looking at the glass half full here we have some important consideration, currency devaluation, the dollar remain at almost BRL4, BRL3.80[ph] try to think, how can we have a whole set of new opportunities.

So there is an immediate effect on the profitability of the sectors with export coefficient, which is greater than the import coefficient. So this correlation that you see considering the slide generating 6.7% of profitability index coming from the depreciation of the exchange rate of 54% and affecting exports in 54 and we have just 10.4 in terms of cotton production cost. This -- since it comes from other segments that have a relevant stake in our company, we have paper and pulp and food. These are segments that are relevant and they are accounted for 20% of the total of the industry.

These industries in the short run in view of this variation and the exchange rate, they become much more competitive and we've been monitoring some industries also going

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in the same direction that's why it is important to mention and we see this as something very positive, so in the short run we believe that these two industry sectors should increase their consumption, certainly there are on some setbacks. Because they also have dollar-denominated debt, there are issues related to oil demand, but according to our view and this is something they have already saw in the consumption area that these industries have a likelihood of increasing their volume.

But in the long run the opportunities are more related to increases in imports and the exchange rate works has affected, import has been affected, the chemical and textile industries has been mostly affected, it in our portfolio they account for 18% to 19% and they could have been boosted because there is an ideal capacity that could be build out by the reduction in employees, according to what the chart shows. So this is something for us to monitor and follow up closely and this moves about 40% of the CPFL portfolio. And due to this -- particularly exchange momentum they could be improved.

And now moving to the next slide, we talk about the delinquencies. Delinquencies increased, not in percentage terms, but we see here the stability of this KPI is about 0.85 and the increase in the energy build due to tariff increases that occurred in March and also with our new tariff banner, the amount increased to BRL188 million.

Now looking at Group B, which was more concerning to us, these refer to residential and commercial users. This month alone there was a stagnation, apparently the peak was BRL98 million. With a slight reduction in the indicators related to billing indexes, delinquency over 90 days and that it seems to me that the situation is reaching a level provision and we look at the evolution of our allowance for doubtful accounts with old tariff, the average was BRL20 million per quarter. Looking at the first quarter of 2013, until the current year and due to the tariff increase in this third quarter or in the second and third quarters we achieved this volume going from BRL20 million to BRL33 million.

So this is certainly just a reinstatement that the absolute delinquency levels are not increasing, the average ticket on each delinquency numbers is including that they are already considered here. But the company has really working hard and this is something I already mentioned last quarter. But just to give you a number when we look at the recovered revenue in the third quarter of 2014 with 3.18%. But now in the third quarter '15 due to many cuts in other managerial measures to manage delinquency, we had a recovery from 3.88% revenues in 12 months. And this allowed us to operate with allowance for doubtful account level lower when compared to tariff increases.

Now I go to page eight, just to give you some more details about our results. It's been a while since we've seen green results both in terms of IFRS reported results as well as the managerial result that incorporates proportional consolidation of generation, consider the consolidation of IFRS and the consolidation of sectorial financial assets and liability.

Now we are referring to this quarter where the net revenue in IFRS increased 17.5% reaching 703 million, reported EBITDA increased by 25.7% reaching 1.8 billion and net income increased to reach 183 million. These are the reported amounts and the recurring value which is important for analysts is a 21.9% growth and revenue reaching 4,645.

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EBITDA results increased 7.6% reaching 1.74 billion and net income 33.7% increase reaching 305 million. So, on the chart below all we have is the breakdown of the proportional consolidation of generation given all of the considerations related to IFRS and sectorial financial assets and liability closed in 2014; and GSF and energy purchase from CPFL Geracao and CPFL Renovaveis, the amounts were lower but we will talk about that and what are the solutions in the short run. Especially in the third quarter of 2015 both our EBITDA and net income are very small.

So now I will break down the numbers of our results, I will initiate by the EBITDA. So looking on both side, the variation of the result in IFRS and in terms of the recurring side of the company's business we have the adjusted EBITDA, so on the left and right hand side of the chart we refer to the variation of regulatory assets, non-recurring and proportional consolidation and it's also important to mention the 999 million in the third quarter of '14 and 1.74 billion in the third quarter of 2015. And this is -- if we run an evaluation for a segment and conventional generation, we have a significant increase of 21.7%, meaning an additional BRL58 million.

And now especially speaking about consolidation and you follow that last year we were able to improve the performance of the Epasa, this is our Northeast Thermoelectric plant, we did a substantial work to update the plant, we perform some operating improvements, we did the overall 12,000 hours. We are consuming less fuel to produce power, electric energy and there are lower effects. So, the conventional generation result was positive.

