

**Operator:** Good afternoon and welcome to CPFL Energia's earnings conference call. Now all participants are on a listen-only mode. Later we will start a question and answer session, at the time further instructions will be given. Should any participants need any assistance during this call please press star, zero to reach the operator. This broadcast is being recorded.

Today with us we have Mr. Wilson Ferreira Júnior, CEO and Mr. José Antonio Filippo, VP of Financial Investor Relations. I would like now to give the floor to Mr. Wilson Ferreira Júnior. Mr. Ferreira Júnior, you have the floor.

**Mr. Wilson Ferreira Júnior:** Good afternoon analysts and CPFL investors. It is a great pleasure to be with you showing the results of our second quarter. On page 2 we have our agenda for this conference call. We are going to touch two points basically, our highlights and results and give you some information about our value creation agenda through our strategy.

On page 3 we have the main highlights in the second quarter, these were very strong, solid results. We see our net revenue rose to about R\$ 2.2 billion ... a growth of 18.2%; Ebitda of the company of R\$ 814 million, a 23.5% growth and the net income R\$ 369 million, about 20.9% increase but, as we are going to show you due to the ... acquisition we are continuing our policy in terms of our financial numbers; we have a non-recurring effect of a hedge for this quarter, which would lead us to a net income of R\$ 392 million if this non-recurrent effect were not present, which would give us a 28.5% result.

The highlights are the strong growth of our concession area in sales over 14% growth; tariff adjustment of CPFL Paulista and RGE, around 6% to 7%; completion of the third turbine of Campos Novos HPP and the completion of the re-powering of Gavião Peixoto's small hydroplant - with that in this quarter we add to the installed capacity of the group another 434 MW of capacity, a growth over 40% of the installed capacity we had in the beginning of 07.

The net income in the second quarter added to the first one R\$ 842 million; this has been annualized the dividend distribution and the annualized dividend yield is 11.1% - a record in our company.

Another good business news and a highlight of this quarter is the financing of Foz do Chapecó HPP construction, R\$ 1.6 billion according to PAC - Plan for The Growth, for the acceleration of growth. We are going to give you more details later on about it and the costs involved.

And finally the approval by Aneel of CMS Energy Brasil's acquisition and assets - are 4 distributors: one commercializing, one service company and two stakes in hydroelectric power plants. This was a very good quarter, with very good results and the highlight is the net income of the quarter and its distribution in the form of dividends, 100% of the income was distributed as dividends with a very high dividend yield.

On page 4 I show the corporate structure of the group. I would like to draw your attention to the companies in the bottom part of the group and how they will be organized as part of CPFL Energias' structure. We had the 4 distributors: Paulista, Piratininga, RGE and Santa Cruz and open linked to CPFL Energy and we will add those 4 coming from CMS. And we will have then at the end of this operation 8 distributors.

In the area of commercialization, with the presence of CPFL Brasil we will add the commercializing company coming from CMS. And as for generation, as you can see, the CMS stake in Paulista Lajeado HPP and those 9 small powerplants. With that the corporate structure of the group will remain verticalized with the full separation of these three activities, which makes analysis and understanding on your part easier.

I will make a few details on page 5 about energy sales in the 2Q07. Again, this was a very positive quarter in the concession area sales – we talk about Paulista, Piratininga, RGE and Santa Cruz - we are not including CMS results, which will start being considered in our statements as of the 3Q07.

Sales 14.1% net of the acquisition effect in different periods of last year, 7.8% to 14.1%, a very strong and solid growth. In the captive market as you will notice we had 12.2% growth and important to highlight in what we call small-tension outservice; rural 28%; commercial 17.1%; residential 13.5%. We can see our growth discounting, excluding the effects of acquisition.

This comes to show that acquisitions have contributed quite positively for the results of the group. We have been warning the analysts about the effect of the free market. Migration movements are smaller and smaller towards the 20% in the quarter, more or less the same figure of the same quarter of last year. And for the year we are going to see a decrease in this rate because now we have instability in the free market.

This can be observed when we look at sales in this market. In our case it is the largest operation in this area, we had a 6.1% growth in free market sales. So if we add the so-called captive market through our distributors to free market sales through our commercializing companies, we have our total sales of the group. Arithmetically we can come to a total energy sales of 10.8% in our quarter comparison. Since we had the issuance of the shares this has been the highest value we afford.

On page 8 I give you the details about our net revenue and I am going to talk about Ebitda and net income. I would like to start with net revenue. We can see an 18.2% increase in the net revenue of the group. This growth is due essentially to the growth in energy sales, energy sales revenue growing 15.8% due to captive market sales increase - which considers organic growth, plus acquisitions additional stake in RGE and the acquisition of Santa Cruz plus a component of adjustment of tariffs of both Paulista and Piratininga, tariff increases around 6% to 7%.

To this amount of energy sold, 15.8% increase, we add 20% in TUSD in revenue increase - free consumers migration and we discount ICMS tax and other deductions. In the very beginning we had the fuel consumption account reduced in most of the distributors and its effect in the group amounted to R\$ 34 million. We are getting to the R\$ 2,224 million against R\$ 1.8 billion in the same period of 06.

