

Q1 2012 Earnings Call

Company Participants

- Wilson Ferreira Junior, CEO

Presentation

Operator

At CPFL Energia today with us, we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia as well as other executives of the Company. This call is being broadcasted simultaneously on the Internet at the investor relations website of CPFL Energia at www.cpfl.com/br/ir, where the presentation can be found for downloading.

(Operator Instructions) I would like to remind you that this call is being recorded. Before proceeding, let me mention that forward-looking statements that are being made are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of the Company and information currently available to the Company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore 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 Energia leading to results that may differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the conference over to Mr. Wilson Ferreira Junior. Mr. Ferreira, you may proceed.

Wilson Ferreira Junior {BIO 20013669 <GO>}

Good morning, everybody. Thank you very much analysts, and investors that follow our call this morning, in which we are going to present our results for the First Quarter of 2012.

On page 3, we have the highlight for the quarter. Starting by the sales of Energia, 3.5% in the concession area of our distribution companies and we will be talking in detail about that.

Recent tariff adjustment submitted to CPFL -- our main distributors, 3.7% be conclusion of the acquisition of the wind farms -- Atlantica Wind Farms that we announced in March this year.

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Investments in this quarter amounted to BRL555 million. The maintenance of our credit rating of CPFL Energia by Fitch Ratings AA-plus. One good thing for our stock is the return to the Dow Jones Brazil Titans of the 20 Brazilian ADRs most frequently traded in New York as of the listing in March 2012, and besides as a consequence of the stock split last year the increase on liquidity by 15.5% of our stock at CPFL will be used for New York Stock Exchange reaching an daily average of BRL35.5 million and finally due to all that the value perception of our stock and we had an increase -- 25.5% increase in the stock value.

Going beyond the Ibovespa -5.9% and the IEE plus 18%, 9.9% in New York City exceeding also our comparable Dow Jones Brazilian Titans which had amended to a performance of 13% in Dow Jones plus 7.2%. So these are major results at the beginning of this year.

Now page four where we talk in detail about the sale of energy in this quarter and also the behavior of the free market evaluated by the TUSD, the tariff for the use of the distribution system. As we can see the sales in the concession area grew by 3.4% and they are made up of a growth in the captive market of 2.4% and 6.3% in the so-called free market in the concession area measured by the volume of sale and the TUSD growing 6.3% here and it is important to stress in the concession area.

Now going to the last line here in the sales of the concession area, how this 3.4% is split among the different consumption segments. So we can see here the continuity of a major growth. In the residential and commercial segments 5.4%, 4.4% respectively as a the highlight of the recovery of the industrial segment with 0.9% and the others 7.3% positive highlighting here the theme of irrigation for the rural market or farm market.

As we are living, in the First Quarter, a lower rainfall in the regions that are covered by us and because of this reason we have a higher use of the irrigation systems so all these get into -- close to 14,000 GWh in Q1 2012. And when we compare toward the sales of energy stored by the Company directly to their consumers we see a 5.5% growth, and of course this corresponds to 2.4% that we talked about for the captive market plus 15.4% in the commercialization activities and generation activities outside the Group -- outside the PPA that we have among our generate team companies and direct distribution companies. So this is a major growth.

And we can see on the chart on the right that in the south region our operation of our GE grew more than the volume of the south region 6.8% vis-a-vis 5.5% and the same occurs in the southeast region in which we grew by 2.7% vis-a-vis 1.1% in the region and then the Brazilian comparison, we grew by 3.4% vis-a-vis Brazil 3.9%. And mainly Brazil had a vigorous growth in the north region this year.

So these are important results and very encouraging results in the Q1 and we would be very positive (foreign language spoken) -- region gas concessionaries and (inaudible) telecommunications network in the Riberão Preto region, construction of ethanol terminal in Paulínia, construction of a service center for transportation equipment in Sorocaba. And only these investments amount to more than BRL3 million and of course we are just highlighting the most important projects but this represent a very major rebound of investment in the services area where we operate more specifically in the power area.

Now page six with details of our results. The reported results and the recurrent results, and I will be talking about the recurrent results. They are very important because of the non-posting of the regulatory assets and liabilities by the IFRS.

But starting with the reported results now we have a growth in our net revenue of 13.2% reaching BRL3.4 billion our EBITDA in IFRS reaching BRL1,084 million, a 6.2% increase and net income reported -- net income a draw up of 9.2% reaching BRL423 million, of course due to the increase in our financial expenses deriving from a whole set of acquisitions that you are familiar with and it is important to detail that in spite of them we look at a recurrent result of the Company and net of the effects of the regulatory assets and liabilities.

And these figures are slightly different but we see an 11% increase in net revenue and almost 18% in EBITDA and 9.5% in the lifeline reaching BRL411 million. So in the direct comparison without the regulatory assets and liabilities it would be going up 9.5% and you have details of these effects.

