Local Conference Call
CPFL
Earnings Results of Second Quarter 2012
August 7, 2012

Operator: Good morning and thank you for waiting. Welcome to CPFL ENERGIA's conference call of 2012 Second Quarter Earnings Results.

With us today are executives Wilson Ferreira Júnior, President of CPFL, as well as other company executives.

This call is being simultaneously broadcast over the Internet on the CPFL Energia Investor Relations Website at: www.cpfl.com.br/ri, where the presentation also can be found and downloaded. Please be advised that all participants will be in a listen-only mode during the company's presentation, following which we will provide further instructions before beginning a question and answer session. Should anyone need assistance during the conference call, please request help from an operator by dialing asterisk - zero (*0). It should be remembered that this conference is being recorded.

Before proceeding, let me mention that statements of forecasts may be made during this conference call regarding the CPFL's business prospects, projections, and operating and financial targets, and are based on the beliefs and assumptions of the management of the Company based on currently available information. Forward-looking statements are not guarantees of future performance. As they relate to future events, they involve risks, uncertainties and assumptions, and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors could affect the future of CPFL Energia and may cause results to differ materially from those expressed in such forward-looking statements.

Now I want to pass the microphone to Mr. Wilson Ferreira Júnior. Please, Wilson, you may proceed.

Mr. Wilson Ferreira Jr.: Well, good morning, everyone, to all investors, analysts who follow us this morning for our earnings result conference for the second quarter of 2012.

I will begin this presentation at page 3 of the program that you've downloaded, pointing out here the highlights of the second quarter. The first major highlight relates to energy sales in the distributors' concession areas, with strong sales in the range of 5.3%. We show the details a little bit further in the presentation.

Another important topic is the startup of two biomass power plants — Bio Ipê of 25MW, and Bio Pedra of 70MW, both of which occurred here last May, and the completion of the acquisition of the Bons Ventos wind farms in June.

We also at this moment here make the declaration of interim dividends in the amount of 640 million, 100% of the result obtained by the group in this first half of 2012, amounting to 640 million.

Investments in the quarter of 715 million also will be detailed later in the presentation.

Here is an important observation regarding the awarding of an AA+ rating by Fitch for the issuance of the debentures of our subsidiaries... and the Ba2 on global scale and Aa3.br on national scale by Moody's for CPFL Renováveis. Therefore, two important ratings that confirm the consistence of the group in both operations.

Furthermore, we have here an important increase, of 40%, in the average daily trading volume of CPFL's shares together with the ADRs during the second quarter, reaching nearly R$ 50 million daily.

And finally, another notable achievement, the Distinction Award of Agência Estado Companies 2012, recognition of companies that even in an unfavorable international scenario have been able to deliver results, good results, to their shareholders. So, these are the main highlights of the second quarter.

Now we go to the next page, beginning here with details regarding these highlights. The first of these, as we can see, is precisely energy sales in the concession area. We are able to see here strong growth in the distribution captive market of 5%, and also 6.2% with regard to free consumers served in the concession area, those who pay TUSD (use of distribution system tariff), these growing 6.2%, which integrates the volume of 5.3%, reaching 14,116 GWh during this quarter in the concession area of our eight distribution companies.

I'm pointing out, in the lower part, the group's total energy sales (considering only direct sales to end clients), and we have here therefore more than 5% of growth in the captive market of the distributors. We can observe in the green bar the effect of the sale of commercialization and conventional generation to customers outside of CPFL Energia group. So, here, already showing growth of 13% and, for the first time, appearing here in the yellow block, are the sales of CPFL Renováveis, also sales outside of the CPFL Energia group, totaling 820 GWh.

Putting together this group of sales, on the right side we have growth compared to last year of 13.3% - that is, both of the operations are considered here as part of the group's revenues.

On the right side there is just a comparison: we can observe that we had small growth, slightly higher than Brazil itself, in our area of services, that is 5.3% against 5%, and this was mainly due to strong growth in the Southeast, where this market was up 3.6% and the seven distributors in the group — notably in the state of São Paulo - grew 5.4%, and in Rio Grande do Sul, which grew by 6.4%, and our RGE operation was up 4.8%.

On the following page we have details regarding these sales by market segment. Therefore, on page 5 we can observe that this 5.3% that we have here resulted from strong growth in the residential segment, of 10.4%, and 9.6% in the commercial segment, practically stable regarding the industrial segment and the other segments, where we see mainly the rural segment, and public service and government, which grew by 8.4%.

It is true that one should take into consideration the number of days for a more balanced comparison. Therefore, when we make our comparison looking at the calendars of both years, trying to equalize the number of days billed in the growth reported for the residential class, which had more days in the year of 2012 than the previous year, we make this adjustment and then what would be correct would be that the residential segment growth was 6.8%, with the commercial segment being 6%. Both continue to be very strong values, very high, and they certainly are responsible for the result, especially the group's revenues for its distribution activities.

Next in sequence we go, in order to offer a future expectation — and this is important because we have had strong growth in these segments and, according to an IPEA research, we are showing here a little bit of the expectations of families in the Southeast and South regions regarding the economic situation. We can see here that 70% of the families are optimistic in the Southeast region, a bit more than 56% in the South region.

Regarding the... economic situation for the next five years, it is still quite strong, 57% and 55% respectively. The financial situation of families for next year, we can see, is optimistic, is quite strong. It is more than 80% in each of the regions, and up to 87% in the Southeast. It's a moment for buying durable goods, 38% in the South and 68% of the Southeast. And security in terms of current jobs, with the situation being optimistic for more than 85% of the people in both regions.

