Local Conference Call
CPFL ENERGIA
Third Quarter of 2012
November 6, 2012

Operator: Good morning ladies and gentlemen. Welcome to the conference call of Third Quarter Earnings Results CPFL ENERGIA for 2012

With us today are executives Wilson Ferreira Junior, 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 Junior. Please, Wilson, you may proceed.

Mr. Wilson Ferreira Junior: Good morning everyone. I would like to thank the presence and participation of investors and analysts at this, our conference call for our third quarter results.

I begin this presentation on page 3 where we have the highlights of the third quarter of 2012, starting here with sales growth in the concession area, an increase of 1%. But this quarter we have an evaluation of two days less than normal in our billing schedule - we will make a disclaimer on that a little later - and we have almost 3% growth.

Also we are highlighting the entry into operation of the Santa Clara wind farms, which occurred in July, noting that as a result of negotiating with the Agency although the farms are not yet connected to the grid because of delays in the ICG, we are already billing and receiving payments from this group of wind farms in Rio Grande do Norte.

Also we are emphasizing the completion of the acquisition of Usina Ester, about which we disclosed material facts.

Then there is the payment that we made on September 28 regarding mid-year payout of dividends, totaling R$ 640 million.

The normal course of our activities from the point of view of investment, with capex of about R$ 660 million in the third quarter, was very much in line with our annual forecasts.

Naturally, we are also highlighting the completion of the first tariff review of a distribution company belonging to our group, CPFL Piratininga, with results quite similar to those we had signaled to the market and that corresponded to a 7.7% economic repositioning after the review and the tariff adjustment index has now been applied simultaneously, as of October 23.

Another highlight, and it is important to say this, was the maintenance of the national scale credit score of brAA+ by Standard and Poor's, for both CPFL Energia as well as the group's subsidiaries.

I think that, perhaps as a result of the current moment, there was a substantial increase in the daily trading volume of our ON shares on the Brazilian market and of ADRs in the U.S. market; we reached an average daily volume of approximately R$ 50 million.

The company, the group, received a number of important recognitions last quarter, and of particular note was the survey conducted by Você S.A. of the best companies in which to work, an important list compiled by the magazine that our company has been on for over 10 years now.

And then there were two new awards, the first time the company received them: the first ÉPOCA Award for Climate Change - 2012, and especially the ÉPOCA Business Award 360°, which is the first ... the company was the first in its sector and third overall, the first survey involving not only economic but also governance items, treatment of the subject of sustainability, human resources, strategy.

So it's an award that has a scope from the point of view of an operation bigger than the others, and we are very happy to have the recognition of CPFL for the first time on this list.

And finally, I want to highlight the CDP report - Carbon Disclosure Project, which gave a special mention to the company due to its performance and its disclosure of its carbon dioxide emissions.

Okay, moving on now to page 4, we have here the first disclaimer regarding energy sales in the third quarter. On the left we see sales in the company's accounting release, and through it we show a decline of 2.7% in the captive market, an increase of 11.1% in what would be the free market within the concession area, giving a total of 1%, highlighting the important movement in this quarter of migration of free consumers, but also the fact that we are comparing quarters with fewer dates (number of days billed) in the third quarter of 2012.

We see this volume normalized already on the right side, to allow comparison of the segments and this is important. And we have growth of 2.8% with the captive market increasing by 3.2% and the free market up by 1.8%.

Ok. Following this I would like to go down, to sales in the concession area, here highlighting the behavior of the segments. So what we're seeing here - that would be the normalized basis - is an increase of 5% in the residential market, an increase of 5.9% in the commercial market.

So, both sectors are quite strong, the economy's moment is particularly positive for those segments. And it is positive for the distributors to the extent that this segment is the low voltage segment where, from the point of view of the tariff mix, the concessionaires' portfolios have the best rates.

There is already a mild recovery. But our expectation is quite positive for resumed growth of the industrial segment, 0.8%, and the other segments with 2.1%.

On the right side of this table you see the exact configuration, the effects reported here of 2.4% or 2.8% between residential and commercial segments, and the adjusted amounts I have just report: 5% for residential and 5.9%.

Ok. On top, just ending this table, we have total sales ... the total billed by the company of consumers. Then we have as reported here the 9,795 GWh of captives, a decrease of 2.7% compared to last year; an increase of 10.3% in the commercialization activity and conventional generation for sales outside of the group.

And finally, here we already have a larger share due to the startup of several plants of CPFL Renováveis, reaching almost 1,000 GWh and the total in this quarter of 2012 compared with the same quarter last year we see an increase in energy sales of 6.2%. Thus, important sales results, a time of economic recovery. We'll have more on this a little later.

I'm going now to page 5 just to make the comparison at the accounting level. We see lower growth than in Brazil during the quarter (1% versus 1.8%). A positive highlight was the southeast region, where our concession areas surpassed the southeast average; but negative in the south, where we saw a performance increase of 1.5% against 3.3% for the southern region.

Below we see ... we work, you know, with LCA Consultores, which develops our scenarios, and there is an expectation that we had during this quarter a significant recovery in industrial production that will naturally raise our sales through the end of the fourth quarter.

All right. In the next slides we're trying to get a take on the scenario that underpins our positive expectations for the quarter with a set of measures established by the government that we believe should, in some manner, boost sales of energy in the various segments in which the company operates.

Some situational measures still in place for confronting the crisis, are already known: IPI reduction for appliances and cars, including the latter maintenance of incentives; reduction of the IPI on capital goods and the postponement of the deadline for payment of PIS and COFINS. All this, naturally, working on the positive side of the uptake of the industrial sector, in particular.

