Conference Call

CPFL Energia

1Q14 Results

May 13, 2014

Operator: Good morning, ladies and gentlemen. We would like to welcome everyone to CPFL ENERGIA 1Q14 Earnings Results conference call.

Today we have here with us the executives **Mr. Wilson Ferreira Júnior**, CEO of CPFL Energia, and other officers of the company.

This call is being broadcasted simultaneously through the Internet in the website: www.cpfl.com.br/ir. In that address you can also find a banner through which the presentation will be available for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this conference, please press *0 for an operator. It is 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 Jr.: Good morning to all our investors and analysts. Thank you very much for joining us in this conference call to release our earnings results.

We will go straight away to our presentation on page 3. Looking through these first slides, I will be giving you an update of the energetic conditions of the system. As we can see, this is the chart we showed in the last webcast, where we closed the month of April with 43% of our system, in terms of reservoir levels in the national interconnected system. Today we have 43.1% and the expectations of ONS (system's operator), we should close the month of May with 42.4%, therefore below our target compared to the adequate reservoir level.

The bottom chart shows exactly why we are facing this situation. As you can see, this year, basically in the first four months of the year, we had a deficit of 35% in natural inflow energy. We are working in one of the worst long-term averages since the beginning we started measuring this. And this is the main reason why we got to the month of April with an insufficient level in terms of being comfortable to supply energy throughout the year.

Now obviously because of that, on page 4, we make some simulations of probabilities regarding how this is going to unfold, which would be the lower levels in the history for November, when again we start the wet period. The good news is expectation of the El Niño phenomenon.

In terms of rainfall, El Niño gives us more favorable rainfall in the so-called wet period in the South. So it is expected that we are going to have more volume of energy generated. On the other hand, we are going to have a generation deficit in the northeast.

Because of this forecast -- what characterizes El Nino is that the beginning of rainfall will be according to the forecast. In other words, if we do have El Niño this year, and probability is higher than 70%, we can state that based on the comparison and hydrology with previous years when we had El Niño, rainfall begins in November which will be fundamental, when we work with the possibility of closing November and closing the dry period between 15% and 30% according to the simulations here.

We were careful enough to include on the right side a table with these two storages according to ONS scenarios. ONS is the net power system operator. And it is all summarized in the footnote of the slide, as you can observe. So that we can close with a 15% storage volume in November, we would need to have a minimum natural inflow energy, ENA, of 84% of long term average.

On the other hand, if we reach… in order to reach 30% storage, we would need to have a natural inflow energy, ENA, of 104% as the goal. I like to remind you that in the last 10 years, as we mentioned in the last webcast, this was slightly below the average of 105%, which we had in the last 10 years.

So this is probable. But on the far right, we can see the level of probability of reaching that ENA. For a scenario of 84% of LT average, in 81% of the cases this is possible, so 19% of this being less than 84%. On the other hand, for an average of 104%, the probability of this being less than 104% is 70% and only 30% probability of this being higher than 104%.

We are also showing, as requested by analysts, we are also providing you more critical scenarios on this and this is what we see in CPFL scenario and this is what we call the worst case scenario.

So as to close in the same levels of 15% and 30% storage, in the CPFL scenario -- well, this considers a 3-month delay in the operation of the dipole of the transmission system of the Madeira River. According to ONS, this is expected to begin in May and this will bring the major energy -- entrant energy volume.

We are also simulating the delay of 400 average megawatts from the wind farm from August to January of 2015. This is a more critical thing, more geared to the transmission segment. And ONS considers the thermal failure rate of 10%. We are considering an additional failure rate of 5%.

And all of that changes these volumes. Not that we are going to have -- I mean we are going to have less energy supply. So to reach the same 50% instead of needing 84% ENA we are going to need 88%. The probability that this will happen is 68% or the probability that it will be worse than this is 32%. And the same example applies to the 30% storage in November. We would need an ENA of 108% of the average and the probability of this happening is 26%. And probability that we are going to have less than this is 74%.

So based on this table, undoubtedly we are living a period of a lot of tension. We need to permanently monitor the situation. Probabilities now are not as favorable as we had imagined.

Just out of curiosity, we are including here the curve that is more similar, is the 1971 hydrology curve. This was the worst natural inflow energy in the dry period; in 1934, 60%, and in 1971, 85%. But we can see that the curve in the first four months is more similar to the 1971 scenario than in the 1934 scenario. In 1971, we had 85% of LT average.

In March or April, as you can see, we are doing slightly better than the 1971 scenario in terms of the dry season. And if we follow the same hydrology of 1971, we would reach, both in the ONS case and in the CPFL case, a scenario between 15% and 30% considering permanent dispatch of the thermal power points during this period very well.