On the right-hand side, one can observe: well, this intention, this disposition for acquisitions… Are still there electrical appliances that can be acquired? And here, we conducted a survey on possessions and habits where we can observe that 98% of the consumers in these regions that we serve — that is, specific to the concession area of our distributors — do not own dishwashers. Basically, only two out of every 100 have a dishwasher.

94%, despite being in regions with hot summers and in the South where it is quite cold in the winter, 94% did not have air conditioning; 53% do not have a computer or notebook; 45% of the families do not have a microwave oven and 33% — surprisingly — do not have a washing machine. This is an important result because being disposed to acquire durable goods, certainly this equipment, these electronic and electric appliances, not available for these families will be the subject therefore of this evaluation.

This is especially important in order to evaluate annual residential consumption per inhabitant. Here we display an important chart showing the situation of the CPFL group, of the companies of the group, with about 695 kWh per inhabitant in 2009. In the 10-year Energy Plan, Brazil had projected a 814 kWh consumption, but it is true that on the same date Brazil had consumption of 518 kWh/inhabitant.

Therefore, certainly our consumption, which had been higher, nearly 40% higher, should remain in this proportion and at the end of the decade we should possibly surpass 1,000 kWh/inhabitant. However, it is important here to compare the countries of Latin America itself, such as Venezuela, Argentina and Uruguay, which have consumption that is higher than what we intend to have at the end of the decade for Brazil.

Looking to the other side, Australia is more or less the same with relation to the tropics, the same distance, the same Brazilian latitude, it has consumption that is about four times greater than what we are pointing at this moment. Therefore, this is only to demonstrate that obviously this good moment of the economy, particularly the families, may not yet be responsible for significant development of residential and commercial consumption in our country.

Let us now go to page 7 of the results of this quarter, and we always make a disclaimer here: on the upper line, we are showing exactly the results that we reported in IFRS and in the lower line the results that in our criteria would be the results, especially for a more balanced analysis, due to the fact that they take into account the regulatory assets and liabilities - that in the IFRS reporting system does not happen - considering, as we used to do in Brazilian Gaap with CVA account, the account for variations in the amounts of Parcel A, and also for a good analysis of nonrecurring events.

So, here we have reported net revenues of R$ 3,212 million for this quarter, a growth of 14.9%; the company's EBITDA reached 930 million, also a growth of 14.1%, whereas net income was 234 million, a decline of 20%.

It is important to observe on the line below that when we take into account regulatory assets and liabilities we have practically the same growth in revenues, reaching 3.119 billion or 14% of revenue growth already with regulatory assets and liabilities and the non-recurring events; EBITDA growing 19.3%, and therefore reaching R$ 1,062 million and, then, net revenues practically stable, with exactly the same amount that we had the previous quarter of the past year, of 344 million.

Below you will see especially the non-recurring events, and you will remember that last year during the same quarter we pointed out the account for the Incentivized Retirement Program, which has been producing its effects, and the results for this month already are a demonstration of this.

The ISS provisions for Campos Novos power plant, we also made in the amount of 10 million, and the charges for grid usage of EPASA, also a non-recurring value in 2010; accounting adjustments for depreciation and UBP of the plants have an effect basically only on net income; and the physical inventory of the distribution companies' assets that have impacts in both the quarters and that are amounts that are recovered at the moment of the tariff review.

Besides this, we take into consideration here the regulatory provisions. That is to say, in the IFRS we do not conduct this type of accounting; however, in the regulatory accounting, we conducted it due to orientation provided by ANEEL. In the regulatory provisions of our distribution companies is considered here not only the value of Piratininga but also the five smaller concessionaires, the concessionaires in the São Paulo hinterlands that were acquired by the company in the past few years, with an effect of 63 million in the quarter in terms of EBITDA and 42 million with regard to net income.

Furthermore, other regulatory assets and liabilities of significant value are amounts that will be recovered by the company over the next 12 months, especially the result of the exchange variation that we had over the period, with the higher exchange rate, and even concessionaires such as Companhia Paulista de Força e Luz recently had adjustment — for this latter one, whose exchange rate was in the amount of 1,80 and now we are at an exchange rate of around 2.00.

Also to be considered is that all of the distribution companies buy energy through, for example, availability contracts with the thermal plants, etc., and their volumes are priced also by the PLD, which likewise increased in view of the fact it was a year that was a little drier than the previous years. Thus, an important variation as you have followed, with the PLD having changed here with amounts between R$ 140 and R$ 180/MWh, whereas the past year the amounts were around R$ 80. Therefore, these important variations, which will be captured by the CVA account, but unfortunately not by the IFRS, are not so considered as they were under Brazilian Gaap in the past.

So we have a variation that is going to be seen on the next page. But if we total together all of the effects of 75 million in the earnings results for the second quarter of 2011, in terms of EBITDA, and in this year 132. In the last line these non-recurring amounts and also the regulatory assets and liabilities, they total 50 million in net income last year and 110 million this year.

In any case, we consider this to be a very positive result taking into account, especially, the company's outlook for growth as well in its activities, which we are going to show you in detail a little bit further ahead.

Now let's go to page 8 and we'll look at some details of the performance of operating earnings before depreciation and amortization and taxes, that is the EBITDA. So, what we have here is the amount reported of 815 million, the recurring amount ... Excuse me, the amount reported in 2011 of 815 million that, on the occasion, taking into account regulatory credits, would total 890 million.

