

Local Conference Call

CPFL ENERGIA

3Q13 Results

November 14, 2013

Operator: Thank you for waiting. Welcome everyone to CPFL Energia's Third Quarter 2013 Earnings Results Conference Call. Today we have here Mr. Wilson Ferreira Junior, CEO of CPFL Energia, and other officers in the Company.

This call is being broadcast simultaneously through the internet in the website www.cpfl.com.br/ir. It's important to mention that this teleconference is being recorded.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CPFL Energia management and on information currently available to the Company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of CPFL Energia and could cause results to differ materially from those expressed in such forward-looking statements.

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

Mr. Wilson Ferreira Junior: Thank you very much. Good morning, everyone; investors, analysts, who are here with us in this call for the third quarter 2013. I immediately go to page three to talk about the highlights of the quarter starting with sales.

Outward energy sales were up by 4.7% and concessionary sales for our eight distributors had a strong performance in the residential market, 7.6%; nearly 5% commercial market; and industrial customers a rise of 2.5%; an important achievement by our distributors.

And to highlight as well a start-up of three projects for CPFL Renováveis; reminding you that we had five projects to deliver - Coopcana, 50 megawatts; Campo de Ventos II and Alvorada started up between August and November last year.

Tariff readjustment of Piratininga, 7.42%, in October and as a result we had a disbursement of BRL167 million; Capex of distributors in the Company in the third quarter, BRL 330 million; payments of interim dividends amounted to BRL 363 million.

And a number of awards that the Company received; it was considered Company of the Year by *Época Negócios* and something very important to us as well, CPFL was recognized as one of the ten leading companies in transparency in emission of greenhouse gases; among the best utilities companies; one of the 20 more innovative companies in Brazil, the Best Innovator Award; and also the 2013 Electricity Award of *Electricidade Moderna* magazine; and Piratininga was elected the best domestic company and CPFL Jaguari in the category of small company. So it was a very important quarter in performance and recognition.

On page four we have something important for us to start to ponder on consumption that we've had over the past decade. So we have a number of charts showing why we've had such strong growth in residential and commercial areas.

First thing has been the effect of the past decade and the change in income classes. As we can see, classes A and B and C rising from 55% of Brazilian households to 75%, so a growth of nearly 50%; and at the same time as classes D and E, that 10 years ago accounted for 44% of Brazilian households, now they represent nearly 25.4%. Obviously this growth of the ABC classes gives us an important outlook in terms of consumption.

It is true that over the period there was an important growth of minimum wage from BRL390 to around BRL670 and at the same time as the unemployment rate dropped from 12.3% to 5.4%. So these two events converged together with credit to individuals that since 2007 has grown from 12% of GDP to 15.6% of GDP, have caused the commercial and especially the residential segments to be very dynamic and it is true and it's important to say that household consumption that experienced strong growth, 6.9% growth year upon year in 2009 into 2010 is losing impetus. So we're getting to 2.4%. So although we feel important growth in the residential and commercial areas, it's important to say that in the light of this data, we should expect more moderate growth in the future.

However on page five, we can see what must be done to support the growth of Brazil in this new decade and what we can see is that despite the increase in our investment rate owing to the gross fixed capital formation and getting close to 20%; we are still behind Latin American countries' 21.7% and the world average 24.5% and even the BRICs average without China and China contaminates this data because its rate is nearly 50%; so excluding China we have 26.1%. So this for sure has to be the number-one priority in any candidate for the presidency for us to support growth in Brazil.

Obviously in this agenda we must consider that the global competitiveness index is very much below our potential. We rank 56th among 148 countries and here we can see something that is really very clear in the voices of businessmen. In the basic requirements we rank 79th, in institutional environment 80th, infrastructure 71st, macroeconomic environment 75th position; reminding you that we are among the six or seven top economies in the world.

So when we look at this ranking for Brazil it's really disappointing. And we see that there is a lot yet to be done. Here we see efficiency enhancers: in higher education 72nd position,

labor market efficiency 92nd position, financial market development 50th position and obviously what has attracted a number of companies to Brazil, the size of the domestic market 9th position of all the 148 countries. In innovation and sophistications factors we do a little better. In business sophistication we rank 39th and innovation 55th.