Now speaking about distribution, despite the fact that the market is down we were able to grow 8.3% and leading this result we had our Itaipu currency variations, which appears in the bottom part of our accounting and that impacted EBITDA, and there is also an impact coming from the pass through PIS/Cofins of 14 million when we compare this results with the results from the same period of the year before. And then we will talk more about that 5.3% decrease in energy sales in the construction industry which meant a lot of EBITDA of 12 million, also 5.8% increase in manageable PMSO. We were able to increase 21 million when compared to IPCA [ph] of 8.4%.

So this increase is lower when compared to inflation rate. Allowance for doubtful accounts was 18 million and collection actions is BRL4 million and they are posted in the company's report. Legal and judicial indemnities amounted to BRL13 million, therefore distribution results is positive and mainly lagged by EBITDA in view of the currency variation. In terms of the renewable generation, CPFL Renovaveis we are speaking about a growth 6.1% or BRL9 million.

There are three items that are significant and the cost of improvement, these are expenses related to the association with DESA, which were better. And there is also the insurance indemnity right, in the case of TPP Bio Pedra, we had a problem with the machine but everything was covered by insurance. So we were able to collect from the insurance company and also the commercial startup of Morro dos Ventos II. So we are 6% better than last year with BRL9 million.

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In terms of commercialization, services and holding; we were down by 53.3% or 34 million but in this regards the main topic relates to a lowered PLD that -- it was important last year, but if you look at the box down, the low PLD in the third quarter of '14 was BRL677 and in the third quarter BRL204. So we do not have the burden from the generators. They were exposed, they are reduced but on the other hand we were not able to have more gains, which were higher last year on the seller side. So we are talking about a positive side on the consolidated, there was an increase of 7.6% -- growth of 7.6%.

And now on page 10, we've been talking to you about this ZBB decline and we are implementing ZBB in terms of nominal adjusted figures. We are reporting now based on 3.5% recurring expenses in personnel, material, third parties and others. And in actual terms we've been reporting from the very beginning of this operation a drop of 16.5% in our expenses, 1,699 to 1,409.

And when we -- in the 12 year comparison there was a 4.5% drop year-on-year. And so, particularly in distribution area there was a drop in market and this has been mitigated by any important decrease in our expenses. This is a significant probe which just proves the company is in the right direction when it deploys this new measurement.

Now in the next slide, we talk about net income for this quarter. Here, we will be looking at the recurring wise, there was an increase in the adjusted income of the company from 205 million, part of it was led by a 32.8% increase in EBITDA or 76 million, I already elaborated on that and 7% decrease in the negative net financial result of the company amounting to 24 million.

So, here we have a whole set of negative and positive effect. The main positive effect was the variation of discos' concession financial asset. As a report elaborate on that it gives you more details about Piratininga's tariff, adjustments and review amounted to 146 million. There was a restatement of sectorial financial assets and liabilities, which we call CVA amounting to 39 million. There was arrears of interest and fines and installment payments and delinquency also had a positive effect because we were able to collect fines and monitoring collection amounting to 32 million.

Mark-to-market effect, operations under law 4,131, non-cash 33 million. And on the other hand, we have the negative effect, the main one being increases in CDI more than 70% of our debt is fact were index dues in CDI. On the right hand side of the chart, you see a box, when you have CDI on the third quarter of 2014 was 11.6% a year and this third quarter of 2015 is 14.7% a year.

So it was almost a 4% increase. So this is also as result of the companies down and then we have Itaipu currency variation amounting to 97 million, so this is compensated by sectorial financial assets or revenue. PIS/Cofins on financial revenues or the cash position of the company, the new taxation of PIS/Cofins amounting to BRL19 million and other positive effects amounting to BRL10 million.

There are also two other additional examples, one being an increase in depreciation and amortization, asset, operation and increase in distribution and increase of income tax and

social contributions amounting to BRL18 million given the general improvement and the general members of the company.

So now I go to page 12 to report on our debt position available in slide 12. We are reporting net debt over EBITDA ratio 3.46 and now it's just continue that approach that we've mentioned before, talking about CVA increase. CVA, if you look down below on this chart is 1,907 million and if you remember that we would be running our net debt over EBITDA of three times, which is the target of the company. A leverage of three, so the recurring EBITDA is 3, 981 [ph] with 3.7 billion debt with a rating of 3.46.