And we are reporting at this moment an EBITDA of 930 million, therefore a 14.1% growth, and adding in the credits that the company has in terms of its regulatory assets resulting from their relation with the exchange rate, the

PLD, etc., would total a recurring value at this moment of 1.062 billion, corresponding to growth over the previous year of 19.3%.

Therefore, through these explanations that can be clearly observed here, resulting from the important variation of the regulatory assets and liabilities in the case of the assets, we will now detail the reported portion — that is, this 14.1% growth in EBITDA of last year for this.

Therefore the 14.9% growth in net revenues was due in great part to the increase in sales to the captive market and the tariff adjustment applied to our distribution companies, practically half of this growth of revenues is due to this item. Also, this is important, the incorporation of CPFL Renováveis for consolidation effects, and therefore there is R$ 122 million besides the activity of conventional generation and the commercialization and services, operating at a higher level than the previous year, and including taking advantage of secondary energy in the amount of R$ 110 million.

And finally, the growth of the TUSD. I had reported a growth in market volume and also there is growth in revenues, in this case 6.5%, in TUSD revenues of 21 million, and obviously regarding this volume of revenues there is also an increase in the deductions of these revenues in the amount of R$ 128 million.

There is an orientation in this quarter... As you know we changed, we rotated our independent auditors, and under the orientation of our auditor Deloitte, we began to conduct the reclassification of the PIS/Cofins credits over depreciation to revenue deductions. So, this is the first time that we are putting this in the accounts, but it has no impact on net income.

So now you can observe that we have removed these credits on the financial line below, but here we incorporate this reclassification of the PIS/Cofins credits in our results on depreciation.

If on the one hand, there is a 14.9% increase in net revenues, we have, and it is this that justifies, in great part, the regulatory assets, an increase of 23.5% in the cost of energy and charges. Of this, 26% is an increase in purchased energy, 324 million, and here especially the PLD topic and the foreign-exchange rate are relevant.

On the other side, an increase of 11.1% in charges, and these charges always increase in January of each year and some of the concessionaires do not capture this in their tariffs until their own tariff readjustments. Therefore, this 34 million are amounts that also in some measure will be recovered through the CVA.

It is important to point out here, and I only do so for the exchange rate in the second quarter of 2011 of 1.52 going to 2.0 at this moment, as well as for the PLD, with the values of the second quarter of 20.45 on average to 164.55 in this second quarter. Both of these indexes, PLD and the exchange rate, are demanding, leading to a higher cost of energy and charges.

The good news is that, in spite of the increase in the cost of energy of 23.5%, we had a 12.3% reduction in our costs and operating expenses, therefore totaling 56 million, remembering that in the previous year we had booked the incentivized retirement program in this same quarter as well as the extraordinary ISS provision at the Campos Novos power plant in the amount of 10 million.

Here I am presenting on the following page a little bit of this reconciliation, if we can call it that, of the cost of our personnel, materials, services and others. Therefore, we have here the amount reported the previous year of 456 million, as you can see in the second blue bar in the above chart.

It is important to note that in these 456 million, in order for us to have an amount that would be recurring it would be necessary to remove the non-recurring events; that is, the ISS provision that we spoke about a while ago, the physical inventory itself of the assets that are amounts that are recovered in the tariff review process and, furthermore, the incentivized retirement program properly speaking, which would have given in the same base a recurring PMSO in the second quarter of the previous year of 387 million.

Nevertheless, of this reported amount of 456 million occurs this reduction that we had highlighted of 56 million, 33 million for personnel and charges and 23 million in materials, services and others, reaching a reported PMSO of 400 million. Here it is also important to highlight that it incorporates 28 million from the consolidation of CPFL Renováveis as well as 7 million of inventory of assets that are currently finishing up for the tariff review process. So here the comparison in reported values is a reported reduction of 12.3% and in the adjusted amounts of 5.8%.

And there below, just to get an idea about why these things are happening. I tried with my team to capture here some important assets, including those that are the result of the introduction of the topics belonging to the zero base budget (ZBB). Therefore, we have here some things that need to be emphasized: for example, the improvement in the management of the purchase of airplane tickets by increasing the average due dates, a very well conducted programmed scheduling, etc., resulting in a 15% cost reduction.

In the consumption of paper of varying sizes, including the billing invoices, a more intense use of e-mail, greater restrictions regarding printing on paper around the company, led to a 36% reduction and in photocopies, as well, by copying documents in centralized locations. This led to a 77% reduction in the total unit cost of printing on paper. These are substantial amounts.

On the other hand, in percentages, our attention is called to some things that are occurring here such as, for example, our vehicle fleet, where we had an annual reduction of costs of around R$ 3 million, spending something like 30, so about 10% in a number of things, including fewer kilometers driven, optimization of the routes, etc., centralizing fleet management through a pool of vehicles, and so forth.

Collection actions led to a reduction in our payment defaults of 5.2 million, also through a segmentation of the clients, with a process of credit restriction and with amounts that were quite efficient compared to the rest of the sector.

And finally, here, in the highlight of the quarter regarding meter reading of light bills and delivery of bills, there was a reduction of R$ 2 million to R$ 3.5 million involving an alignment of the amounts collected by the banks on behalf of all of the distribution companies, the implementing of an e-mail-delivered bill and changes to the layout and type of paper for warnings and second warnings about unpaid bills.

So these are some of the measures that have been incorporated naturally in this comparison and that are especially responsible for this reduction, which is pursued by us and is part of our strategy for preparation for the tariff review processes that are shortly coming due.

I'm going now to page 10 for a report about net income, and once again the same consideration as before: if we look at the recurring net values of the regulatory assets and liabilities, we are talking about a movement of zero to zero compared to the previous quarter, the same quarter of the previous year, although in the amount reported we are informing a decline of 20 million.

