



**Local Conference Call
CPFL Energia S/A
Third Quarter 2016 Results
November 11, 2016**

Operator: Good morning and thank you for waiting. Welcome to CPFL Energia's third quarter 2016 earnings conference call.

Today we have with us **André Dorf**, CEO of CPFL Energia, Gustavo Estrela, Chief Financial and Investor Relations Officer, and other company executives.

This conference call is being simultaneously streamed over the Internet, available on the Investors Relations site of CPFL Energia at: www.cpfl.com.br/ri, where the respective presentation can be downloaded. We inform you that during the company presentation all participants will be on listen-only mode and, soon afterwards, the question and answer session will be held, when more instructions will be given. If you need any assistance during the conference call, please dial star zero to get help from the operator. Note that this conference call is being recorded.

Before proceeding, we would like to clarify that any statement made during this conference call regarding the business prospects of CPFL Energia and its operating and financial projections and goals, are beliefs and assumptions of the Company's executive board and based on currently available information.

Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions, and other operating factors may affect the future performance of CPFL Energia and lead its results to differ materially from those expressed in such forward-looking statements.

Now we would like to turn the presentation over to **Mr. André Dorf**. **Mr. Dorf**, please proceed.

Mr. André Dorf: Thank you. Good morning everybody. Welcome to yet another conference call to discuss the results of CPFL Energia, now relating to the third quarter of the year. As usual, we will give a presentation and then will be available for questions and debate.

Starting on page 3, a few highlights of the quarter. We noticed a 2.3% reduction in the power load measured in our concession area. During the presentation, we will see in detail the segments that most contributed to this decline. Contracted demand among free clients remained stable, at 0.6% during off-



peak hours and 1.3% during peak hours. Decrease of 5.6% in net revenue, while at the same time we registered an increase of 2.0% in EBITDA.

Also, during this period we had a tariff adjustment at Piratininga in October, which caused an average reduction perceived by the consumer of 24.0%, while at the same time Portion B, which is what impacts our results, was adjusted by 9.6%.

The CVA balance too was quite positive! Here, we went from a financial asset of R\$ 160 million to a liability of R\$ 388 million, generating more in terms of cash. Investments came to R\$ 650 million in the period, mainly allocated to distribution and renewable generation.

Net debt totaled R\$ 11.4 billion at the end of the period, leading to a leverage ratio of 3.7. We continued to reduce our leverage, which reached almost 3; a level that is appropriate for the company's growth pace.

During this period, we had the startup of several turbines in the Campo dos Ventos and São Benedito wind complexes. So, 174 MW of installed capacity out of a total of 230 MW, which should go operational by the year-end.

We also started managing RGE Sul, formerly AES Sul, a transaction that was announced about 4 months ago. We had the closing and our team took over the management of AES Sul. By the way, we were quite satisfied and impressed with the quality of the team and with the integration of operations. I'd say the integration went through without any system or operational setbacks.

During this period, we also saw Previ and Bonaire joining the proposal for sale of their interest to State Grid. Camargo Corrêa had already announced its desire to sell its stake and State Grid, pursuant to the Shareholders Agreements, extended the same offer to the other controlling shareholders, who decided to accept it.

From the sector viewpoint, we had Provisional Presidential Decree 735, which deals with diverse points in various segments of the electricity sector. This set of measures, which was passed by both the Congress and the Senate, now awaiting Presidential sanction, brings both impacts and opportunities to sector players.

On page 4, we have a macro view of cash generation as measured by the company's EBITDA in the third quarter. EBITDA totaled R\$ 985 million in the period, distributed as follows: Distribution accounted for almost 40% of total EBITDA, conventional generation for 35%, our interest in CPFL Renováveis for 18% and trading and services for 8%.

Hence, if we analyze segment by segment, starting from the top right – distribution, we see a decline in cash generation, largely due to the decrease in



the load in our concession areas and the increase in collections efforts and losses during the period.

Note that we also had an increase in the Provision for Doubtful Accounts in recent quarters compared to the historical average, but this was partially or almost fully offset by an increase in fines and interest in the financial result line.