On page 9 we have the Ebitda, where the growth has been strongly affected on one hand by a revenue increase - which we have just mentioned - around R\$ 342 million, which is not followed by the same amount of increase in the cost of energy purchased. This is due to greater efficiency in our commercialization activity; we have a broader margin in this quarter as you will see because we just took advantage of some market changes and conditions.

We should also consider that in the energy cost increase we will have an additional stake in RGE and Santa Cruz and in commercial and also we also bought energy and acquisitions also, the commercial start up of Campos Novos, we can see an increase in operating costs and expenses increase, 19.5% increase amounting to R\$ 42 million.

I would like to highlight personnel expenses increase but the pro rata proportional stake, additional stake in RGE and Santa Cruz and commercial start up of Campos Novos account for R\$ 10 million of those; discounting those acquisition growth we would have a proportional increase of about 10%, rather than 21%, which comes to show that we are continuing to build on the synergies and acquisitions make a lot of sense at this moment.

Besides that we have a 21.6% percent outsourced services and other expenses increase; again we have an important effect of provision for RTE in the case of Paulista and legal contingencies for Piratininga. Adding those two the provision amounts to R\$ 14 million. There has been an increase in the revenue, which contributed to the result which is parallel to that 23.5% Ebitda increase reaching 155 million.

And finally on page 10 we have variations of net income, we have a growth close to 21%, 369 million, and this is due to this 23.5% Ebitda, 155 million, deducted from financial results. In this quarter due to the acquisition of CMS using cash available in the company we had a reduction in the cash volume itself ... a reduction in our financial revenue less cash invested. On the other hand as I had mentioned in the beginning of this presentation we have a strong determination of following a solid financial policy, that is why we acquired CMS and immediately took a hedge position which meant a loss of R\$ 23 million, that is why we have a reduction in our financial expenses reaching 19 million and for that cause a disproportion in the financial results, but actually before this is a non recurring effect and it explains, is explained by the hedge policy for the acquisition of CMS and as usual we had a proportional increase in the income taxes, social contribution and others amounting to R\$ 25 million.

As you can observe, if we exclude the non recurring effect, the 23 million, we would have performed a net income in this quarter of R\$ 392 million, which would correspond particularly in your evaluations a 28.5% increase vis-a-vis the same period in 2006.

On page 11 we can observe Ebitda and net revenue increase. Every half year we can see net revenue increase. There was a small increase in the energy cost and we see operating costs and expenses, 42 million - this corresponds to an increase in the margin; comparing to the Ebitda, 1,683 million, we had an increase of 28%. In the last line we see a 37.6% increase in net revenue, reaching 842 million.

As we can see in the chart this is very much driven by the Ebitda result and we see some exclusions of financial results, income tax and social contributions and others. As you can see as we are closing this half year with a distribution of the profit basically reaching the whole profit in the year of 2005 and we are only half way through 2007, which comes to show that the policy adopted by the group is quite solid.

On page 12 this is a common analysis we bring you, what are our annualized numbers looking at the last 12 months. We can observe that our Ebitda in the last 12 months reaches 3,159 million, it is comparable to the same to the last 12 months of 2006 of 33.2%. We are overcoming ... more than R\$ 160 million and in the last line in the last 12 months accumulated growth of R\$ 1,634 million, again we are pursuing consistent, solid and robust knowledge in our operational performance and in our bottom line, in our net income.

What about the breakdown in the last quarter we can see that generation, the generation business unit had pretty significant room. This is the result of the delivery of plants and this becomes very clear in this quarter with a 17% share, almost one quarter of distribution and it operates with financing; its contribution is not exactly 17% in the bottom line, but it is 15%, which overcomes our unit of commercialization.

All three units are growing, but we can see that on page 13 that distributors, that distribution is growing more because of acquisitions. We see the distribution Ebitda reaching R\$ 2,304 million, a 33% increase, almost vis-a-vis the same period to last year and a 52.3% increase in net income, R\$ 1.3 billion.

The commercialization activity continues to grow, but there is no acquisition effect here, this is an effect of the market share. We have been winners; in the quarters, over the quarters Ebitda and net income is growing 12 to 14% and as for generation we have been benefited by the completion of some of our plants and there is a 23.4% Ebitda increase, close to R\$ 500 million and in the bottom 65.6%, to 241 million – but it is important to remember the non recurring effect of the last quarter relative to the acquisition of CPFL Centrais Elétricas and CPFL Semesa by CPFL Energy. But these results, as I mentioned, confirm a winning strategy in each one of these three business units: distribution, commercialization and generation.

