Local Conference Call
CPFL Energia S/A
Third Quarter 2017 Results
November 23, 2017

Operator: Good morning and thank you for waiting. Welcome to CPFL ENERGIA's Third Quarter 2017 earnings conference call.

With us today we have **Mr. André Dorf**, CEO of CPFL Energia, **Mr. Gustavo Estrella**, Chief Financial and Investor Relations Officer, and other company executives.

The presentation is available for download on the Investor Relations website of CPFL Energia, at: www.cpfl.com.br/ri

We inform you that during the presentation all participants will be on listen-only mode and, soon afterwards, we will start the question and answer session, when further instructions will be given. If you need any assistance during the conference call, please dial star zero to request assistance from an operator. Note that this conference call is being recorded.

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

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

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

Mr. André Dorf: Thank you. Good morning everyone and welcome to another conference call to discuss the results of CPFL Energia for the 3rd quarter of 2017.

As usual, we will have a brief presentation and then open for the questions and answers session.

Let’s start on slide 3, which shows the highlights of the quarter. The first highlight is the 4.2% increase in the load in our concession area. This increase was not uniform, as we will see later, because of the migration of clients to the free market.

We also observed a slight reduction in contracted demand, of 0.9% in off-peak hours and 1.3% in peak hours. We had a significant increase in net revenue and EBITDA, partially due to the acquisition and consolidation of RGE Sul, now consolidated in our 2017 results and which did not happen in 2016.

Investments totaled R$ 544 million in the quarter. Our net debt at the end of the third quarter totaled R$13.7 billion, for a leverage ratio of 3.24 times EBITDA of the last 12 months, which is an adequate level of leverage.

In the quarter, we also had a tariff adjustment at CPFL Piratininga, with an average effect of a little over 17% perceived by clients. Moreover, we made progress in the acquisition of control by State Grid. We are in the process of the Public Tender Offer, a tag-along offering, and this offering was registered with the CVM and the auction will be held on November 30.

We also launched CPFL Inova, an innovation program we created in partnership with Endeavor. We will talk about it later. Besides internal topics, we are having a busy fourth quarter in terms of industry-related issues.

The Generation Scaling Factor (GSF) for free-market contracts is a widely discussed topic, the possible privatization of Eletrobras, the discussion of regulatory WACC for distributors, hydrology – despite heavy rainfall in Rio Grande do Sul, water level is below the historical average thereby impacting reservoirs, and the public hearing we mentioned in previous conference calls to improve the regulatory framework in Brazil’s electricity sector.

Very well. Moving to the next slide, you can see a snapshot of EBITDA, the company's cash generation as measured by EBITDA in the quarter. In the quarter, EBITDA reached R$1.275 billion – see the top left chart – distributed as follows: energy generation between renewable and conventional sources accounted for 56% of the group’s total EBITDA; the distribution segment 38%; and services and other business, 6% of the group.

Here, if we start from the top right, we can see an increase of over 13% in EBITDA year on year. It is mostly due to the increase in the market and the acquisition of RGE Sul.

In conventional generation – according to the chart –, we had a financial restatement in the balance sheet and the fact that EPASA – our thermal power plant – dispatched with higher frequency this quarter.

As for renewable generation, the projects in the free market, which we call “ACL projects,” went operational. This represented a sizeable part of the more than

18% increase. On the left, we have an increase of 6% in trading, services and others. Here, it is also largely due to the gain in volume and margin in the third quarter of 2017 compared to last year.

On the next slide, we show information on the distribution segment. Some highlights: the increase in sales in the concession area surpassed 18% in the comparison periods, including RGE Sul; excluding RGE Sul for comparison purposes, sales increased 3.2%; load increased 4.2%, in line with sales increase as well. Like I said, we had a slight reduction in contracted demand; and our level of losses in the period remained in line with the second quarter of 2017 and the third quarter last year.

In the chart on the right, we compare the increase in load in the concession area excluding RGE Sul among free-market and captive clients, because we see a significant difference in percentage, which reflects the ongoing migration of clients from the captive market to the free market. Accordingly, captive market declined 1.4%, while free market increased 17%.

Looking at sales in the concession area – here I refer to the middle chart, excluding RGE Sul only for comparison purposes –, we can see a 3.2% increase, with the same behavior between captive market and free market clients.

On the right chart, we can see the distribution of this growth among consumption segments. The increase is led by the residential segment, as well as the industrial segment, up 2.8%, which is good news. We monitor the industrial segment very closely because it drives the economy. The commercial segment is still lagging the previous two segments, increasing 1% in the period, and the other segments, including rural and cities, were up 4.5%.

This results in a 3.2% growth in sales in the concession area.