Cash balance is also affected because we would have BRL5,600 million in cash, if it were not for the significant increase of that -- green part of the chart which is called CVA in the second three was BRL3 billion and then the first one, at the year-end was 1.9 and now is BRL1,907 million. I mean this is an important number, because now the company is receiving -- collecting some of the tariff adjustment and therefore we are able to resume previous figures.

From this 1.907, 497 refers to Piratininga CVA due to adjustments that were put into effect on October 22 and now we are reinstating our cash with that new figure. The other slide page 13, we have a debt profile is led by CVA with 74% of nominal cost is 12.2 in the quarter and the actual cost around is 2%. The important thing to mention is our net cash position in the company 3.7 covers 1.7 times short-term amortization. So this is a comfortable position.

The average tenor of the debt has a cost of -- in the short term 12.4%. And the average tenor is 3.51 year. So speaking about there was a voice I only have our current situation, we hope to come to the end of the month, November with 26.5%. And this confirms our predictions that we expressed in early this year, I mean -- this is even a better number, this is a good with mill because all of the rational risks are put outside.

If you look at the lower part of the chart it has been raining more in the dry season rather than in the wet season in terms of LTA figures. In 2013 we had a 102% of LTA in the year 14.68 and in 2013 we are improving our situation in the last 12 months to 78% in the southeast.

And now if we look at the linked system we refer to the southeast because of this contribution and we refer to the south, because most of our are in the south and this affect the cost of GSF in the plant and other secondary things related to the sugar plant. But in 2013 we were, in keeping with the LTA and last year we had 82% and there is a significant improvement to 109% in the dry season reaching 78 in the first month of 2015. This is very good and it seems like we will have better days ahead.

On page 15, we are going to make a comparison on page 15, a comparison of the volumes of the year. As we can see the top curve that first estimate, the blue curve is the CPFL curve and we have variations that now are decreasing when we compare the value by ONS and their estimate in November with a decrease of minus 1.5. And CPFL is working

with the blue curve, we estimate that the reduction in consumption in 2015 as compared to '14 is approximately 2%.

But there is a reduction in the differences along the year and this couldn't mean something positive. Now I'll go on to page 16 to talk about perspectives. And at the end of October, with 28.8 and those 26 that we had mentioned before at the closing of November, we have three curves that can be seen. We've tried to put the curve with 100%, the blue curve, which is at 80% of LTA which is even above the one that we had in 2014 and the more probable curve of 90% of LTA with a thermal dispatch of 70%. Just to show you the following. The dotted red curve is from 2007 to 2014. We have the opportunity to close above the average.

We have the normal curves during the summer and we will be close to the average with 90% of LTA. So I would say that we have to hope that we will be close to this curve. This is an important re-establishment because as this happens, there will be the need to dispatch with less thermal capacity, because of energy drops and the effect of the price, which reduce consumption need to go back and prevail and we will have better expectation for growth and demand.

Page 17, to give you further details in what we call hydrological risk re-negotiation. This is an important we mentioned here, the first of which is the provisional measure and it has to do with the committee in the Congress and it was submitted and it has to be approved. It has already been sent to the senate. It has been read already and we believe and expect that according to the schedule of the senate, the next week we will have this approved. On the other side, we have the report by the agencies.

We look forward to the review of that hearing. So the proposal in ACR regulated market is up to 100% with a payment of a premium. So there are three conditions here that were established (inaudible) to give greater flexibility of options. Obviously, this should bring to agents that were hired at the ACR different prices.

These three options according to our valuation will give us an informed decision and in the case of CPFL led accounts for most of our contracts for our generators. As we had mentioned before, the tax was approved in the revision of ANEEL and the present text is now going to Senate and will enable the agency to sign these amendments by the 14th and this will be declared until December 4. Our progression is quite favorable here as to what mentioned.

On the other side in the ACL, the free market, we need a hedge to mitigate the hydrological risks and this has been reported. We really need to define the regulations to higher reserve energy. This is what is missing. It will approved these PMs and we're still waiting for further details. The agents will wait for that. This is not the main case for CPFL. We have contracts, yes but there are few for ACL less than 10%. So in our case, what is really applicable and what is interesting in terms of cash results is the option that we did in the ACR, the regulated market.

So the next step will be approve by the Senate probably next week, the ANEEL regulation by the agency. We're working an analysis on internal approvals according to the options presented, but we have already expressed that we are very satisfied with the proposals related to ACR, the regulated market.

Page 18, the fourth Tariff Review Cycle for Piratininga. Very briefly we can see in the box the final results of the tariff review. What is important is to monitor the EBITDA down here, the regulatory EBITDA. We go from BRL239 million, it is updated adding 41 and with the review of the cycle that goes to BRL291 million. This is the expected result for the company.