On page 14 we have Ebitda margin growing in this quarter reaching 36.6% - here discounting, excluding nonrecurring effects it compares to 34.1% in 2006. This is a significant growth and it shows that growth is due to the generation business unit where we operate with high Ebitda margins and we are for the first time bringing you in a chart our net margin evolution, net margin over net income and we see the same behavior reaching 17.7%, 19.2% considering non-recurring effect, 17.7% recurring, 842 million. Here it is easier to have this kind of comparison in the first quarter, 842 million against the complete net income of 2005 around 1 billion, on other words a extraordinary result for this half year.

On page 15 dividends distribution. CPFL is a group that is focused on growth through acquisitions, completion of plans and superior performance in commercialization; but when we see that reflected in the increased price in our shares we also concentrate on distributing dividends. The proposal has been approved, we are distributing R\$ 842 million in the first half of 07, R\$ 1.76 per share. This distribution is done typically buy the last days of September, that is our target, and we see comparisons with the average price during that period over the end of period price. We have a dividend yield between 9 and 11% depending on the comparison you choose. It is important to highlight our share that started being commercialized in the beginning of October 2004 - less than three years ago - and dividends alone have paid above 39% of its value. This is considered a remarkable performance.

This performance has been followed and understood by investors. On page 16 we see that CPFL shares in Bovespa had a 33.4% performance compared to Ibovespa 18.7%; and IEE, 26.7%, and more pronounced can be seen in New York; this is increased in a moment when the real is appreciating vis-a-vis the U.S. dollar, that is why our performance was almost 44% in the New York Stock Exchange compared to 24.4% of Dow Jones.

And we can see that the market cap evolution has been quite good increasing from R\$ 7.1 billion to almost R\$ 18.6 billion, 162% growth that was followed by the inclusion of CPFL's shares in the most prominent indexes in Brazil and this has been followed by an increase in the daily average volume, which reached R\$ 32 million daily, almost 20 million of those traded in Bovespa Sao Paulo.

I will now move on to the second part of this conference call now giving some information about our value creation agenda, in other words the initiatives we have had in the area of acquisitions, synergies and completion of projects trying to give you a clearer view of our strategy. A basic point of our strategy is synergic growth. I will try to give you some information about RGE's integration processes, some results of Santa



Cruz, first stage of CMS Energy Brasil integration plus some initiatives about our generation projects

On page 19 we can see fast results. Please remember that we had an additional stake of RGE and we also have synergy and the synergy's effect. We did a broad restructuring process in the company through reduction in management staff - we cut managers from 62 to 30; a reduction of 52% in the workforce; significant reduction in the overtime. Due to the logistics of the group that we applied to RGE we were able to reduce overtime by 44%. We have a strong focus on the operational area, today 65% of our electricians and clerks are - and we can see that in our second bullet – and as a result of this strategy we had a 9% reduction in delinquency and a 23% reduction in DEC equivalence of interruptions per consumer – this means more cash to the company with delinquency, better quality to the users.

But we have here a set of initiatives of the synergies in terms of management of liabilities and assets of the company: we have renegotiation of debt, a high synergy with insurance, collection expenses were reduced, this was a broad policy that allowed us to have better financial results.

As a result of this integration plan we had a 22.5% increase in the Ebitda comparing the first half of 06 and 07. Thus in the first half of 06 we did not have this acquisition, we acquired RGE after that, which means the 22.5 Ebitda increase and the net income increase of 47.6% that we had was an impressive contribution coming from the financial area and from our financial structure reaching R\$ 89 million, which the highest profit this company has ever had. Since its acquisition in nominal values last year was more than 89 all through the year, but it had a fiscal operation which was quite significant, the recurring income would be inferior to this value and our value, which we achieved in the end of the first half of the year.

Now let me move to Santa Cruz integration plan. With this we hope to have an annual synergy around R\$ 16 million. On page 20 we can see that the integration process has been completely defined and in RGE we have a completely new organizational structure, one that is more streamlined, simpler, an integration of administration, managerial and operational processes. We hope to consolidate results for the DRE with the same timing of CPFL group with managerial processes of procurements, etc., they have been completely integrated. Results will be quite significant here, the first half we reached an Ebitda of R\$ 24 million and we want to double this; to compare with 06 we would have a growth superior to 20%. But in net income we are practically reaching in one half year the whole amount of 2006 – and I am talking about a very well managed company over its history. This shows the potential of integration synergies and better performance results is more and more visible.

On page 21, talking about CMS Energy. We are promoting the same kind of activity, the process has not been completed yet, we will only talk about that in the third quarter; however, the same kind of work will be done in CMS Energy given the characteristic and how close these companies are to Santa Cruz, this can lead us to other types of strategy maybe joining these units because we have some issues related to software, procurements, logistics, etc., which are specific for smaller companies and this is the main reason why we have not completed the whole plan. We will do that and we will share the integration plan in the third quarter of 07, but it is a very efficient and high-quality company. CMS Energy companies – Jaguari and Paulistinha – were the winners of the IASC award of Aneel, with quality indices perceived by consumers of over 70%. So we have the first winner and the first runner up for the IASC award.