The total recurrent is small and slow. It is related more to depreciation of plans recurred last year and the UBP and the physical inventory of distribution Company assets and nonrecurrent effects for tariff review purposes and this is being concluded in the short round.

And of course, we have the provisional measures for the CPFL Piratininga in terms of the net revenue for this plant and this is already a regulatory measure and it corresponds to the amount incurred in the First Quarter and finally we have the variation and this is a major variation of the regulatory assets and liabilities in Q1 and last year the difference between the two shall both be comparison of the EBITDA and the net income are the ones that will determine the recurrent values placed in the second line of this slide.

Now we are going to go into details about our result. In the first column, we have the adjusted EBITDA as we call it now. Net of the regulatory effect and nonrecurring effect and amounting to BRL114 million reaching the reported EBITDA of BRL1,020 million, and we are going to detail three variations and most important one is the increase in net revenues 12.2% we had that at BRL42 million, and this is due basically to the increase in the concession area of distribution companies besides the tariff adjustment occurred between Q1 last year and Q1 this year amounting to 7.51% and additional revenue from the (Sabatica Bicol) and CPFL Renovaveis; Foz do Chapeco HPP due to the fact that it came in operation last year and CPFL Renovaveis for consolidation purposes

Besides, a slight increase in revenue from the TUSD, BRL6 million, and also additional revenue from conventional generation and commercialization amounting to BRL58 million and we have a deduction from revenues BRL134 million basically taxes and statutory charges amounting to BRL54 million, so a vigorous important increase in our net revenues.

And from that we have to deduct for the evaluation of the EBITDA, the increase in the cost of energy and charges going up higher than our net revenues by 17.4% and 18% in

purchased energy not only coming just from the adjustments from purchased energy but also some volumes and 14.2% increase in charges; mainly charges from the basic network.

And the good news here, the important things here, and evidence of the effectiveness of the Company's management and our leadership team is a lower increase than the net revenues at 8.6% increase in operating costs and expenses amounting to BRL32 million and it is important to stress here the net effect and nonrecurring net effect of physical inventory of assets because the inventory which is obligatory for the evaluation of the asset base.

It is non-recurrent and it is reimbursed during the tariff review. So this is just a report of the variations between last year where we were already doing this kind of work in our eight distribution companies and the effect of the consolidated operation CPFL Renovaveis is BRL28 million overall.

And if we adjust for the aforementioned items and compare with first Q of 2011, we see a PMSO cost adjusted recurrent on the same base, a growth of 2.2%. So here we are talking about a 12% increase in net revenues and on the other hand of 2.2% increase only in our manageable operating expenses.

And as far as personnel is concerned, we see a drop in the comparison between the quarters of about BRL3 million which already shows that important effect be it from the measures taken in the incentive retirement program and also (RZBB) already having some reduction in our payroll and the increase of this -- of only 2.2% in total cost compared to the IGPM that had a variation of 3.2% when we reached BRL1,084 million in EBITDA, IFRS EBITDA, as I said a 6.2% increase and when we talk about the regulatory effect and nonrecurring effect, then we get to a 17.9, BRL906 million last year and BRL1,067 million this quarter that we are reporting now.

On page 8, now we are going to talk about our net income. In net income, as I said before, we are reporting a 9.2% drop and BRL466 million we are adding the variation that we have just detailed of BRL64 million and the EBITDA. A deterioration in our financial result by BRL83 million and this deterioration is due to the increase in financial expenses by BRL100 million and the major effect the consolidation of CPFL Renovaveis is (63%) of the Company as you know and we consolidated 100% of the results.

And besides we have the effect of the exchange rate in the Itaipu bills, that the distribution companies and in IFRS it is reported directly.

Under net increase in financial charges you see an increase of our indebtedness and we see details of the indebtedness in our report and this represent BRL36 million. Accounting adjustments in the calculation of the UBP of the generation companies by BRL13 million and the increase in the cash availability, and this cash, although it is remunerated at a lower CDB, the volume is higher about BRL2.7 billion vis-a-vis BRL1.5 billion comparing the quarters.

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So we see an increase in our financial revenues amounting to 14% or BRL18 million. On the other hand, we saw an increase in the depreciation and amortization driven by the start up of some projects such as EPASA and the consolidated effect of CPFL Renovaveis and the non-recurrent adjustment, as I said, of the depreciation of the plants in the First Quarter of last year. And the change in the depreciation rate for the distribution assets by the agency and we depreciate over a longer time which gives us a gain in this report. On the other hand, we have a lower gain in our private tension entity last year. It was BRL20 million more than we have this year, so we are positive however, our gains are lower than the ones obtained last year.