So this is an update of the scenario. Our recommendation is to constantly monitor and strictly follow-up on these conditions so that we can get prepared for worst conditions.

Please go to slide 5 where we see the highlights for the first-quarter 2014. As the market realized, we had an increase in sales in our concession area. I personally had never seen such high values in the residential and commercial segment, an increase of 13.5% compared to the same period of last year and 11.3% in the commercial segment.

A positive point is what result from this agreement with the government, a disbursement from the sector fund, CDE, in the amount of BRL1.170 billion in the first-quarter 2014 to cover the involuntary exposure and thermal dispatch. This is the amount for CPFL, but it was a very high value for the industry, ensuring an adequate level of liquidity for the Discos.

In our Group, commercialization and services had an EBITDA of BRL77 million in this quarter, higher than all of the value we had in 2013. This comes to show that there is a rally in this market and the quality of the strategy of CPFL in operating commercialization and services.

Also as a highlight in the first quarter of this year, we had the re-contracting of Semesa's energy with Furnas for 14 additional years until the end of the concession period.

The expansion of CPFL Renováveis, here we have to highlight the M&A -- the joint venture with DESA which was approved by CADE in April of this year and by ANEEL in May; and also a highlight is the completion of construction of the last wind complex, Macacos I. There's only one pending item there regarding an authorization by ANEEL, which should come according to our expectations during this week.

We invested BRL240 million in the first quarter of 2014, obviously investing lower than usually, recognizing that we need to preserve our liquidity, but not impacting at all the strategy of the Group, particularly regarding the Discos. We are completing our investments in renewable generation and that's why we reduced the level of investing.

We formalized the payment on May 8 of BRL568 million or BRL0.59 per share in complementary dividends related to the second-quarter 2013 with dividend yield of 4.8%.

Economic tariff adjustment of 17.18% for CPFL Paulista, we are going to talk about that later.

Increase of the daily average volume reaching a little less than BRL 45 million.

And CPFL Telecom implementation… it's the first time we talk about that, the creation of a company to operate in this market, particularly in the backhaul segment, with 544 kilometers of installed fiber optic networks in the 10 main cities of CPFL.

Now we are going to give you more detail on energy sales. We have some charts here regarding sales in the concession area. As I have said, 7% increase in sales in the concession area, 9% in the captive market and 1.9% in the use of our distribution system, TUSD. So a combined sales increase of 7%.

In the middle table we can see the sales by consumption segment, residential and commercial. As you can see, industrial practically flat, a slight decrease; and others (rural, public sector) up by 11.6%, totaling 15,500 GWh.

The combination of captive growth in the concession area with an 18.9% in energy sales by CPFL Renováveis, and a drop of 11.9% in the volume of commercialization and conventional generation, giving us a total energy sales increasing 4.1%.

This can also be observed in the bottom chart. CPFL grew its distribution company's operation above what Brazil grew, 6% for Brazil, 7% for CPFL. That is notably due to the growth in the southeast region. CPFL grew 6.2% against 5.3% southeast growth, in the South virtually an stability, high figures around 11%.

Trying to explain this effect of the market growth, on page 7 we have some of the explanations. We can observe here in the first quarter we had growth particularly of residential and commercial segments, 12.7%; Brazil grew 10.3%, CPFL grew 12.7% in blue. We can see the main increase happened in

February, so there is a decoupling; 19.1% for CPFL, 14.6% for Brazil. And the main reason is temperature.

If you look at the bottom right hand corner chart, we are going to see the breakdown of consumption. Because of economic growth -- the economic effects in green, we can see that -- we can account for practically half of these values. But in light blue, we can see the temperature effects. In other words, the temperature effect justifies this higher volume.

And we see in the top chart the temperature, we can see the deviation. Campinas is our largest city in the concession, 32.7% deviation from historical average; we consider that in our demand planning. Caxias do Sul, the biggest RGE city, 26.3%, and some other cities, as you can see, with deviations of 15% or 20% above.

And the accumulated CDD, cooling degree days, in the first quarter, we can see in the bottom left hand corner, that we had 715 degrees higher in Campinas and 466 degrees in Caxias do Sul. It is the sum of all of the temperature compared to historical average, and this was in the first 90 days -- in the first quarter, right.

So this is the sum day-by-day of the values that correspond to the positive difference between the average daily temperature and the threshold of 18 degrees. So these temperatures were indeed higher than historical values. And that's why we have these deviations from historical average and this accounts primarily for this increase in consumption.

To have a better idea of what is happening, please go to slide 8, where we have the profile of residential consumers of CPFL Paulista and CPFL Piratininga in the state of Sao Paulo. And we can see that 23% refers to refrigerators and freezers, 13% electric fans and now more recently air conditioning equipment. And these consumptions -- if you look on the right side of the slide, the consumption of refrigerators and freezers practically doubled, actually more than doubled compared to winter time.