On page 22 we can give you some information about generation. As I had mentioned, we completed the third and last turbine of Campos Novos and it had its commercial start up and we added with that a 428 MW to our installed capacity and we have here on the right Gavião Peixoto's small hydroplant. This small hydroplant was repowered, now we have 4.8 MW, 3.8 MW medium. Although this might sound small volume, the important thing is that all repowering have additives to the original contracts, that is the only case when you can add volume to the power generated by these plants, so we see a contracted energy of R\$ 163.75 per MW. This plant has been completely modernized, automated, we have a new dam, 3 new spillways, we want to preserve its original architecture but now we are reaching the right conditions for a good repowering process, with modernization and with prices around R\$163.

Now I am going to give you information about the two remaining units of the so-called Ceran Project or Ceran complex, with 3 plants; one has been delivered – the Monte Claro – and there are 2 in the end of completion.

On page 23 on the aerial view we can see the stage of the plant, the dam – it is at the final stage, these photos were taken a month ago, we are completing the dam just like in Montes Claros with a free area on top, water flows over it. There is a tunnel that is over 7 km long for adduction of water and 130 MW of installed capacity, CPFL's stake is 65%, 84.5 MW.

We can notice the router, the router axle in the third machine in the powerhouse and this project we already have 90% of the civil works concluded, 93% with equipment supplied – like generators, turbines and so on and so forth related to this substation and now the challenge has to do with assembly. One third has already been concluded, start up should be by the end of this year.

On page 24 we have the same follow-up for 14 de Julho, six months in terms of our schedule for Castro Alves; in this case we already have 75% of civil works concluded, slightly more than half of all the equipment supplied and we have already begun the

electromechanic assembly. The tunnel is shorter as you can see in the topography, 1.2 km compared to 7 in Castro Alves. Over the next 12 months we will be adding virtually 150 MW to our installed power due to the conclusion of Castro Alves and 14 de Julho hydropower plants.

Finally on page 25 Foz do Chapecó hydropower plant. We only have seven or eight months of construction works, but 9% of the civil works have already been completed. Over the last months we approved financing from BNDES – that is highly important considering the growth program. We have a higher percentage for the project, virtually 73% of Capex will be funded, something around R\$ 1.6 billion and in this case CPFL holds 51% of the stake or share and two very important positive conditions: first cost-reduction by reducing the basic spread from 1.5% to 1%, BNDES spread; and the second is increasing amortization period from 14 to 16 years. Please note that this happened six months after the startup of the last machine; this is an important condition, we are speeding up our works in order to startup in the second half of 2010, adding to our national facilities from 855 MW, 426 of CPFL stake.

On page 26 we have the outcome of the strategic plan with the conclusion of the plants showing that over 07 once Castro Alves starts up, we will be overcoming our installed capacity in 827 of assured energy. We are absolutely in line with our original plans and particularly with the conclusion of these two plants, Castro Alves and 14 de Julho.

Now moving to page 28 let us address operating efficiency. In this conference call I would like to share a little bit of the importance - I know it is hard for all of you to have this idea, but to assess our commercialization business. This has become more selective, people are more professional, the market is more volatile because supply and demand are coming closer now.

Although our market share is slightly lower we keep on increasing our number of clients and customers but as the volume is smaller, even with this smaller share we have a 33% increase in our volume and an Ebitda of 32 in the comparison of different quarters. In this activity we do have a very big corporate advantage considering the size of the operation and because a lot is supported and backed by distributors. But obviously we also gain more consumers in terms of service and the quality of these consumers in terms of volume, of payment capacity and our capacity to deliver energy for very competitive conditions. This can be clearly seen in the company's performance over the quarter.

And another important point, from the IPO we have always been mentioning advantages, or groups advantages associated with customers relations. This is one of the initiatives of our value-added services. The company, among these value-added services, showed the construction of transmission and construction systems for Navegantes, our port facility in Santa Catarina. We have transmission, distribution



works, highly qualified works, 138 kV with 50 MVA and for distribution with feeders around 15 kV, construction of cabins, everything done by CPFL Brasil by supporting consumers like these R\$ 21 million - just to remind you, R\$ 28 million.

Over the last three years this company has already built 600 MVA, 12 times a work like this and more than 500 km of transmission lines, 160 of each in 138 kV. In addition to these works we have six additional projects: 180 MVAs in construction, almost four times the value of this project in construction only for substations. So this is very prominent and puts us together close to potential clients and then we can leverage part of the activities we have for the groups, size, including distribution activities for our distributors.

Now on page 31 let us address financial discipline. Notice that over the quarter we had an increase and an evolution in our adjusted net debt basically due to a reduction of cash and cash available or equivalent in the acquisition of CMS, more than R\$ 400 million in the operation and obviously funds to conclude generation works that we have just reported. Although this increase of R\$ 800 million in our debt is dear, this is being following this production line and the reduction of nominal cost for another quarter, it is below 18% and 155 for the Ebitda adjusted net debt ratio. So it has to do with the conclusion of projects that still don't have an Ebitda and we also mentioning projects for the next 6 to 12 months.