In the following slide, we provide some news on default. The upper chart shows the changes in allowance for doubtful accounts as a percentage of our revenue. It has decreased for the third quarter and returned to the historical average. We had an average of 0.6% of gross revenue, which is good news.

In the bottom left chart, we also see a decrease in bills overdue over 90 days as a percentage of gross revenue, which too has improved. But this comes at a price. The chart on the right shows our additional expenses with collections and actions to combat default. The chart on the right shows the number of disconnections, which were 409,000 in the quarter, significantly above the historical average.

On the next slide, we have a snapshot of the performance by the generation segment. Here hydrology is our first highlight. The highly unfavorable hydrological situation that reflected in the spot price, which went from R$149.00 per MWh in September 2016 to R$522.00 in September 2017, a significant variation.

Our wind power generation in the quarter was also below P50, i.e., the expected generation, as a result of slower winds than expected and some atypical events that caused lower availability in Ceará.

Looking at the chart on the left, we will find the volatility in spot prices. We had significant variations here, below R$90.00 and over the ceiling, of R$520.00/R$530.00. This is a highly volatile recent history due to hydrology.

In the lower charts, we show the very low reservoir levels as a consequence of hydrological issues in the Interconnected System as a whole, with reservoir levels at 18.5%. In the Northeast, the situation is even worse, with levels below 5%.

These snapshots make us worried about next year depending on the wet period that started now.

In the upper chart on installed capacity, we also posted a growth in the quarter due to renewable projects that went operational during the last 12 months.

On the next slide, we will talk about results. I'll turn the presentation to Gustavo Estrella, the group CFO.

Gustavo Estrella: Well, with regard to results, it was a very positive quarter. Revenue, EBITDA and net income grew in relation to the same quarter in 2016. The main businesses of the Group also improved in relation to 2016.

Starting with the main variations in EBITDA in the distribution segment, which increased by R$57 million, our main variation was in relation to market growth. We returned to more robust market growth, that is, an increase of 3.2% in the concession area, of which 4.4% in the residential segment, bringing a positive effect on the segment's average tariff and on margins in relation to total average.

It also shows the consolidation of RGE Sul for each quarter henceforth, which increases EBITDA by R$72 million, partially offset by the increase in Personnel, Material, Services and Other (PMSO) expenses. In my opinion, this is a regular increase caused by the transfer of inflation from one year to the other, but this increase is also due to the reinforcement of collection initiatives, especially to control defaults, and also in the variation of the concession's financial asset, basically explained by the reduction in IPCA rate in 2017 compared to 2016.

Note that this has no cash effect, it's simply a correction of our asset for accounting purposes.

There was also a decline of R$9 million, an exchange variation in the energy purchased from Itaipu.

Conventional generation also increased by R$30 million, here mainly due to the variation in the financial restatement in the balance sheet, and it's also a liability indexed by inflation. Here we see the inverse effect of the concession's financial asset. Since it's a liability with lower inflation, we have a lower restatement, so there's a positive effect on the result of R$17 million.

Also, the performance of EPASA, our thermal power plant, had a higher dispatch than in 2016, which also increases the group's margins by R$12 million.

In the trading segment there was an increase of R$4 million, here with two very different effects, the most significant being the growth in the group's trading business, especially the sale of energy with an increase not only in volume but also in margin, which generates a positive effect on result compared to 2016, of more than R$34 million. There's also an effect of contractual penalties we had in 2016. We received a penalty from CPFL Renováveis of R$23 million, a non-recurring effect from 2016 that does not happen in 2017, so the comparison shows a decline of R$23 million.

Still with regard to EBITDA, there was also an increase for CPFL Renováveis with a total increase of R$63 million. The main impact here comes from the operational start-up of the group's new wind farms, with installed capacity of 324 MW, which led to an increase in EBITDA of R$92 million for CPFL Renováveis.

The same penalty paid in 2016 at CPFL Renováveis did not happen in 2017, so there's a positive effect of R$37 million at CPFL Renováveis. The impact of GSF is basically GSF from the energy sold at the ACL, with a negative impact of R$27 million. Note that at the CPFL group, each sale of energy in the ACR already includes the insurance premium, hence there's no GSF exposure.

This quarter we also had the negative effect from lower generation at existing wind power plants, with variation of R$23 million. We already notice a recovery in wind levels since October, so the expectation for the fourth quarter is a more neutral effect regarding the wind curve, as well as a variation of R$10 million with the seasonal effect of our SHPPs. Note that seasonal effects are offset over the course of the year.

The last line, net income, has a positive effect of R$122 million, especially due to the decrease in CDI levels, and our debt is highly indexed to CDI, so we have an additional benefit with a decrease in the country's interest rate. Another positive effect of the mark-to-market adjustment of R$43 million, and the positive effect of the exchange variation with Itaipu of R$9 million.