When we look at the factors pointed out by businessmen we see a road path. Inadequate infrastructure is mentioned as one of the problems by 19.7%, tax regulations here is a clear problem to be tackled 16.8%, inefficiency and bureaucracy in government 15%, restrictive labor regulations 12% of answers, corruption this was the cause of street protest in June and inadequately educated workforce and others. In fact, as a conclusion for this slide, we see that we must really work hard on infrastructure.

I think we see a resumption and today we're having a transmission auction and we expect to have yet two energy auctions this year, in addition to infrastructure auctions. So this is very important, the improvement of this regulation, a policy of industrial development and technological innovation, adjustments in fiscal policy in order to give more transparency and the maintenance of social policies so that we can continue having an increase in population income and its satisfaction with the goods that are offered.

So after this initial analysis of the market outlook that really underpins our growth and the outlook that we expect to see for this decade, let's see energy sales on page six.

In the third quarter, so we can see that there was a growth in the concession area of the eight distributors of 4.3%. And those results, from a growth in the captive market of 3.0% and 7.4% for the large consumers in the free market; but 7.4% are large industrial. For consumers this is good news, because when we break this growth down among consumption classes, as I've told you before, residential growth 7.6%, commercial 4.9%, industrial 2.5% and the other classes 3.4%.

Please note that in the comparison among distributors in terms of consumption, in the Southeast where we have seven of our distributors we grew 3.6%; whereas the Southeast grew by 2.2%. So it's a particularly important force, especially in the countryside of Sao Paulo, bringing this robust performance, higher than the region itself.

In the South we have RGE operations in nearly 40% of the state, the most developed industrial area, growth of 7.8%; again the region's growth 5.8%. Obviously our operations are doing better than the Brazilian average. Brazil grew 3.9% in consumption whereas CPFL concessionaires grew 4.3%.

It's also important to say that adding concession areas, getting to 10,084 GWh in energy sales for end consumers, commercialization and conventional grew to 3.566. And in CPFL Renováveis we grew 53.5%. So overall operations, distribution, commercialization and conventional generation and energy sales we've had a 4.7% growth, so getting to 14,551 GWh.

So now on page seven we see the results IFRS as we always do, In order to simplify the action, the manifestation of our analysts. we present IFRS with the proportional consolidation, without regulatory assets and liabilities and non-recurring items. So we've had a decline of 2%, BRL68 million, in IFRS, to BRL3.367 billion in the quarter and very soon I'm getting to justify that.

EBITDA growth of 13.6% or BRL127 million and net income stable BRL1 million in the quarter, a drop of 0.4%; it's important to talk about the recurring results particularly because in this quarter all tariff reviews have already been done so we have a clean quarter, so all of the results by RGE and Paulista which are our largest operations, have been posted in addition to Piratininga's results; so we have a growth in net revenue in the managerial revenue to BRL3.568 million, a drop of BRL163 million in EBITDA, slightly more than BRL1 billion, BRL1.012 billion and in net income, a drop of 38.6%, so to BRL282 million on the last line.

So you can see that this determines the change from IFRS to what I call managerial recurring IFRS, so here we have the proportionate consolidation in the two effects, in the third quarter of 2012 and third quarter 2013; the variation in regulatory assets and liabilities BRL85 million in the last quarter and BRL135 million negative this year.

And here we have a number of non-recurring events- delivery of energy due to a delay in CPFL Renováveis, BRL52 million, offset by the sale of assets of distributors and an increase in productivity, rationalization of activities, etc. So we've had the sale of some property in this quarter and we will repeat that in the next quarter. So we have a reversal of ESS provision, conventional generation and CPFL Renováveis, of BRL13 million. And then we have the adjustments in delinquency estimates that happened last year (BRL54 million) and other smaller adjustments this year.

So we have on the last line the fluctuations that we've just explained, so we've had a negative BRL53 million in the third quarter and BRL238 in the third quarter 2012. And they follow the same effect on net income in the third quarter of 2012 and 2013.

So now let's talk about the behavior of the EBITDA, on page eight. So we've had this positive variation of 13.6%. We're talking about EBITDA reported in IFRS and outside the graph you may see the three movements that we've just highlighted in that table. So from last year to this year, we have the regulatory assets and liabilities (BRL85 million), non-recurring events (BRL55 million) and proportionate consolidation of (BRL98 million).