Conventional generation did not have any major extraordinary item here. This increase of almost 7.0% quarter on quarter is due to the price adjustments on contracts. Likewise, in renewable generation, we had price adjustments, better wind conditions and the startup of a few projects.

On the left portion of the slide, trading and services. Though the amount is lower than others, the variation was significant. We had a non-recurring item here related to contractual damages, which accounts for more or less half of this variation.

On the next slide, 5, we talk about distribution. As I mentioned in the initial highlights, we had a 2.3% decrease in load in the concession area, shown on the top right chart, which was more substantial in the captive market. The free market accounted for an increase while the captive market accounted for a decrease of around 4.0%, which was partly explained by migration of clients.

In the bottom charts we see a drop in sales. Note that revenues have a small mismatch with load measures and here, once again, the captive market accounted for the entire decline we registered in the concession area.

In the center chart at the bottom, we present sales by consumption segment. The totals are the same, but now with distribution by consumption segment. We see that the industrial segment had the biggest impact on the decline during the period.

A comment here: At one of our distributors, we had a specific client from the steel industry, which heavily reduced its consumption in this period. If we were to exclude this client specifically, the decline would be 1.4% instead of 4.9%.

We also had a slowdown in the growth of new connections. This is an indicator that we always measure. We had almost 3.0% in the third quarter last year, while we had less than 2.0% this quarter, reflecting the macroeconomic scenario.

In terms of losses, we registered losses of 8.32% in the third quarter last year, which increased to 9.0% in the second quarter and we are now slightly below 9.0% in the third quarter of 2016. This is partially explained by the market mix operation. As industrial clients reduce their consumption, we have a higher weight of low voltage here and a higher number of disconnections, which also end up creating more losses in the period.



On the next slide, we talk about delinquency in the distribution business. We start with a chart on the top left, which shows the evolution of PDA as a percentage of gross revenue. Though we note a slight relief in the quarter, we feel it's still too early to call this a recovery. We still have the macro, income and employment conditions, which have a major impact on consumer behavior. So, despite the relief, we don't consider this a sign of sustainable recovery.

To the right, we see our collection efforts, the chief among them being disconnection. In the third quarter of 2016, we completed 340,000 disconnections. This is relatively stable in relation to previous quarters but significantly higher than what we normally used to do.

The bottom charts show the total of bills overdue as a percentage of billing. I will stick to the chart on the left: we registered an increase from about 0.80% of average to about 1.0% of average, but apparently more stable. So in this case we can notice certain stability in recent months.

On the next slide, 7, we present generation. As we saw in the period highlights, we are once again witnessing an adverse hydrological situation, but this time concentrated in the Northern and Northeastern markets. If we look at the bottom right chart, what draws our attention is the current level of reservoirs in the Northeastern region, which is 10% of their maximum capacity.

As I mentioned, we had the operational startup of two complexes until November, with installed capacity of 174 MW, which should bring a total 231 MW in installed capacity by December.

The Generation Scaling Factor (GSF) had a much lower impact; practically insignificant in the quarter. It was R\$ 4 million, versus R\$ 53 million in the same quarter last year, and it's worth highlighting our exposure to GSF: Today, only 12.0% of the Company's hydroelectric facilities is exposed to GSF.

On the chart on the right, out of our installed capacity, large hydroelectric plants account for 63.0%, followed by wind power plants with 18.0%, and then by biomass, SHPs and thermal plants, each accounting for 6.0%.

I now turn the floor to Gustavo Estrella, the Group CFO, for his comments on the period results.

Mr. Gustavo: On page 8, we have our results in the format that we always disclose – according to IFRS and in the managerial view, in which we make a few adjustments, especially the consolidation of our generation companies, the foreign exchange effect on energy from Itaipu and a few other non-recurring effects.

As we can see in the table at the bottom of the slide, the adjustments in the third quarter of 2016 are basically related to proportional consolidation and the



exchange variation at Itaipu. In the third quarter of 2015, we made an adjustment in the booking of GSF, so we excluded it to be able to compare the two results on the same basis. The managerial results show a decline in net revenue of 5.6%, or R\$ 253 million, which is basically explained by the effect of the reduction in the regulatory asset.