As to CMS, operation already begins to add Ebitda in July. Obviously this figure, although slightly above, begins to decrease. Another highlight is that over the quarter we also paid in April R\$ 711 million in dividends; this is important and this came out of the cash of the company.

On page 32 we show the outcome of the strategy from the financial area. This is our debt breakdown showing that with this strategy we have been refinanced for a longer time by using CDI in addition to long-term interest rates and Capex and distribution reducing IGPM – our consumer price index. And the first time we have a debt amortization schedule - every two years especially over the next two-year period R\$ 1.7 billion or 850, R\$ 950 million on an annual basis. Cash generated from the operation shows very low values and it is a long debt especially because of the funds and loans related to generation rollover are still taken place now. The total financial debt is about 5.5 billion.

I would like to conclude this call just by addressing some topics related to sustainability and corporate responsibility. As I said before we tend to focus more strongly on the first three lines of strategy in the group, things that are clearer in our balance sheet specially on the short term and over quarters, but I would say that competitive advantage is not necessarily related to these next two items: first sustainability, highlighting on page 34 the creation of our Sustainability Management Committee. In addition to representatives

from several units from our groups we also have a full agenda oriented to carbon balance and I know each one of you is a witness of these variations in climate, environment, global warming. Sustainability involving powerplants this is increasingly more important from the very beginning of the ventures, of the projects; be it related to licenses, facilities and operations and timely fashion, not to mention things related to an important process related to biodiversity management, assessment for the future, the reverse chain, what we can do with bulbs for instance that are taken from the network or transformers. For each one of these topics - when the committee is highly competent - we can have a difference, a uniqueness for the group.

On page 35 also to give an update related to the implementation of our code of ethics, the new code of ethics aligned to Sarbanes-Oxley and being disseminated throughout the group. This was an important initiative involving implementation in our companies in Sao Paulo and also including Rio Grande do Sul companies, beginning with RGE. Just to highlight the commitments by the group with the Millennium Goals, with WCF, Abrinq, The Global Compact, just to mention a few.

And on page 36, as we said before a couple of comments on approved projects and Monte Claro hydropower plant and carbon credits - 120 thousand tons of CO2 equivalent coming from our first re-powerings, but this has been acknowledged now by the clean development mechanism with 850 thousand tons. Please note that this activity - that is pretty aligned to our strategy - can bring with this amount about 1 million tons of carbon equivalents and our potential, the characteristics of each one of the power plants and repowering this value can be extended to about 7 million tons - reminding you that the average price per ton varies from 13 to 20 euros per ton. So we do have an important potential for value creation in the group, with a technology that is already acknowledged for these credits developed in-house.

As to corporate governance, the highlight on page 38 has to do with certification in section 404 of Sarbanes-Oxley related to 2006. This process determines an assessment of several control activities, 895, related to 100 processes and subprocesses that are related to the bottom line of the company.

We have no material weakness or significant deficiency and we also implemented control self-assessment on the concept of Ascending Certification and involving all the areas in the group with a certification by the CEO and CFO. We also tested all the entity-level controls in order to assure the effectiveness of the internal control structure - this is an important achievement that has to do with our listing, our listing especially on the American Stock Exchange and a point of uniqueness to our investors and partners. These were our news for the second quarter and we have our team available for your questions. Thank you.

### Q&A Session

**Operator:** Ladies and gentlemen, now we will be opening the question and answer session. If you want to ask a question, please enter star, one. To remove your question from the list enter star, two.

Our first question comes from Cristina Garcia from Lopes Filho Consultores.

**Ms. Cristina Garcia:** Good afternoon, congratulations for the earnings results for the quarter. I would like to have a better understanding on the energy purchased that was slightly higher than the projection; do you have an explanation for that? I did not quite understand what really happened.

And could you also give us an idea of the increase of the Ebitda compared to 2006 with the new generation projects that are coming on, especially Chapecó in 2010 and annual Ebitda increase?

**Mr. Ferreira:** Cristina, a few words on our Ebitdas from power plants. They are higher, with values around R\$ 155 ... 125 and R\$130 MW per hour. We run our plants with about 85% of Ebitda margin with these two items ... just to mention I think you can calculate the figures now, but just to let you know that for Enercan this year it will be around R\$ 800 million for 400 MW starting up in May and partially in March. I think you have enough elements to calculate the rest. As to energy prices that you mentioned before ...

**Ms. Garcia:** I am not mentioning, I don't want to include charges, only energy purchases.

**Mr. Ferreira:** Are you referring to a decrease?

**Ms. Garcia:** No, it was slightly higher than my expectations. Actually there were two items that you mentioned that increased.

**Mr. Ferreira:** You have an increase in value due to acquisitions.

**Ms. Garcia:** In terms of value, amount in reais, anything to say? Any extraordinary items?

**Mr. Ferreira:** No, nothing happened over these months quite the opposite.

**Ms. Garcia:** Ok.

**Mr. Ferreira:** I think it has much more to do with values and amounts and more specifically for RGE this is not proportional, RGE has an agreement with Tractebel, a low-balance agreement. Every supply from the company is done via Tractebel and Tractebel price is relatively high, R\$ 125 per megawatt per hour. So it is not proportional in terms of the rest.