And I explained this in the past webcast. Because of the difference in temperature you have to maintain a constant inner temperature and we have the compressors working for longer. And the same goes for electric fans and air conditioning and there is practically no air conditioning and fan consumption in winter.

So we see 183 kilowatt hour in winter time increasing to 237 kilowatt in the summer, and this is a lot higher when we have important differences in consumption. Indeed, the refrigerator consumes about 2 to 2.5 times higher consumption than in winter.

Now let's turn to slide number 9, where we share the results for the first quarter of 2014. As we usually do, on the first line we have IFRS results and on the second line we have what we call managerial results, IFRS added to the proportional consolidation for generation. And also we have the regulatory assets and liabilities and non-recurring items accounted for.

So under the point of view of IFRS, we have a variation there, an increase of 8.2% in net revenue, a drop of 25.4% in the EBITDA and a drop of 57% in the net income. And we will talk more about it. I always like to do the comparisons with the managerial results, which are the recurring results of the Company. I would say that they are truer in terms of volume of assets. That makes it easier for analysts to work with these figures. So by those results, we had a stable growth in terms of EBITDA. Remember that this quarter we had the comparison with the tariff reviews from the two largest distributors in the Group and we will talk more about that as well. But on the other hand, the operations of commercialization and generation are also included.

And in the net income, we have a drop of 7.9% that was due to the indebtedness indicators of the Company. There was an important increase of the CDI in the quarter. So I would say that in the EBITDA we have stability because we have generation and commercialization offsetting the drop in distribution. On the net income, we have a worst result due to the indebtedness conditions. These were the main reasons for those variations.

On the bottom part of the slide, we have the breakdown of all the figures. On the first line, we have the proportionate consolidation of generation. And let me remind you that here in the IFRS we don't have a full consolidation. We consolidate basically CPFL Renováveis and Ceran, but not the other stakes. So this consolidation is necessary to be done.

We have the regulatory assets and liabilities, and last year especially we had the agreement with CDE and so last year we also had that coverage of the hydrological risk and we don't have that this year. So the figures – BRL 181 million - express something that hasn't been done in January of this year, the coverage of the hydrological risk.

And in the comparison of non-recurring events, we have legal and judicial expenses that we had last year. And last year and this year, we had exposure to MRE. In the first quarter of last year and in this first quarter it was especially related to CPFL Renováveis due to the delay of some projects. And then we have smaller figures for relocation of costs with basic grid losses, also effective tax, PIS/COFIN adjustment and also the write-off of Epasa's assets that happened last year in that plant.

This would add in the comparison of IFRS with the managerial amount BRL 299 million, so from BRL 787 million we would reach BRL1,086 billion. And that explains that a lot of these are variations due to regulatory assets and liabilities should have those impacts and we do have this proportional consolidation.

Let me try and explain on page 10 these effects, especially of the CDE coverage through monthly disbursement by sector (on page 10) and for CPFL (on page 11). You will see that we have had BRL9.2 billion coming into the sector.

You can see that in January we had from CDE BRL1.2 billion just to cover the involuntary exposure; there was not in January (part of that BRL181 million that we mentioned of regulatory assets) for our distributors, we didn't have coverage of that additional dispatch for thermal.

From February on, after the Decree 8,221, we have here the coverage of this involuntary exposure of BRL3.8 billion, plus 0.9 of thermal dispatch, and in March BRL2.3 billion for involuntary exposure and BRL1 billion for thermal dispatch. And that adds to BRL9.2 billion.

And remember that we had the disbursement for this operation BRL1.2 billion, and right after that BRL11.2 billion, adding BRL12.4 billion. BRL9.2 billion have already been used just to pay for those additional expenses in the first quarter. So we still have BRL3 billion or something around that.

It's important to show this analysis that we make of the success of the auction, the A auction, which contracted 2,046 MW average. It is important to note what was declared by the Discos in January was an exposure of 3.6 GW average. The estimated deficit due to seasonality of consumption of distributors was of 2.4 gigawatts. So we reached 2.46 gigawatts, a coverage of 85% of all needs up to the end of the year. Obviously, this is at a higher price changing from BRL262 for thermal and BRL271 for HPPs..

On page 11, we can see the impact on CPFL. We have received BRL1.170 billion. And here we have 200 MW average of exposure. We had in the auction 257 average megawatts. And from May on, we are very comfortable because in the total sum of the Group we are doing well, but this is a Group position. So we have a long position in Piratininga and short in the other distributors.