The set of structural measures, these ones important and permanent, of investments in new projects, incentives for infrastructure: we are at an important juncture for highways, energy, oil and gas; the Minha Casa Minha Vida program itself. We will see the volume of financing strongly increasing this year; the new automotive regimen recently put into place; the pre-salt and the upcoming sporting events. We are already on the edge of the Confederations Cup as a prelude to the World Cup.

Other measures that will certainly incorporate competitiveness: I have no doubt the MP 579, by reducing the cost of electric power, will be important here, particularly for industry and commerce; the payroll tax relief now for 40 sectors; declining interest rates and spreads; also, a more competitive exchange rate being held at around R$ 2.00 per dollar; and greater fiscal slack, allowing a lower tax burden.

An important fact contained in the table: investments in infrastructure are growing practically for the sixth consecutive year as a percentage of GDP, noting that in 2004 it was 0.8% of GDP, and in 2011 has reached 11.4%, 3 times higher.

And, important evidence of this, although we have evolved less than we would like, the truth is that in 2007 in the competitiveness ranking of the World Economic Forum we were in 72nd place, in 2011 we went to 53rd, and this year we have evolved a bit more and have moved into 48th place. This is a permanent trend, the result of the changes, structural measures that our government is taking.

There is also a summary on page 7 of these structural measures, even as drivers of growth: it is important to highlight 17 million jobs created in the last eight years, reduction of poverty and inequality, with social ascension (Class C reached 55% of the population in 2011). It is also worth noting the expansion of income and credit with greater access to consumer durable goods, with a 63% real increase in the minimum wage.

You'll have noticed, I spoke a bit about housing credit. We reached R$ 80 billion the past year and have R$ 61 billion this year, with the expectation we will end the year of 2012 at the significant mark of R$ 100 billion financed.

This all impacts residential and commercial consumption. But just look at the case of residential consumption (the table on the bottom right), the amount of new connections being made in CPFL's concession area, which is already a consolidated area, mature, universalized, etc…: in 2009, we had organic growth of 2.2% per annum, and that meant 134,000 connections in this area that was a single one at the time, but by 2009 was operated by eight of the CPFL Energia Group's distribution companies. That meant an addition of new customers at the rate of 130,000 per year or 2.2% of the existing platform at the time.

This year, watching the performance through September, we have hooked up 215,000 consumers, a 3.3% increase over the company's customer base.

So there is certainly a different dynamic at work, we will connect practically double the number of consumers than we did about three years ago. And we can see in the chart above, which may be the synthesis of this slide, that it is the prospect that has been observed in the growth of household consumption.

All of this means, whether the higher number of connections percentage or by real growth, that undoubtedly what we've been seeing mostly in the residential and commercial segments is that the data is working positively — both in terms of investment in the energy sector or the volume of sales of the concessionaires in these segments.

Now that we're done with this first batch of information about the outlook, let's go to page 8 to our disclosure of third quarter results. As usual, in the first line we have reported results under IFRS and as a result saw a 16% increase in revenues reaching R$ 3.454 billion, growth in EBITDA of 9.2%, thus surpassing R$ 1 billion, and a decline in net income of 15.2% to R$ 321 million.

Importantly, and you have been following this, we always insert this in our earnings releases, that resulting from the application of IFRS there is an important and not recognized movement of regulatory assets and liabilities. So, for this reason, and to facilitate the work of journalists and to facilitate, of course, management of the company we also report the results of the company without the recurring effects of the movement of these regulatory assets and liabilities, which movement we had in previous Brazilian Gaap due to the incorporation of the CVA.

And therefore we have a better basis of comparison of these quarters for the real performance of the company. Through it we saw growth of 14.3% of net revenue, a major change in EBITDA, reaching almost 19%, going to R$ 1.134 billion, and net income would be slightly positive, by about 6.1%, hitting R$ 425 million.

We have a very clear notion of these movements within this framework that we show below. I'll just make a report: on the left we have the effect on EBITDA, on the right the effect on net income. Turning to the EBITDA, what we have here is a difference in the cost of EPASA energy in 2010; it was at that time a non-recurring effect, a recognition that we made, and it was highlighted that quarter and re-facilitated in our release for your understanding.

And some positive reports in the recognition, finally, of the revenue from the low-income subsidy that occurred between 2002 and 2004, an effect of R$ 15 million in the Ebitda and a set of negative recognitions, the result of applying the new electric sector accounting manual; a surplus of assets here in CPFL Piratininga of R$ 17 million; the adjustment in the delinquency estimates; it is obvious we are also living in a time of increased payment delinquencies and we're going to be a little more conservative in our calculation of this, raising our provision by R$ 54 million.

And next, the positive and negative effect of the physical inventory of the distribution assets. You remember that last year we reversed a provision and this year we are now recognizing the costs of this inventory. It is a non-recurring event because it is recognized in the distribution companies' tariff reviews. And finally, other adjustments, negative by R$ 3 million last year and R$ 3 million positive this year.

We would have this result here ... only of these non-recurring events, a value of two quarters, 32 positive last year going to 55 negative this year. But one has to recognize two other elements, and these are important: first, the regulatory procedures of the distribution companies, that is, the fact that they have not had, particularly in the case of the five concessionaires, and particularly in the case of CPFL Piratininga, and the five smaller concessionaires that we have in the state of São Paulo, the tariff review in the previous year. So in this quarter, there is recognition of R$ 56 million that now when we are undergoing the reviews, begins to works, to be recognized over the next three years.
And obviously that account, the account that moves with greater intensity and that sometimes gives us a different idea of what the company's recurring result should be, which is the movement of the regulatory assets and liabilities accounts; that is, the CVA, that in this quarter was R$ 141 million in favor of the company.