As the company invests in its network and there is an increase in investment that produces BRL132 million, that is added to the regulatory EBITDA and we reduce the depreciated assets. So the company has invested more than the depreciated assets and we show the improvement recognized by the agency according to the inclusion of special obligations.

So we went from EBITDA in the third portfolio of 291 and now we've come to 354 million. With this Parcel B has an increase by 5.31% from BRL717 million to BRL755 million. So our consideration is positive and this is the first thing we say.

So closing this presentation on Page 19 and 20. Just reminding you of the sustainability performance, which is an important topic in a very important year because of (inaudible) now in December. The Company is in the Dow Jones Emerging Markets and this is for the fourth consecutive year now, 92 companies based in 14 emerging countries. So this list is given to the best performance in sustainability worldwide.

We're very proud of that and for the second year consecutive, MSCI owns more than 500 indexes and we have the highest ESG standards in its respective sectors and the four best important awards. We had a best company to work at. That was for the 14th year in a row, best in 2015 by Epoca Negocios of the 20 most innovative companies in Brazil and also water risk management, selected the best practice by CDP, the Carbon Disclosure Project. CPFL was elected as the best practice in water management and also impact award, which is an association of SKT [ph] system operators, they evaluated the success cases.

CPFL ranked first place using the case Telemedicaodo Grupo A - Programa Tauron connected to the smart gig program that we implemented in the whole of Group A. This is already known by the market and now we are working for a great day. These were the considerations together with my team, I'll be open to any questions that investors and analysts might have.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question and answer session. (Operator Instructions) The first question, Marcos Severine, JP Morgan.

Q - Marcos Severine {BIO 3322666 <GO>}

Good morning Wilson. I have some questions, the first of which expectations for 2016 based on electricity consumption. This year we saw until November a drop in the market a total of 1.5, residential 0.5, industrial minus 4.1 and commercial on the positive side 1.1.

At the same time, we estimate a drop in the GDP quite strongly of 3%, if we go back to the past 2001 during the rationalization before the GDP dropping less and the consumption dropping around 18% to 20%. Considering that the rationalization was not throughout the year.

When you look at these figures and this level of the decrease of the GDP, if we had the same conditions as in the past, probably it would have been weaker. So my question is haven't we reached maybe the lowest level in the electricity consumption and maybe 2016 will be less consumption as compared to 2015 even if we have a negative GDP; 1.6%, 1.5% these are the figures that the market has been working with.

And my question depending on the second semester of next year and some recovery and even a drop in tariffs is the hydrological scenario is confirmed maybe the commercial segment and the residential segment might have greater consumption, getting as a surprise in the stronger demand in the market than what we see today? That's my first question.

So with GDP, which is negative 3% this year, consumption dropping to 1.5%, so how do you see consumption in 2016 due to that? And my second question, if you allow me is in relation to growth perspectives. I think we have a very important new event which is privatization in the electrical sector, not only in terms of distribution, but also generation, it was not imagined some months ago. When we look forward and we see a situation for states and municipalities which is complicated, maybe 2016 might still be a difficult year and this sector that has a very strong state presence, not only in the federal scope but also in the state scope.

In Rio Grande where you have an important distributor, you have Phase III E distribution and GT, Solex, Copel, Somig and so on, so there are number of assets that come to the market and the word privatization is not so sinful any longer and everyone is talking about it.

What you think about it? Do you think we're headed that way? Do you think that we might go into this privatization way? I would like to hear your opinion on that. Thank you.

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

Perfect. Thank you for your questions. First, in relation to the consumption topic, I think that what you think is what we think. We have been working in 2016 slightly in positive terms, I'm talking about flat 0.4%, right now. We believe that it's the same thing what

you've mentioned, especially in the residential sector we believe that people are losing a little bit of their comforts to energy management due to the price.

The unit consumption is still the lowest one, the lowest of the lowest is, a record low. We had resumed the same figures of 2001 after the rationalization. 1.5 years ago we were slightly below that because people have more appliances at home, they have mobiles, they have high-end televisions and computers which is equipment they did not have before. So we're talking about rationalization and time of use of these pieces of equipment and obviously that impacted by the price.

So as we have an improvement in hydrology and the reduction in flanks possibly people will resume their previous behavior, because they do have more equipment at home than they had in the past. So, obviously this will happen. On the other side you see in the industry, if you look at the scenario and the drop of production that we have just shown considering the demand behavior, there is only a rationalization. The demand continues to grow with new ventures. Obviously, the increase is not so big, but we have seen in addition to what I would call the notable cases on average what is happening is only rationalization from the peak to off peak. So we are trying to improve the process and I believe the industry.