And on the last line you see as a consequence of the drop in our net income, we see a decrease in the income taxes in direct comparison with the previous year. It is important to see that in this comparison net of the regulatory effect and the nonrecurring effect, a growth of 9.5% in our net income reaching BRL511 million very well.

Now going to page number 9, now we have the details of our debt profile and from the debt composition viewpoint, there is no change we have 59% in CDI, 33% in long term interest rate and the BNDES currency so to say, 5% in fixed or pre-fixed financed by the BNDES as well.

So we are reaching in the breakdown of our debt 38% is with the BNDES and 3% IGP, which is the indexing factor for our contract with the (Smith) Foundation. And we also report here the cost of our debt. There is a slight increase in Q1 4.3% to 5.2% in real terms. But we already see nominal terms in 11.1% decrease to 10.7%.

And finally, we see net debt at the end of last year going up to BRL10.9 billion to BRL100 million, a 2.8 net debt EBITDA ratio and when we exclude the project and the construction debt are already being financed but they do not have EBITDA yet, we are talking about 2.5 times.

On page number 10, we see the debt amortization schedule. So you can see on the left our cash availability and this cash is enough. It is practically two times the short term amortization in 12 months, so we have the debt tenure of 4.2 years in this profile.

And in the short run, we have 11.6% of our total debt. So the situation is very comfortable which allowed us, as you can see on page 11, to maintain our AA-plus rating, a stable perspective and here I would like to talk about the reasons why our rating was maintained, besides the diversification of the Group.

This is an integrated Group and distribution generation, renewable generation, commercialization with a position of leadership at the market and the capacity to generate cash and the moderate negative impact of our net debt, BRL3 billion and the variation between quarters.

So there is a recognition of the strategy of the Company in the energy generation activity, and according to the rating agencies, a moderate negative impact to the third cycle of the

tariff review -- the third tariff review cycle, and all the distribution assets under tariff review this year 2012.

The assets of Piratininga and the five small concessionaries which correspond to -- from our total asset base, in this sector, it corresponds to something like 25% of the total assets in this area.

On the next few slides, I would like to go into details about the status of our commercial start up in renewable energy. On page number 12, you can see all the projects under construction and that are to be concluded shortly, 283 megawatts overall, started by Bio Ipe which will have the start up next month, 25 megawatts installed capacity already financed by BNDES approximately 80% of the resources invested in this plant coming from the BNDES.

The Bio Pedra TPP, 94% concluded already. Commercial start up at the end of next June with 70 megawatts installed capacity already with (inaudible) of BRL154 million in the end. The Santa Clara wind farm, the first that we built that will start in Q3 exactly according to the schedule, 188 megawatts already financed 65% BNDES, and also during the reserve auction that we call LER in December 2009 updated already, the currency of December last year, BRL168.32. So the projects are according to schedule, all of them, and we are very pleased with the first start ups of our wind farms. The first wind farms of the Group.

On the next page, we have the commercial start up in 2013. The plants we have Salto Goes SPP in Q1 '13, also financed by BNDES, 63% of this amount of BRL160.41. Two core generators that we started construction this year; 9% each one of them concluded and they will start up in the Second Quarter of 2013, each one with 50 megawatts contracted at the same time. So because of that we have the rationalization of our investments and are already in the process of being analyzed by BNDES under review. So these are the two plants, the two TPPs that will be operating the free market.

And finally on page number 14, we have the Macacos wind farms in the Third Quarter of '13, 78 megawatts, 23% already concluded, BRL137 tariff, Campo dos Ventos II, it is one wind farm that we won in the last auction of August 2010, BRL133.7.

And the Atlantica wind farms we recently acquired this to operate the second half of 2013, 120 megawatts in the south of the country and that allows us to diversify in the region regarding our wind farms and also the alternative sources auction, BRL147.44 of PPA.

And here, we conclude on page number 15 with the start up of our projects in 2014 to 154 megawatts total Campo dos Ventos I in the Second Quarter of 2014, 138 megawatts operate in the free market and the Sao Benedito wind farms of the Second Quarter of 2014 also an additional 116 megawatts in the free market and both being analyzed by the BNDES.

And on page 16, we have a major initiative of research and development. We have been recognized by the agency for this project for the utilization of research and development

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resources of our distribution company. So you have here the Campinas substation, the Tanquinho, the biggest one and we are installing in this area that you see, 5300 panels for photovoltaic solar energy, and this plant will have the capacity of 1 megawatt of energy and supplying to 567 clients per month with an average consumption of 200 kilowatts hour per month.

Investment of BRL13.8 million and as I said before using the investment capacity for R&D for the Company already made feasible, and it will be the first solar plant in the state of Sao Paulo of this size. So this is important in the advancement of our diversification of our energy sources.

And I would like to make a quick mention to page 17 of our ongoing work in the Tauron project which is the most important one from the viewpoint of increasing efficiency, operating efficiency for the Group and cost reduction in distribution in the Smart Grid in phase I including three activities here.