All this leads us to the difference we are putting together here, totaling the two lines of non-recurring items and regulatory assets and liabilities of R$ 139 million added to the result of what would be the third quarter EBITDA, or R$ 104 million in net income.

Ok. Now we are going, as of page 9, to conduct an assessment of EBITDA and the company's profit. So on the outside part we see growth of 18.9% that already incorporates these recognition results of the non-recurring effects, of these regulatory effects, a movement of R$ 39 million on the left side. And we reported an EBITDA of R$ 956 million in the third quarter of last year, when in fact recurrently it would have been R$ 996 million.

It was the same thing this quarter: we are reporting an EBITDA of R$ 1.044 billion when the result of recurring regulatory movements would have been something close to R$ 1.74 billion.

So we'll just do a comparison of the reported values, that is, the movement of growth of 9.2% from R$ 956 last year to R$ 1.44 billion this year. One can highlight three blocks: the first is precisely the growth in net revenues of R$ 476 million, which is due largely to the increase in net sales to the captive market and the average tariff adjustment of 4.3%, which occurred in these quarters throughout this past year totaling R$ 53 million.

There is also the 20% increase in the volume of short-term energy, or R$ 62 million, and the TUSD revenue itself of R$ 9.7 million, the result of the movement of free clients during the course of this period.

We have here other revenues of R$ 26 million, and the highlight — I've already made the disclaimer — that the low-income revenue subsidy, the R$ 15 million, was recognized in the quarter, which is a non-recurring amount. Then we have the effects of the consolidation of CPFL Renováveis of R$ 160 million and of conventional generation and sales services adding an additional R$ 66 million.

To all of this, deductions from revenues, basically reducing the sector charges and the PIS and COFINS credits that, in the last quarter — we issued this disclaimer to you — totaling R$ 72 million.

Note that next we have here the increase in energy costs and charges, even a greater percentage than our net revenue growth. So here we saw an increase of 19.2% in the cost of purchased power (R$ 246 million) and a 10.7% increase in charges of R$ 38 million - when comparing the quarters. It is important to note that due to the result of the MP itself, now in January or early February, we will have a significant reduction in these charges.

And here it is also important to note that the actual increase in the cost of energy is due to a change in the value of the PLD from R$ 20 to R$ 131 during this period, mainly involving the topics of thermal energy, etc...

On the other side, we have here a 26.9% increase in PMSO expenses. Because PMSO expenses, management of PMSO expenses, is a specialty of the group, so we do not have a misconception regarding this number, we made a disclaimer on the next page showing that what seemed an increase of R$ 104 million actually corresponds to a decline of R$ 4 million or 1.1%.

So showing up on the inside part is the value reported in IFRS, R$ 386 million, an increase of 26.9% or R$ 104 million, thus reaching the amount reported this quarter of R$ 490 million.

It is important to note that these values we have consist of a group of events that should be better clarified: the first is precisely the moment of CPFL Renováveis' take off. So, we had R$ 25 million last year and today we have over R$ 49 million. This is the company's growth and it corresponds exactly to twice the amount of generated and installed energy. It is a growing company and naturally this must be better highlighted in the comparison of the costs.

On the other side are the distributors' own reports where we had a reversal in the previous year and this year as we booked R$ 2 million in this quarter.

And finally last year you remember we were at the end of the retirement incentive program, so we had R$ 3 million more, an absolutely non-recurring value, and this year as a result of the tariff review processes we had not only the R$ 15 million of asset write-offs and the accounting manual, as I had highlighted, but also we reinforced the provision by R$ 54 million.

So obviously, as a result of this disclaimer, it is more correct for us to make a comparison on expense management by comparing the R$ 376 against the R$ 372, which leads to a 1.1% decline of such costs.

To be more precise, on page 11 we did a breakdown of our personnel expenses, materials, outside services and others on a quarterly basis. Then we can see the amounts reported in the nominal base in the first line above. So we see, always in blue, our personnel expenditures and in green our expenditures on materials, outside services and others.

So there we can see a growth of 2.2% in the first quarter, when comparing the first quarter of this year with the first of last year, a decline of 5.8% from the second quarter of this with the second of last year and a drop of 1.1%, as we reported, in this third quarter against the third quarter last year.

It is true that in this period we see a growth of the IGPM, as we report in the tables below, of 3.7% in the first quarter comparison, of 4.4% in the second quarter comparison, and 7.5% in the comparison of the third quarters. So normalizing for these IGPM effects, we observe that in the first quarter we have personnel reductions of R$ 9 million, according to the last line, and an increase of R$ 3 million in the MSO on a real basis.

In the second quarter comparison, and already from important reductions arising from the retirement program, a reduction of R$ 40 million in the MSO comparison and zero in personnel, and with the expected effects of the IRP (Incentivized Retirement Program), in the third quarter we saw a decline in personnel of R$ 10 million with the MSO falling by R$ 22 million. This all led to a reduction of R$ 78 million in the real base in the comparison of the first nine months of this year versus the nine months of last year.

Remember that we had expected a reduction of the real personnel base of about R$ 25 million. We had an expectation of R$ 50 million for the application of the ZBB (Zero-base budget) and something similar to this for the implementation of our shared service center. It is true that the year is not over yet, but we've moved close to R$ 80 million in nine months and I believe that this we will get quite close to the expectation of a number of about R$ 120 million.