The same thing is going on, on the right-hand side: BRL91 million of proportionate consolidation, so very smaller non-recurring events (BRL8 million) and finally the regulatory assets and liabilities (BRL135 million). So what we are explaining are the three bars: revenue growth, energy cost reduction and PMSO cost reduction.

So starting with revenue, we've had a 2% decrease in net revenue, basically here we have the whole effect of utilities tariff reviews; this event, especially for 75% of our assets –

Paulista and RGE – will only happen now by 2018. So we have the total effect BRL141 million.

It's a composition... and not only the tariff review; there is also the RTE effect earlier this year when you compare with last year. Right here we have captive market. We've had a drop of BRL166 million and on the free market, that paid with TUSD, here we have a hike of BRL25 million. The net addition we have is a BRL141 million drop.

Here we have a slight compensation by conventional generation growing BRL3 million. CPFL Renováveis is up by BRL31 million as a result of a startup of a number of assets, not these ones that were just mentioned. And in the commercialization and services, we've had a growth of BRL41 million when we compared to last year. So this justifies the slight drop in revenue; the negative effect of distribution practically totally offset by conventional generation, Renováveis and commercialization and services.

On the other side, the good news; a decrease in energy cost and charges impacted by the decision to lower tariffs earlier this year; and naturally by the injection of CDE resources for tariff reduction and for thermal dispatch. So we can see a 54% net decrease in sector charges, BRL206 million, and here reminding you that this is net of the BRL132 million from CDE which partially mitigated the tariff for consumers.

Likewise, we have a 6.3% net increase in energy cost, particularly thermal dispatches. So it was BRL106 million, but here we've had an injection of BRL225 million, that would be otherwise gone to the final consumers. So CDE resources are the sum of these two amounts that I've mentioned.

And finally talking about a decrease operating costs and expenses; PMSO; this has been a strong focus for CPFL in the last two years. I'm going to talk about that later on, but just comparing quarter upon quarter, here we have sale of assets, particularly properties and vehicles; it's mostly property owing to the streamlining of activities and processes and automation of processes that I've mentioned. We have a smaller leased area now.

Here we have again two events: adjustments in delinquency estimates that I just mentioned, that happened last year so it becomes positive, but last year it was negative. We had a reinforcement debt provision and other non-recurring effects in third quarter; this was basically an operation of PIS/Cofins in the commercialization arm, BRL15 million.

Now following on, we've had a reduction in PMSO of CPFL Renováveis (BRL5 million), an increase in PMSO of Services (BRL12 million), but with increased activity too, and the write-down of distributors assets was BRL16 million. Equity method up by BRL5 million and private pension fund down by BRL2 million. Now just reminding you that you can see an important increase in the PLD from 131 to 179 and the exchange rate fluctuation; it used to be 2.03, now it's 2.23. So this largely explains the drop of 13.8% and the growth in our adjusted EBITDA to BRL1,065 million, up by 13.6%.

Now here on page nine we talk about manageable expenses and how we have reduced that to adjust to this new level of tariff resulting from the last tariff review cycle. So you see that in nominal terms, the nine first months of this year if we compare to the same period of 2011, since we've had been working harder with distributors to prepare them for this operation, we have here a reduction of BRL20 million.

And it's important to say that for personnel, materials and services we have a typical indicator index which is the IGP-M or the IPCA, recognized by the regulator. So on a real-terms basis, we're talking about a reduction of BRL137 million or 12% only in the comparison of the year to September 2013 with the year to September 2011. Remember that we talked about a potential of BRL 200 to BRL250 million. So when we look at four quarters, we will come close to the values that I had mentioned.

And here we have reductions in personnel, 8% in personnel or BRL37 million, and also material, services and other (here bigger...of 16% or BRL100 million) and this reflects important initiatives by the Company, but led by a very important project which is the Zero-Based Budget which the Company adopted in 2011.

Now moving on to page 10, we have the third quarter 2013 results for the net income. The same explanation holds here; so from the middle to the sides, we're talking about the recovery, in adjusted figures; and here in the middle we have the net income of BRL356 million versus BRL355 million that we're reporting now.