**Mr. Garcia:** If you want to compare prices, that is why I did not understand it first.

**Mr. Ferreira:** Right. Just to give an idea, in Sao Paulo for instance those were in charge of low balance in Paulista, Piratininga and CPFL Brasil, R\$ 95 MW per hour. That is why for RGE if we add 50% more in the volume 167 and now ... we have 67 and now we have 100 for us we have 50% more with a higher price. Maybe that is why.

**Ms. Garcia:** Ok, probably that the reason. Thank you.

**Mr. Ferreira:** Thank you Cristina.

**Operator:** Our next question comes from Rafael Espírito Santo from UBS Pactual.

**Mr. Rafael Espírito Santo:** Good afternoon. I have two questions, the first has to do with Foz do Chapecó. What is the company's strategy to trade the additional 11% that you recently acquired? Will you be selling that via the (A-5) auction and if not what price would you consider reasonable to be selling in the free market as of 2012 or in the long run?

My second question is the following: what is the company's view vis-a-vis Rio Madeira, or Madeira River Project? Probably the invitation to bid will be issued this week and what is company's opinion in terms of carbon and thermal plants, is that on the company's interest?

**Mr. Ferreira:** Thank you for question. In terms of Foz do Chapecó energy we have not defined our strategy yet, but chances are we will be going to this auction. The cap price is around R\$ 126 and we have UBP deferred items, what is slightly above 130, which would be very adequate for the group. This is our expectation in the base line or in terms of price. But due to the market characteristics we could have also some changes, but basically this is the strategy to be followed.

As to the projects you mentioned, obviously we are carefully watching Madeira, it is a big project, a lot of information are coming in, more accurate information especially because of the conclusion of the licensing and the 130 additional items. We are still analyzing and we were asked by several groups, we are still working on the strategy to better assess this venture. But obviously it can add value, it is very timely for Brazil and we understand we have a mission to take, obviously provided we think we have the

conditions to have private governance. In other words, if we ever are involved - just as in any other venture - we need a transparent governance for the size of the venture and predominantly it should be private and naturally due to assessment on the investment or especially on price perspective we should have to be able to show our analysts and investors how we can add value, so this is how CPFL can join ventures once it shows how of value can be added.

As to carbon, for the moment my answer is no. I understand that analysts consider this to be an opportunity, but carbon still has to be developed in Brazil. All these projects were related to imported carbon, logistics is very complex, I think they should be at their proper term and Brazil would have to work on projects to explore carbon in the south of the country. We are still assessing this in terms of coal too, but in our script at least for this moment investing in this area.

**Mr. Espírito Santo:** Thank you very much.

**Operator:** Our next question comes from Mr. Sérgio Tamashiro, Itaú.

**Mr. Sérgio Tamashiro:** Good afternoon to all. My first question has to do with commercialization. It was mentioned that the commercialization market is getting increasingly more competitive so you need to invest more to offer more services; what is the growth rate? Do you have any idea of what the growth rate is, because commercialization should be the lowest Ebitda 14%, generation 23, distribution 33%. Do you think that this market is becoming mature? Do you think that we will reach a stable growth rate? What will be the strategy of CPFL from now on? Will it be a matter of price, price and service, what do you expect as the commercialization market from now on?

**Mr. Ferreira:** Sergio, thank you for the question. I believe, I think commercializing companies are reaching a stability stage. It is growing almost organically, we look for opportunities that might appear in the market and because of price volatility we have a stable portfolio of clients with reasonable terms and conditions and this is our portfolio. We do have energy volume, we have our distributors, we supply the distributors and I think that the movement of free consumers is much more well behaved now, we have about 25% of total energy sales. I believe that many issues are still perceived because last year we still had these movements, but they are getting smaller and smaller.

In Rio Grande do Sul we have consumers coming back to our platform, we were in the right conditions to attract them back so I guess this is a trend, the market is catching to this stable level, growth will come from this category of consumers. If the economy goes well the consumers will grow 6 to 7% and I believe that this is the size of this operation.

Now obviously we cannot really predict, but this opportunity can be increased by market opportunities in the short run due to volatility or - and we have tried to include that - these opportunities can be broadened by a greater offering of services. Services will be



a important entry for business with energy. We will see if it works 4 to 5% of the total volume of revenue of this kind of venture, but services they can be an important instrument to build loyalty of consumers, to open new doors to new consumers particularly out of the concession area.

For example the operation in Santa Catarina: stability, 67% growth if the economy remains as it is now, with the current growth rate; we might have some positive surprises if there is a short-term volatility, given that the system is very close to getting into a balance between supply and demand.

**Mr. Tamashiro:** Ok. My second question getting on what Cristina mentioned about the generation Ebitda. You mentioned 180 million in 2007; if I take the Ebitda of generation for 2006 of 427, the Ebitda for 2007 would be around R\$ 600 million, that would be more less the order of magnitude?