So these details are important. We're moving now into an era of relatively high IGP-M, high inflation, in the upper band of the targets, so it was important to give you these details.

Turning now to page 12 then, the detailing of net income. In the same way we will not detail the growth of 6% but rather the 15% decline, which came about in principle due to our EBITDA growth of 9.2%, as just reported (R$ 88 million), plus a 15% reduction in net financial result, which was negative by R$ 31 million (the second bar). In this result we have basically the reduction in financial income of R$ 62 million. Obviously, we have a significant reduction in the CDI and the company's own balance, the net balance of the company — still vigorous but lower, a result of acquisitions the company has made using part of its cash.

And on the other side we have a reduction in financial expenses of 7.3% or R$ 31 million. Here, in this total amount, we highlight that the reduction is indeed important, deriving from the reduction of the CDI (which in our lines of financing accounts for about 60%). So here we have a R$ 106 million reduction in financial expenses and also lower Itaipu bills, indexed to the exchange rate, of R$ 25 million.

The consolidation of CPFL Renováveis was the result of our having control of the company (it's R$ 69 million) and a non-recurring value related to interest and penalties on a payment related to the merger of the CPFL Paulista networks worth R$ 20 million, to tackle the incorporation of these assets on a net basis for the company's tariff review next year. These values had to be incorporated by the month of October this year, so it was arranged for this quarter.

The update of the plants' UBP (use of public utilities) — and we have been saying this since last year — just to make the quarterly comparison. And finally here we have an increase in depreciation and amortization, undoubtedly the result of the depreciation of Renováveis' generation projects, the startup and the resulting depreciation, and changes in accounting of PIS and COFINS credits, as also explained in the previous quarter about the new procedure adopted by the company.

Our surplus in the pension plan is R$ 20 million lower. It was still a surplus but R$ 20 million less than the same quarter last year, due to a decrease in reported income, a decrease in income tax and social contributions.

Thus, we arrive at this quarter with reported net income in IFRS of R$ 321 million, the result of regulatory and non-recurring income - mainly regulatory, regulatory assets and liabilities - and we have a recurring net income of R$ 425 million in the quarter.

Let's go to page 13, an assessment of leverage. We reached R$ 12.7 billion of adjusted net debt and it gives us 2.94x net debt ... net debt/EBITDA adjusted by our covenants, noting that this value compares with covenants whose ceiling is 3.75, a measure CPFL adopted in all its lines of financing, and obviously disregarding this only by the value reported we have an EBITDA, the EBITDA reported with this debt would give a value of 3.45 under IFRS.

But I want to emphasize that the company, recognizing ... and here is its importance, nearly two years ago we talked about the issue of possible volatility of amounts reported under IFRS, the result of the failure to consider the CVA, so we implemented a measure so that in all funding we would incorporate the indexer of the value of Adjusted EBITDA (that which is recurring for the company), thus reaching 2.94.

Another highlight: the cost of debt continues to decline, then decreased again reaching 4.5% in real terms, 9.8% in nominal terms with this distribution of 64% in CDI, 27% in the TJLP already considering the important prefixed 6% portion (these are PSI programs) that are now bearing interest of 2.5%, I'll talk about them too. The value in IGP is precisely the debt we have with the Foundation, funded long term where the IGP is the indexer of the pension plans.

Note that with this net cash position at the end of September we thus reach 2.664.

On page 14 you can see it more clearly, and here we have the debt amortization profile. So with the company's amount of cash on hand we have enough coverage for 1.3x of the short-term amortizations; that is, we have gone beyond the year of 2013, we paid down a little further of 2014, as shown here. In the year 2013 we will have R$ 1.978 billion in the short term over the next twelve months and in the last quarter of 2013 another R$ 554 million.

The average maturity of our debt is 4.5 years and the short term represents nearly 12% of the total. On page 15, in doing so we also had here this quarter the entry of BNDES funds, from FINEM for the formation of Capex. We had the approval and disbursement for some R$ 606 million and already in this format have 55% of the amount in TJLP, indexed to the TJLP plus the spread, and a "pre" 45% to a value of 2.5; this gives an average cost of debt of 5.56% per year with a payment maturity of up to ten years.

So these inputs are very important. You can see, it changes - we're highlighting this because it occurs in early October, thus after the third quarter - but already these first weeks of October, you can observe the change in the debt profile, with the CDI representing 62%, the TJLP at 28% and the prefixed debt at 7%. So 35% of our debt is in long-term funds from the BNDES.

This then led to our cash at the beginning of the month strengthened to nearly R$ 3.3 billion, thus with cash coverage for 1.6x of short-term amortizations (which remained at 1.994) and here, the short-term debt representing only 11.6%, thus slightly lower than the position in September.

Here, just on page 16 reporting the review here of ... maintaining the credit rating of the group (AA +) And here I just wanted to point out the result of evaluation by Standard and Poor's, the importance given to diversification and generation investment in renewables; the contribution to growth of these segments in forming the group's cash; the stability and efficiency of the distribution business and the appropriate level of liquidity with access to sources of long-term credit that the group has been seeing. So CPFL Energia and its subsidiaries maintain their credit ratings with Standard and Poor's, with a stable outlook in October 2012.

Page 17, only to detail, to report the third tariff review cycle of CPFL Piratininga, which gave us exactly what we had put in the report. This is the company that had the largest growth of our group and we imagined that the tariff review would lead to a reduction in EBITDA of around 30% and that's exactly what happened.