Mobile workforce management first for the management of our workforce, which says of telemetering here. We are talking about telemetering for all consumers of the A Group, the large consumers and we are talking about smart meters or intelligent meters here that will allow us to have a faster metering process, a more precise one, and especially with a lower cost, and self-healing which are automation processes for our distribution network with the installation of 5,000 automatic switches and restarters you can see here the mobile workforce we have already hired off suppliers with investments estimated at BRL33 million with annual gains of BRL42 million due to the better management of our workforce.

And in telemetering, you see on the right the start up of installation in May this year, investments amounting to BRL57 million with annual gains amounting to BRL15 million. And in self-healing, of the 5,000 automatic switches as we started already almost 2900 are already in operation. Investments amounting to BRL195 million and it is an important enabler for the other projects as well.

In process management, commercial, operational and logistics, we are basing everything on our TPP and we are revisiting many of our processes in this area by using of anti-fraud standard and shielded cables, et cetera, and we should have BRL49 million additional gains and we have already started. We are already making this available to all the clients of Paulista and Piratininga, the digital bill where we send the bill electronically over the Internet.

So BRL50 million invested of the total of BRL250 million, and we expect BRL100 million per year as annual benefit, more than BRL100 million annual benefit. So accelerated investments here and already matching the beginning of the fourth cycle of our distribution.

And now on page 18 I would like to mention the behavior of the free market and more specifically prices. We try to include in the blue chart precisely the fact that this is a drier year. We have had less rainfall so we can see the Southeast system, 78% natural affluent

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energy while we have had a variation around 80%. In the South, lower, but this is not the rain season in the south; 78% of the long term average in the northeast in yellow we are more concerned in the last two months. We have had only 50% rainfall and in the north, the reservoirs are left dry but in April we have had 70% of the rainfall.

On the right hand side we have the effect of the seasonal effects so that we understand how our position is very comfortable. We are reporting the energy curve, stored energy and the SIN, the national interconnected system. So as you can see the curves in the last few years show that this year we have had less rainfall, we are at 75% of our overall capacity for energy stored but very far from the 2001 curve where we had rationalization.

Now the system is a lot more robust today, better protected in terms of seasonal contingencies and this is what has determined the price variation in the chart on the left hand side, BRL190 -- BRL193 exactly. We expect the price to maintain at the same level between BRL150 and BRL190, obviously depending on future rainfall and especially the effect of el Nino. Basically it shows the system is robust and of course it needs technical qualifications for operations and we feel we are in a very comfortable position.

Now going on to page 19, like report the stock performance. Actually it is our final slide. We see on the left hand side, the stock performance at Bovespa and also on the right hand side the New York Stock Exchange. We have actually had better results than Bovespa 25.5% compared to 6% negative of the Ibovespa index and 9.9% New York compared to a 13.1% negative of Dow Jones Br 20 Titans.

Now on the lower part of this chart, we are going up 5.5% compared to 13% Bovespa, and in New York Dow Jones had 13% negative, and we had the 7.2%. Now as we see the growth, 2,500 a day. And the re-entry of our ADRs in the Brazil Titans 20 ADR index, which will allow for us to increase our daily traded volume. This is what we had to report about the First Quarter 2012 and we are now going to answer questions.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin our questions and answers session. (Operator Instructions)

At this time we will close the questions and answers session. Now Mr. Wilson Ferreira Junior for his final remarks. You may proceed, sir.

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

I would like to thank you one more time for participating in this conference call on the results for the First Quarter 2012. Let me say that our strategy makes us feel very comfortable and confident about market performance. We have already seen a resumption in the First Quarter. We are quite confident about the measures by the government to focus on this industry.

This statement has actually shown a lower performance. We will certainly receive benefits from this industrial resumption, especially the effects related to industrial financing. It is important to highlight the prospects of concluding our new project, especially the assets of renewable energy which has a robust performance and above all talk about the very comfortable position we are in the interactions, the necessary interactions in the third cycle of the tariff review process.

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Let me say that in this quarter by recommendation of (Ibracon) we have provisioned for Piratinga in relation to other revenues actually since October 23 until now actually I did not mention this in my initial presentation but it is important to say this has been provisioned and it is in our regulatory report by recommendation of our auditors and Ibracon.

Now it is the First Quarter of the year; the year has started with very good profit and in view of our strategic positioning today in the distribution segment with the measures we've taken to improve efficiency we have introduced and reported to you we feel very comfortable regarding our performance in large generation projects. Now this good prospects in terms of renewable energy generation and commercialization, we believe this will be another remarkable year for the Group -- for the CPFL Energia Group. One more time thank you very much for listening to us this morning, thank you.

Operator

CPFL conference call is closed at this time. We wish to thank you all for participating and have an excellent day.

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