And this is why I wanted to mention 40% of the portfolio here has a perspective today that is different from what was six months ago because of the exchange rate change. Obviously an improvement in the residential segment and something in the industrial segment. If we had some kind of public policy which will mitigate or minimize the unemployment conditions, the commercial sector will also accompany that.

Now due to the GDP perspective, we have been working where the GDP, not a 3% like you mentioned, it's much lower of 1.5% drop off next year, but we have not seen a drop in energy as would be expected.

So just to ramp up our expectation is that, yes, we will be slightly positive next year and we might have an upside considering a change in climate which is not priced here, but can surprise us positively.

On the other hand in relation to privatization and this is a personal opinion I agree with you. I think, because of the price, it is affecting not only the federal government but also the state government and it's easy to understand. I was talking to journalists the other day, what people have cut are things that we call that are superfluous and excess, usually things that have taxes included.

The essential things especially food, the results that come from recent policies don't have a burden or at least the taxation was reduced. That's why this state feels more. Whenever you have this kind of decrease, that has a greater impact. It seems the economy has come -- the decrease of 3% but the state budget has a decrease by 6% because the products that have lower consumption were the ones that had a higher taxation.

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So obviously there is very little to be done on the stage. Load time, I think they have become more efficient. It's always possible just like companies. Process are just like nails. You've got to pay attention and always cut them, but I'm sure that some states now that they have renewed their concessions will consider and they should consider the possibility of privatization. There was a concession renewable -- that was renewed by 30 years, it could be operated in a more efficient way and the state can not only has a short-term solution for this cash, but also a performance improvement and collect more taxes.

This is what happened to most of the states that privatized and since this is not a simple word anymore maybe this is one of the few solutions in the short-term to face this decrease in the budget, I'm pretty sure that with the leadership of Eletrobras and with the sale of these concessions, with the renewal of these 29 power plants, I think this is a road that will be chosen and it is important to monitor that because of its improvements and the attractiveness for foreign investors for these assets because on the other hand, the high exchange rate does favor the acquisition of these assets.

So there will be more people interested, even foreigners interested in these assets as of now. So I do think this is a scenario that should be considered and it's almost basic right now. Next we have the exchange rate.

Q - Marcos Severine {BIO 3322666 <GO>}

Thank you very much, Wilson.

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

Thank you.

Operator

Our next question Kaique Vasconcellos, Citibank.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Good morning, everyone. Thank you for the call. We saw a leverage that dropped 3.5 and the net debt and the EBITDA, but there will be a future drop but we will have better results in the renewables and CVAs but considering the market nowadays, but last year to keep cash the company had dividends in the second and third quarter. What is the payout for this year?

Do you have any (inaudible) for that or will you wait? GSF and hydrology scenario, can you address these two points. Thank you.

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

Thank you, Kaique for your question. Just to make it clear, at the beginning of the year, it's not that we did not pay that we had bonus, we still offered shareholders the possibility of a bigger payout. Obviously, we're coming to the end of the cycle and I think the results of this quarter shows this. It seems that we have come to the limit of the CVA commitment.

It will reverse now. That's the trend and the cash position of the company will improve maybe in one year.

So which is important to have this reversal sign. As you mentioned quite well, we do have the hydrology issue. We have been studying and we will address that in the Board in future meetings. The recommendation of the company is still very cautious waiting for these two events.

The GSF event is very important of improving the results of the generator in consolidated terms for CPFL Energia. We will evaluate this improvement and this decision based on the options that we have had. This will take both in next days. So this is part of the agenda of the Board. We believe that we will be able to share a decision on dividends and how it is going to be done as of early next year.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Thank you very much.

Operator

Our next question (inaudible), Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Actually it's Vinicius who is speaking. Wilson my question has to do with the two previous ones. We see the auction off the concessions, the matured concession and seeing this is an acquisition opportunity that could be interesting, ANEEL is not indicating the renewals for all distributors, there are many companies with complicated financial situation.

And now you are at a point that we cannot say that it is a calm period because the debt shows that and the share bonus but you're more in a defensive position than you were in the past.

But there are also opportunities, I would like to know about the company's planning, in terms of when the market change there were fewer opportunities for expansion and with low success and with bullish market. So how do you think about offsetting the balance of the company, paying dividends, will there be an increase in capital will all of these opportunities in the future? What is the rationale nowadays? Will you keep this defensive posture stance or will these opportunities really allow a more aggressive position of the company?