We had a change in the depreciation rate. The provisional figure becoming definitive is the highlight, the result of applying the new accounting manual, which reduces depreciation periods, the normal value. The gross base of R$ 2.542 billion, the net base of R$ 1.273. The WACC before taxes applies to it and we arrive here with a Parcel B of R$ 574 million. This is the value that matters to the distributor; it is from this that our results will derive.

The repositioning was around 4.45% and the tariff adjustment that applies in the sequence of this led to end consumers to economic repositioning of 7.71%. Here, not only the tariff review but also the application of the annual tariff readjustment reaching 7.71%, with financial components of 1.08%. This is applied at 1.5% for low voltage and almost 10% at high voltage. The average effect comes to around 8.79%.

Now I just put a little on page 18 about the challenges of the distribution segment. Obviously now we have our first distributor applying the WACC of 7.5% and that will require huge operational efficiency and enormous efficiency in capital allocation. I think that this financing itself which we report together with the BNDES is a demonstration of our action in this area.

With a moment that lives from consolidation ... Brazil is very little consolidated. The three largest companies have about 35% when the world has consolidated and has values above 60%, 70%. And it also is a time in which the market is fragmented. Here is the profile of the 63 distributors, half of which are large distributors, half are small — that is, consuming less than 1,000 GWh — and the majority of the companies are located in the southeast, south-southeast regions, with 42.

It is certain that as of this application where the challenges for distribution are greatest in operations and funding the consolidation, I believe there finally will be competition.

I've reported on page 19 that we have here a very low, almost negligible effect regarding the application of MP 579, given that in the distribution topic less than 3% of the group represents the renewals of the distribution companies, which have excellent operational indicators and the economic effect of 579's proposal does not touch these distributors, especially because they have been conducting important processes for reduction of the regulatory WACC; this already was occurring in the distributors.

It's always good to remember that as a result of the three tariff reviews the companies have undergone there has been a 42% reduction in Parcel B in the distribution tariff; therefore, this efficiency has been achieved by processes that have been properly conducted by the agency.

And on the other side we have two SHPPs that were embedded in the distribution companies and represented less than 1% of our installed capacity, and that will be subject to application of the MP 579, establishing a tariff for these generators and a value to be amortized.

Note that on the other side we only start thinking about renewing concessions as of 2027 regarding the privatized distributors and from 2032 or 2035 with our generation companies, something that is quite comfortable for the group.

Furthermore, on page 20 we have placed a bit about the expected effects, trying to classify them into three segments: generation, sales and distribution. In conventional generation, what is being proposed is a rate sufficient to cover the cost of operations through a spread; thus, this spread ends up being an incentive for the efficient operation of these plants.

Clearly there are major challenges in the plants that are subject to renewal at this time. There is also the amortization of non-depreciated values calculated at replacement value, exactly what occurs today for the so-called net basis of the distributors. In the case of CPFL, evidently as I had already mentioned the concessions are long-term, with maturities from 2032 and our exposure at this point is practically nil.

And we already operate - it is important to emphasize - with O&M costs in the range or below the ranges proposed, as one can observe here in Aneel's release published last Thursday.

Regarding the topic of sales in the free market, the cheapest renewed energy will be used, at least for the purposes of proposition 579, exclusively for the ACR. This will cause the regulated market to have a lower price when buying from distributors than there is today. There will also ... and this has to be evaluated more carefully after the acceptance or not of all generators, then we'll have a clearer view of what may happen in the free market.

But given that some of these generators could have sold on the open market, it is possible to have a liquidity squeeze at least within the timeframe when there is this anticipation. And there is an important point: the A4 segment, which migrated with authorizations or grace periods of six months, now follows the same rule that we had with the conventional segment.

So I think for CPFL this environment is clearly more competitive. There will be pressure on the margins. The company has an outstanding performance in the sales segment and I believe that sales in particular for the A4 segment sales will be more technical. I believe that the companies that have consolidated, with credibility in this market, will wind up being benefited, as is CPFL. So the reliability that our company can bring to these potential free consumers will be very important, particularly for smaller consumers.

In distribution, what we understand is that the rules, quality results and performance requirements will be stricter. There will naturally also be an impact on the change in the hiring process and allocation of these quotas. We ourselves have insisted and we've had statements by the government itself that eventual contracting will not impact the contracting of the distributors. This is very important.

Mr. Eduardo Takeiti: I'll apologize to everyone because Wilson is having a little bit of a coughing spell. But let's continue, continuing the distribution rules then for the sector, the new rules, the quality requirements which will be detailed by Aneel and of course the changes in energy contracting regarding the allocation of this energy between all the other distributors.

And then, for CPFL what we expect of the impact is a limited impact, given that we have a low exposure for the concessions, mainly the smaller ones that are expiring in 2015, and as Wilson just said, only represent 3% in the company's aggregate EBITDA, and the largest assets we have are long-term concessions, the biggest one being CPFL Paulista, which begin to expire as of 2027.

Mr. Wilson: Well, Wilson's back. On page 21 we then have the major economic effects that this measure can bring. Naturally the topic of inflation in the income mass, there is a potential for reduction in inflation and certainly a 20% reduction in the tariff, something important to be considered regarding inflation.

And this should also lead, on the other hand, to an increase in consumption and an improved mix of higher sales with distributors of commercial and residential segments, especially.