And also I would like to highlight here the tariff adjustments of Paulista. And considering a spot price of BRL632/MWh, showing how real this is in terms of future exposure, the exchange rate at 2.34, IGP-M 7.3%. The CDE quota would add BRL450 million. There was a reduction of that disbursement to BRL145 million. That's why we had a lower increase than the initial one because we were using a previously established quota, 450, and that quota was reduced. We also have ESS and EER charges of BRL152 million and the CVA 2013 transfer of BRL173 million.

Because of that, the Parcel A increased 17.4% and Parcel B (IGP-M minus X Factor) reaches 6.54%. You can see that the tariff increase is basically due to the increase of energy on Parcel A, with the variation of 17.4% impacting tariff in 12.84%. And that is exclusively due to the amounts updating above tariffs in terms of energy bills.

Now let's turn to page 12 and 13, and I'll go into the breakdown of the Company's EBITDA as well as net income. As I have said, in terms of the managerial we have increased BRL1.081 billion to BRL1.086 billion, 0.5%. So I will bring the details: to your left, we have the regulatory assets and liabilities, we have non-recurring events and the proportional consolidation, as I said before.And here I'm bringing you the details of the 25.4% drop.

In IFRS, from BRL1,055 million to BRL787 million. So that is explained by the increase in net revenue (8.2% or BRL282 million) and here it's a positive highlight, which is distribution (BRL 250 million). It has two elements: one element is the one that we have just detailed, the market effect, mix and volumes because in residential and commercial segments we have average tariffs that are better than in the industry. So we had a gain there. But we had a negative effect for tariff due to tariff reviews, especially Paulista and RGE that happened in April and June, respectively, of last year. Therefore, they were not there in the first quarter.

So we are using these two effects; the tariff review that accounts for 75% of the distribution activity in the Group, and on the other hand, we had better volumes, especially due to temperature effect and the economy in the first quarter.

We also have due to the seasonalization a conventional generation increase of BRL50 million. In CPFL Renováveis, we had new undertakings coming in along last year. So we have an extra BRL30 million. And the commercialization and services activities we had lower revenue, but you can see that this drop in revenue was in BRL44 million but we had energy purchases at more competitive prices.So we do have a drop of BRL105 million. So the revenue is coming down BRL 44 million, but we were able to have broader margins, and we'll talk more about that.

So, first, an increase in revenues, second element is the increase of cost to energy, BRL651 million, already net of the CDE disbursement of BRL911 million. So here we would be talking about an increase of BRL1.5 billion, a little bit more than that. So obviously we see that increase of BRL730 million in the energy purchase of the distributors.

For CPFL Renováveis, we had a delay in the undertaking (the exposure we had specifically in Atlântica), Macacos is contracted from April 1st on.

And then commercialization and services, I just said, we acquired energy BRL105 million cheaper than last year, allowing better margins; and in the conventional generation BRL17 million.

So the element that is determining here is that we increased the revenue by BRL280 million, but we had an increase in costs due to purchasing of energy. And we had a small decrease in operating costs and expenses, BRL28 million, a 5.8% decrease.

We have non-recurring effects here from last year, those legal and judicial expenses from last year - they are non-recurring - and the other ones are recurring. A drop of operating costs in Renováveis of BRL3 million. Also, third party services decreased in BRL5 million and an increase in others for BRL28 million, mainly expenses with personnel due to collective bargaining agreement; PMSO from Services decreased by BRL11 million due to less activities.

So adding all that up, we had the equity method for the projects that were not consolidated; we are talking about Foz do Chapecó, Barra Grande, and Campos Novos, with BRL65 million. And that is under the equity method and these are also under the tariff reviews for those gencos. And the private pension fund activity that had a drop in BRL8 million vis a vis last year.

So basically we have an increase in revenue in 8%, an increase in energy costs and sector charges, which is a very atypical situation (that has to do with PLD and thermal energy). And on the other hand, we have a reduction of 5.8% in manageable expenses. And that explains our EBITDA variation.

In the next slide, we always do a comparison of an important process of cost reduction for the last two years. In actual amounts, we have dropped 3.4%; highlighting the decrease in third party services, from BRL118 million to BRL104 million. And in nominal figures, as I have said before, a drop of a little bit more than BRL5 million, from BRL111 million to BRL104 million. And that explains the variation of our PMSO. Those BRL10 million, nominal, is what we have in terms of nominal growth and BRL13 million real or actual reduction when we include the effect of inflation (IGPM).

Now turning to page 14, let's do an assessment of the net income. As I have said, in managerial basis we would have a drop of 7.9%, BRL429 million in the first quarter of last year to BRL396 million for this quarter. Taking away the non-recurring effects and regulatory assets and liabilities, we have then a drop of BRL405 million to BRL174 million, in four components:.