Four columns; first one is the 13.6% increase of EBITDA, that was just mentioned: BRL937 million to BRL1.065 billion. In the second bullet we have an increase of BRL121 million in negative net financial results. This is a result of the update of distributors' financial assets (BRL86 million that math that we incorporated in the balance sheet since last year; no impact on dividends). However, we have a net increase in debt service charges due to the increase of the primary basic rate, from 7.9% to 8.6%. So we've had a BRL28 million effect in our debt. And now others with BRL7 million.

So this is basically what gave us this-- was a negative result. We've had a small 3% decrease in depreciation and amortization of BRL8 million and here income tax owing to a higher taxable base due to the growth of the EBITDA as we mentioned before. So this by and large explains the variation from BRL356 million to BRL355 in net income.

Now on page 11 we talk about debt and control of financial covenants. We can see that there was a slight reduction in net debt, from 12.6 to 12.2, and this enabled us to keep our ratio, moving from 3.42x to 3.53x and this was the result of the adjusted EBITDA of BRL 3,466 million, with a group of non-recurring that we reported last quarter.

Note that the nominal cost of the debt is still 8% in real terms and basically the increase is owing to the negative inflation variation from 1.2% to 2%. Inflation was around 6%, now it's slightly below 6%.

The indexers were about the same, which means two-thirds or 64% are indexed by CDI; 27% are TJLP, the BNDES long-term interest rate; 7% are pre-fixed, the PSI programs; and 2% are related to the debt with Fundação Cesp, the pension fund.

On page 12, let me just tell you about the financial health of the Company: we closed the quarter with BRL5.4 billion in cash. And the cash coverage is sufficient for 2.4 times the short-term amortization that we have in 12 months as you can see, BRL2.2 billion. Our debt is slightly better in terms of the average tenor, 4.08 years, and the short term also is decreasing a little bit, around 14.4% of the total debt for the Group. So it's a very comfortable situation, financially very healthy as well.

Slide number 13; we have the startup of three projects, two co-generators of biomass, Coopcana and Alvorada, practically constructed at the same time; and Campo dos Ventos, which is a wind farm in Rio Grande do Norte.

Coopcana and Campo dos Ventos went into operation in Q3 (50 megawatts of Coopcana and 30 of Campo dos Ventos) and Alvorada started up in Q4 and was in test until the end of this quarter, with an additional 50 megawatts; so 130 additional megawatts in operation. As you can see the annual estimated revenues from these projects; we are talking about BRL64 million overall in estimated annual revenues and I would like to remind you that in renewable operations, we have an EBITDA margin that is close to 80%. These are 20-year contracts and this is very important and the startup is very relevant for CPFL Renováveis.

And on page 14, CPFL Renováveis has the challenge of delivering additional two projects, the Atlântica and the Macacos wind farms. Yesterday the situation was detailed and it's important to say that in Atlântica we already have 10 generators ready to operate and five that are being assembled for final assembly. So this is scaling up the 40 generators as of this month already and also going into the beginning of next year. And in Macacos Wind Farms, which are slightly smaller, 78 megawatts (Atlântica is very important, 120 megawatts in a 20-year PPA priced on R\$155/MWh); in the case of Macacos, we started the final installation and we have a deadline up April next year.

Campo dos Ventos and the Sao Benedito Wind Farms are linked to the free market. They depend on transmission lines and they are scheduled to start operations in 2016.

I would like to highlight one important thing here on this page. As you can see our cost reduction strategy for the Company is based on three pillars: one that transcends all the company, the ZBB (Zero-Based Budget), but obviously within the zero-based process the largest wingspan of our shared-services center, a standardization of corporate activities - and this is our main strategy in the corporate area is the shared-services center, because the operations can be much more efficient when they are placed in one single site, a single system to manage virtually many corporate activities - and the project Tauron, which is the one that will give even more efficiency in the operations of distributors.

So we are implementing operations and mobility systems as well. I mean that this is already occurring with the implementation of tablets. This has already been implemented

in RGE and Piratininga and starting in Paulista now. I'm talking about an EBITDA of BRL24 million up to September coming from this; this is just a reference. The reference for this kind of activity is higher than BRL100 million of reduction for the overall operations when they are all streamlined.