The impact of the tariff on industrial activity can be seen in a number of different ways: there are sectors that are little exposed to competition and that will reconstitute their margins, and there are a number of sectors that can reduce their costs to increase their competitiveness, win more market share by producing more. So we expect to have an increase in the industrial class with an increase in consumption and reduction of surpluses in demand-based contracting practices, and from 2014 also maintaining this increase in consumption and on-demand contracting considering other stimuli to the economy that already are leading to investments in industrial activity.

We present the schedule of these stages of 579 on page 22. Two stages have already been achieved: on October 15, expressions of interest, the vast majority of all distributors, in transmission and also generation, although some well-known companies did not sign on completely. But the truth is that the expressions of interest are almost unanimous in the overall three segments, generation, transmission and distribution.

On the 1st of the month, last week, there was the release of the drafts of the amendment's terms, the publication of tariffs and the calling of generation and transmission companies to sign the terms that will be ... which must occur within thirty days, therefore by Dec. 1.

Once this is done, December 11 we will have the approval of the tariff rates for use of the transmission system resulting from this potential signing up; on January 1, the new generation tariff and the new TUSD will take effect; on January 20, then the final approval resolution of the quotas for the distribution companies will be issued.

And this movement is important, so one must wait for the generation segment to define this batch of quotas to be recognized, and thereafter there will be a special review of the distribution companies on February 5. It's an aggressive timetable, but already the first move, on the 1st, occurred as planned originally.

I'll now turn very quickly to part of the following pages simply to keep track of our renewable generation projects. We have here throughout the year of 2013 a number of projects to put on stream: the Salto Góes plant, which is already 94% complete, remembering that this plant is contracted in the LFA for 165, already funded by BNDES. It is part of ... it goes into operation in the first quarter.

Our two biomass thermoelectric cogeneration and plant, Coopcana and Alvorada, starting up at the same time, are in similar stages — one 38% and the other 41% completed, with financing already approved from the BNDES. These plants are to come on stream in the second quarter of 2013, becoming part of this 120 MW or 47 MW average.

Also in 2013, on the next page we have here the entry into operation of the wind farms: the Macacos Complex also LFA, and with funding being analyzed by the BNDES. This plant is to start up in the third quarter as are Campo dos Ventos II and the Atlântica Complex. Both come on stream in the second half of 2013 and all wind farms are currently under review for financing by the BNDES.

The Campo dos Ventos II and the Atlântica Complex wind farms have LER tariffs, being 141 for Campo dos Ventos II and of the LFA 2010 of 152.

Now I'm going to page 25 of the Campo dos Ventos I and São Benedito. These are projects for 2015, in view of the delays in the transmission system and in the free market sales. There are over 254 MW to be installed for start up in 2015.

I'm ending the presentation here only with page 27, highlighting the movement of shares that we have seen since the issue of the measure. With the clarifications we have been making, the volatility has decreased, but we've also suffered over this period a bit, declining 9.3% against 15 of the IEE and against the 9% positive growth of the Ibovespa. For the year we are performing above the IEE and the Bovespa.

In ADRs, we also saw a decline of 9.8% in the quarter against a growth of 4.3% of the Dow Jones and a positive performance of the Dow Jones Brazilian Titans of 2%. The highlight, as I put it, is the trading volume growth, reaching 50 million shares per day, an increase of about 43% in daily volume.

And the performance of the stock as reported here, where we have out performed the IEE and are higher than the Ibovespa as we mentioned.

I'll finish here on page 27, with this important recognition from the Carbon Disclosure Project in 2012. CPFL earned one of the best performance grades for its disclosures regarding actions for the mitigation of climate change, a set of actions that we conduct to create value for stakeholders, the system of differentiated corporate governance, engagement of suppliers, the theme of innovation with renewable sources, smart grid, electric cars, etc.

And CPFL was cited as a highlight in the report for having described its initiatives in a very objective way, providing quantitative details. This is something that is very important. Remember, the Carbon Disclosure Project brings together approximately 670 global investors who manage assets of about 78 trillion dollars. So this recognition is particularly important to us.

Finally page 28. Here we are in the month of the centennial, and I just wanted to pass along to you the news we will be inaugurating the Tanquinho Solar Plant. It is the first solar power plant in the state of São Paulo with an investment of about R$ 14 million and now it goes into operation in the fourth quarter, later this month, a plant in Campinas.

The entire panel assembly has been completed, we are in the final stages of the electrical assembling operation. And I just wanted to highlight that the participants of our sixth investor relations meeting event take place on December 4, and participants will have the opportunity to visit this solar power plant, the first and largest of the state of São Paulo.

These were our observations and I and my team now I am available for questions and I want to thank you all again for your attention.

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press asterisk one and to withdraw your question from the list, please dial two.

Our first question comes from Mr. Felipe Leal, Merrill Lynch.

Please, Mr. Felipe Leal, your line is open.

Excuse me, the next question comes from Mr. Alexandre Kogake, Citigroup.

Mr. Alexandre Kogake: Hello, good morning Wilson, Eduardo. The first question has to do with the MP 579. I was wondering how A4 consumers will migrate since the announcement of the MP, if it had any impact on the volume of migration, some impact on price and you can also mention some effect on the price of this MP regarding conventional energy.

The second question. I wanted to have your take on a proposal placed by Aneel in a public hearing last Thursday, which is the issue of your allocating 100% of the reduction in transmission costs due to the MP 579 only for consumers. Today, we know that the account is roughly split half and half. Thank you.