We have already spoken here about the EBITDA increase of 14%, amounting 115 million, and here, yes, first the reduction in the company's financial income of 30.9%, which was 56 million, mainly due to the increase in financial expenses of the company of about 19%; by the consolidation of CPFL Renováveis (we control the company) of 44 million; by the additional expense with Itaipu's invoices, where we have reported 16 million; and the increase in the debt stock of 15 million.

The following is important: the company has naturally benefited not only from the decline... in spite of the fact that, on one hand, it has increased its debt stock, naturally the result of serving both a very robust Capex as well as an acquisition process, it also, on the other hand, benefits from an important intelligence in obtaining funding indexed to the CDI. Therefore, we see a significant decline in the quarter of the previous year, from 2.8% to 2.1% in this quarter, a higher decline, nearly 30%.

And we also have here recently - this is beginning to impact our results as of this quarter - the decline in the TJLP, which is an important index for about 30% of the company's financial commitments, a savings in financial expenses just as a result of the indexation, on the order of R$ 65 million.

We have on the other hand a positive aspect: the 55% reduction in the UBP, in the payment of the UBP, mainly due to the net non-recurring effect of the accounting adjustments of the recalculation of plants' UBP. And on the other side we have, besides the worsening financial result, an increase in depreciation of 52%.

And here, up until now making it clear for some of the analysts, we have perceived this doubt: the reclassification of PIS/Cofins that occurred on the revenue base that we highlighted a while back is taken out here in the same proportion; therefore there is the null effect on profit, increasing the depreciation and amortization line. Naturally, this line's main element was the consolidation of CPFL Renováveis, 57 million, and on the other hand the reclassifying of the credits by 50 million, which we pointed out above.

The variation in the result of the private entity continues in surplus, a smaller surplus in this quarter, 20 million lower than the surplus in the second quarter of the previous year, and it went up due to the reduction in income, the reduction in income tax and social contributions in the amount of R$ 5 million. Therefore, the reported result was 20% lower, but a recurring result, in which additional investments weigh in, as we had already said, for the Company growth, on the zero to zero basis.

This led to a R$ 640 million income result for the first half, for which there is a proposal to distribute 100% of the net income in the form of dividends, therefore in the amount of R$ 640 million or R$ 0.67/share to be paid, as is the custom, on the last working day of the month of September, giving those who are invested a dividend yield of 6.1%.

I am now going to page 12 just to give details as I previously said regarding the company's Capex; not all of the main acquisitions are here. In the company's Capex it is important to emphasize that the Capex of the past quarter was 715 million, in the quarter being 339 for distribution, 371 for generation and 5 million in the sales and services activity. But the total for the last 12 months is 2.437 billion.

A strong investment in distribution, concluding here the formation of the regulatory bases of each one of the distribution companies, and naturally in generation a very intense program, notably in the renewables area, leading therefore to 2.437 billion. Is in this area — the renewables area — where we had a number of acquisition operations over the past 12 months.

I’m making a point of mentioning here the largest ones: the Jantus wind farm, which in fact is that operation for the acquisition of SIIF, and the Bons Ventos wind farm, both currently in operation, with these two transactions involving nearly 2.6 billion, of which 1.4 billion practically in cash operations and practically 1.2 billion in debt that was assumed as part of these transactions.

We did not include Ester here because the deal only closed in the current quarter that is underway, but involves about another 112 million. If we were to look only at this figure totaling 2.437 billion over the past 12 months of Capex, we still would not have the results of these acquisitions, a cash disbursement of nearly R$ 1.5 billion, leading to something like 3.9 billion in investments for the growth of the operations of the company in each one of the sectors in which it is operating.

This obviously has an impact on debt. We have a report here on page 13, and here is an important observation: at the end of the second quarter, our debt reached R$ 11.8 billion. And here we would like to make an important comment: the company also understands - and I have highlighted this during the course of this presentation - the impacts referring to the IFRS format itself to account for this.

So, we conducted negotiations with all of our financing agents and we have here a calculation that impacts our covenants, a calculation that adjusts the company's EBITDA in the proportion of its operations. Therefore, you will observe here a proportional consolidation of CPFL Renováveis; it consolidates for the IFRS effect 100% of the debt, but for the effect of the financial covenants it consolidates its ownership stake.

The same thing in CERAN, it also accounts for 100% for the IFRS and here consolidates 65%. Naturally, there is inclusion of the CVA account and it is the essence of the company's result on the date in which it is operating as well as, naturally of the pro forma EBITDA of the assets that we acquired. Within this measure, we have an EBITDA that I am calling “adjusted”, which is practically the EBITDA of the essence of the company's activity, of 4.182 billion.

Now, compared to the 11.8 billion of leverage, then we have an adjusted net debt/EBITDA ratio of 2.81 and this is the indicator that is used by our financial agents to evaluate our covenants, which are always higher than 3.75.

On the other hand, if we take here only the criteria of reported IFRS, we would have a net debt/EBITDA ratio of 3.33. But it is important to note and I compliment my colleague Lourival and the team precisely for having conducted the negotiation with the financing agents. We have here a very good sense of tranquility in reporting these results relating to our debt.

On the other hand, this debt has this profile, it is practically unchanged during the quarter that we ended on June 30: 61% of the debt indexed to CDIs, 31% to the TJLP, and we have here an amount that is basically the operations also with the BNDES through the PSI - Program for Sustaining Investment. And on the other side, the 3% that is indexed to the IGP, which is recognition of the company's debt with the pension fund, that long-term debt taken in the privatization.