Here we will be able to offer optimized logistics of the field teams, geo-referenced, and we can reestablish things automatically in a few seconds and of course, regarding the fleet of the Company which will be geo-referenced, we can bring emergency aid very quickly, optimizing displacements.

The use of tablets for communication in real time to allow for dynamic dispatch, automatic routing of teams and online update of field services progress.

And on the other hand, we have another important item which is a telemetering of group A, something like 25,000 customers accounted for about 50% of the Company's consumption, besides the possibility of measuring in real time and the load consumption by consumers. We can have real-time fraud detection. About 50% of everything that is sold by the Company can be identified very quickly here and thereby eliminating fraud due to the level of control that the Company will have. As of the installation of this telemetering system, 9,000 were installed up to October. And by the middle of next year, the whole client base of Group A.

And this started to be implemented this year and already BRL24 million in three quarters being achieved, 40% of the operations and mobility and in telemetering; something like 30% of consumers.

So we can expect quite a lot. We are already reaping the results and we are very much satisfied and certainly our consumers are very much satisfied as well because there will be a reduction in the frequency of interruptions, besides higher stability in voltage and a higher control of the conditions of our system in real time.

In summarizing these achievements in the quarter, I would like to mention what we said in the first semester, on page 16. We were talking about new projects of CPFL Renováveis. We talked about 328 MW to be added this half year and 130 have already been installed and the other 198 are on their way, as we reported.

The second thing, we talked about the recovery in the industry of 2.7%. It's just less rigorous than we would like to see, but it's not zero, it's not negative like some people estimated. We are talking about a growth of 2.5% in Q3.

And especially our commitment on the part of CPFL management, which is productivity gains. Reduction and cost optimization, a whole set of strategy, ZBB and the shared-services centers that have already brought about savings of BRL137 million in nine months alone. We are talking about something close to BRL18 million per month in savings.

And the maturation of the Tauron Project, which has already brought BRL24 million in these nine months; and coming from this higher rationalization so it's enabling the possibility of selling idle assets, about BRL47 million. And on this page alone we have BRL200 million in savings in nine months.

On page 17 we have the stock performance. In the first nine months, IBovespa was not good, IEE either and our Company is slightly better than IEE. On the other hand, because it's a Company where the revenues are totally in reais, it is affected by the performance of the ADRs because of the devaluation of the Brazilian currency and the average volume dropped about 20% and trading grew 35%.

And we are very happy to show you that we have been included for the second time in the Dow Jones Sustainability Indices for emerging markets. So 800 largest companies of 20 emerging countries are evaluated, 81 achieved the requirements established and among the 17 Brazilians, and among Brazilians three belong to utilities and CPFL was one of them.

And on page 18 I would like to share with you these important recognitions: for the first time, CPFL is the Company of the Year by Época Negócios; CPFL is one of the 20 most innovative companies also an award from Época together with A.T. Kearney, the consultant firm; and the Carbon Disclosure Project. I think this is very important, especially due to the commitment of CPFL with sustainability to be the best in the utility sector is a very good recognition of the endeavors made by the Company. And on the other side, there is a huge competition between Paulista and Piratininga, but Piratininga won the Best National Company award, with a Lower Losses Index and best operational performance; and also in smaller companies, Jaguari as the Best National Evolution and also Lower Losses Indexes.

So this is what I would like to share with you, this quarter and together with the members of the executive committee, we will be answering your questions.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the Q&A session. If you have a question, please press the star key, followed by the one key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star two.

Our first question comes from Vinicius Canheu, from Credit Suisse.

Mr. Vinicius Canheu: Wilson, good morning and thank you for the call. My question has to do with generation. This week the government defined the ceiling prices for the A-1 auctions so there will be product for the next three years. And we see that next year Serra da Mesa HPP will have the expiration of its contract and the amount of energy is very relevant for CPFL.

I would like to know if it is possible that Serra da Mesa HPP participate in this auction or, if not, which is the strategy to re-contract this energy, since the contract is about to expire.

Mr. Wilson Ferreira Junior: Thank you, Vinicius, for your question. We are still working on our basic strategy so that our contract with Furnas may be extended, naturally with different conditions from the moment this contract was signed. We do not consider the participation of Serra de Mesa in the A-1 auction so far.

Mr. Vinicius Canheu: OK, thank you.