As we already discussed here, this asset became a regulatory liability, which affects our net revenue. The outlook for net revenue is that the impact of future tariff reductions should result in lower revenues for the company in the coming quarters.

This has no impact on EBITDA. We saw that the effects are basically on Portion A items, which bring us growth of 2.0% in EBITDA, or R\$ 20 million compared to 2015.

It is also important to highlight the effect on net income, which was a decline of 24.8% or R\$ 77 million. This decline was basically concentrated on two effects: The first is an adjustment of the financial assets of the CPFL Piratininga concession. This adjustment was made in the third quarter of 2015 at the time of the company's tariff review. We make this adjustment according to what the Regulatory Agency determines, and last year it brought a positive effect of R\$ 70 million in the results of Piratininga. This is obviously a non-recurring effect – it affected 2015 but does not affect 2016.

The other effect, which does impact 2016, but is non-cash, is the impact of the marking to market of our 4131 debt in dollars, for which we have swaps. We made a mark-to-market adjustment this quarter as well and, compared to 2015, it is a negative effect of R\$ 77 million. Once again, it is merely an accounting effect. In the nine months through September, the mark-to-market effect is R\$ 1 million, and this is an effect that is offset over the coming quarters.

Moving to slide 9, we highlight the main variations in the results. Looking at the variation of R\$ 20 million in EBITDA, the major impact comes from the trading and services business, with a positive variation of R\$ 43 million. The biggest variation here is revenue from indemnity on ACL contracts. CPFL Brazil buys energy from ACL contracts. There was a delay in the startup, which was essentially in the transmission lines, for which the seller is entitled to a positive indemnity of R\$ 22 million.

Another important highlight is that our long-term strategic plan also includes strengthening our services business. We see an increase of R\$ 10 million in the results of CPFL Serviços, which were basically transmission and distribution maintenance services of R\$ 10 million, and also an increase in the results of our IT company, Authi, which registered income of R\$ 5 million.

In conventional generation, it is basically the inflation pass-through in our contracts. We saw the same positive impact on the adjustment in Portion B at



Piratininga and it happens in the same proportion in the generation contracts with inflation pass-through, which explains the increase in the results from generation in 2016 compared to 2015.

At CPFL Renováveis, there was an important effect of the startup of new projects, essentially wind projects in the free market, which contribute to the improved results from this business and also the Mata Velha SHP, which too brings additional EBITDA for the group.

Compared to 2015, we had a very negative 2015 in terms of wind. We see an improvement in 2016 in relation to this year and hence an increase of almost 18% in the result on account of wind power generation.

For distribution, there was a negative effect of R\$ 54 million. This represents the performance of load in the concession area, as André already showed. The impact we had from the market is basically due to the decline in commercial and residential consumption. Note that the effects of the decline in industrial consumption do not affect our results since our demand contracts were not reduced. So the effect is primarily on the performance of the low voltage market.

There has also been an increase in expenses due to collections efforts, especially disconnections. An increase in the number of disconnections compared to previous quarters increased costs for the company this quarter by around R\$ 15 million.

And the other effect of R\$ 32 million here is basically related to the refund of certain extraordinary gains under Portion A. We commented on these impacts in the first quarter of 2016, when we had a positive impact on our results. And here, due to the calendar of reading and the way we account for unbilled revenue, we already had an expectation of returning part of these gains over the coming months, and this is what's happening now. Year-to-date, this effect is offset by the positive impact in the first quarter.

And another effect, as already demonstrated by André, is the increase in loss. The loss increased in the quarterly comparison from 8.3% to 8.9%, which obviously reflects in the company's results in the quarter.

And here, when we talk about the impacts on net income, as I've already mentioned, these are the two one-off and non-recurring effects that led us to recording a lower net income compared to the third quarter, but which is not recurrent.