The first one we just detailed, it is a drop of 25.4% in the EBITDA, BRL268 million. The second one, which is the worsening in our net financial results, of BRL 79 million and here we have BRL65 million loss exactly due to the increase of debt charges. And you can see in the upper box, over 70% of our indebtedness is indexed to the CDI. In the first half of this year, that is in 9.9%, compared to 6.7% in the same quarter of last year. So that explains the increase of the debt cost.

We also had the mark-to-market of the Law 4,131. The distribution segment representing BRL26 million and we should recover that in the funding. And then smaller variations in the “others” segment of minus BRL11 million. And the financial update of Discos' financial assets in BRL27 million positive.

We had an increase in depreciation and amortization of BRL18 million due to the new undertakings of CPFL Renováveis. And also income tax and social contribution, considering the lower results, we had BRL134 million less of income tax and social contribution than we had last year.

Very well, now I'm doing assessment per segment. It's important to follow-up the segments individually to make it easier for you in the analysis process. So on page 15, we have the bottom line here. Distribution, an increase of 7.3% in net revenues. 19.4% lower EBITDA. So that is already integrating in and accounting for all effects of the tariff review process. And the net income drop of 28%, because the CDI is more applicable to the Discos.

So some highlights, the increase of 7% in volume in the distribution area. The implementation of third cycle of tariff review (Paulista and RGE) has a negative effect, as I said. And we have BRL10 million in assets write-off due to the review process itself.

When we look to conventional generation and renewable, we see an increase of almost 35% in net revenue. I think here we have two major impacts: the new assets in Renováveis and higher liquidity prices for energy in the spot market and basically the seasonalization of generators. And this has a positive effect in the EBITDA with a 25% increase, reaching BRL500 million in this quarter and a net income of BRL156 million. Remember that genco is financed in TJLP -- that is in long-term. And we did not have much variation there. So the positive impact that comes from the EBITDA is expressed in the net income.

And in commercialization and services, as I have said, there is a drop in 2.0% in the net revenue reaching BRL550 million vis a vis the same quarter of last year. But the EBITDA increased by257% (BRL77 million), a very positive quarter. And I believe it reflects the operations coming back for CPFL. And on the line of little leverage activity we have the same figure, free of income tax, was almost -- was BRL51 million.

I believe this is a positive quarter for generation of renewables and commercialization and services. In distribution, I'm not going to say it's negative because it's happening at every five years now specifically for CPFL and it reflects from one year to another the drop of results due to the tariff review. And here we have our homework to keep on reducing costs or managerial costs to be able to mitigate those effects.

What's the positive aspect here, our review, they were all very close to our expectations, to the market's expectations and here we see an opportunity due to the size of the Group's capacity and the instruments regarding ZBB or shared services center. And especially now with the smart grid coming in for Discos I believe, we have a positive perspective to mitigate the results.

Please go to page 16, we are going to talk about our indebtedness; stable leverage, reaching an indicator of 3.58, BRL12.8 billion in debt given the funding strategy of the Company. We closed an adjusted EBITDA of BRL3.57 billion.

And the highlight goes to the CDI increase and impact on the total cost of the debt, increasing from 8.4% (the lowest figure in recent years) to 9.1% and, in terms of real cost, increasing from 2.4% (also the lowest one) to 3% in TJLP. And we can see the debt breakdown: 68% CDI, 22% TJLP, 7% prefixed PSI. 2.5% and 3% is recognition of the debt indexed to IGP-DI.

We closed the quarter with this cash and -- with BRL4.243 billion cash coverage -- and we are now on slide 17. And then average tenure of the debt a little over four years, short-term debt only 8% of the total debt. So as you see, we enjoy a very comfortable position in terms of the financials and cash position of the Company.

On slide 18, we talk about generation activities. Highlight goes to the Macacos wind farms that has been completed. Turbines assembly has been audited by the agency. We are only awaiting ANEEL's resolution, which we expect for this week. It is a 78 MW project, with a tariff of BRL161.5/MWh until 2033.

And now we see another three projects of the Company to be delivered in 2016 (Campo dos Ventos wind farms and São Benedito wind farms), additional 250 MW. And Pedra Cheirosa wind farms, which is what we contracted in the last A-5 auction, BRL 125/MWh.

On page 19 -- in the next two slides, I would like to mention about this initiative of creating CPFL Telecom. It is an activity that allows us to have one more opportunity to create value. I would like to remind you that the telecom market is in full growth. It grew a lot, 4% last year with investments of BRL25 billion, with important growth drivers; Anatel putting pressure to push the quality of telecom services in 3G, the deployment of 4G, broadband expansion. We have important deficits in this area, which translate into opportunities for new entrants; i.e., the world scenario encourages that.

And the telecom's long-term future is more intense in data traffic and fibers and there is an important government plan to make relevant investments in telecom infrastructure in the next ten years.