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

Vinicius, right now, I think that year was important because of that. This is a characteristic of the company's financial discipline. So we act in a preventive way in terms of pre-funding shares. That's why we have a comfortable situation of liquidity even though there is a stress on the cash. We would submit to that and so were other distributors in terms of CVA and so on.

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What we've seen right now is a reversal of this. It is the beginning of a reversal process that will happen in the variation vis-a-vis establishing the cash in a time period over one year.

On the other hand, you are right. We do imagine that there is a set of players that were able to resist CPFL and opportunities will come by. We have this characteristic of discipline to create value but obviously, that should be prudent and lead to a healthy limit and now in a leverage of the economy, which is not one of the best periods we had. We are always assessing things along the lines of the businesses we are focused on, on distribution, generation and all of these opportunities that they will have to allow not only the creation of value and this has always been our great indicator, but if they're made possible they will be made possible according to leverage limits that are below 3.5 times more.

We always work and we've never hide that from the market. We believe that to operate in a leveraged way, in a cautious way, this creates value for the company and tax shield that these operations allow us, but in a way that we have control of it. So the Company operating the 3.5 times the EBITDA, we are detached from this position today and the reason is well known by you. But with the use of CVA and something that we do not mention, but it gives more space for leverage is the reversal of GSS. These values and options we've and were recognized through the month of December and we have been monitoring that. There is a set of operations that can be done and we should highlight the following.

There are transactions that can be done and can even improve things. It is said that it's not a leveraged Company in the consolidated but it could bring a benefit to the Company. We will be cautious because we believe that to grow as the way of creating value for the company, we are permanently assessing that. We have a specialized area inside the company that assesses all that, but yes we will keep being cautious. We were throughout the year. We're still going through -- maybe we're in the middle of this crisis, maybe a little bit beyond the middle. So we still need to be cautious and to analyze and be careful with the financial situation of the Company.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Okay. You're very clear. Thank you.

Operator

Our next question Miguel Rodrigues, Morgan Stanley.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Good morning, Wilson. I would like you to mention the process of renewal for the Company and for the players in general. Would you also mention the parameters established by ANEEL at what level do you expect these parameters to encourage the consolidation process? So on this topic, could you mention the strategy of the Company throughout this process. How do you plan to position yourselves, what kind of assets will you prioritize, large concessions or more concessions of a smaller size and also the geographical concessions. Thank you.

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

Hello, Miguel. I will give the floor now to (inaudible) that is Director of Regulatory Issues and Distribution. He has been here with us in all in events related to the evolution of the proposal of the agency. I will ask him to get his comments and then I will comment on your question.

A - Unidentified Speaker

Good morning. The process was addressed in a public hearing by ANEEL. There were two phases the reported and state several possibilities to discuss this amendment and for us in our opinion, it brings a lot of progress of the neutrality of Parcel A. There are rules of governance that reinforce the governance of the contract and we are in the final period. We are now being asked to sign the contract. I think we're going to sign it by December 8. We have received and they have already been published and we are receiving these invitations to sign -- the perspective is that in the next 30 days, all of the concession contracts will be signed.

Our prospectus [ph], the minutes made available is a very positive variation considering the strong interaction ANEEL proposed and voted the Ministry in defining the minutes of the amendment. What is important in terms of the indicated that you mentioned of the service quality and also of the indicators for financial health and both of them are situation is quite comfortable. Only one of the concessionaries in the improvement is now below or theoretically above the limited established the best heads in five years, but that is very (inaudible). We do believe that we will overcome this, in terms of quality and like I said there is only one issue in all those five concessionaries. In one of them, we do have challenges and we have five years to solve that.

So definitely nothing concerns us in terms of quality, but in terms of the financial health indicator even less. According to our evaluation, none of them have an additional challenge as to what the Company would do regardless of this growth. So we are feeling quite comfortable here. We were naturally evaluating the quality demands for the Company and these concessionaries are already a benchmark by the agency in terms of technical operating and financial performance.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

In terms of the speculation that you mentioned of the concessions and the profitability?

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

I always said that the Company considering growth, strategy, and distribution, the concessions that have greater difference, means they create more value are the small concessions close to the areas of concessions that we already own. Obviously, there are some options. The small concessionary within our concessionary, there are mid-size concessionaries also around that. If we analyze in terms of preference, according to the work that will be done and the results that can be offered and the time it will take place, these are the best ones. Today, remodels that I would say is using information system and so on.