Also, and it is here on the next page, it is relevant to demonstrate that the solid cash position of the company closed the quarter with an amount that is higher than R$ 2 billion, having paid during this quarter R$ 750 million in dividends and served exactly for the investments we made reference to a little while ago.

Even so, it has a debt coverage of 1.2x of the company's short term amortizations. One can observe that in the short term the value is 1.735 billion in the next 12 months; therefore, the company has sufficient cash for this operation. And the financing, the company's financing profile, for medium term is 4.3 years, being that the short-term (12 months) represents only 11% of the total.

However, the company has been working naturally linked to the macroeconomic scenarios, and obviously cannot and is not insensitive to this scenario, a scenario that is more complex in world terms. Thus, thinking exactly about this we made a “prefunding” in July, we conducted two operations to finance our distribution operations basically for the issuance of debentures in the CVM 476 modality, a successful operation in the amount of R$ 1.3 billion, at an average cost of the CDI+0.8% p.a. maturing in seven years. Therefore, this prefunding will allow us to act preventively with regard to the debt that we have in the future, as well.

Regarding funding via Law 4131, we already had good operations through this mode, expanding our roll of financing options, regarding especially international swap operations immediately swapped for the CDI. And we were able to obtain here operations of nearly R$ 300 million at an average cost of 104.7 of the CDI. Quite successful operations with costs that are very competitive - certainly benchmarks for the sector - that give us the comfort of what can be observed on the following page.

Therefore, already at the end of the month of July we have a cash position near to R$ 3.6 billion, which covers more than 2x the short term amortizations that improve our debt profile to 4.4 years, putting short-term debt at about 10%, and will allow us to finance important pre-payment operations with regard to the forthcoming year.

Now on the next page here, just an important report regarding the credit ratings, both for CPFL Renováveis as well as our three distribution companies that were the object of this emission of 1.3 billion in debentures, and here emphasizing Moody's assessment. It is the first time that we have done this for Renováveis, therefore reporting here the experience in the construction and operation of the SHPPs and biomass TPPs, the strong support of the company's shareholders, a portfolio of diversified energy sources: it is the only platform of renewables with three different sources — wind, SHPP and biomass, with a stable cash flow and capacity to ensure long-term financing.

On the other hand, on the part of the debentures issue, reporting the position of the market and the group's asset base, strong capacity for the generation of cash, moderate net leveraging, strong liquidity and the group's positive business strategy through expansion of its electricity generation activities.

Now I am going to page 18 to offer a quick report regarding the tariff review. We are in a timetable for our first operation at CPFL Piratininga, which began in June, on the 19th, when ANEEL sent a preview to the company.

On the 17th, this hearing will close, which is the final deadline for these contributions. Then in the month of September, ANEEL will send a definitive proposal to the company and we will have until the 18th to have a meeting with the relator. The schedule then calls for October 2 to be the date when we will meet with the board of ANEEL and on October 23 the tariffs will be published.

Here on the next page we tried to be a little more didactic about this movement of the results. In the upper portion, you can see a table, a table precisely with the main data, and I am mentioning that this is important for each one of the analysts.

I'm not going to spend time on this data, but rather demonstrate especially that usually ANEEL either publishes or causes a repercussion in consumer perception, in this case of 8.18 negative; however, the tariff repositioning, that is the correct application of all of the elements of the tariff review, lead to a value of -3.4, different than the 8.18. The 8.18 is the consumer perception that it also works on two bases: not only the economic base of the readjustments, but also the financial base, making a movement in the recovery of the CVA payment, mainly. Therefore, the important piece of data here in the repositioning is the -3.4 in economic values.

I tried to place, that is our team tried, in the lower part the movement of the regulatory EBITDA so that we have a better idea on how this movement comes about. Therefore, first the regulatory EBITDA of the second cycle of the company, made at the end of that process, was R$ 236 million.

What happened during this period? First the monetary restatement process occurs. You can see the monetary restatement of the base, which determines this amount, of 32.91% during this period - is highlighted in the notes below - which would give an addition at the EBITDA level - and now basically were dealing here with EBITDA - which is the monetary restatement, it is the asset base restated by the IGPM exactly in the previous WACC, 78 million.

However, as you know the tariff review process incorporated a reduction of the WACC. Therefore, that updated base where you permitted remuneration of 9.95, you now do it at 7.5%; therefore, 2.45% less. In this base will give this reduction of 51 million, which I show here.

Thus, we begin with the monetary restatement cycle and the WACC reduction with a result of R$ 263 million of pro forma regulatory EBITDA, pre-third cycle. And that will be verified … it occurred between the second and the third cycle? The first thing, the investments of the company during the course of the cycle, those investments that have been reported to you as I detailed a little while back. Therefore, R$ 101 million is already the incremental investment in the EBITDA base in the new regulatory WACC.

The movement we see here is part of the process of the incremental increase in shielded base assets that were 100% depreciated from the company's shielded base. And here is a write off: the assets did not… have been totally amortized, depreciated, and no longer are parts of this group, and there is no additional remuneration to be done, so they must be written off. So this is the effect: you make an investment over a period of time, precisely so that in some cases to recompose their useful lives, which were exhausted in the case of some of the assets.

Here is a first clear impression: we invested more then there was depreciation, so we have here 101 million in incremental investment and 89 million of EBITDA in write-offs, theoretically, of 100% depreciated assets.

And there is the quality consideration of the company's postings, how they were booked, etc., and here are the disallowances, etc., adjustments made by the regulator in already conducted audit reports of assets, complying with the new methodology of the electricity sector line item accounting manual, showing here a small adjustment of 16 million.