So we are talking about a number of growth drivers to lead us to this market and CPFL has a number of competencies, which in our assessment allows us to create value in this market either because we already have a good grid coverage or capillarity, we have rights of usage and we are a neutral player in the market. We can be attractive for any telecom operator that needs to grow and expand their services in CPFL's concession areas.

We have a good know-how for grids' deployment. We provide a lot of services through CPFL Serviços and we have the technology that also provides a basis for our automation projects for the power grid and smart grid. So it is a positive combination of our competencies with the current momentum of the telecom market.

On slide 20, we have the characteristics of the assets that we are putting together to operate in the telecommunications market, what we call metropolitan optical grids (backhaul). I'll make a comparison here with the power system. Backhaul is the distribution activity and backbone is a transmission activity. So we are positioning ourselves in the backhaul side of the business with the metropolitan optical grids, which allows the grid to be used by the operators to have access to customers. So we meet the demand for infrastructure and capacity of the operators who need to have this capacity in the fibers, just like this drawing here shows.

And where are we implementing our strategy? Well, we made an evaluation and we identified a number of cities. In the city of -- in the state of Sao Paulo 42 are the most economically attractive cities with a greater concentration of users. In these selected cities, we have 7.3% of the Brazilian GDP, of a telecom market estimated to be BRL13 billion per year. So it is an important opportunity.

We divide our action into two phases. Phase I, which we will complete along the month of May, we would be accessing or making this infrastructure available to 17 cities, a total of 649 kilometers of optical cables. In Phase II another 25 cities, a total of additional 680 kilometers of optical cables. In April, we have 544 kilometers of cables deployed, 10 cities in first.

We have signed our first contract with one of the operators, a contract that was entered last month. And now we start the commercial activity of our Phase I to serve operators that need to use our infrastructure and we are quite optimistic regarding the results of this activity looking forward. We will be following the situation of this activity in the coming webcasts.

Please go to slide 21. Just to say that we are performing a little bit better than IEE. In New York, because of foreign exchange conditions, we are doing slightly better than Dow Jones Index and Dow Jones Br20. Our share performance followed these indicators.

The highlight goes to an increase in volume, either in trading volume of about 60% increase and in terms of daily volume trade, reaching – that was up 16%, reaching BRL44.4 million.

With this, we finish -- we end this presentation and we remain available for questions.

Q&A

Operator: Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press (*2) star two.

Our first question comes from Sergio Tamashiro, from Safra. Please go ahead.

Sergio Tamashiro: Good morning. Wilson, I have a couple of questions, starting with generation. You mentioned the strong results of generation, the generation side of the business, particularly conventional BRL50 million, in renewables another BRL30 million. So my question is what can we expect for the coming quarters?

What's going to happen with these results? What GSF are you imagining for the coming quarters?

And in this breakdown, distribution has an EBITDA very similar to that of generation. So in the long term, we are looking at 2015 looking at a more normalized situation. What could be the EBITDA mix in terms of generation, distribution and commercialization?

Wilson Ferreira: Thank you for the question. As for the seasonality effect, we understand that this is a permanent effect. We have covered for the second half, so the seasonality effect is permanent, will remain throughout the year.

Now as for GSF, that's different. We work with an expectation of average values during the year… we could reach 6%, 8%. And this has an impact. We cannot yet pinpoint, but CPFL is the smallest, especially after Serra da Mesa agreement. The contribution of CPFL in MRE is almost 1.5%. So the impact of GSF is quite reduced, but undoubtedly this is a risk that we have to manage looking forward.

Let's review results and the expectations of results for the Company. We had this quarter in distribution -- we also have the effect of so-called tariff review cycle. We now have five years where we expect to gain efficiency and have market gain. Undoubtedly, the distribution results will continue to be superior to that of generation. This is our flagship in terms of forming the EBITDA.

In gross numbers, we are talking about an EBITDA -- it would be slightly over half coming from distribution and the other remaining half it would be basically 40% coming from generation and 10% coming for commercialization and services operation. This would be more or less the EBITDA mix. We expect EBITDA to grow from distribution either because we have higher efficiency, market conditions or in the case of IFRS due to the re-composition of the tariff for what was not covered by loans or by CDE. And this is what is considered in our CVA Account and will be resumed in the next years. That was the question, right?

Sergio Tamashiro: Going back to seasonality, at least the way I understand this, you had considered seasonality more in the first quarter. You left more energy available to be sold in the spot market and now in the coming quarters you will need to offset that. In other words, now you will have to purchase energy in the spot market and have less storage for the coming quarters. In other words, you won't be able to keep the strong results of this first quarter. This result will be reversed.

Wilson Ferreira: Perhaps the highlight is that we purchased energy to cover for seasonality and we are comfortable with this energy purchase. In terms of the gain in the first quarter, it will be maintained, but not for GSF.