**Mr. Ferreira:** I believe so.

**Mr. Tamashiro:** Now looking at 2010 when all your plants: 14 de Julho, Chapecó, Castro Alves will be operational what will be the Ebitda mix? 74% distribution, 16% generation, 10 distribution, what will be the mix for 2010?

**Mr. Ferreira:** The generation Ebitda for the projects that we have under way will be about R\$ 800 million or slightly more than that, it is locked up, the Ebitda that is linked to IGPM. In the case of the distributors it depends on two things, two factors: the growth of the market itself and on the tariff adjustment process. Generation will have its share increased in 17% in Ebitda, it should reach close to the 25% of the Ebitda and distribution it should not be decreased, I guess it should increase, because we are now considering the effects of CMS, etc.

On the other hand the counterpart to this increase we have tariff adjustment process and the performance of the company might have in terms of market growth improving our market share. If the market continues positive as it is our share might be even more pronounced. This is our primary business, where we have the greatest assets and where we have the most synergies to capture.

**Mr. Tamashiro:** Thank you. My third question is regarding acquisitions in the secondary market. I am looking at the time frame time frame of privatization of CESP and of Brasileira. I think ... what is your position about that? I am not the best person to talk about that, I believe that the results will be disclosed very soon.

I will probably be listening very closely, they clearly have favorable conditions, they have to write a smaller check and they have time, they can use their right of first refusal and this is a very competitive process. These assets they can add a lot of value to a group

that is very well positioned in distribution like ours, but what AES is going to do I really don't know.

As for CESP, the differences continue at a stand still. We followed the process very closely, we would be interested in those assets because they will have a de-contracting ahead of us and it can add value to us, but this process officially speaking is at suspend, so right now I believe that the government will be considering moving ahead as CESP shares have increased their prices quite a lot and I believe that the government - the challenge that they have of infrastructure, road mesh and the railroad mesh because of all the airport problems - might really have to sell the company, but at the moment nothing has been announced officially.

**Mr. Tamashiro:** But if you participate in Madeira river you will be not participating in CESP or vice versa? Are these excluding possibilities? Would you have financial capacity to exploit all possibilities?

**Mr. Ferreira:** Well, we would have to choose one or another, we are talking about very high investments here. The amount that has been mentioned for Brasiliana would be 10 billion, slightly inferior values for CESP. Given the financial discipline of our group and the possibility of the issuing of stock I believe we would have to go up to 8 to 10 billion everything done with safety, because we have to take into account our shareholders, the group will never do anything unexpected, we don't want to grow our market share so much. We are leaders in the distribution market, commercialization market, we have consistent growth in generation in each and every one of these activities and I just want to make a point by showing every quarter net income, operational revenue measured by Ebitda, they all show that we have a lot of financial safety, solidity.

The group can leverage some ventures but we will only go into these operations if we can add value, we will not go just grow for the sake of growing, we want to grow trying to add value to our shareholders and investors and always based on safely using our leverage.

**Mr. Tamashiro:** Thank you very much.

**Mr. Ferreira:** Thank you Sergio.

**Operator:** Our next question comes from Mr. Subhojit Daripa from Morgan Stanley.

**Mr. Subhojit Daripa:** Good afternoon, I have two simple questions here, one is more technical. There is another company that disclosed their results and released a note saying that Aneel has changed the way they calculate fines due to sales of energy. It was reclassified from operational to financial, financial to operational. Did you have this reclassified? Can it tell how much?

And the second question is related to your comment about the thermal coal plant. As we all know for quite a while, probably this will be increasing the capacity in the coming years and although there is a growing trend to 2010, after 2010 we don't know what is going to happen to the hydroplants and one of the options would be to go into thermal power, with the potential for imported coal or even exploiting coal in Brazil. Could you elaborate more on that, the pros and cons of this activity of exploiting domestic coal and imported coal?

**Mr. Ferreira:** As for the first question regarding the fines, we did not get any fines so I don't know. We did not change the procedure, because we did not have any fines. Now this is in my backlog, I will do some assessment about that and Filippo will send you an e-mail giving you more details about a possible change in procedures, it did not happen in our case.

As for the second question you are quite right, the main bet for energy supply for 2011, 2012, 2013 is linked to Madeira River investment and that would be the primary and the best option in terms of costs and environment issues, though there are other alternatives available; as we saw in the recent auctions we had a low-quality balance in terms of quality and environmentally. Obviously working considering alternatives which have better characteristics is an important exercise.

There was a great progress in the coal industry in terms of exploitation and coal used for production of energy – technology of boiling, using coal with a fluidized bed increased efficiency significantly because of the scale operation, which is always high to make it economically feasible and in terms of the types of instruments used to mitigating environmental effects. I think that coal is an option to be used.