Now going to slide 10, I think we are consolidating this leverage ratio close to 3.0, so we had reported a leverage ratio of 3.10 and it's now 3.07, and of course this expectation of reducing the leverage, which we presented in the second quarter, is what guided the company in the process of acquiring AES Sul, since



we had indeed some room in the balance sheet to go through with the acquisition. So, this is a leverage level - of course without considering the impacts from the consolidation of a new asset - but a leverage ratio below 3.10.

The debt profile remained virtually stable in terms of CDI and TJLP and pre-fixed debt. We still have a debt that is largely pegged to the CDI rate, and the outlook for the debt cost here, of course, is very much related to the expected decline in the CDI rate over the coming months, but in this short-term cost we see an evolution of the nominal cost of the debt due to the hikes in the CDI rates in the last few quarters.

On slide 11, we show our debt amortization program, and once again an extremely healthy cash position, and I repeat that this is a priority for the company, preserving the group's liquidity. So, with a cash balance of R\$ 5.2 billion, we are fully funded for all debt coming due through the end of 2017.

Of course, our challenge here is rolling over debt for 2018, as you already know, when we look at the market there are some alternatives in terms of financing instruments or of rolling over this debt due in 2018, especially through incentivized (tax-exempt) debentures, i.e. infrastructure debentures, so we can refinance, once again, these maturities coming due in 2018 and 2019.

Well, here on slide 12, we show a little of the progress we made in terms of growth, all of it directed towards CPFL Renováveis. So, here we already have the wind power complexes of Campo dos Ventos and São Benedito, which already started operating. The expectation is that, by the end of this year, 100% of the wind farm will be operational, with the Pedra Cheirosa complex scheduled for 2018 and the SHP Boa Vista for 2020.

All of them are undergoing discussions about funding with BNDES. In the case of Campo dos Ventos and São Benedito, BNDES has already approved the financing facility, and it is currently examining the facility for the Pedra Cheirosa complex and SHP Boa Vista.

On slide 13, I think the highlight is the startup of operations in RGE Sul early in the month. I think that, as André mentioned, this is positive, a lot of good impressions from the startup, whether in terms of the staff, a very collaborative staff, with a lot of knowledge of the company, also very strong processes and systems of the company. So, I think now we are starting a process of integration with the assets of CPFL Energia and there's a very positive outlook for this integration.

I'd also like to point out our process of restructuring the AES Sul debt. It was an extremely expensive debt, with an adequate maturity profile, but still very expensive. We've already renegotiated 100% of this debt, refinanced it at a cost of 114.5% of CDI, maintaining its maturity in 4 years. So, I think now we also have a very adequate cost and maturity profile for this asset.



I think our expectation is for this integration process to take place by year-end, but once again, we have a very positive outlook for the integration.

On slide 14, talking about the State Grid transaction, it is advancing in line with our expectations, the SPA was signed on September 12, Previ and Bonaire signed the SPA, CADE approved it in September, and we expect ANEEL to also approve it so we can proceed to closing the transaction in the coming months.

Finally, the stock performance. Of course, the performance of our stock is directly related to the State Grid offer. We registered a performance of 17.5% in the third quarter, already reflecting this new outlook with the proposal by State Grid. We also saw an increase in trading volume from R\$ 39 million to R\$ 59.4 million, and also a similar performance in the New York Stock Exchange.

Mr. André: We are now closing this part of the presentation, I'd like to open the conference call now for the question and answer session.

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the questions and answers session. To pose a question, please, dial start one. To remove your question from the queue, please press star two.

Once again, if you have any question, please press start one.

The question and answer session is now finished. I would like to turn the call back to Mr. André Dorf for his final remarks.

Mr. André: We are now in the final stretch of 2016, which has been a very intense year. We saw some important changes in the country's political environment, even in the power sector environment and in the company.

I would highlight, from these three first quarters, the acquisition of AES Sul, now RGE Sul, the transaction with State Grid, our efforts and endeavor into new businesses of the company, such as distributed generation, efficiency company, strengthening commercialization. So, the year has been very positive for us at CPFL, and in this context I would highlight that our team is still very motivated and engaged in the company's strategy.

Thank you all for listening and have a nice day. Thank you.

Operator: The conference call of CPFL Energia is concluded. Thank you for listening and have a good day.