In any case, we will begin here — and basically it is what is contained in the above report — with the R$ 258 million, the company's regulatory EBITDA, the G, which is the sum of C (which is our regulatory reintegration quota) and F (which is capital remuneration, based on net remuneration explained by the before tax-WACC), thereby totaling R$ 259 million.This is the company's regulatory EBITDA.

Below, I want to merely explain a movement of the EBITDAs, a result of the existing movement during the course of the review process that represents monetary restatement, the application of the new WACC, the recognition of the incremental investment, the write-off of 100% of depreciated assets and the adjustments made by the Agency.

All right, now, on page 20, in order to finally report the startup of operations at Bio Ipê, the 25 MW biomass thermal plant in Nova Independência, of Bio Pedra, also a biomass plant, a larger one at 70 MW, in a PPA contract with LER of R$154.12/MWh, which will give us estimated revenues of R$ 33 million/year.

Following on page 21 you will see here the conclusion of our first wind farm that we built directly, totaling 188 MW. This wind farm is located, as you know, in Rio Grande do Norte, called Santa Clara. It was the subject of the first auction that was held at the end of 2009 and we began construction in 2010, with financing from the BNDES in a ratio of 65% - 35%.

This asset also has a contract with LER from December, which updated to today from the end of last year is in the amount of R$ 168.32/MWh, a 20-year contract which will give us estimated revenues of R$ 112 million/year.

Now, it is important to emphasize, and you have been following this, some of our wind farms — this is not the only one — were completed exactly on the date that they were scheduled to be concluded. On July 1, our wind farm was made available to the grid, although its commercial operation depends upon the construction of an ICG, which is not ready. So the company filed with the regulatory Agency all of the documentation demonstrating the availability of the wind farm, and we are certain that these are the documents that are necessary to obtain the contracted revenues from LER.

And, finally, on page 22, to give you a report on the status of the main projects under construction: the SHPP Salto Góes, 80% concluded, with financing from the BNDES already obtained; this is an SHPP that should enter into operation in the first quarter of next year; the two biomass TPPs undergo construction, whose projects were initiated practically at the same time. The differences in their completion have to do with the obtaining of the licenses. The entire process should be concluded in the second quarter of next year. They are TPPs rated at 50 MW, with financing currently under analysis by the BNDES.

On page 23, we have the amounts in assets that should start operations in 2013: more than 228 MW or 104 MW average. Here we are basically speaking of wind farm assets: the Macacos Complex, 25% completed, a complex with installed capacity of 78 MW; Campo dos Ventos II, in the third quarter, with more than 30 MW; and the Atlântica Complex, which we recently acquired, for the second semester of 2013, with 120 MW.

All of these have BNDES requested financing and all have PPAs for the system under the terms that are shown on the right hand side of the page: Macacos at 137.30/MWh, Campo dos Ventos at 133.70 and the Atlântica Complex at 147, all in 2011 currency, December 2011.

We show here, to be concluded only in 2014, another two projects under construction at this moment, recently initiated: the Campo dos Ventos Complex, larger at 138 MW; and the São Benedito Complex, with another 116, totaling therefore 254 MW, for startup in the second quarter of 2014.

These are operations for the free market with financing already requested from the BNDES.

I would like to conclude here, first emphasizing our satisfaction, our pleasure at being recognized with the Highlight Prize of Agência Estado in 2012 as well as the ABRADEE Prize, naming RGE as the best distribution company in the South region. Paulista and RGE were honorable mentions and recognized for the quality of their management and CPFL Leste Paulista was recognized for its social responsibility activities in 2012.

I want to conclude here by demonstrating, on page 26, the movement of our shares. Here the main highlight is precisely the company's volume, the daily trading volume, which increased by about 40%, and I think confirms the importance of the stock bonus operation we conducted, the stock split. This generated greater liquidity and today we are trading R$ 50 million per day, with 30 [million] in New York and 20 [million] here in São Paulo on the Bovespa.

And the company's shares over the past 12 months have outperformed the ISE and the Ibovespa, as can be seen in this chart below

These were our points of consideration and now together with my team I am at your disposal for questions. Thank you very much for your attention.

<u>Question and Answer Session</u>

Operator: Ladies and gentlemen, now we're going to initiate the question and answer session in order to ask a question, please dial asterisk (*) one (1) and to withdraw a question from the list dial (*) two (2).

Operator: Our first question comes from Mr. Vinícius Canheu, Credit Suisse.

Mr. Vinícius Canheu: Hello, Wilson. My question is related to the consolidation of the distribution sector. This is a topic that for some time… has been an issue for CPFL ever since the IPO. But, always, one of the major impediments has been the tariff review, the new tariff reality, this kind of thing.

Now that we are seeing the first tariff reviews happening, the capital market is beginning to think about future impacts. I wanted to know if we are going to see this movement in the upcoming… or in the next year or next months, or if it is time to wait and probably this will only happen after the review cycle is finished, when we might see some movement that is a bit greater and, especially, involving CPFL, because it is one of main, if not the main player in the sector. Thank you.

Mr. Wilson: Very good, Vinícius. It's a good question and I can emphasize things for you as follows: I have no doubt that the tariff review is the principal engine for the consolidation to occur, as the process happens, and in this we have a tariff review that required, that requires of the concessionaires a demand based upon the application of the review, a level of efficiency that is much greater than we've ever had.

We are speaking here about important reductions in operating results of the companies, due to the reduction of the regulatory WACC by some 25%, going from practically 10 to 7.5. This will require from the companies levels of operational and financial efficiencies that are greater than they've ever had before.