The geographical issues is variable. I believe it's good, but it's not something that will hinder things if the concessionary does not have a good performance. The present is for the size and obviously next way, it has to be closed what we have, this is the second point. Out of the forty concessions that are being renewed 42 concessions, I think now that was mentioned here in December, there will be this option and as of this point, according to what we said before in one of the answers in relation to an option or that the government makes and in this case, it's the municipality in terms of privatization, we will pay attention to that and we will be able to assess carefully these preferences

Obviously, the smaller ones are the ones closed with or inside are the best ones and the bigger ones, and the ones close to them are the second option and we have to evaluate all the others. We're paying attention to everything.

Q - Miguel Rodrigues {BIO 16533007 <GO>}

Thank you very much for your answers.

Operator

Our next question Pedro Manfredini, Itau BBA.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good morning Wilson, good morning everyone. I have a question in terms of growth strategy. Thinking about M&A, greenfields and other options that might come up for CPFL in other areas, you've talked a lot about leverage and what limits you your [ph] acquisitions in the short-term are to grow in the short-term. But when we look at it, CPFL also could have a partner, it could have a smaller stake but always thinking and working in a consortium. We've seen that you chose this position in the past, this possibility was expressed.

If there is an opportunity, both in terms of generation and distribution. So that's my first question. The second one, it seems some major companies in the sector selling some assets not so important assets to be able to have greater cash in the short-term so they can maybe make another more relevance acquisition and it would make sense, practically speaking. CPFL could go for that in terms of assets that make more sense to the Company. Do you think you could also sell assets in terms of generations you have cash for this kind of acquisition. Is that a possibility? These are the two questions in relation to growth. Thank you.

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

I will start by the last question. Obviously in selling assets, generation assets, that you can ensure the value you had, obviously it could be an option. It's not the preferred option of the Company, but in receiving an exceptional offer for an asset that you can realize all the value you would have with time definitely, this is an option that could be taken into consideration.

It is a reality. It's not a reality, but I want to make it clear that this is something that we would evaluate as a Company. We have this second and better movement. We have a new perspective to create value having realized the value of the first one.

As always in the generation area, we always work with partners. If it's a greenfield work, this is a Company strategy to share risk. This is something that we would definitely continue to do. There is and some assets, but just -- that we have a partner, a public partner that was an acquisition that was done together and we have an excellent relation with our partners. So this definitely could be a scenario of bigger acquisitions.

We could partner up with someone, if we have that capacity to feel that this partnership would come around. We don't have any kind of prejudice in relation to that. We do have high purchasing partners, we have state partners, we have federal partners and when the Company forges a partnership with members in which we feel that we can operate and maintain that asset in a better condition, the Company will use this alternative as we have always done. So like I mentioned, I think there is big set of, they will appear as also renewal of the concession instead of alternative and make that possible. If there is a possibility of value creation and to make it possible if we have to sell an asset which is not that relevant for the Company to use the resources to get the second set, the strategy of the Company will assess that and if it interesting, we will do it.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you. And the last question that has nothing to do with M&A, but it has to do with the distributors. Have you noticed in recent months any kind of take-or-pay reduction of industrial clients in your TUSD as it's something, I think this has been negotiated by some of the key clients in your confession, if you just could give us an idea if this is something that is happening or not?

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

What has happened is what we showed in the report, there is a reduction. In the operation shift, there is a preference in an operation to take energy from the peak that is more expensive and migrate it to the off-peak. There is a change in profile in relation to the blue tariff and going to the green tariff -- from blue to green. Of the total of the demands it grows slightly but in the demand at the peak it has decreased and the off peak has increased exactly as is shown in the presentation. We had the breakdown in the report.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you, Wilson.

Operator

Our next question from (inaudible) from UBS.

Q - Unidentified Participant

In the auction A minus one auction [ph] what do you think about the preset price of a 149, do you think that is a low price, high price, could you please elaborate a bit about the energy demand for the auction and what is your expectation for following 2016 and for the next three to four years.

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

I'll give the floor to Daniel [ph]. Daniel is our operating officer on the seller side.

A - Unidentified Speaker

Well, the A-1 auction price, it's lower than the market price. So this makes difficulty in be more difficult for people to enter the auction. So maybe some people may make the decision to sell at this price anticipating some further decreases on a long-term horizon. So this is a three-year term. This is the contract but there are also other products and the prices are different. I missed the second part of your question.

Q - Unidentified Participant

What was the demands that you may anticipate for the auction and what would be the price expectation for 2016.

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

In terms of the auction demand is about 1,000 megawatt average. Now, prices for 2016 looking at the free market, the free market is about BRL170 per megawatt hour, and for the auction we do not have very specific expectations.