Operator: Again, ladies and gentlemen, if you would like to pose a question, please press the star key followed by the one key.

Our next question comes from Sergio Conti, Goldman Sachs.

Mr. Sergio Conti: Good morning, Wilson. Thank you for the call. My question is about the technical note released by Aneel for public hearing for the fourth cycle of tariff review. A series of suggestions that the market, based on what we analyzed and on what we talked about with investors, understood as very reasonable and constructive. But I believe that the major suggestion or proposal that was a little bit more controversial was the extinction of cycles from now on, that is to say having a more ongoing regulation than a discrete one.

So what is your opinion about the proposal that was submitted by Aneel for the fourth cycle? Do you see this as a positive development or a negative development? Do you expect any adjustments in that? Which is the company expectation? Thank you.

Mr. Wilson Ferreira Junior: Sergio, I'm going to give the floor to Eduardo because he can answer your question better than I can.

Mr. Eduardo Takeiti: Sergio, good afternoon, this is Eduardo. Good afternoon. I'm very much in contact with our regulatory department and I think this public consultation is very positive because it's the opportunity that we have to have the agency listening to us and maybe having a more effective and robust methodology from now on.

One recurring question is... a doubt of the market is that we would be eliminating the cycles and this is not true. We are not going to have a different WACC each year. The intention of the agency is to define a methodology and that is on discussion now. So, once the methodology is defined, if you look ahead, we will be able to calculate in a more easier manner without any change in the criteria regarding whether it has a currency risk or not; or what is the window to be defined in order to look at the country risk.

So as far as we are concerned, this is a very positive opportunity and we are trying to give our best contribution to the process.

Mr. Sergio Conti: OK. Thank you, Eduardo.

Operator: Again, ladies and gentlemen, if you would like to pose a question, please press the star key followed by the one key.

Our next question comes from Mrs. Carolina Medeiros, CanalEnergia.

Mrs. Carolina Medeiros: Hello, Wilson. Good morning. When you talk about distribution, what about the renewal of concessions, in spite of the fact that you're not affected by that right now, isn't it?

And also in distribution segment, do you have any involuntary exposure and how do you see this issue of the involuntary exposure and the A-1 auction?

Mr. Wilson Ferreira Junior: Starting by the last one, the A-1 auction; well, the tariffs have been recently defined and we were very much concerned and we are no longer concerned because we believe that the government was sensitive and established prices that can attract generators for each one of the three products that they made available.

So we thought we could have involuntary exposures, but due to the fact that the prices are more adequate, now this exposure would certainly be extensively mitigated or even zeroed due to the price conditions that were presented. This is one point.

About the renewal of concessions, it's important to say that we do have five discos in the Company (four smaller companies coming from the old CMS and one, Santa Cruz, which we acquired from Votorantim group). They will all be object of the concessions renewal.

And what is important to highlight - and we always repeat this - is that the discos, and I would like to reiterate what Eduardo just said when he answered Sergio's question: the process of tariff review has to be strengthened. Okay there were some progresses over time, but there were some themes, for instance regarding the definition of the WACC that should be by the average, not by the media, since the disco is a daily investor. It's impossible for a disco not to make an investment or not to have expenses when a crisis hits and therefore a variation of the Selic rate or the exchange rate or even all the financial conditions that are involved. So Aneel today recognizes this and it's important to provoke this kind of debate.

But by strengthening the process and making it clearer, you make it more predictable for those who operate and those who evaluate the market, such as in your case, investors and analysts. And we believe that is the main objective of this interaction of the regulator with us.

And as we've said before, differently from what occurred in the case of a generation company and a transmission company that saw their concessions expired because over time, over 30 or 50 years, they were able to amortize their investment and an investment that is made in one shot. In the case of a disco, this is not the way it works, it's a daily investment.

About half of the investment continues to be net at any time: you have 100 of investments and 50 is the net base that is being remunerated. So obviously the renewal terms should to be different, differently from the others when you already amortize your investments, because the investment, since it happens in a daily basis, continues to be made every single day, in order to be amortized in the future.

So having this situation as I described, we were not surprised by the fact that there was no specific rule established at the moment for the renewal of distribution assets and that this periodical review to be made in 2015 will be the base for the renewal of concessions.