Therefore, certainly consolidation is an important element in an activity that is clearly one of scale, so that such consolidation will occur. Now, once the conditions are created for the occurrence of consolidation — because certainly some concessionaires will not have necessary scale, because they don't have technology, they will not be able to operate within the parameter — this is the condition that is required, but is not sufficient.

And why isn't it sufficient? Because, on the other side, you have a seller. In order for the consolidation process [to occur]… it has to make sense for the buyer who will have to put up the technology, its skills, it will naturally have to impose a higher level of efficiency within this new concession; but has to be paid with funds, so therefore it must create value.

I can speak on behalf of the CPFL group; we are very strict — I think this is a positive point for the group - financially disciplined. Therefore, we have, yes, the necessary conditions to be leading the consolidation process and to participate, therefore, in this expansion at this time. However, there has to be the other side to our capacity to buy at the correct price, a price at which we can create value and one for the consumer market.

And therefore to bring benefits in terms of efficiencies of our operations to a market that is being served and, naturally, with conditions to create value for the investors, who obviously delegate this function and who are behind it. Naturally, consolidation must bring results to the group as well, which with its greater scale makes it possible for greater synergies, more efficiencies. This translates at the end of the day into growth of operating income and net income; if it didn't, it would make no sense.

I would say that at this moment the reviews that are getting underway will create this condition, and it is a process that must be, and you all know this very well, a negotiation process. We are aware of the opportunities because we have differentiated skills and we are able to create value for all of the different stakeholders; for the share market and for the consumer market.

Mr. Vinícius: That's fine, thank you.

Operator: I would like to remind you that if you have any questions please dial asterisk one.

The next question is from Mr. Sérgio Tamashiro, Banco Safra.

Mr. Sérgio Tamashiro: Hello everyone. Wilson, continuing on this line of consolidation, looking at it mainly from the point of view of the regulator, what do you believe... First, what about this part of the PMSO? Do you believe that making all of these reductions you're going to get a PMSO lower than the regulatory PMSO?

And also along these lines, do you believe that ANEEL... you commented before and ANEEL itself was commenting that it could try to pass along the gains from the holding company to the end consumers. So, do you think that this could happen, that the regulator will continue to take this line and demand increasingly greater efficiencies from the distribution companies?

Mr. Wilson: Well, Sérgio we are working so that without a doubt there will be no reduction in the PMSO of the companies and, certainly, the objective is to make sure they are lower than the regulatory PMSO, something that is a tradition over the past cycles, that is the kind of performance we've had from our distributors. Therefore, this is the objective and I think that in some manner I am sharing part of these results in this quarter.

I am certain that we have more things underway that will make it possible to achieve this reduction, for this adjustment to occur over the course of the next few months. This is so even because we have the tariff reviews that in fact are beginning now in October and will extend through to February, when the other five distributors will be involved, and then in April with Paulista, our largest asset, and in June it will be the turn of RGE.

Therefore we have this amount of time for these transformations to take place, permitting us to work within this new reality and ideally under the values proposed by the regulator.

On the other hand, it is evident that the regulator is always eyeing greater efficiencies in the system and it has — this is something I always emphasize — that is, the mission of the agency is to mediate these interests. There are consumer interests, but there are also investor interests. This consolidation to achieve the result, legitimately intended by the agency for the consumers, has to promote a balance.

If the process becomes unfeasible for the investor, the consolidation will not occur and, therefore, neither will there be gains in quality nor efficiencies. What we will see are losses in operations and this does not guarantee the sustainability of the system. Therefore, I believe sincerely that the regulator is quite mature — we are in a process that already has led through practically 15 years since privatization — and it should be focused regarding promoting this balance.

It does no good to capture everything; if you capture everything and there is no outlook for remunerated investment made for consolidation purposes, then the consolidation will not occur. Again: consolidation is an option of the qualified, efficient investor, designed to create value for all of the stakeholders. It is not something just for making money; it will make money and will share efficiencies, quality, servicing the consumer market, which in the ultimate analysis is what one intends for the system, even because it has been accompanied by lower tariffs, but it must permit investors to obtain such remuneration, because if not the process without any doubt is not viable.

So therefore, I sincerely believe that the regulator will be paying attention to this process in such a manner to permit that consolidation occurs because of all of the benefits that it can bring — including permissible remuneration for serious investors such as us.

Mr. Sérgio: Very good, it's clear. The second question is regarding your leverage that has been increasing quite a lot… not enough, but near to the optimized levels.

Now looking forward, with the decline in EBITDA and also with this still very aggressive Capex program of more than R$ 700 million per quarter, how are you viewing this leveraging as at the end of 2012 and the end of 2013 – and this still is not in the generation of cash of these investments – if you see it now as an impediment for you to make large acquisitions.

Sr. Wilson: Good, well, in the first place, the leveraging that we have that I tried to explain about and using the correct metric, or this metric that we have just incorporated here with our financing agents, compared to this 2.81. Without any doubt we have a movement as a result of these reviews that should make the EBITDA of our operations decline slightly, those we have spoken about, something between 15% and 20%.

Of the remaining operations of Piratininga, there was the one that we always mentioned, that the company could show a larger decline as a result of a growth of the market that was larger during the course of the cycle. These amounts can be about 30% and the total of our operations and the large operations we are speaking about always, of about 15.

So there is a decline in this amount. It is true that we should only monitor this, I spoke about 3.4 in the case of the final tariff for Piratininga, although it is still not incorporated here in the annual adjustment that will occur simultaneously. Therefore, it is true, Sergio, that we have a decline here.