Mr. Wilson: Alexandre, well, thanks for the question. I'll answer it, the first half and then the second half Fabio, our planning director, will respond to you. Well, with respect to A4 migration, the movement is almost imperceptible yet. There is nothing noteworthy to be highlighted at this time also with respect to the price of conventional [energy].

What we have is an expectation - and of course to be checked depending on the size of the decline in the market of energy purchased from distributors - that certainly that the price cut and also the distribution of TUSD will cause the break even point for renewable energy to be lower than what we were seeing in the market this semester.

Then it is expected, almost in proportion to the decrease in the average purchase from distributors before and after the MP, to see a fall in the same proportion as in R$/MWh, something like 15, or it might get up to R$ 20/MWh, in the decline in the sales price or the competitive price in the free market of special consumers.

That's when I said, stressed that it was getting tighter, so naturally sales will be more technical. Also these consumers had no costs with the entry or departure of the distributors. They had quite free movement, let's call it that, since it obviously would benefit from alternative energy. And with this new placement they must have a term of five years, so they will have to do the math, they will have to have a reliable supplier that can make this move with a higher level of safety.

That's where I think the group, having experience with distribution and a much safer sales activity, not very speculative, etc.., just may have an advantage with regard to this segment.

Regarding the second part of your question let's go to Fabio Zanfelice, who is our director of planning, to explain it.

Mr. Fabio Zanfelice: Could you just repeat back to me the question please? Just to see if I got it right.

Mr. Alexandre: Fabio, it's the following: last Thursday through a technical note from Aneel, we saw they have a proposal to allocate 100% of the reduction in the transmission cost of the MP 579 only to end consumers, and today we know that cost, shall we say, is half and half pro-rated between distribution and generation.

I was wondering if you have done an evaluation of this technical note, in what stage is it?

Mr. Fabio: There is no such assessment yet, but we had expected it to be allocated directly to the end consumer, so the government actually gave the reduction it was proposing to give. We really did not expect that generation would get any reduction because then you would have really increased competitiveness in the generation but you would not transfer this benefit to the consumer.

We're still crunching the numbers, we do not yet have a closed position, but anyway this effect was expected.

Mr. Alexandre: Yeah ok, thank you. If I can go back to the previous question, Wilson, I was wondering if, since you now have this longer term migration of five years, you effectively have ballast, like you have in the wind farms, if it will make a significant difference in contracting on the incentivized market.

Mr. Wilson: Yes, I certainly think that it will be important now to have long-term ballast. There would be a second advantage of our operation, because all our ballast on the open market can be allocated for this competition, for this more technical competitive process that is more restrictive for consumers.

I have no doubt that having long-term ballast at a competitive price will make the difference in performance of the free market with special A4 consumers.

Mr. Alexandre: I see, okay great. Thank you very much.

Operator: The next question comes from Mr. Marcio Prado, Santander.

Mr. Marcio Prado: Wilson, good afternoon, good afternoon everyone. I just would like to ask a question complementing the first in relation to this issue of migration of A4 customers or any others for the captive market to take advantage of possible declines in energy costs related to MP 579.

If possible I wanted you to comment about the energy balance of CPFL's distributors. We see the frustration there, at least on the dates of the A-3, A-5 auctions. The industry as a whole seems a little over contracted.

I wanted to understand if you at CPFL have done some simulations about what the MP 579 means, the mandatory allocation of hydropower for the regulated sector. There are also other factors such as the issue of the Bertin thermal plants. So if you can comment on that I thank you. Thank you.

Mr. Wilson: I'll comment very superficially, Marcio. The question is very good and I also want to say here that our people will be able to clarify better later on; but the view is the following. I also expected that there potentially could be over contracting.

Then, I'll just recommend that you enter the PSR site, our consultants for these subjects, also, which has a very clear demonstration that if you are not contracted now - and the case of the group's distributors is exactly this - you will not have a result due to the incorporation of these quotas.

Here there are two movements: one movement that potentially renews concessions, and this movement that is around 12,000 MW ... Fabio 12,000? 13,000. But there's also the withdrawal side - and just to be clear - and if you look at that amount called replacement, that amount that the distributors would be obliged to re-contract now in 2013, that will now be done through these quotas.

But while at the same time you will theoretically, if all agree, have movement for entry of 12,000, you will have a movement of withdrawal of 3,000 MW average, 3,000 MW average and a bit, and that is exactly Bertin.

So if you look at the replacement movement, it would be about 8,500, with something like 3,500 that will be withdrawn. So you will get exactly the same 12,000 that theoretically would enter. So no movement is expected regarding the contracting of distributors that is the result of the entry of these substitution quotas, whether a replacement amount or the definitive departure of Bertin.

On the other hand, we even participate in seminars and coordinated — in my role as ABDIB vice president — a module a couple of weeks ago where we had the participation of both the regulator as well as the EPE, etc... And they also said that the movement is not to generate over contracting of the distributors and, if it were to occur, it would be taken into consideration for the effect of the tariff pass through.

So we do not expect in the definitive form any negative over contracting impact - but also do not believe it will occur.

Mr. Marcio: Wilson, if you'd allow me a follow up here, to continue the discussion: so, for example, if today there is a migration of electro-intensive A4 customers to CPFL, it would be difficult in the short term, as there is no important over contracting on the part of the distributors, in order to service this client? So this is a first follow up question.

And the second I'll get a little more technical here and if so we can supplement it after this call; but if I'm not mistaken, the usual hydrological hedge of the companies is around 3%. The MP has generated a hydrological hedge, let's call it that, of 5% and this is what is taking a bit of ballast out of the system. Do you agree with this statement?