A lot is being said about the quality of services delivered. One of our discos that will be the object of this renewal is one of the ones that won an award from Eletricidade Moderna Magazine. And we are very comfortable because we have, from the viewpoint of quality of service, EFC, ELC, voltage levels, we are a benchmark in operational indicators; or the financial side which is something that will have to be considered, given the investments that we made in the concessions to automate them and also to incorporate smart grid and telemetering so that we may provide higher or better services to our consumers.

This will have to be considered by the agency when the moment for the renewals comes and we are very comfortable regarding our performance and the perspective for renewals.

Operator: Again, ladies and gentlemen, if you would like to pose a question, please press the star key followed by the one key.

We would like to close our Q&A session and I would like to give the floor back to Mr. Wilson Ferreira Junior for his closing remarks.

Mr. Wilson Ferreira Junior: Once again, I would like to thank you all very much for your attention and for participating in our earnings conference call. I would like to reiterate - as I started by talking about this... of course companies in the power sector, in the distribution segment, they have tariff cycles and these tariff cycles in one way or another are developed so that there may be an adaptation to the new market conditions, more specifically the financial market (return on equity, cost of debt), in order to share efficiency gains with consumers.

I always say that this process is very sensitive. It's a sensitive issue. We have been evolving in this process. But evolution has to be consistent and ongoing. So it's important to stress that the debate between the agents with the agency is fundamental for us in order to improve the process and guarantee sustainability to the segment which is the most important in terms of meeting the demand of final customers.

We have already left the third cycle behind, applied in our largest concessionaries, and there was a reduction in tariffs which is today accompanied by the decision of the government in terms of reducing them beyond the tariff review.

And so I would say that this is a new beginning. This is the beginning of the fourth cycle and in the fourth cycle, due to the market conditions, we are expecting a major growth in our concession area. Q3 maybe is a little bit of what we will be seeing in the next quarters and years. We are sure that we will be having important growth and this is good for discos. We trust that due to the interactions, we will be able to work with a higher level of efficiency than the one that we had been working with. So we will be able to share some of the actions that we carried out beforehand in order to be able to implement as soon as we had the conclusion of the cycle which is the most adequate way to do it.

So be it in terms of the ZBB, its results, and/or the share-services center and its results, or be it regarding the implementation of smart grid and its results. All these are instruments that the Group developed to mitigate the sharing of the tariff reduction with consumers.

So our concern is always to adequately remunerate the capital invested. These actions for cost reductions keep us in this perspective, which has always been a hallmark of CPFL, focused on remunerating the capital invested in the distribution segment.

On the other hand, it is important to highlight the performance that we have been achieving at CPFL Renováveis. We had an important year and the Company carried out its IPO and concluded five projects, three of which are already in operation and the last two are at the final implementation stage and one is already in the test phase.

So we believe it's important to share this perspective because both in terms of distribution where we are the biggest players and renewable energies, we are also the biggest players. It is the highest volume of contracted energy, 1,700 MW, and this year we will have 1,500 MW.

I think it's important to see the ramp up of the Company in two years. It was really very major and now we will start to see the consequences or the fruit of this work. Noting that in the case of Renováveis, 1,500 MW are 100% contracted and also 100% indexed; so this is another positive view.

And due to the dynamics of the Brazilian economy, the theme of commercialization and services that had a non-typical year in 2013, be it in the first half because of an unfavorable hydrology, higher prices, but also stemming from the regulatory improvement, so that we could have a more real PLD, in order to be an important signal to all consumers, the market was very much reduced vis-a-vis what we estimated.

But we are a major player and we did not stop working. We did a lot of work in terms of going to the market and conquering clients and we have over 300 clients and we are very bullish about these activities - energy commercialization and services - in such a way that the bulk of the operations of the Group, we are in a quarter that many characterized as "back to the game" and we are very pleased with the perspectives.

We have low operating costs and they are on a downward trend and our outlook is for an increase in our revenues, be it with the growth in our distribution market or the start-up in our operations in generation and commercialization segments, So it is a very bullish view for the future and together we will be able to see this in the next quarters. Thank you very much for your attention, again.

Operator: That does conclude the CPFL Energia conference call for today. Thank you very much for your participation, have a good day.