But, you should also look at the other side as well, at the results of these investments, higher than the depreciation that we are having, and reductions that are lower than some of our peers with regard to the so-called tariff review.

And also on the other hand, we have large-scale investments that are currently underway, some already beginning to produce results, as I tried to demonstrate here; three investments in renewables that generate this leverage, investments that began to operate in this quarter. We are speaking here about an investment on the order of R$ 1 billion that did not yet produce any type of EBITDA and that from here on out begins to produce. I placed the revenues here and you obviously have the methodologies that you will use to evaluate the way in which they will generate remuneration. You already have an idea about this with regard to the company.

So I would say we should not have, we do not expect to have, significant variations over the next two years regarding the leveraging ratio of this metric of 2.8 that we have put here. It could go up very slightly, something in the range of 3x, but still quite distant, I would say, from our covenants and still opening up room for the company, if it wants, for acquisition initiatives using its financial capacity, which we have been speaking about, of, let’s say, maybe 0.8x of EBITDA, which it has capacity for leveraging in an acquisition operation, with EBITDA above R$ 4 billion as we are showing.

However, don't forget also that the company's controllers today are in a position of control, that is, 70% of the company is in the hands of these investors, and that we could, in order to secure an acquisition, perhaps the best way regarding the future, would be to use our capacity to issue shares and even taking advantage of this large movement that the company has with regard to both the ADR program as well as O&M in Brazil — that quick procedure, the fast track, which allows the company to make an issue in a timeframe of no more than one month.

So the company has... I would say that sincerely we have very little that concerns us regarding this subject. We are comfortable regarding our position. We make a point of maintaining an optimal capital structure and you can also see the measures for stretching out the company's debt. I believe the market is now beginning to permit longer operations. We have just announced one for seven years. So, obviously, with this type of elongation the situation also is more comfortable.

And also observing good financing terms. We are speaking here of acquisition and long-term working capital financing and of the other financing needs of the company. Practically 40% of its funding are lines coming from the BNDES, both for Capex operations of the distributor as well as for renewable generation, with quite elastic maturities.

So I would say that this is not something that is on our radar screen as a concern. Yes, we understand there is a slightly upward movement. I imagine that I am reacting to your questions without giving you more specific data. We can detail this more for you; but this metric should not go beyond the 3 we have shared with you, it is a more realistic metric, and there is even the possibility of issuing shares.

Sr. Sérgio: Certainly, it’s quite clear, thank you.

Operator: once again, if you want to ask a question you should just dial asterisk (*) one (1).

Thank you, now we are closing the question-and-answer session at this moment. I would like to pass the floor to Mr. Wilson Ferreira Jr. for final considerations. Please proceed.

Mr. Wilson: Very good. Once again I would like to thank you all for your attention during this second quarter conference call. And again I would like to emphasize the importance of some of the concepts that we have placed in this report that should substantially facilitate your analyses: the topic of using the IFRS accounting procedures, which must be seen with a bit greater detail when looking at the recurring income of the companies, notably at moments when there is volatility of the main indexers that effect the distribution activity, and that through the current accounting format are not very clear for all investors. So I believe the role of analysts is especially important in terms of this assessment.

On the other hand, even because of this we wanted to highlight that this measure is important for the company, whether in terms of adequately negotiating its covenants with its financing agents for the essence of this activity — especially in the case of the company for the importance of this recognition of working precisely generating an optimal capital structure while always focusing on the future scenario — or also for these operations I have highlighted here in the name of my colleagues regarding the prefunding, as a measure demonstrating our important financial discipline.

I wanted to also highlight here our optimism with regard to the activities in which the company is involved. In each one of these activities during this quarter we have had good results: in the distribution activity by the strength of the market in which we are operating; in the generation activity, because of the possibility of greater operating efficiency and the secondary energy for generating additional revenues for the group.

I want to highlight here the growth of the sales activity. The market is very dynamic, we have positioned ourselves, the organizational approved in the past year has already produced results: the company is opening representation offices in Rio de Janeiro, Rio Grande do Sul, Recife, seeking clients, trying to have a more efficient structure with regard to obtaining clients, seeking clients through innovative strategies. I think it is important to highlight this for you.

And finally, naturally the topic of renewables, for which we can now point to the products or the results of this important strategy for our growth.

For the entire group it is important to emphasize that we have a strategy aimed not only at growth but also innovation. This program has been stimulated a lot, both by our controlling shareholders as well as the executive officers of the company. More than this, I believe that a portion of the results I have shared with you are from innovation, which brings about gains in value, greater efficiency in processes and certainly higher efficiency in terms of cost reductions.

We have quite a large team focusing on these activities and we are quite optimistic regarding the first results that we are beginning to capture. There is still a lot of automation to install in the distribution activity, whether it is through metering, monitoring of our work teams, a greater level of automation of intelligent switches in our distribution network, which is quite extensive, in the use of more efficient, more reliable materials for our activity. And this obviously will bring about benefits, including greater operating efficiency, lower costs and enhanced service quality.

It is a general message that is permeating the group in all of its activities. Therefore, it is not limited to distribution, although that is the activity that requires more costs in terms of operations; it goes beyond this, to generation, to commercialization and services.

So, it is a great satisfaction having you here and for us to provide this message of optimism regarding our future that is linked, naturally, to the strategy we have been developing together with our shareholders. Thank you very much for your attention.

Operator: The audio portion of the CPFL Energia conference call is now over. Thank you all very much for your participation and have a good afternoon. Thank you.