And also to relate this statement to the fact that today it is complicated for the group's distributors to receive customers that want to migrate from the free market in the short term. I know you put that in your presentation when you called it a liquidity problem, but only to confirm your perception about it. Thank you.

Mr. Wilson: Just maybe to clarify the issue I called it liquidity: liquidity, in the first place, consumers that have the highest volume of energy traded in the free market are conventional consumers, not the special consumers.

In numbers of customers they are similar, but the amount of energy associated with the conventional segment is preponderant, something like 80%, more than 80% of the free volume is now considered conventional consumers. And these consumers do not today have any incentive, not even through reduction of tariffs, to return to the distributors. It is important to highlight this point.

If you are ... I imagine that the average purchase price of the distributors after the effects of 579 dealers will be ...it depends on the distributor; we have simulations where it would remain in the range between R$ 110 and R$ 120/MWh after this effect.

The free market for these large consumers today is selling energy at around R$ 100, and therefore these consumers will not benefit from this price decline because they did not pay that price in the captive market. So they will continue paying the same price they had in the free market.

Now what happens is the following: the conventional market is being served quite possibly by companies that — not only them, but it is possible that a portion of these companies — have concessions to be renewed today that could be operating in the free market.

These companies, if they adhere to the 579 proposal, that is, renewal, must link all this volume of energy no longer to the free market but rather to the captive market quotas, and this is what we understand can bring about a liquidity impact on the free market, because you no longer have that ballast associated with the free market but in quotas in the captive market. That is our expectation.

Second, with respect to the subject of the A4 market that you mentioned, I want to remind you of two things: when I say that the distributors are not over contracted, I also want to note that most of them, even because of the lower sales volume this year, are more on the side of 103 than in the middle of the range.

It's just good to remember that although the distributors have this range of 3%, a good planner operates with 1.5 up and 1.5 down, and not only three down, right? So in our group we operate in such a way to have our supply in the interim between 100 and 103, or 101.5, to be able to maneuver in an event. Because if you operate too close to 103 when you have a crisis you become over contracted and you lose all that volume.

Thus, a more efficient planning process is one that positions the company in its purchases in the range of 101.5 plus or minus 1.5%. And then only in that case if you remember what I had said, you will observe that if there is a movement - which we do not believe will happen, it is important to note - of A4 special consumers from the free market to the captive market, depending on the amount you can, indeed, absorb, then you already have a volume of about 1.5% higher contracted from the distributors (greater than would be the efficient intermediate point) on hand to absorb possible returns from consumers.

And besides there is the potential effect - we can not say that it is arithmetic, linear, absolute - of the exchange of these volumes, whether it is the amount of over contracting plus the Bertin decline, for this volume of quotas. So this can also serve this purpose.

I do not believe, again, in a strong movement of A4 consumers back to the concessionaires and remember: we are noting that the A4 segment in Brazil must be around, it is our expectation, somewhere between 20,000 to 30,000 consumers. We have in the Electric Energy Commercialization Chamber something like less than 1,000, so we're talking about just a few consumers who could return like this.

Mr. Marcio: Yes, it's clear.

Mr. Wilson: I don't know if I answered you, Marcio, but if you want more than feel free to talk with our staff afterwards.

Mr. Marcio: Thanks, yes of course, thank you, Wilson.

Operator: Again, ladies and gentlemen, if you have any questions, please dial asterisk 1(* 1).

At this time we have ended the session of questions and answers. I would like to give Mr. Wilson Ferreira Junior the floor for final considerations. Please go ahead.

Mr. Wilson: Okay. I wanted to thank the presence and participation of all of you in this presentation of our earnings release and reaffirm our belief that we live in a special moment in the industry, and also due to the prospects of recovery of the Brazilian economy, and we made sure to incorporate in our reporting a set elements that allow us to say that the coming months will be intense in energy volume, particularly the residential, commercial and industrial segments.

We understand we have passed the first tariff review process very close to what we had planned and clearly that is the criterion. So we recognize here the proper application of the good application of the tariff review criterion made by the agency. I think it is important to emphasize that this is positive for the sector.

And finally with respect to 579 I also wanted to emphasize that we are now living an important moment in which the regulatory framework of course called for the return of these assets or reasonableness of price from these assets and it is happening as planned. And we understand that there will be, this month, strong interaction of society with the Congress for lawmakers to give final approval of one more decision that was missing in the industry and I believe that in the coming days we will take this to conclusion and this moment will be over.

This is a very important point with regard to CPFL's prospects and ambitions, a group that has strong controlling shareholders with a long-term outlook that has set for the company a set of ambitions to establish itself as a player.

I believe we will, a result of this moment in the sector, see further movement on the issue of consolidation for which the company has prepared itself and has acted with the necessary financial discipline, leveraging all its capabilities, particularly its operational excellence and the ability to produce synergies, innovation. We understand that the group's skills will be important at this new moment in the industry.

It is obvious to reaffirm our confidence about the subject of renewable energy, a pioneering bet the group placed about three years ago and that materialized more strongly last year with the creation of CPFL Renováveis, which has delivered all of its projects according to the original timetables and has also been very active on the issue of consolidation, which will be a reality in this sector particularly post-Provisional Measure 579.

So it's an important moment where CPFL reaffirms its long-term commitment to the country and will see its skills being perceived as being even more important during this moment of consolidation.

So these were our observations and again I want to thank you all for participating in this call. Thank you very much.

Operator: The CPFL Energia conference call has ended.