Sergio Tamashiro: Okay. But energy purchase for the coming quarters, did you do it this year or in previous years? Which price?

Wilson Ferreira: Well, we did it in the beginning of the year. I haven't got the price here, Sergio.

Sergio Tamashiro: And another question about distribution, you mentioned that the main factor contributing to growth in distribution was the temperature, higher temperatures. What about employment and income? So excluding the temperature effect, what could we be using in our growth modeling for 2014 and beyond?

Wilson Ferreira: Growth is 4% -- 4% or 4.5%.

Sergio Tamashiro: And this year?

Wilson Ferreira: Well, this year it was 4%.

Sergio Tamashiro: Thank you.

Wilson Ferreira: Thank you for the questions, Sergio.

Operator: Our next question comes from Marcelo Sá from Vinci Partners. Please go ahead.

Marcelo Sá: I have a question about the telecom business. Actually, I would like to understand how the revenues is going to be recognized and if there's going to be any offset in the tariff so as to maintain low tariffs for CPFL customers. Because in the current regulatory framework, if you're using the Discos, you end up having to give something back in discounts to consumers? So how are you designing this?

Can you split fiber optics from the distribution grid so you won't have to give this back as low tariffs, and perhaps it would be better to wait for the definition of the first cycle to perhaps get into this business with more assurances that you are going to have the adequate return?

Wilson Ferreira: Well, Marcelo, CPFL Telecom is a Company with its own corporate tax payer number and authorization to operate awarded by Anatel. Other companies could have done that too. And it pays rent to the distribution company. Now obviously in the process of sharing gains, it is exactly what it pays to the distribution company. We've participated in competitive bids and just like any other company it uses the Disco infrastructure.

In its business plan, there is no need to share its revenues with the consumers. Only the expenses that are related to the use of the infrastructure of the Discos are shared.

Marcelo Sá: Oh, okay. Understood. Thank you very much.

Operator: Our next question comes from Vinicius Canheu from Credit Suisse.

Vinicius Canheu: My question is about the distribution. You mentioned that now that you had all the reviews, after the reviews it's already time for the next one so at least to start the new cycle. ANEEL last week in an event they said they intend to disclose the main targets for the next cycles in the next two or three months.

So I would like to know what the market can expect in a very realistic manner in terms of changes that we will see now on the fourth cycle. Can we see any relevant change in the capital cost, anything different about the Company? So what is CPFL's view about that considering what we have seen in the last two or three cycles, which was a pressure in the distributors cash generation and the transfer of gains to consumers?

Wilson Ferreira: Well, we have a positive expectation about these new rules, because of the process and a long integration process with all the agents. And that has been happening already. And the process itself of opening to anticipated contributions and to have a longer period of changes for the second half of the year, that shows more maturity on the part of the agents here regarding those process. So in terms of processes, we did have advancement. The two important things are how things are happening and with a whole set of interactions.

It's always difficult to talk about expectation, but I'll risk myself. When we analyzed the Company's results and the comparison of the quarters, you can clearly see that -- well, maybe in the past we didn't have a whole set of tools to establish PLD or the spot price. I showed you the case of Paulista, with BRL630 because they had already in that mix different impacts. And we were able to maintain all procedures and that was simpler for the agency to establish the figures. And that will bring a lower load of CVA in the future when we have a more organized process. I believe we are starting on that and we consider it a favorable trend.

A second favorable expectation has to do with WACC. In the last cycle it had an impact and I believe for many companies, not for CPFL, but they are having problems with liquidity. And in specific moments like that when we have the CVA, operation might become unfeasible to some of them.

CPFL as a Group has a better condition to face it. But as a distributor we just take the same hit in terms of cash cost. But whether by the financial statements and maybe you analysts can have a clear revision on that, because these contributions are important for the cost of own capital and the cost of indebtedness, you can see that clearly that we went from 6.5% of CDI to 9.9%.

And all of that -- now, talking about the downside, I understand that should be acknowledged by the regulator. Here we have to acknowledge what is really happening. So there is an increase of third party capital cost and own capital as well. And if this is not acknowledged the investments in these areas will be compromised and that is not adequate for the regulator.

So besides these improvements, we have a whole set of rules that have to do with the transfer of what we call the civil year and the tariff year and we have best values in that here. And then we are working on it in a non-regulated way and we understand that there's acknowledgement of non-forecasted costs of energy purchase and sector charges that they will also have in more precise management considering the tariff year instead of the civil year.

I believe there is a set of important discussions. We have advanced already in terms of the costs -- operating costs matter. These are small improvements. And I believe that we also have to expect an improvement in the accounting process regarding the regulatory remuneration basis.