We also obviously have an increase in debt between 2016 and 2017 due to the acquisition of RGE Sul, whose effect is an increase in financial expenses, because of the financial expense from the RGE Sul asset and the debt contracted to acquire this asset.

On the next page we will talk about our debt. Our debt level has remained stable since 2016, at around 3.2 times net debt to EBITDA, probably with an expectation of a clear sign of decrease in leverage for the coming quarters.

With regard to costs, I think an important aspect is the decrease in our nominal cost of debt. We ended the third quarter with a cost of debt of 9.1%. The expectation is that this curve continues to keep dropping as the interest rate in Brazil continues to decrease. Hence, we expect further decline in financial expenses due to the CDI reduction curve.

When we look at the pie chart on the right we see that 74% of the company's debt is indexed to the CDI, so obviously any reduction in the interest rates has a positive effect on financial expenses.

With regard to our liquidity and the debt amortization schedule, we have a very strong and comfortable cash position. We ended the quarter with cash of R$3.8 billion. Today we are working with the refinancing of 2018 maturities, with most of them having already been addressed, and especially for 2019, but this is a very comfortable short-term situation for the company's cash position.

On slide 11, our SHPP under construction, SHPP Boa Vista II. This is a project expected to start operating in 2020, and construction is already in progress and within schedule. There is no expectation of delays or cost overrun in relation to the Capex estimated for this project. This project has installed capacity of 29.9 MW and was sold in the 2015 auction, fully within the original schedule.

On page 12 we can see some information about our program CPFL Inova, a partnership between CPFL and Endeavor to promote and encourage the development of new technologies and innovations for CPFL Energia. The idea is for us to select up to 12 start-up and scale-up projects to be internally developed at CPFL, as a pilot initiative for implementing these projects, to actually bring new technologies in areas that the company is interested in for the coming years.

Well, lastly on page 13, a little bit about the acquisition by State Grid. We believe the most recent information was CVM's approval, on October 26, of all relevant documents we need to obtain for the Tender Offer. This Tender Offer is expected to take place on November 30, when the entire process of acquisition of CPFL Energia by State Grid will be concluded and the mandatory Tender Offer is made, where State Grid extends to the company's minority shareholders the same sale conditions as for the controlling block it made early this year.

With this, we turn the call back to the operator for the questions and answers session.

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press star and one. To remove your question from the queue, please press star two.

Our first question comes from Giovana Furquim of Itaú BBA.

Giovanna, you may ask your question.

Giovanna: Good morning. I actually have two questions. The first is regarding the Tender Offer, which is scheduled for November 30: will it happen simultaneously with the Tender Offer of CPFL Renováveis, which is the one for the valuation of shares? I'd like an update on that.

The second question is more about management per se, considering that State Grid is already in control. There's the whole issue with the tag along, but considering that State Grid is already in control, I'd like to understand better whether or not that can be noticed, if there has been any change in management, if they will be more present and if there's been any change with regard to approvals. Just a little bit more about management.

André Dorf: Good morning Giovanna. As for your first question, the processes began simultaneously at CPFL Energia and CPFL Renováveis and followed their own path. The fact is that at the end of this month we will have the auction for CPFL Energia and we haven't yet received CVM's approval for CPFL Renováveis. So, each process is following its own path, so by the end of this month we'll have the auction for CPFL Energia.

Though the processes are going their separate ways, both are advancing well. The offeror is providing additional clarifications to CVM so they can make the offer at CPFL Renováveis, So, the two processes are going well, despite the different timing.

With regard to management, we had a change in the composition of our Board. State Grid is represented in the Board of Directors and we have some executives here as well. But this hasn't influenced or changed the Company's governance dynamics.

With regard to approval authority, the matters to be approved by the Board of Executive Officers, the Board of Directors and the Shareholders Meeting remain unchanged, and we will keep the same dynamics as before, with the same information flow and decision-making process, so it's business as usual, I'd say.

Operator: Remember: to ask any questions just press star and one.

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

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

André Dorf: Well, following up on my answer to Giovanna's question, I'd like to comment that we are in business-as-usual mode here. Despite the ongoing offer by shareholders - and this negotiation is between shareholders, the company continues to improve its processes, make progress in the management of the various businesses in its portfolio, and is preparing to face challenges that the entire country is facing, while also taking the opportunities still coming up in the various segments of the electricity sector.

We have been closely monitoring the discussions about the regulatory framework and we have also been closely watching the opportunities for capital structuring, the cost of debt in Brazil, thus improving the group's results, as we can see in the third quarter of 2017.

So, we remain committed and are making progress in the company's management.

Thank you all for your trust and for participating in this call. Have a nice day.

Operator: That concludes CPFL Energia's conference call. Thank you for participating and have a good day.