Q - Unidentified Participant

What about long-term pricing?

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

The prices are not much lower than that. When you look at 2017 and 2018, prices range between BRL150 to BRL155 and this can be maintained in the long run. Thank you.

Operator

Next question from Carolina Carneiro from Santander.

Q - Carolina Carneiro

Good afternoon. We know that there are many variables that have to be taken into account, but do you have any expectation of a further tariff increases for 2016, particularly in the case of Paulista [ph]? Thank you.

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

In the case of Paulista in 2016, the only thing that we can anticipate is the annual adjustment. It's not a tariff review. It's just in compliance with the parameters, but we do

not anticipate any surprises. Just as with Piratininga and the other companies what will be relevant will be the incorporation of the CVA regulatory asset, but on the other hand we also anticipate the anticipation of coders [ph] trying to mitigate part of that and if there is any improvement in the hydrological landscape, I mean Paulista is in April, then we see an outlook for the other companies.

Q - Carolina Carneiro

Okay, perfect. I just wanted to know whether you have any expectation in terms of tariff adjustment?

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

No, not at the moment.

Q - Carolina Carneiro

Right. Thank you. So, I have a second question. Do you have any preventive measures? With your preventive measures were able to hold down further losses. That for 2016, do you think we could expect maintenance of all of the procedures that were implemented to mitigate the cost of all entries on the losses. I just want to have an idea of what the situation will be for next year?

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

Yes, you can expect because when it comes to allowance for doubtful debt especially moments like this, we have to maintain the same measures otherwise they may get out of hand. I don't know if you look at our reports but I mentioned that page, let me see if I can find it, reference on page seven. I refer to that 3.18 the revenue that we recovered and 3.88 in 2015. So 3.18 and 3.88. The difference we would have had of only 0.7% of additional collection we would have 150 million in the quarter alone. In addition, our 150 million, it will be an increment of 150 million in the quarter. That's why I reinstate the fact that this is a priority topic for us. We may have additional increment of 4 million to 5 million per quarter. We were able to prevent an increment in delinquency of 150 million.

Q - Carolina Carneiro

Thank you very much.

Operator

We would now like to conclude the question-and-answer session. I would like to turn the floor back to Mr. Wilson Ferreira Jr. for his final remarks.

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

I would like to thank you very much for participating in this call with us and I would like to highlight a few more aspects. In the first presentations of the year, I said that we had a very robust regulatory agenda that has to be pursued and one of the things was tariff, banners and updates of value the extraordinary increases in tariffs. I mean there was also

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a topic related to improvement in tariff review in the fourth cycle or maybe some other way. You remember there was still something pending related to the reconciliation in 2014. There were two pending parcels and in that environment we still experience the renewal in the distribution area and also, we talked about GSF and I must tell you that by looking at our reports, I think that by this year-end, our outlook is quite different from now on, in terms of the regulatory system and once GSF is concluded, this industry will go through an upgrade in regulatory terms.

All of the actions may not materialize in the timing we want. Of course, there are many interests at stake and consumers, but I would just like to reinstate how responsible and diligent the government is operating, meaning [ph] through the government or some regulatory agencies. They are very diligent in dealing with this topic.

So next year, all of these topics will be resolved and then we have some good outlook. One thing that I think concerns you is the market outlook. Our view, even considering the worst-case scenario when we see a further decline of the economy, we may be positively surprised and on the other hand, now we have very low per unit consumption, people are making more efficient use of economy, but there are other segments of the economy that may review their growth path given this new exchange rate landscape. On the other hand, it's also important to mention something that was mentioned during the call, which are the opportunities.

For a Company like ours, which have a robust strategy and large number of assets, we've always mitigated everything with a very stringent financial discipline. I mean, we try to generate value, but we will do what is necessary, recognizing the current moment but value creation must occur in due time as it should be done by a Company of our size. Each step of the Company or each part of the Company should be able to share not only this discipline but value creation but we will be prudent, but we understand that the regulatory landscape and the way the Company on the one hand managed it's costs appropriately and on the other hand also appropriately managing its financial obligations with leverage, we may be considered a player that will certainly find opportunities to generate volume. Obviously we always believe the given scenario of uncertainty in terms of the economy, we hope that, I mean the country should be placed ahead of anything else, but as Brazilians now we hope to see a positive outlook, which is what this country deserves and we will be prepared to take that opportunity. I thank you very much for joining us today.

Operator

CPFL Energia audio conference is completed for today. Thank you very much and have a very good afternoon.

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