If we have consistent GNL, liquefied natural gas, LGN, we will have that in the Northeastern region of Brazil; we have several plants there and liquid natural gas would be a technical and environmental option considered superior. But if we don't have that, we might have a composition mix and then I believe that possibly exploiting coal in the South would be competitive for Brazil because we can build this kind of plant in a short period of time. We could have maybe partial replacement of the volumes that we would have coming from Madeira River.

I think that in the new mix we should consider something that is not very strong right now but which I see as a good alternative, which is sugarcane bagasse. It is well known that we could have an expansion in the production park of ethanol in Brazil because of the recent negotiations with the United States and we have to consider that not only we do have the ability to use this production of sugar cane bagasse to produce energy, but also in the existing platform we produce energy with low pressure boilers - we work with about 20 atmospheres that can be increased to 60 and if we have that kind of input we can increase by 40% the electricity production capacity, so basically bottom line is we have alternatives to Madeira, the old thermoelectric powerplants, and I would

say that perhaps because of the ethanol, sugar cane bagasse might supersede the coal option, this would be my current evaluation.

**Mr. Daripa:** Thank you Wilson. Maybe I was not very clear. Regarding the moratorium ... the change in procedure was financial expenses that are now being reclassified as operational expenses ...

**Mr. Wilson:** Bassalo is here and Filippo is here and they have both taken down this comment and they will go back to you.

**Operator:** Ladies and gentlemen, we would like to remind you that if you want to ask questions please press star, one. We would like to remind you that if you want to ask questions please press star, one.

**Operator:** Our next question comes from Mr. Marcelo Ganem from Meta Asset Management.

**Mr. Marcelo Ganem:** Good afternoon. Wilson, I would like to know from you how would you explain tariff adjustments after ... of CPFL Piratininga the preliminary ruling should come at the end of this month and lastly what are you expecting particularly after the last revision of Escelsa?

**Mr. Ferreira:** Well, I don't share this kind of information because right now we are discussing this, we are presenting, disclosing our data on that and we are having meetings with the regulatory agency. I just think that we cannot have comparisons, we are talking about companies – the Coelce, Eletropaulo, Escelsa and more recently Electra

are different in terms of level of concentration and geographically speaking. What is important is that Aneel has been recognizing these differences. There is no reason why we should work with anything other than the application of provisional rules, because I remind you there are some rules missing in the process particularly with regards to accrual of the base of the liquid remuneration based on a spreadsheet, that would be a target spreadsheet, regional, for the clusters to be formed rather than the real values used.

Companies that have an advantage, and this is not an advantage specific to a company like ours, other companies can get together and jointly buy materials and services but this advantage has not been given to those that have the structure to enjoy this kind of advantage and this is a problem.

The number of items under discussion which are not very clear about valuing or pricing services which in 2003 were valued in dollars; with the real/dollar exchange rate fluctuation these amounts have to be reviewed - for example IT services; these things

have been under discussion with the regulator and hopefully the regulatory agency will have the serenity to recognize that these changes - if not in the short term, in the medium term and they are provisional as we speak and would be not very cautious if we talked about this, we hope that all the available rules will be applied serenely.

We have word with the regulatory agency to help them make these rules as transparent as possible for society, for all stakeholders, so that this kind of expectation will not arrive, so that people will always know we in the company and you analysts and investors will have the right conditions to make this kind of assessment in a transparent way. So if you allow me these things are still under deliberation and I don't want to create any expectations, the only expectation is that the regulatory agency will be reasonable.

**Mr. Ganem:** Thank you.

**Mr. Ferreira:** Thank you Marcelo.

**Operator:** We are closing now the question and answer session. I would like to give the floor to Mr. Wilson Ferreira Júnior for his final considerations.

**Mr. Ferreira:** The final remarks actually restate what we said all over this call. First of all I would like to thank you all for your presence, for attending CPFL's call; for another quarter we are very happy to be sharing our increasing earnings – it is only the outcome or a strategy that is very clear, that is why we want to highlight it all over our presentation, to show their effectiveness and uniqueness compared to our competitors. CPFL has been very successful in terms of growth via acquisitions and also by sharing these synergies especially in the distribution area.

For generation our challenge, in addition to new venture prospecting - and we have mentioned a big one today - is to conclude our current ventures. On the other hand as to commercialization - which in our case is something very special, because it is fully aligned with distribution - is to be competitive in order to meet the needs of new consumers and to keep the platform up and running, it is highly important to all of us.

If we put all this operating performance together with a very clear strategy financially speaking that can be seen on a quarterly basis and with unique actions related to corporate governance, that is unique in Brazil, added to a program that keeps an eye on projects not only on a short-term but a long term-horizon with sustainability. We believe this trend that has been seen over the last 15 quarters since the company's IPO can continue to be successful in the future. This is the board committee and we will be happy to be sharing our expectations with you over our next calls and meetings. Once again thank you very much for coming to CPFL's call and our earnings result for the second quarter of this year. On behalf of the board, thank you.





**Operator:** CPFL's Energy conference call is being closed now. I would like to thank you all for your attendance, good afternoon. Thank you for using Chorus Call Brazil.