I believe that a whole set of simple measurements has been done in the last cycle. It has generated undesirable effects because it's not adequate that you have a regulatory balance sheet and an economic balance sheet because we have important difference in terms of the investments, especially because some of the write-offs due to the non-recognition or non-acknowledgement of that expenditure as an investment, it would have been booked as expenses. And that amount should have gone back for the benchmarking of operating costs.

So here we do had a loss in the past and we have room for improvements now. Actually, the ideal is that we have incentive for investment and for the acknowledgement of investments as well because it does bring benefit to the system and to the consumers, and that simple approach process because the process is too complex. And I believe the accounting will turn the process into a more transparent one.

And maybe this word “transparency” is the one that adds, besides the timing of the discussion, transparency has to be the purpose of the agency so that the tariff review process does not become a surprise so that the review amount is what is expected by the market, by the operators and by the agency itself. If we do have large difference in expectations here, then I believe we do not have a positive process if that happens.

So I think that the convergence of the final results of those assessments will turn this process valid, in terms of timing, discussion and transparency.

Vinicius Canheu: Okay, it's very clear. Thank you very much.

Wilson Ferreira: Thank you.

Operator: Our next question comes from Kaíque Vasconcelos, Citi.

Kaíque Vasconcelos: Good morning. Quick question. You had a strong result in this quarter and I would like to understand a little more. So you had higher margin. And what kind of performance that we can expect for the segment for the end of the year? Thank you.

Wilson Ferreira: You are talking about the commercialization?

Kaíque Vasconcelos: Yes, exactly.

Wilson Ferreira: Well, I will ask Fabio. He is the CEO of commercialization business and he can bring you more information. But our objective here in higher risk operations is to work with planning and to sell at a higher price than the price we purchase at. Fabio and his team in this quarter were able to make it happen, and I believe he can bring you more information on it.

Fabio Zanfelice: Obviously, we had a strategy in terms of seasonality for the first quarter; higher prices were expected and were considered in our strategy. And I'm sure that up to the end of the year we also have good perspectives for the commercialization area.

As it has been said in the first quarter, we have met the same EBITDA of 2013]and we have a positive expectation for next months, of course with a higher spot price and we also improved the results of the first quarter. But we have good expectations for the next months as well.

Kaíque Vasconcelos: Thank you very much.

Operator: Excuse me. We are now concluding the Q&A session. I would like to turn the floor to Mr. Wilson Ferreira Junior to give his final remarks.

Wilson Ferreira: Okay. Once again I would like to thank you all for participating on this earnings results call. I would like to say that as the CPFL Group we feel that about the operations -- and I'll make a brief summary here. We are focusing on the cost management process that has a positive impact on distribution activities.

I believe it's important to highlight that in generation activity the conclusion of projects, especially CPFL Renováveis. We were hurt in the last two quarters. And that is due to the exposure we had, we ended up having delays for two large projects in the Company. This is a concluded situation. Everything was solved. And we have transactions and accountabilities that will be worked on with suppliers that some way caused the delays. So we do have offset instruments, but not from now on. Now we have a full mature operation with an M&A transaction that should be concluded in the next 60 days..

And in commercialization and services, we are long and from now that also brings us favorable expectations about that scenario with good results on it. That is the positive, the good side.

Now everything that we should pay attention to, two main topics. First, on the energy point of view, we are in a very sensitive moment. We have to constantly monitor it, to pay attention. And we know how important is this matter is to the government and how close attention the government has to pay to the matter. And we all have to manage this very sensitive moment.

And also important, this perspective of El Niño for us on the one side that represents additional volumes of generation in the south, a high – a better hydrology in the south that's going to happen now. And on the other side a certainty level that we are going to have the southeast rainy season starting at the right time. And that really shows a better probability, higher than 70%, of the phenomenon happening.

On the other hand, we are living with that perspective. The liquidity in the sector that happened due to operations, whether from government with CDE or loans. And we have a remaining amount on the account which is needed for April. And obviously when we develop the system, we need to keep on using the system.

And we know that the offset of the 85% of the exposure, I would say that largely we will need extra funding. But that shouldn't be too high. But we will need that. We have covered already 85%. And this is an important perspective. I would like to highlight the initiative of this job, generating a market alternative so that we can have an adequate level of liquidity in the energy system coming from distributors.

So in summary, I want to say that we are very positive in terms of the Group's strategy and the Group position vis-a-vis its operations. And on the other hand, I would say that we should really pay attention to next months. They will be very important especially in terms of the energy monitoring. But I believe we are able to face the new challenge.

I believe it has been positive already because we had improvement, whether in the regulation, allowing for a new solution, whether in other process with the agency -- we talked about the tariff review -- so that we can have a higher sustainable level in the sector from now on.

These were our final remarks. Thank you very much for your attention.

Operator: That concludes CPFL Energia audio conference. Thank you very much for your participation and have a nice day. Thank you.